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## AIA, WARREN BUFFET AND THE CHANGING FACE OF HK'S STOCKMARKET

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"If you don't change with change, you risk being left behind"

After decades of consistent growth and mkt cap US\$300b AIG disintegrated, owing the US government US\$180b, needing to sell their untarnished crown jewels. Management got greedy, forgetting basic rules of Maths/Statistics, ignoring corporate governance and shareholders.

From out of the ashes comes wholly owned AIA (1299) , 63% sold in a mammoth HK listing on Fri 29th Oct, leaving 37% in AIG's soiled hands, in fact the hands of the US govt.

Closing price on day 1 was \$23 compared with IPO price \$19.68 resulting in a US\$36b mkt cap. AIA is thus bigger than HS Bank (11), Swire (19), Henderson (12), HKEx (388), Li & Fung (494), MTR (66), CLP (2), the same size as C Kong (1), SHKP (16) and a tad smaller than Hutchison (13). Quite amazing!

WB's minority shareholding in AIA means he has time to review AIA's operations and board before deciding whether to buy the US govt's 37% stake and raise his over 40%. He needs to wait a year to buy out this stake. In theory AIA fits well, giving WB's stable of well run insurance operations the Asian face it lacks. If he does buy, he'll bargain for a discount, thus any technical takeover will be irrelevant as AIA shares may have soared well past the price paid to the US govt.

To disbelievers, you need only look at the past history of BYD (1211) and PetroChina (857) to see the effect WB's presence can have on a stock price. Particularly while the market remains undervalued and everyone's running around like nervous Nellies.

Whatever the outcome, AIA is a HK giant and one day may well occupy a prized slot in the Hang Seng Index, if management does not screw up. That's not likely after their sad lessons from AIG. Managers will be trying to impress WB and to make a point that their licence, the only foreign based one, can be used to sell a range of insurance products into China. Relations with AIG are well and truly dead, what counts is the US govt. Plus a very urgent re christening.

With AIA at the backs of our minds, let's look at non China IPOs and companies which have quietly and surely made a strong impact on HK's stockmarket scene.

Std Chartered (2888) cap US 67b v 12b a few years ago, is twice the size of any local non China listing bar HSBC (5). It was one tenth of HSBC, now it's less than a third. In a decade it could be larger.

Giants Hengan (1044), Tingyi (322), US 12b, 15b grew from nothing thanks to growing Chinese demand for their products.

Wynn (1128) (11b), Sands China (1928) 17b), the Las Vegas duo, listed their Macau operations in HK, both received warm receptions. Rusal (486), the Russian aluminium titan, largest in the world, weighs \$20b after choosing HK as its listing base.

Cafe de Coral (341), small fry in comparison at 1.6b, Want Want (151) 12b have exploded in value. L'Occitane (973), the perfume maker from Provence, France, we all know but nervous to invest in, has in just months increased mcap 50% to US\$5b.

Of the HK brigade, there's HKEx, US\$1b-24b in 10 years, SHKP 1b -35b, C Kong 1.5b-35b in 21 years and Hang Seng 1b-30b in 25 years. Then Li & Fung 21b, MTR 22b and CLP 20b, all doing well over the years despite market up's and down's.

The deadwood, Regal (78), C City (355), N World (17), HK Resorts (480), Hysan (14), PCCW (8), Lai Sun (488), Tai Cheung (88), C Estates (127), receive a loud chorus of groans as most own some/all of these but incurred losses over the years. So there's a general distaste for stocks by investors who use the above group as a yardstick for the stockmarket.

Those who make the market gave up on this list even if you/I didn't. They were right, we were wrong, that's the nature of an investment. One needs weigh the opportunity costs of waiting for good things against missing astronomic profits.

The investor should be aware of and understand the powerful dynamics of a market place. Forget Wall Street, QE2, Fed, exch rates and look in your own backyard with an eye to investing in growth, earnings and dividends.

Maybe in 10 years you will look back and be a proud owner of another Hengan, Tingyi, Std Chart or HKEx.

Good luck and good punting,  
Isaac Sofaer