

SSEZ (Cambodia)

First BRI SEZ to IPO?



Established in 2008, the Sihanoukville Special Economic Zone (SSEZ) is a 1,113-hectare SEZ situated in southwestern Cambodia's Preah Sihanouk province about 12 km from the Sihanoukville Autonomous Port, (PAS) the sole international and commercial deep seaport of the Kingdom of Cambodia. Some 90% of Cambodia's imports and exports transported by sea pass through the Sihanoukville port which is controlled by Japanese shareholders.

Jointly developed and operated by Jiangsu Taihu Cambodia International Economic Cooperation Investment Co Ltd and the Cambodia International Investment Development Group Co Ltd (CIIDG), SSEZ has become recognised as a high-profile example of cooperation between China and Cambodia under the BRI.

During the period of 2015-2017, Sihanoukville showed tremendous growth, which, according to local sources, commenced around 2015, while the explosive growth began in mid-2017. At the peak of this growth, 200,000 Chinese were in Sihanoukville, most of whom lived in the port city. The strong population growth outstripped the infrastructure growth—the city still scambles to keep pace.

Sihanoukville now has many new commercial and residential buildings, with many more under construction. The real estate market boomed to the point where it became difficult to find vacant land downtown in Sihanoukville. Chinese commerce and investment have brought industrial parks, factories, commercial housing, hotels, restaurants and casinos, which for some time, were out of control, now, with city management have been reeled in.

During this time period, Sihanoukville also accelerated its tourism growth attracting international tourists led via increased ratings of its seaside resorts. In the process, Sihanoukville has developed from a quiet seaport town to a bustling city attracting considerable Chinese investment, which in turn was accompanied by the rise of the city's service industry with Chinese restaurants and hotels. The result of all of this growth was the seaside tourist city morphed into a growth engine for Cambodia.

By 2015, the number of workers at the SSEZ had already increased to 16,000 with a view of growing this to 200,000 in the future as the park becomes a manufacturing hub for the country. By June 2016, SSEZ reached a milestone with the 100th factory set up to operate in the SSEZ.

As of mid-2017, SSEZ stated that it had 109 enterprises (94 Chinese companies, 12 companies from United States, Ireland, United Kingdom, South Korea and other countries, as well as three local companies from Cambodia). There were 93 factories in operation on its 525-hectare first-phase development, making it the biggest SEZ in Cambodia both in terms of size and occupancy.

At that time the SSEZ was proceeding to develop infrastructure on the zone's remaining 600 hectares designed to support further expansion, which would include attracting 300 enterprises and a total of 70,000 to 80,000 workers within the next five years. The plan for new infrastructure to be completed by year end 2020 and a tower residential complex for the zone's workforce by 2022.

In June 2019, SSEZ began construction on the Sihanoukville SEZ power station, a proposed 100 MW coal plant to supply power in SSEZ. Financing for the coal fired power plant was provided by ICBC (Cambodia). This was put on hold in 2020 due to complications with COVID.

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In June 2019, it was leaked to the public that SSEZ was preparing for listing on the Cambodia Securities Exchange (CSX). According to SSEZ's statement, released to the media by the CSX, SSEZ aimed to go public in order to raise more funds to promote the development of the zone and to make greater contributions to the development of Cambodia's industrial economy.

Cambodian Deputy Prime Minister Hor Namhong told Xinhua in an interview that the SSEZ is a model for the development of Special Economic Zones in Cambodia. He said the zone has good features such as canteens for workers, places to train various skills for workers, and dormitories for workers. "For this special economic zone, I can consider it as the biological child of the Royal Government of Cambodia and the Chinese Government."

According to a Council for the Development of Cambodia (CDC)'s report, the SSEZ exported products worth \$372 million in 2018, up 68% compared to 2017. The CDC report said SSEZ then housed more than 160 factories with the registered investment capital of about \$918 million, creating over 20,000 jobs. It added that those factories produce textiles, shoes, travel goods, electronic products, electrical accessories, tires, car parts, furniture, office equipment and supplies, and sports equipment, among others.

In November 2020 Cambodia reported revenue from imports and capital inflow on investment of \$1.3 billion in the first 10 months of 2020, up 31% y-o-y. SSEZ was thus on track to drive the Cambodia-China trade volume to \$10 billion by 2023 and provide similar momentum to trading partner countries.

Over the past five years some have begun referring to Sihanoukville as a "next Shenzhen", a small city by the seaside which had encountered tremendous growth. In the process, Sihanoukville had become the second largest city in Cambodia after Phnom Penh.

Also in late 2020, SSEZ reiterated its interest in listing on the Cambodia Stock Exchange (CSX) Deputy Prime Minister Hor Namhong said this following a meeting with SSEZ president Chen Jiangang. Previously, during 2019, SSEZ said it had been preparing to list on the stock exchange.

Chen also stated that the SSEZ wanted to utilise the CSX to broaden the investor base: "SSEZ is preparing the requisite documents to list on the Cambodian bourse to attract international investors, especially those from Europe and the US".

Securities and Exchange Commission of Cambodia (SECC) director-general Sou Socheat said that the securities regulator had not received a direct expression of interest or official letter from SSEZ on its listing plans. "[But] we welcome any company that intends to list on the CSX, as long as it prepares its documents in accordance with the laws and regulations in force," he said.

According to Chen, as at November 2020, SSEZ had 165 tenants and a 30,000-strong workforce. After listing on the CSX, SSEZ planned to set its sights on listing in Hong Kong.

Cambodia already has one industrial park which is publicly listed, Phnom Penh SEZ Plc (PPSP). PPSP was CSX's 4th IPO, completed in May of 2016, for \$8.2 million. During 2020, PPSP saw its share price decline by more than half to close at 1,180 riel on December 31 compared to 1st January.

SEZs are designed to produce cash flows from rental and services income. Despite the cash flow characteristics, as SEZs continue to grow they may require new capital to fund the growth, as is the case in SSEZ, which is considered to be commercial success.

As a result, it is highly likely that SSEZ will become the first of the nearly 90 BRI SEZs to IPO, most likely in 2021. We expect several other BRI SEZs to follow this route in the future as China has been masterful at using public markets to fund future growth.

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