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Interview: Gordon Kwan, Head of Energy Research at Mirae Asset Secs.

Derek- Hello and Welcome to StockBroking101.com, the podcast where we talk to industry veterans on the front lines.

Welcome to Episode six of the podcast. I'm your host, Derek Hillen. Our guest today is Gordon Kwan, Head of Energy Research at Mirae Asset Securities, here in Hong Kong. Thank you for joining us Gordon.

Gordon - Thank you Derek.

Derek - Good. Can you tell me what your job means? What do you do?

Gordon- Well, my background is in Petroleum Engineering, and this job requires me to be in charge of doing financial research into energy firms, particularly those listed in China, because they are the biggest market cap. So, I am the primary analyst for Petro China, Sinopec, CNOOC, and China Oilfield Services. I am also leading a team of analysts focusing on the smaller cap oil and gas space, as well as fertilizer, as well as IPPs, utilities and solar energy.

Derek- Mmmm.

Gordon- We also have a colleague who is looking at India oil & gas as well. We also have on the ground research in Korea, looking at refineries and chemicals. Because China imports half of the downstream stuff in Korea, so it is good to get some on the ground feedback from Korea as well, in terms of how sustainable the Chinese demand is. My job is to coordinate all the research efforts so we could form a cohesive picture as to where is the best investment in the energy value chain. And this could entail everything from the upstream oil gas exploration to refining, to chemicals to retail marketing as well as alternative energy in different countries.

Derek- Great.

Gordon- But the three countries that we focus on are China, Korea and India.

Derek- Right.

Gordon- So, I am very happy to be here in this position.

Derek - Yes, well it's pretty broad coverage, and as China continues to grow at nine plus percent, GDP growth per annum, their energy needs are phenomenal.

Gordon- Yes, because history tells us that in other developed countries the energy demand tends to track GDP quite closely.

Derek- Right.

Gordon- They might not move in lockstep, but they tend to be in the same direction.

Derek- Okay. Well, let's talk about you. Tell me about yourself. You have a very unique background which is why I wanted to interview you here on the podcast. You were born in Hong Kong but lived in the US. Is that how it worked?

Gordon - Yeah. To elaborate a little about my background. I was born in Hong Kong and I studied in the United States in California.

Derek- Okay.

Gordon- I studied Bachelor of Engineering for my undergraduate degree.

Derek - Right.

Gordon- I had the opportunity to do a summer internship with BP. And I just love hiking, camping, fishing during the summer time in Alaska and BP offered me a permanent job after my graduation in Berkley.

Derek- So you did an internship in Alaska with BP?

Gordon - Yes.

Derek- Wow. Where were you in Alaska?

Gordon- I was in Anchorage and I also got the opportunity to fly to Prudhoe Bay, which is another three hours north of Anchorage, to check out a few operations.

Derek- And that is where the Alaskan pipelines begins.

Gordon – That's correct. Because petroleum engineering involves doing a lot of work modeling, forecasting or guesing production, and understanding the potential reserves. Because the petroleum engineering is unique in that, I would even call it an art, rather than an exact science. Because unlike refining or chemicals, which is controlled by fixed composition of chemical formulations. A lot of it is luck and judgment and you cannot control what Mother Nature would give you, in terms of results.

Derek – That's right.

Gordon- So from that perspective, I really enjoyed this job because, the uncertainty is what gives you the excitement of being in upstream petroleum engineering. It is not too dissimilar to going fishing; you never know what's at the end of the hook.

Derek- Right.

Gordon- So when you recommend to drill in a certain location, the job satisfaction is tremendous. When you have much higher than expected production rate the disappointment would be so abysmal.

Derek- I see.

Gordon - Because one day you may not have a job because each drilling still cost you a million dollars! The good thing is that it is a team effort so that's one thing I have learned at BP during my engineering career is that you need to work well as a team and you need to learn that not everything can be taken for granted. Even if you work very hard and you are very convinced that this will bring very good results, at the end of the day a lot of the end result is really just 30% luck.

Derek- Well, you could also say that about our business in your current job: you do the hard work, you write the research on the company, you get a recommendation. Something happens, it doesn't work out...

Gordon – Exactly! Yes. There are a lot of uncontrollable factors and unforeseen factors.

