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Private equity fund eyes Cambodia stock exchange

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\$450 million to be pumped into economy

Private equity investors are making their first foray into Cambodia's unruly financial sector, with three foreign-managed funds hoping to raise a total of \$450 million for projects in tourism, manufacturing, agri-business and other sectors.

Leopard Cambodia launched in April after raising a tenth of its targeted \$100 million, and may be followed later this year by Emerald Fund and Frontier Investment & Development Partners into an economy that analysts say is hungry for investors to feed its nascent industrial sectors.

Leopard CEO Douglas Clayton said he expected the fund's first investment – a real estate venture in the tourist hub of Siem Reap – to be finalized soon.

After a year of screening, the fund had also identified some other “transparent, well-managed companies” to invest in, he added.

Some of the projects, like the Siem Reap deal, will be start ups, he told the Post, adding that the fund will put \$5 million to \$15 million into six or seven different sectors.

“What we want to do is predict what the economy is going to look like in ten years. It's a ten-year fund,” said Clayton, who is based in Phnom Penh, adding that Leopard was aiming for “medium to aggressive” returns of about 25 percent a year over the life of the fund.

“We work backwards and we say a Southeast Asian economy like Cambodia, with its location, population, natural resources, should have certain industries and many of them are missing today” like food processing and packaging, he said.

Clayton said Leopard's strategy is to help companies prepare to list on Cambodia's stock exchange, which is being developed with the help of the Korean Exchange and is under contract to start late next year.

In return, Leopard will take shares and a management role – such as a seat on the board of directors – in those companies it invests in, Clayton said.

“We are not passive investors,” he said.

Emerald Fund, which was started last November by Clayton's former partner at Leopard, Peter Brimble, is also chasing \$100 million. The fund hopes to launch later in the year and invest in tourism, infrastructure and financial services projects.

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– Douglas Clayton, Leopard Cambodia CEO

“We have strong confidence in the Cambodian economy and the future of the country,” said Emerald partner Brad Gordon, adding that the fund is committed to “a high level of ethics in the companies we invest in.”

The third player, Singaporean-managed Frontier Investment & Development Partners, has a target of \$250 million and expects to launch by the end of June, according to its website.

Their entry into Cambodia comes at a time of rapid change, marked by political stability and a flourishing economy that between 2005 and 2007 averaged double-digit growth.

While economists predict a slowdown in Cambodia's economy, it remains one of the region's most robust and a prime opportunity for private equity funds to fuel growth industries like tourism, construction and agriculture, according to financial experts who, however, warned that investment in Cambodia still required a high degree of caution.

“Provided they take the right approach and invest in the right things, equity investors will be adding value, said Mai Nguyen, investment officer with International Finance Corporation, which has no stake in Cambodia.

“They will be pioneering a new investment product in Cambodia,” she said, adding, though, that the outcome depends largely on the fund managers' expertise.

Leopard's Clayton said that while raising funds has been hard going during the past year, investor interest had picked up and he expected to reach the fund's \$100-million mark in four months.

“Europe is responding first. Investors there made a lot of money in Vietnam and they are looking for the next big story in Asia,” he said.

Equity funds were largely successful in Vietnam, where strong growth during 2004-2005 coincided with gains in the country's stock market.

Dragon Capital Ltd in Ho Chi Minh City successfully raised hundreds of millions from investors to put into banks, power plants and other industries.

But not every fund performed well and some pulled out, highlighting the uncertainties of pouring

money into developing economies like Cambodia, where financial institutions remain weak and plagued by corruption.

The trade publication Hedgeworld noted that Cambodia is largely a rural country, marked by “the lack of double-tax treaties; expensive and unreliable communications, power and water systems; and a limited supply of local managers and professionals.”