

Investing wisely in tough times

PHNOM PENH POST - WEDNESDAY, 04 FEBRUARY 2009 22:00 GEORGE MCLEOD

Following years of growth, Cambodia is beginning to feel the global downturn. But Managing Partner and CEO of Leopard Capital Douglas Clayton says opportunities still exist

Leopard Managing Partner and Chief Executive Officer Douglas Clayton. Clayton says Cambodia will be hit by the global economic crisis, but that recovery will come sooner than in the West.

Your investment fund had targeted raising US\$100 million by March this year - how much have you raised so far?

We have raised \$23 million - originally, our target was \$100 million, but the world is a different place now. We are happy to have what we have, and I think it will be very hard for any other fund to launch at this stage, so we have enough money to survive and to run a portfolio.

We have two and a half months to reach our target figure of \$100 million. It's still the target, but if we reach 24 or 25, it doesn't matter, we can survive with this amount.

Do you expect to be able to meet your target of \$100 million?

I don't think we will reach \$100 million in the next two months in this environment, but I think we will get some additional investment - it should be somewhere between \$23 million and \$100 million. Once we crossed \$20 million, I relaxed a bit, because that allows you to cover your costs We've already launched, we've already made an investment. The fundraising period is just to enlarge the fund, but the fund is operating today, so we would be able to make an investment today.

We made our first investment in Siem Reap - a condominium project of 250 units on three hectares of land near the Old Market. And that's targeting the tourism profession community - hotel managers, restaurant owners. If you go to Siem Reap, you will find that most expats don't have a reasonable housing community to live in - a swimming pool, security, 24-hour power and things like that. So we are going to offer that, and that is not a speculative project like in Phnom Penh where everyone was trying to do high-rises like last year.



Leopard invested in Siem Reap real estate last year. What is the status of those investments?

That was just our first investment. This is not a property fund - we are a private equity fund, and property is just one of the sectors we include in that. We were looking to have a diversified portfolio with about 10 investments in different sectors, and the investment size will be proportional to our fund size.... Our fund is a play on Cambodia's growth, rather than picking one sector of it.

With at least three funds in the country, is Cambodia too crowded for Leopard right now?

Not at all. We are the only fund, we have no competition, so that's a very nice situation for us. We can sit down with almost any business group and they're receptive to the idea of co-investment, and compare that with Thailand where it's really tough to get any good deals. I worked in Thailand and we only did two deals in three years.

In Cambodia, we have almost too many opportunities. There's a real imbalance between supply and demand for capital and that's great if you have money in the bank like we do.

Do you have any more major assets right now?

No, that's the only one we've made, but we are getting close to doing an investment in the farming sector - and this will be a rice farm. We've located some land we would be interested in, and a management team that would be able to operate a farm, so we are trying to put together a deal to capitalise that company.

What sectors are the most promising right now?

We like generally to stick to the basics. Rice farming is something that Cambodia has done for 1,000 years, so everybody in the country knows how to grow rice. A second sector we're looking at is rice milling because that's kind of a different game than rice farming - it's a different set of risks and challenges, but it's something that we think we can do profitably here because it doesn't make sense to truck rice off to Vietnam and then truck it back. So we think we can operate a rice mill.

We are also quite interested in is power generation - traditional or alterative methods, and we're working on some ideas for that.

Another sector would be internet - we think that internet is too expensive and unreliable, so were looking at some investments that would improve that situation - whether Mimax or Wifi - it's still at the early stages.

We are also looking at hotels - I think there's not enough of the right sort of hotel. There are too many of one type of hotel - the three-star mass-market hotel and there are not enough quality-branded hotels. We think there are opportunities in either boutique or branded hotels.

Banking is another one - we are also looking at some ... investments to be a minority shareholder in an existing bank.

How have things changed since you got here?

Two things happened - we started two years ago when the economy was looking in pretty good shape, and then we saw this asset bubble when land prices shot up last year, and we also saw inflation getting out of control.

In some ways the global financial crisis has been a blessing for Cambodia because it cooled down those two problems that might have been even worse than a slowdown - an overheating economy is a bad thing.