Derek- So how long were you in Alaska?

Gordon- 7 years since the permanent job began. I joined BP starting in 1988, and I left Alaska in 1995.

Derek- So you where were you based?

Gordon- I spent most of the time in Anchorage, which is still quiet convenient when it comes to getting to a San Francisco, where I have my family and relatives. I often go there at least once a month because its only 3-4 hour flight on Alaska Airlines.

Gordon- It is one of the most undervalued tourist paradise on the planet.

Derek- Anchorage?

Gordon- Well, I would say all of Alaska

Derek- Yes I would agree.

Gordon- I have been to Kodiak Island.

Derek- I used to work in Kodiak. It's a beautiful place.

Gordon - Yeah. And south east Alaska is just absolutely stunning.

Derek- So then you spent seven years in Anchorage? Are there any Chinese there?

Gordon - Actually in percentage terms, Anchorage has I would say, of course not as many as San Francisco or Los Angeles, but Anchorage has a fair number of Asians: Japanese, Koreans and of course, Mainland Chinese, not Hong Kong Chinese. So, on Sundays I would go to a Chinese church, an Asian church as one avenue to getting good Asian food!

Derek- Right.

Gordon- Because Anchorage is just seven hours away by plane to Tokyo. It's kind of like Hong Kong going to Sydney. It is not as far as most people believe it is.

Derek - Sure.

Gordon- It is closer to Asia than pretty much any other part of the country. They have good Japanese sushi. Because we have Alaskan fish, king crab, and we've got salmon. It's fantastic. Mostly in the last 20 years there has been a significant increase in Korean population.

Derek - When I was last in Anchorage and we don't want to spend a lot of time talking about Anchorage, but I did notice a lot of Koreans there.

Gordon - Yes. So if I want Asian food it's not difficult to find.

Derek - Good, so you weren't too out of place.

Gordon- No. Anchorage is actually a decent sized city.

Derek- Yea, well it's the only city of note in the entire state.

Gordon- Yes, that's right.

Derek- So after seven years what happened?

Gordon- During those seven years I visited Hong Kong regularly, because I have enough money to travel on my holidays and I've got most of my relatives in Hong Kong during the early 1990's. After the first George Bush-Saddam Hussein war, when Saddam Hussein got kicked out of Kuwait, oil prices collapsed. In turn, that fueled a booming economy in Asia which thrived on cheap oil. So, the economy is booming in Hong Kong, and when I was over here I talked to a lot of people and relatives and they all sympathized with my situation.

Derek- (laughing).

Gordon- And they said why not come back to Hong Kong? It has a booming economy and it is really your home. So, I decided to take up an offer by Daiwa who is desperately in need of someone who has industry experience, not refining chemicals to help them with their corporate finance work in southeast Asia.

So I was hired as a regional head of Oil & Gas. But back then there was a discreet area between equity research and corporate finance as to who was going to pay my salary, because I actually do most of the work for corporate finance to underwrite Japanese samurai bonds,

which back then was very, very popular. And Daiwa, I would say is one of the two top bond houses in Asia.

Derek- Right now this is interesting and one of the great things about your background. You are a good example of somebody, and I talked about this on the website, who's worked in another industry and made the shift into finance. I think it's important that people need to realize that you don't have to go to school to get an MBA and then go straight into finance. You can work. In fact, if you don't do that you can be more attractive because you actually have real industry experience, as we call it.

How did you hook up with Daiwa? I mean how did they find you?

Gordon- Well it is through a friend who has visited me in Alaska who also happens to be a schoolmate when I was young in middle school in Hong Kong.

Derek- Great.

Gordon- He was visiting Alaska and kind of providing me this lead into finance. So, like I said, sometimes career progression is by luck on who you know. So, I got this lucky break and it got me into a finance career.

Derek- Wow.

Gordon- At first I had a difficult time coping with my new responsibilities.

Derek- It's very different.

Gordon- In my case it requires much more view of the economy and a much more flexible personality to get along with clients and to get them to like you because this is after all, I discovered, a people business.

Derek- Yes.

Gordon- So besides these technical skills you really have those interpersonal skills to be well-rounded. You could still have this knowledge of what's going out the world to put a realistic proposal to your clients. Of course I've got a few mentors who helped me along the way.

