

Mongolia Strategy

Research Note
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Laos Launches World's Newest Stock Exchange Implications for Mongolia

Laos Securities Exchange: a new frontier. The Laos Securities Exchange (LSX) started trading today with two listed stocks, EDL-Generation (EDL), a state-owned power company and Banque Pour Le Commerce Exterieur Lao (BCEL), a state-owned bank. Both companies successfully launched their IPOs and **raised combined US\$140mn**. Share offerings have attracted significant international and domestic investor interest with **oversubscription** for a 25% stake of EDL and 15% of BCEL. Foreign investors from over 20 countries invested in EDL IPO. Total funds raised by these two Laotian companies are almost **three times larger than all IPOs (US\$50mn in total)** at the Mongolian Stock Exchange (MSE) for last six years.

LSX may overtake MSE on new offerings. The Laotian government expects national companies to raise up to **US\$8bn in the next five years** through equity and bond sales (inc. 2-3 more IPOs this year). With Asia's newest stock exchange and ambitious capital raising plans, Laos may become a **new competitor to Mongolia in attracting funds dedicated to frontier markets**. With instant market capitalization of **US\$600mn**, today LSX becomes the world's smallest stock exchange, the title that belonged to the MSE over the last decade. However, in our view, newcomer LSX may overtake a 20-year old MSE in both IPO volume and market capitalization in 2011 or 2012, especially if a two-year IPO drought at MSE to continue. Resource-rich Laos, like Mongolia in many aspects, is tipped to replicate success of Vietnam, Thailand and other Asian countries. "As part of the frontier markets, Laos holds a particular attraction to us", said Mark Mobius of Templeton Emerging Markets.

World's Best Performing Market. After the first day trading, shares of EDL rose 9.3% while BCEL surged 45%. Following its maiden day, the LSX Composite index finished up 15%, with Laos becoming the world's best performing market YTD. Mongolia's MSE was the best performing market in 2010 (up +135%). In our view, LSX has a strong potential to retain the title of the best performing equity market globally for entire 2011 due to expected new IPOs, strong interest from domestic as well as regional investors (Thailand, Vietnam, China, Korea) and frontier market funds like Templeton Frontier Markets Fund.

Effective framework and infrastructure. In our view, these successful IPOs and wide international investor participation were possible largely due to the roll up of the effective stock market infrastructure. **Korea Exchange Inc. (KRX) owns 49%** of the LSX after investing into the bourse technology systems and helping the local regulator to establish full-fledged capital markets operations (exchange trading, settlements, custody). KRX has also assisted Laos in developing appropriate regulatory framework and functional stock market system over the past three years.

Reforms for MSE. Laos' LSX development and successful launch provide some important insights for MSE. **We believe that MSE must undergo prompt and effective reforms** in order to become a viable source of much needed capital for Mongolian companies and allow Mongolia to compete successfully for international investor capital. MSE has incredible growth potential and yet the Mongolian bourse faces a number of challenges (lack of IPOs, custody issues, no mechanisms for GDRs and dual listings). Most disappointingly, large Mongolian corporates are currently dismissive of MSE as a source of capital and busy with their plans for raising financing internationally. Unlike now in Laos, none of Mongolian banks and energy/infrastructure companies are listed on the MSE. We are hopeful that reformed MSE will transform into one of the most successful stock exchanges among frontier markets, effectively competing with newcomers like LSX and becoming the favorite destination for international investors.

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Laos Stock Exchange Opening Ceremony



Laotian Deputy Prime Minister Somsavat Lengsavad cuts the red ribbon with Korea Exchange CEO Kim Bong-soo at the opening ceremony of the Laos Securities Exchange in Vientiane, Laos

Selected Stock Markets in Asia

Market	No of listed companies	MktCap, US\$bn
Thailand	554	270.0
Vietnam	760	38.5
Mongolia	313	1.1
Laos	2	0.6

Source: Bloomberg, MSE

Mongolia vs Laos: many things in common

	Laos	Mongolia
Land, km ²	236,800	1,564,116
Population	6.44mn	2.75mn
Religion	Buddhism	Buddhism
GDP (2010e)	US\$6.3bn	US\$6.6bn
GDP per capita (2010e)	US\$984	US\$2,111
Key industries	power, mining	mining
Exports (2009)	US\$1.1bn	US\$1.9bn
Proximity to China	Yes	Yes
Main exports	power, copper, gold	coal, copper, iron ore, gold
Main trading partners	Thailand, China, Vietnam	China, Russia, Korea

Source: IMF, WB, National Statistics Office



A Buddhist monk signs up for shares at the Lao Security Exchange in Vientiane

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