

Friday, May 30, 2008

For investors, Cambodia could be the next Vietnam



A young Cambodian work force is gaining the purchasing power to buy goods like motorcycles, which have contributed to thick traffic on the streets of hnom Penh. (Robert James Elliott/Bloomberg News)

Friday, May 30, 2008

By **Erika Kinetz**

International Herald Tribune (Paris, France)

If private equity interest is the bellwether for the hot investments of the future, consider this: At least four new private equity funds, backed by brand-name investors, are aiming to bring \$475 million of foreign investment into Cambodia.

"Eventually, Vietnam worked out well," Marc Faber, a fund manager and investment adviser known for his "Gloom, Boom, & Doom Report," said by telephone from Switzerland. "I think the same may happen to Cambodia."

Faber, who is on the boards of two of the new private equity firms in Cambodia - Frontier Investment & Development Partners and Leopard Capital - is not the only one who thinks so.

Jim Rogers, a commodities specialist who founded the profitable Quantum Fund with George Soros in the 1970s, and Robert Ash, former chief executive of AIG Asset Management Services, are also on the board of Frontier.

Heinrich Looser, the retired chief of private banking at Bank Julius Baer in Zurich, and Jim Walker, a former director and chief economist of CLSA Securities, are on the Leopard board as well.

The surge in interest is part of a general turn toward so-called frontier markets as investors seek shelter from the global credit crisis and diminishing returns in developed markets. It is also one more sign that aid-dependent Cambodia, with a gross domestic product of just \$8.4 billion last year, could finally be inching out of the shadow of its chaotic past.

For many in the West, Cambodia remains tainted by the communist crackdown after the end of the Indochina wars. Yet China, South Korea and Malaysia have been pouring in investment. In 2006, foreign direct investment totaled \$2.6 billion, up from just \$340 million in 2004, according to the International Monetary Fund.

A rising segment of Cambodians - a third of whom still live on the equivalent of less than \$1 a day - are snapping up Honda Dream motorbikes and KFC chicken drumsticks. Cambodia, which plans to open stock and bond exchanges next year, also has the potential to produce two things the world now craves: more rice and oil.

But take a drive out of the capital, Phnom Penh, where the first skyscrapers are rising in the country, and you return quickly to a landscape of water buffalo and thatch huts, governed by the rhythm of the rains.

That looks like opportunity to Marvin Yeo, who recently quit as a syndicate manager at the Asian Development Bank to co-found Frontier, which manages the Cambodia Investment and Development Fund, with a Singaporean economist, Kim Song Tan. They hope to raise \$250 million by the end of the year.

Cambodia, Yeo said, "is where Vietnam was some 8 to 10 years ago." He likes a lot about Cambodia: its location in a fast-growing region, a young and inexpensive work force, rising productivity, a pro-business government, stable politics and strong GDP growth, which peaked at 13.5 percent in 2005 but was expected to mellow to 7 percent or 8 percent in coming years. Thirty years of an isolating war, he added, have made Cambodia "one of the best investor diversification plays around."

But as Han Kyung Tae, the chief Cambodia representative of Tong Yang Investment, part of the South Korean Tong Yang Group, points out, promise and pretty macroeconomics are one thing; closing good deals on the ground are quite another.

Han has been trying to start an Indochina investment fund for more than a year. He said he had reviewed 30 to 40 business plans, but had yet to close a single deal. Tong Yang has scaled back its venture capital aspirations and now hopes to invest \$25 million in a Cambodian information technology company, as part of a Vietnam-Cambodia fund, Han said.

His search, he said, was complicated by lack of transparency in a business culture built around

sealed family empires. "It's hard for us to get the information we need to invest," Han said. "It's totally new to them. Some feel offended if I ask for financial information."

Investors also say that the weak legal system, immature accounting standards and corruption in Cambodia remain challenges. An anti-corruption law has been foundering for more than a decade, and Cambodia ranks near the bottom of Transparency International's corruption perceptions index.

Kathleen Ng, the managing director of the Center for Asia Private Equity Research, which is based in Hong Kong, sees private equity interest in Cambodia as largely "spillover" from a still-emerging Vietnam.

A second wave of private equity investment in Vietnam - the Asian financial crisis of 1997 and 1998 obliterated the first - began to crest in 2006, rising to \$2.0 billion in 2007, up from \$166.5 million in 2005, according to the center.

The Ho Chi Minh stock exchange opened in 2000, and despite some recent trouble with expensive initial public offerings is beginning to build a track record of profitable exits, Ng said.

In December 2007, Vietnam Manufacturing & Export Processing Holdings became the first company based in Vietnam to be listed on the Hong Kong exchange; Merrill Lynch invested \$22 million and realized \$13.06 million through the sale of a third of its holdings, according to the private equity center.

Texas Pacific Group and Intel Capital, the venture capital arm of Intel, together invested \$36.5 million in the Vietnamese Corporation for Financing and Promoting Technologies. Two months after it went public, Texas Pacific, which invested \$21.5 million, sold less than a quarter of its holdings, booking a cash return of \$22.17 million, according to the center.

"There's a level of confidence but Vietnam still needs to prove itself," Ng said. "You cannot just use a few divestment results to say, 'Hey, a place is doing well.'"

She added that it might be too early yet for thriving private-sector equity investment in Cambodia, but that the country was ripe for development-finance institutions.

Proparco, the financing subsidiary of the French Development Agency, is "studying the possibility" of investing \$5 million to \$15 million in a Cambodia-focused private equity fund, according to Julien Kinic, an investment officer at Proparco. The French firm is already a shareholder in Dragon Capital, a Vietnamese asset management group, and has provided direct financing to several prominent Cambodian businesses, Kinic said. "Our interest in Cambodia is not new," he said. "What is new is the rising of the economy and the strong need for financing."

Douglas Clayton, who founded Leopard Capital last year, said that Leopard's Cambodia Fund had raised \$10 million of its \$100 million target since its inception in April, mostly from wealthy individuals and private banking institutions. He expects to close on Leopard's first project, a 250-unit condo project in the Cambodian tourist hub of Siem Reap, in the next few weeks.

"Cambodia needs several billion dollars of investment," said Clayton, who used to head the Thailand office of CLSA Securities. "Part of that can be private equity. The challenge will be to build the businesses. Most are early-stage investments. This is building basic industries and services."

Cambodia Emerald, which split off from Leopard in November, also aims to raise \$100 million, said Peter Brimble, who directs Emerald with Bradley Gordon, a former corporate lawyer.

The funds are targeting investment in tourism, agribusiness, infrastructure, real estate, manufacturing and financial services, among other sectors.

Of course, what goes up can come tumbling down. Take Vietnam: After rising 500-fold from 2003 through the end of 2007, its stock market fell by nearly half in the first quarter.

Cham Prasidh, Cambodia's minister of commerce, said he was not worried about wading into the increasingly foreboding tides of global capital markets.

"Even if there is a world recession, if you develop the capacity to create an enabling environment for doing business and investment in Cambodia, you will survive," he said.

Besides, he added, Cambodia is ready to ride the waves: "We're surfers."