Derek - Tell me more about that because mentors are extremely important.

Gordon - So at Daiwa I have my supervisor who was the head of regional research his name is Peter Perkins. He sat next to me so whenever I have questions or I need some help or advice I would go to him and he would be very willing to provide what he believes is the right thing for me to do.

But he always gives me a very large degree of freedom because by the time I returned to Hong Kong I was already 30 years old, so I wasn't a kid. I have gone through seven years of working for BP which also has a lot of internal politics (laughs).

Changing career is not an easy thing in the beginning but through luck, good contacts and with the mentor I was able to do a fairly good job in Daiwa.

Derek- Good.

Gordon- And then the big surprise, or I would say the big shock came is the devaluation of Asia.

Derek - Aha, the beginning of the Asian crisis.

Gordon- So the dollar came in and really hit the crisis hard and then it set of a chain reaction and then came a collapse of the regional currencies -

Derek- That was in 1997.

Gordon- And the corporates who were short the US dollar for low interest rates got slammed and back then my key stock coverage was Southeast Asia and Australia. There was no Chinese oil and gas or even refining stocks listed with the exception of just one, Shanghai Petrochemical.

Derek - The first energy H-share, right?

Gordon - Yes. But by 1997 there were many. There was red chip and also H-share fever which drove the market to a very high level and then came financial crisis. So Hong Kong ultimately melted down.

Derek- Total meltdown.

Gordon - Yes.

Derek- I remember. I was involved in that as well.

Gordon - Yes and the end of my corporate finance career at Daiwa.

Derek- So you were at Daiwa when that happened?

Gordon- Yes and then came the rescue.

Derek- So you were in Daiwa from 1993 to 1997? Is that right?

Gordon- 1995 to 1998.

Derek- And then what happened?

Gordon- And then I took some time off to travel around the world.

Derek - Always a very good idea.

Gordon - Because I enjoy travelling a lot. That is one of the reasons why I lasted in Alaska so long because I travel around the state. I just enjoy nature. I went to Brazil, Chile, Easter Island, Tahiti and all those places and took some time off.

And then came the good news and PetroChina and Sinopec have plans to go IPO in Hong Kong. HSBC was looking for someone again with real industry experience to join Goldman Sachs to do reserves diligence and they couldn't find anybody locally who has my industry

experience when it comes to judging the value of reserves. There came an opportunity to work for HSBC. I have been covering these big energy titans since the IPO's.

Derek- Yes, so this was a big opportunity. So, you came back to Hong Kong and you started working for HSBC as head of energy research there as well?

Gordon- Well, back then I was just a China oil and gas analyst.

Derek- And then how long were you doing that?

Gordon - Four years with HSBC.

Derek- You got the deals listed. Right?

Gordon - Well, Golden sSachs got most of the investment banking fees, but HSBC was also a co-lead.

Derek- That's fantastic.

Gordon- I went to another equity research house and then another crisis.

Derek- Yes, there is always a crisis.

Gordon - The tech boom crisis. In 1998 and all the way to 2000, anything with .com was a melt up valuation. There went another cycle in equity research career.

Derek- Right..

Gordon- And then things normalized. And I joined CLSA.

Derek- Aha, and that's where we met.

Gordon- Yes and that's where we met. Very different style of broking. While HSBC is very down to earth, very serious numbers crunching oriented research, CLSA research style is much more flamboyant, much more exciting and flashy. With all the conferences and with all the outrageous target prices, that you can justify. And it coincided with the next bull markets in Hong Kong, China

Derek- Ahmm...

Gordon- Because from 2004 to 2007 before the start of the subprime crisis, the biggest positive surprise was our call for PetroChina to have one trillion us dollars market cap. We actually so that materialize for a few days.

Derek- Yeah. Amazing.

Gordon- Yes I was in Australia on holiday and the sales people were calling me and were like oh my god, PetroChina is now a one trillion dollar company and I told people to keep on buying .

Derek- Yes, it was crazy.

Gordon- Yes. and I was right for the past few days but after that I sensed the market was overvalued and so the fact that I didn't tell people to sell is also a signal that I didn't tell you to keep on buying. But then we all know what happened after the Lehman crisis. My claim to fame was that I was the first to attribute one trillion market cap to PetroChina and actually achieved that based on the A-share price of PetroChina.

