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Li Ka-shing's Moves on China Reveal Good Timing

Hong Kong tycoon has been trimming his reliance on the world's second-largest economy

Li Ka-shing's efforts to reduce his reliance on China appear prescient amid nation's recent economic turmoil.
PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

By Wayne Ma

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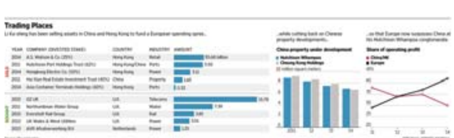
HONG KONG—As investors around the world fret over China's economic tremors, Hong Kong tycoon Li Ka-shing has less reason to press the panic button: he has been quietly accelerating moves to cut his reliance on the world's second-largest economy.

Mr. Li, nicknamed Superman in Hong Kong for the business acumen that made him one of Asia's richest men, has been trimming his property portfolio in China since 2011. He has also sold off parts of his ports and retail holdings in Hong Kong, which is a conduit for China's international trade and finance.

Instead, the 87-year-old tycoon has pivoted his two main conglomerates—Hutchison Whampoa Ltd. and Cheung Kong Holdings Ltd. 0001 **0.54%** ▲ —toward the old world of Europe. He has spent more than $20 billion in the past 18 months on deals that include buying the U.K.'s second-largest mobile-phone operator, a Dutch drugstore chain and a U.K. train-car maker, as well merging his Italian telecommunications company with a larger rival. Those deals were valued at more than his combined European acquisitions in the previous decade.

Even before the spree, Europe had overtaken Greater China as the biggest contributor to Hutchison's operating profit, by a small margin, in 2012. Last year the region accounted for 42% of the total, as Greater China shrunk to 30%.



In a sign that easy returns from the boom years of China may be over, three people close to Mr. Li's business say the moves were spurred in part by his belief that he can make more money in Europe—long seen as a collection of plodding economies—than in China, hitherto a magnet for investors because of its rapid growth rates. Company officials have said that the size and scale of investment opportunities in Europe exceed those of Hong Kong, where there is little left for Mr. Li to plow funds into.

Now, as global markets stumble on concerns over China's slowing economy, falling stock prices and a sudden devaluation in the Chinese currency, Mr. Li's moves appear prescient, cementing his status among investors as an oracle. Company insiders and academics who study Mr. Li, however, say that the tycoon was also motivated by a weak euro that made European assets offering steady returns cheaper relative to China.

"What Mr. Li really excels at is the timing of his selling," said Woody Wu, an accounting professor at the Chinese University of Hong Kong. "He sells as long as the price is right. He's a genius when it comes to finance."

Mr. Li, who is valued at $24.8 billion by Forbes as of Sept. 5, presides over an empire that is divided roughly into quarters: property, telecommunications, ports and infrastructure as well as retail and energy. Earlier this year, Mr. Li folded his two flagship firms together into CK Hutchison Holdings Ltd. and spun off their property businesses into a separate company, Cheung Kong Property Holdings Ltd. 1113 0.15% ▲ The companies' combined market value is about $77 billion.

Mr. Li and CK Hutchison declined to comment. Cheung Kong Property didn't respond to emailed questions.

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Both companies outperformed Hong Kong's benchmark Hang Seng Index, which has fallen nearly 24% since June 12. Shares of CK Hutchison are off 10% over the same period, while the property arm took a 21% hit, showing Mr. Li isn't immune to any slowdown in China.

Most of Mr. Li's property portfolio is in China and nothing thrills Mr. Li like a development deal, according to two people who have worked closely with him. When entertaining clients over bowls of pili nuts at his office on the 70th floor in Hong Kong's central business district, Mr. Li once pointed to the city's skyline and boasted that one in eight buildings were made by him, according to a person who has visited him.

He was among the first foreign developers to enter China after its leader Deng Xiaoping, with whom Mr. Li had close ties, began opening up the nation's economy. He retained good relationships with subsequent presidents Jiang Zemin and Hu Jintao, although he is seen by China watchers as less close to the current president, Xi Jinping.

In 2008, Mr. Li surprised observers when he sold a 40-story office tower in the heart of Shanghai's blossoming financial district to a private investor for 4.9 billion yuan (US$769 million). Three years later, the building fetched a half billion yuan less when it was resold as the market dipped, people familiar with the matter said at the time.

Mr. Li hasn't made any significant land acquisitions in China since at least 2012 and has sold off malls and housing developments.

"It shows [Mr. Li's companies] are bearish on the market going forward," said Samuel Hui, a conglomerates analyst at broker CLSA.

One person close to Mr. Li said he had lost the advantage in know-how for construction that he held in the 1990s in the face of competition from rising Chinese property moguls such as Dalian Wanda Group's Wang Jianlin, who has replaced Mr. Li as Asia's richest man.

Other potential motives attributed by company insiders and academics for Mr. Li's step back range from the possible souring of his relations with the nation's power brokers, to the tycoon preparing to hand over the business reins to his eldest son, Victor Li.

"The more important reason why he's moving away from China is that his influence there is dissipating," said Joseph Fan, a finance professor at the Chinese University of Hong Kong who has studied Mr. Li's career.

In Hong Kong, where Mr. Li started his empire manufacturing plastic flowers in the 1950s, he has shifted the domicile of his businesses to the Cayman Islands. Last year, he sold a quarter of his Hong Kong retail chain to Singapore sovereign-wealth fund Temasek Holdings Pte. Ltd. Most recently, Qatar's sovereign-wealth fund bought 16.5% of his electricity assets in the city.

People close to Mr. Li say he remains in empire-building mode.

"You still see that energy and strong interest into making deals—megadeals," said a person familiar with Mr. Li. "I don't see that he's tired of doing this."

—Esther Fung contributed to this article.

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