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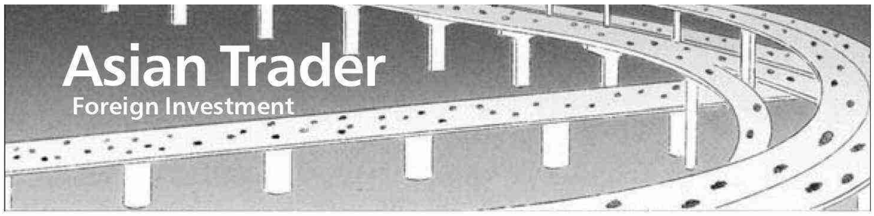

Launching Hutchison Port

by Nick Lord

HISTORY WILL BE MADE WHEN THE IPO OF **HUTCHISON PORT HOLDINGS TRUST** (HPHT.Singapore) is priced on March 14 in Singapore. It will most likely become the biggest IPO ever in Southeast Asia. Indications suggest the total raised will be US$6.2 billion, US$1.5 billion more than the previous largest in the region—last year's IPO of **Petronas Chemicals Group** (ticker: PCG.Malaysia).

The Hutchison Port Trust will be spun off from the giant retail-infrastructure-telecom-ports conglomerate **Hutchison Whampoa** (0013.Hong Kong). The conglomerate will put its ports in Hong Kong, Macau and Shenzhen into the trust, then list the trust on the Singapore Exchange. The ports generated 10.3 billion Hong Kong dollars of revenue in 2010 and earned HK$5.3 billion in profit—a stunning 51% margin. Besides being very profitable, the ports are highly defensive—barriers to entry in the business are high. The Hong Kong operation has a 60% market share, and Shenzhen, nearly 50%.

Demand for the deal is strong. In response, the company tightened the estimated price range of the issue from, in Singapore dollars, S$0.91 to S$1.08 to S$0.99 to S$1.03 a unit. The lowered upper price is meant to increase chances the unit's price will perform well at the listing.

Institutional investors are set to buy some 3.9 billion units of the Trust, and books on this portion have closed a day early due to the overwhelming demand. Before the IPO launch, the company had already secured US$1.6 billion from cornerstone investors, including U.S. hedge fund Paulson & Co. and Singapore's Sovereign wealth fund, Temasek. The retail allocation closes March 18 in Singapore, and there is a 15% overallotment option. The deal's structure is like a real-estate investment trust's, in that all cash flows generated by the underlying assets are paid out as dividends. If the IPO price is at the top of its tightened range, this yield will be 5.5%, which is much better than the usual in the region: The MSCI Asia Pacific Index in 2010 had a dividend yield of around 2.5%.

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Hutchison has a history of spinning off companies at the top of the market. Back in the dot-com boom it listed its Internet subsidiary Tom.com, now **TOM Group** (2383.HK). In 2006, it listed a Chinese herbal-medicine subsidiary called **Hutchison China Meditech** (HCM.AIM) on London's AIM market. But both TOM Group and China Meditech (HCM.LN) have done relatively well. Chi Med listed at 235 pence and is trading at 502; TOM Group is up fivefold from its low of HK$0.21 in 2008, but still down 43% from its 2000 listing price of HK$1.78.

The combination of yield from mature assets with growth from fast-growing China will make Hutchison Port Holdings Trust compelling. And its size will ensure that it is part of many indices, giving it global benchmark liquidity. In an uncertain investment environment, this deal looks worth anchoring in.

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Japanese stocks ended the week down 4.1% as a massive earthquake hit the Tohoku region, killing hundreds. The economic disruptions will last for some time, as they did after the Kobe and Chuetsu earthquakes, wrote Richard Jerram of Macquarie Securities in Tokyo. Japanese yields are expected to back up this week, and stocks of global insurers were pummeled. The impact for Japanese manufacturers should be less than it was after past disasters, Jerram wrote, because "many firms reportedly diversified supply chains in the wake of [the 1995 earthquake in] Kobe." ■

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