Derek- It was a quite interesting time; I remember all that going on.

Gordon- Yea.

Derek- So, we've looked at your long and illustrious career bouncing around from two industries and two bull markets and all that. Tell me what you like about this business, this industry?

Gordon- Well, I think that to join finance, and of course when I say finance, my experience is only limited to equity research and not being involved in direct investment banking, or-

Derek- Well, wait a minute, You did fixed income research at Daiwa, you did those bond deals, you got PetroChina listed, I would say that is not necessary true. You do have that experience.

Gordon- Well, in a superficial way, because most of the time, I was more in equity research because sometimes you help out on the deal but it's on a research basis. Of course, you need to have the people's skills when you talk to corporates and PetroChina management, etc.

You also need to be flexible to accommodate different people in order to get the deal done or to be part of the syndicate. I think what I like in finance is that you have to be interested in making money. Because that is what finance is all about, making money.

Derek- Right

Gordon- If you enjoy making money and helping other people make money and you could reconcile the fact that helping other people making money is also contributing positively to the society. That I think it is a good move to go into finance.

Also, one big difference of working for BP and working for the financial firm as an equity analyst is that for BP you tend to analyze one or two projects in extreme detailed basis, that you just don't have this luxury as an analyst. For BP, you are travelling business location would be limited to Huston or Dallas and maybe the occasional conference in Abu Dhabi or Dubai.

Derek- Right.

Gordon- But as an equity analyst, during the booming market days, I can take PetroChina to a lot of exotic destinations to play golf. Not to mention, there are key financial centers like London, New York, Paris, Frankfurt, San Francisco. I can travel around the world. Sometimes I felt like you make a lot more money in finance than just being another engineer.

Yet you still feel almost as powerful, if not more powerful than being an engineer because when you write a piece of research and it's appreciated and received well by the market that you actually see your core materialize into some vehicle that creates a tremendous amount of wealth.

Derek - The share price movement.

Gordon- That's correct. So, when I set a target price of 20 Hong Kong dollars for PetroChina and actually got to my trillion dollar market cap target, it is difficult to describe that level of adrenalin that's going through. You could get addicted to it, if you are successful.

Derek- That's very good. I guess it's similar to drilling a hole.

Gordon - Exactly. Except even if the reward from BP is great. You get a performance award that is certainly not in the millions.

Derek- I know. That's excellent. Now tell me what you don't like about the job.

Gordon- So far I would say, the long hours because in BP, at least the Alaska lifestyle is quiet, laid back. It is 9-5.

Derek- I can't even imagine.

Gordon - Hardly anybody in the office after 7pm and certainly no one in the office. But for equity research I would say to young people that you have to be prepared to work long hours because we have clients in London and New York and they need a quick response time as financial markets move in an instant. Sometimes you don't have the luxury of over-analyzing an issue.

You have to make a decision and a recommendation. And sometimes you get calls from the evening and sometimes in the middle of the night from clients. Also, that's what I don't like about my job. Not that I hate it, but that I don't like it but I accept it as part of my job because that is why this job pays well.

Derek- Oh yeah, obviously it is not money for nothing. We work very, very hard. And like you said, when you are successful there is a great adrenalin rush and then there is financial compensation but you could still work just as hard and not be successful. But you are spending so much time in the office.

Gordon- Yes.

Derek- Okay, last question for you. Advice for people who may be considering a career in finance?

Gordon- I would highly recommend if you are going to work hard and you are a good listener and you have good interpersonal skills and you have niche industry knowledge. I am only talking about equity research but this may apply to corporate finance as well, which is quite different by your relationship- your industry context. But certainly working hard and the ability to see the big picture. People skills are just as important as technical skills.

Derek- Yeah.

Gordon- I wouldn't say that one particular skill is the most important. It is much important that you are a well-rounded person. You don't have to be super smart but you have to work hard and be well-rounded in all the skills sets - with some luck.

Meeting the right people, having the right mentor, joining the right organization, and going through that one market cycle. Find your claim to fame and seize that opportunity and leverage it. Yes.

Derek- Thank you very much, Gordon.

Gordon- Thank you, Derek

Derek- Thanks for listening to the podcast. Be sure to check out the website:

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We'll see you next time.