

Hong Kong Telco Boost for International Growth Fund

A rising telecommunications company that is the Hong Kong equivalent to New Zealand's Vodafone is hurting its opposition and giving Kiwi investors in Fisher Funds' international funds, KiwiSaver scheme, and listed company Marlin Global something to smile about.

City Telecom shares rose 27% on the Hong Kong exchange late last week as the company announced spectacular customer and profit growth numbers and then announced it would buy back \$US89 million in debt at a 25% discount rate.

"It was a story that sent me home smiling for the weekend," says Ken Applegate, Senior Portfolio Manager – International Equities. "In New Zealand we've got companies announcing bond issues to finance debt and here's a small cap company in Hong Kong doing a very smart deal to use its profits to pay-off debt at 75% of its initial cost.

"As a core holding in our international portfolios it will have a positive impact on Net Asset Value (NAV) and represents another nice windfall in our basket of companies."

Late last year Fisher Funds' international funds also had a windfall 61% gain on shares in a US pharmaceutical business Sciele that was taken over by a Japanese rival. "With all the negativity in the markets at the moment it's good to see a nice boost for our investors," says Fisher Funds Managing Director Carmel Fisher. "It is also a reminder that individual companies can generate returns through rising share prices, even when the rest of the market is falling."

Like Vodafone in New Zealand, City Telecom is the smaller player in Hong Kong – about 5% - in a market dominated by a much larger player, PCCW. However its customer numbers grew 25% in the past year and Net Profit to Shareholders increased by more than 40%.

"The CEO at City Telecom is an acknowledged marketing whiz and the numbers being delivered certainly support that view. They've also made a very smart move to get rid of debt and give further strength to the balance sheet."

Mr Applegate said he was also keeping a close watch on the distribution of the recently announced RMB4trillion (\$US600 billion) stimulus package.

"The Chinese Government package included a large allocation to upgrade its railway network with spending expected to triple over the next 5 years. Fisher Funds international funds invests in three Chinese businesses that could benefit from this package - Midas Holdings, the leading train body manufacturer; Zhuzhou CSR Times

Electric, supplies electrical power supply equipment for trains; and China Automation Group, a provider of safety control systems for train stations.

“China is emerging as a world leader in manufacturing train systems and rolling stock and the companies our international funds invests in are also likely to be in the frame for contracts in New Zealand to either upgrade KiwiRail rolling stock or carry out further electrification of the main trunk line and electrification of Auckland’s commuter network.”

The International Growth Fund specialises in investing in growth businesses internationally and currently invests in 31 companies in Europe, the US and Asia.