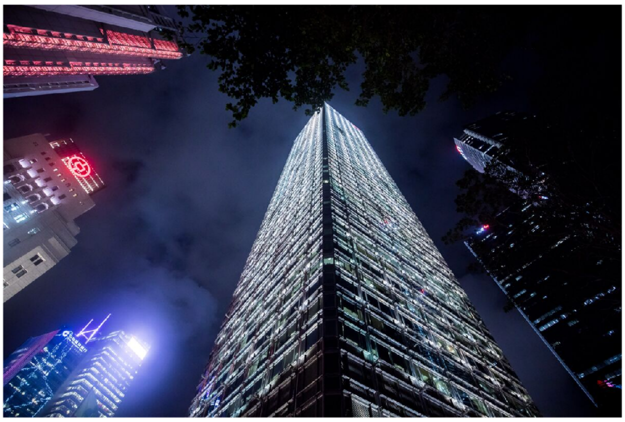
Business

CK Hutchison Probably Hid $7.4 Billion of Debt, Researcher Says

- Company using aggressive accounting for better ratings: GMT
- Hong Kong firm denies irregularity, says report is misleading



Photographer: Paul Yeung/Bloomberg

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Billionaire Li Ka-shing's CK Hutchison Holdings Ltd. "may be concealing" HK$57.7 billion ($7.4 billion) of debt as a result of aggressive accounting, a Hong Kong-based researcher said on its website, allegations the company denied.

GMT Research Ltd., which uses its own proprietary accounting and corporate governance analysis system, posted the research related to accounting treatment of debt by the company and recommended avoiding the stock. CK Hutchison "rejects any innuendo or suggestion of accounting irregularity," it said in a statement Tuesday, adding that the lead of the GMT report "appears selective, biased and materially misleading."

The latest annual earnings of CK Hutchison was the first reported under the watch of Victor Li, who took over the empire following last year's retirement of the senior Li, the city's richest man. Shares of CK Hutchison were little changed as of 10:21 a.m. in Hong Kong on Wednesday, after having risen 4.8% this year versus a 9.4% gain for the benchmark Hang Seng Index.

GMT Research analyzes balance sheets to screen companies for possible red flags, with the goal to judge if a company is overstating -- or understating -- its profits by exploiting accounting standards. Clients are mostly long-only investors, and GMT doesn't take investment positions nor does it write reports at the behest of short-sellers, traders who profit when a stock falls, according to founder Gillem Tulloch.

The Hong Kong Researcher Pointing Out Red Flags at Chinese Firms

In its earnings report for the year ended December, CK Hutchison reported HK$120.5 billion in assets classified as held for sale, and liabilities directly associated with them at HK$77.6 billion. For the previous year, both the categories were nil. By deeming a portion of its assets as held-for-sale, CK Hutchison may be hiding HK$57.7 billion of debt, GMT Research said.

The aggressive accounting is being used to give CK Hutchison a "higher market rating and access to cheaper credit," GMT said in the report. The company may be masking its rising debt levels with this practice, it said.

"But CK didn't make any false statement," said Francis Lun, chief executive officer at Geo Securities Ltd. in Hong Kong. "It's sharp accounting practice to understate assets in poor condition. This isn't the first time they have applied such treatment."

GMT said the accounting adjustments linked to CK Hutchison's purchase of mobile operator Wind Tre SpA and the "residual impact" from its 2015 reorganization boosted the firm's annual pre-tax profit by about HK$13.2 billion, or 38%.

"The group's audited financial statements are strictly in compliance with applicable Hong Kong Financial Reporting Standards," and have been reviewed with credit agencies, CK Hutchison said in its statement.

– With assistance from Lisa Pham and Benjamin Robertson