

## Counting on Cambodia

By David Stevenson

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Over the next decade, there's going to be an almighty scramble by global investors to spot the next Bric countries - the emerging markets hotspots that, like Brazil, Russia, India and China, have the potential to produce returns in the hundreds of per cent. Along the way, dozens of candidates will suggest themselves, but I'd wager that one country will stand tall against the competition. Angola may have oil, Mongolia lots of minerals, Cuba and Zimbabwe millions of clever people desperate for change but, in my book, the country with the best chance of producing extraordinary gains is . . . Cambodia.

Having visited the country, I can attest to its positives. It is hauntingly beautiful (read big tourist potential), it is open to trade and is relatively free of all that post-communist baggage that makes investors' lives a nightmare in places such as China and Vietnam. Add in bags of eager, well-educated, young people, a huge agricultural sector that could turn the country into the rice bowl of Asia, and you can understand why I'm a fan.

Oh, yes, and I forgot to mention that a stock exchange will open in the country on September 9 2009, apparently, a date of some celestial importance for the prime minister.

Until then, though, even if you accept all this potential, there seems to be no obvious way of buying into it. London's Alternative Investment Market (Aim) boasts a closed-ended property investment firm called JSM Indochina that's making some big bets on Cambodia. And the Hong Kong index is also home to Cambodian casino company NagaCorp (03918). But that's about it.

However, this may be about to change. A few weeks ago, a firm called Leopard launched the first dedicated fund specifically targeting investments in Cambodia. The British Virgin Islands outfit is headed by an experienced south-east Asia fund manager, Douglas Clayton, who will be based in Cambodia with his management team. There's also an experienced team of non-execs including the fabled "Dr Doom" himself, Marc Faber. The fund is structured as a limited-life private equity fund with a feeder fund offering access to private investors willing to put up \$50,000 or more.

My suspicion is that Leopard will not be the last fund in this space. Vietnam already has at least 10 quoted funds on the London market, so why couldn't Cambodia have two or three? I can see plenty of good reasons.

Tourism could boom. Anyone who has visited the Angkor Wat temple complex will know what a spectacular piece of world heritage it is. Cambodia is already drawing in 2m tourists every year - Clayton reckons there's potential for 20m within a decade.

Economic prospects are good. Having come through the Khmer Rouge nightmare, the country joined the World Trade Organisation years before regional star Vietnam, where the legacy of communist control over business was actually relatively short-lived.

Inflation is under control and the median age of Cambodia's population is 21.3 years, with population growth likely to be around 1.7 per cent for 2007. This is why GDP percentage growth has been ticking along in the double figures.

Of course, none of this potential should blind you to the risks. Cambodia is still one of the poorest countries in the world with per capita GDP of only \$500 and 35 per cent of the population living below the poverty line. Banking systems are underdeveloped. Interest rates are high and the country has heavy levels of national debt. In fact, if you want a full run-down of the operational risks facing businesses on the ground, just visit the website of the aforementioned JSM Indochina fund and read the risk factors in its Aim admission document:

\*"Issues remain regarding registration of proper land titles in Cambodia for privately-held land that had not been properly registered . . . Direct ownership of land in Cambodia by a foreign person or entity is not permitted."

\*"The Cambodian government is preparing and submitting to its National Assembly several laws that will rewrite Cambodia's legislative and regulatory infrastructure. It is therefore uncertain how the new laws and regulations will affect the current environment governing foreign investment in Cambodia. There can be no certainty that the effect of any new laws will improve the present position."

\*"There are flaws in the Cambodian legal system. Judicial officials are generally poorly trained and underpaid, and therefore more exposed to corruption . . . the World Bank in mid-2006 suspended aid disbursements for a number of projects in which it had found evidence of fraud and corruption."

Still, the Leopard fund may be worth a go, considering its focus on unlisted investments in the run up to a stock market launch. I also like the look of JSM Indochina which is trading at a big discount to net assets - 62 cents versus 98 cents - and is gearing up for some investments in Cambodia. I also like the look of casino operator Nagacorp, which trades on eight times earnings for this year and with a forward yield of over 6 per cent.

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