Prada dual-listing: Arbitrage with a cultural twist

by Denise Law, FT Tilt • More from this author

An increasing number of companies are choosing to list their shares on multiple stock exchanges across the world, presenting savvy investors like Eddie Tam, founder of Central Asset Investments in Hong Kong, with opportunities for international arbitrage.

His dream trade would involve Prada, the Italian luxury retailer, which last week decided to list in Hong Kong and could list in Milan as well.

Tam's dream Prada headline would read: "Appealing to the Chinese market, Prada unveils its newest Fall/Winter collection of gold-only shoes, handbags, watches and winter jackets."

"Mainlanders love gold, but the fashion critics in Milan would hate it. I'd short its stock in Milan and go long in Hong Kong," said Tam, who manages a \$200m Asia-focused hedge fund.

Multiple listings have become increasingly popular lately as companies try to expand their retail investor base and bolster their presence in growth markets. Tam dabbles in the growing world of what he calls "cultural arbitrage", as these dual and tri-listings in cities with vastly different cultures present hedge fund managers with endless arbitrage opportunities.

In the case of Prada, Tam's team's deep understanding of the local Chinese culture would enable them to see and exploit opportunities that other investors might otherwise miss out on, he said.

In the past year, Brazil's Vale and UK's Prudential have done secondary listings on the Hong Kong stock exchange. Meanwhile, Standard Chartered, already listed in London and Hong Kong, started trading in India, with significant price differentials between Mumbai and London.

As Tam told FT Tilt:

Last year for example, when HSBC came out with their annual results, institutional UK investors slammed the stock, while in Hong Kong - where retail investors have a lifelong love affair with HSBC - investors supported the stock. The next week, due to completely different dynamics, we were able to execute the opposite trade with Standard Chartered.

For now, Tam's dream trade remains only that: Prada still hasn't confirmed whether it will list in Milan.

Yet in the world of hedge funds, there's no harm in dreaming.

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