



## Private equity lines up for a slice of Cambodia

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The bright hopes of private equity may have faded with the credit crisis, but not in Cambodia.

At least \$US200 million (\$216 million) is being raised for deals there and it has drawn in some of the region's most influential investment advisers.

A group of former CLSA investment bankers has established Leopard Asia and has been marketing its \$US100 million fund. Leopard's board of directors includes Ken Courtis, the former managing director of Goldman Sachs Asia, Marc Faber, the respected contrarian fund manager and Jim Walker, who is considered one of Asia's best economists.

Another \$US100 million fund, Cambodia Emerald, is also raising funds and is headed by two American entrepreneurs who last November broke away from Leopard.

SAS Global, a Perth-based advisory firm, has also been working away quietly in Cambodia. It has a significant property investment on the coastline and may consider developing a hedge fund that would seek exposure to Cambodia's nascent mining industry.

Another fund, JSM Indochina, raised \$US220 million on London's AIM market last year to build shopping centres and flats in Vietnam and Cambodia. The decision to tap investors for capital to invest in Cambodian companies and infrastructure is a high risk bet at the best of times. JSM Indochina was forced to scale back the size of its fund, which it originally had claimed would be \$US600 million.

Now, in a global financial crisis, the move to establish private equity firms in Cambodia may be perceived as brave, if not foolish.

Leopard's managing director, Doug Clayton, argues it is possible for the buyout boom to continue. "We're looking for a relatively small amount in the global investment pool," he says. "The Cambodian economy is so uncorrelated with the rest of the world that it's likely to grow even if the US has a major recession."

Leopard, like Cambodia Emerald, sees a pipeline of deals in just about every sector: financial services (Cambodia's stockmarket starts next year), agribusiness, mining and oil services, tourism, infrastructure, power and telecoms.

"There's an opportunity to do something simple like build a road say from one city to another and charge a toll," explains Clayton. "That's just a basic economic need for a country and that need continues regardless of what happens to Wall Street. It's really a grass roots opportunity to fill basic needs that would have been filled had Cambodia not had such a bad history for the past 40 years."

Brad Gordon, managing director of Cambodia Emerald, says his fund has seed investors such as New York-based LR Global Partners and does not expect too many hurdles in raising capital. "Of course, it's much better to be fund-raising in a positive economic climate," he says. "Cambodia is not exactly correlated with what's happening in other parts of the world and for very sophisticated investors, investment in a fund in Cambodia might make sense for a portfolio diversification."

He says Cambodia Emerald will target start-up companies rather than established firms and will be looking at deals of between \$US5 million and \$US10 million. "We don't see any difficulty in finding deal flow," Gordon says. "The difficulty will be more on the execution side and making decisions about which investments to follow through on."

It is to be expected that private equity firms are going to put the best possible spin on Cambodia and the country does have its positives. It has a better record on political stability than Thailand in recent years. It also has economic growth of almost 10 per cent, which is double that of its neighbour. Cambodia's foreign investment laws are also far more liberal than Thailand and Vietnam.

Nonetheless, these positives are counterbalanced, maybe even outweighed, by Cambodia's endemic corruption, weak rule of law and the fact it is a minnow. Its population is only 14 million. The aggressive push by private equity funds is typical of the industry's tendency to take enormous risks and scale new heights. Whether the timing or the unlikely destination is right will be determined by the returns the funds are promising - and lately they have been dwindling for the industry globally.