JK Capital Management Ltd.

Week of 7th December 2020

What's on our mind this week?

Reflecting on the transformation of Hong Kong

Hang Seng Indexes Company Ltd that is responsible for compiling the Hang Seng suite of indices took the decision to remove Swire Pacific from its flagship, the Hang Seng Index. For us at JK Capital who have been working and living in Hong Kong for more than 25 years, this came a bit as a shock and gave us the idea to reflect on what had happened to this index over the past decades.

But let's start with Swire Pacific first. Set up in Liverpool in 1816, the company became one of the largest trading companies of Hong Kong and China and a symbol of Hong Kong's success, alongside Jardine Matheson. Swire Pacific is a household name in Hong Kong. Its logo can be found everywhere. It owns some of the largest shopping malls (Pacific Place, Festival Walk, Taikoo Place, Citygate), numerous high profile buildings occupied by prestigious tenants, including some of the most prestigious five-star hotels (Shangri La, Marriott, Conrad). In addition to its property jewels, Swire Pacific has been since 1948 the controlling shareholder of Cathay Pacific, Hong Kong's flagship airline.

Bloomberg data go as far back as January 2001. At that time, the Hang Seng index had 33 companies. The largest constituent was HSBC, with a 27.5% weighting. Adding the weighting of its subsidiary Hang Seng Bank (5.2%), HSBC group was controlling 32.7% of the index. The second largest weighting was already a Mainland Chinese company, China Mobile which was the largest "red chip" for those of our readers who may remember the terminology used in those days, with a 20.5% weighting.

Then followed the Li Ka-shing empire with Hutchison Whampoa (10.7%) and Cheung Kong (7.0%), to which should be added Hong Kong Electric (1.5%) and Cheung Kong Infrastructure (0.7%), and even PCCW, the local telecom operator controlled by Richard Li, Li Ka-shing's son (2.8%), adding up to 22.7% of the index.

Li Ka-shing was in those days the wealthiest person of Asia.

Talking about local dynasties, the Kwok's Sun Hung Kai Properties was 4.8% of the index, the Lee's Henderson Land + Henderson Investments + Hong Kong and China Gas were 3.7%, the Woo's Wharf and Wheelock (Times Square, Harbour City, Ocean Terminal, the Star Ferry being its iconic assets) were 1.5%, and the Kadoorie's China Light and Power 2.1%. Local tycoons therefore controlled approximately 35% of the index.

Out of the 33 companies in the index in 2001, there were 5 mainland Chinese companies only: China Mobile, China Resources, Citic, Lenovo and Shanghai Industrial, representing 23.8% of the index (including China Mobile for 20.5%).

Fast forward to 2020, the situation is drastically different.

There are now 52 companies in the Hang Seng index, out of which 30 are mainland Chinese representing 61.6% of the index. The two largest constituents are Tencent, the Chinese internet giant, and AIA, a pan-Asian insurance group, each with a 9.7% weighting. HSBC + Hang Seng Bank represent together 9.2% (it was 32.7% in 2001). China Mobile is down to 2.7% of the index only, half of Alibaba's weighting. The Li Ka-shing empire is down from 22.7% in 2001 to 1.7% today. Local tycoons collectively represent only 7.5% of the index when it was 35% nineteen years ago.

Swire Pacific and Cathay Pacific were 1.4% and 1.3% of the Hang Seng index respectively in 2001. Today they are both out of the index.

And now the wealthiest man of Asia is Mukesh Ambani, the founder of the Reliance Industries group of India.

There are many ways to describe how Hong Kong has evolved over the past two decades. Looking back at the Hang Seng index is certainly a good one.