So fortunately, land prices are correcting back to more reasonable levels and inflation is receding.

The opportunities are still there for Cambodia and the opportunities are good for new investors coming in. The slowdown is bad for last year's investors - the Koreans that came in recently - but it's good for the guys coming in now with cash.

We can benefit from other people's withdrawal - everybody needs money now. Money wasn't so special last year because there was a lot of it floating around.

Have we seen the bottom yet?

Not at all. I think we shouldn't even be thinking about a bottom for the next six months, and even then, we will have to wait and see. I think there is a lot more distress that has to be cleared from the system.

If you look around, you see a lot of "land for sale" signs - that indicates the collapse of a bubble and it takes a while for that to bottom ... until people are forced to sell by their bankers - so we see the true price.

But today, you have an offer price and a bid price and it's not clearing, so it needs to clear to see the true value of land in a forced sale. It happens in the US through foreclosure options, but we haven't seen that here yet.

Land here has been the game here, so when land bottoms, then the economy has bottomed - they go hand in hand.

What about tourism, and commodities ?

All of the engines of growth are under pressure. Garments, tourism, construction and commodity prices are all suffering from the global economy, so what we need now is a new generation of investing that diversifies investing from these.

We need oil and gas, minerals, commodities processing, like rice mills and rubber factories; and we need low labour-cost manufacturing - beyond garments. These things will change the economy and make it more balanced.

I think that will be the next engine of growth - the new industries.

If you look at the economy today - if you imagine it had not gone through 30 to 40 years

of lost history, it would probably be an \$80 billion economy...

So we're here not so much for the \$8 billion existing economy, but for the \$72 billion future economy.

Authorities are saying the stock exchange launch may be delayed. Is this a major issue for you?

I think it is a very important issue, but the focus is incorrectly on the date of the launch, and that's the least important aspect of the exchange.

The important thing is the commitment from the highest level of government to open an exchange, and that's a very important thing for a country like Cambodia. It's the one reward for businesses to be transparent - they can list their companies and get a high price-to-earnings ratio.

So to answer your question, I have no idea if it will start in December this year.

The main issue is that you can open an exchange - you can open the door - but the question is if it's functional. Is it a vibrant, a functional exchange? I would be surprised if it's functional.

It may be open, but it may be rather inactive at first, like a soft opening. You might have one or two companies that are encouraged to list and then everyone else will wait and see.

But then gradually people will start to gamble and speculate and that's the usual trend in Southeast Asia. And then the index will start going up and the businesses will say they should list their companies ... then the exchange becomes a more genuine exchange - that's the more important thing.

Until recently, most analysts were saying that Cambodia would be sheltered from the crisis. Are experts now abandoning the assumption that Cambodia is sheltered?

At first they were saying that Asia would be sheltered, then it finally dawned on them that most of Asia's exports actually end up in the US.

So if the US isn't buying as much, it affects Asia. With Cambodia - if you want to be part of the global system, if you pay the price when the global economy gets sick. This is an open economy - it's one of the reasons we like it so much. It's easy for foreigners to do business, but it also means when foreigners' home countries go down that they may withdraw.

But to say that Cambodia is sheltered is kind of an absolute statement, but we could say that it's relatively sheltered compared to most places - so we will still have positive growth, but we won't have as fast growth, we will have some distressed people that suffer because they were too optimistic before.

I think nobody anticipated the world would melt down in such a sheer and spectacular fashion.

But I think the key thing is that Cambodia will be one of the first countries to get out of the hole.

In the US it may be five to 10 years before they work out their problems... Cambodia might be one to two years.

Where are Cambodia's investment funds now?



LEOPARD

Established November 2008

Aiming for \$100m by March 2009 with \$23 million already raised

Targeting real estate, agriculture, light industry

Based in Phnom Penh



FIDP

Relaunched in January 2009 in Cambodia and Laos

Aiming for \$200 million, current assets not public

Targeting agriculture, natural resources and infrastructure

Singapore-based, offices in Phnom Penh and Mongolia



EMERALD

Established in November 2007

Fundraising suspended

Currently focusing on consulting