

## **Good Morning...Cambodia?**

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Vietnam, once the darling of international fund managers, is quickly losing its spot to another Asian nation probably best known by the West for political violence and poverty — Cambodia.

Cambodia's young and inexpensive work force, rising productivity, a pro-business government, and 30 years of an isolating war have made the country "one of the best investor diversification plays around," says Cambodia Investment and Development Fund co-founder Marvin Yeo.

"Cambodia is where Vietnam was some eight to 10 years ago," Yeo says

Managers of at least four new private equity funds clearly agree. The funds are preparing to pour upwards of \$500 million into Cambodia as investors flee the troubled Vietnamese bourse.

Marc Faber and Jim Rogers are among those expressing great enthusiasm about Cambodian investment prospects — and both are advising some of the private equity firms that plan to invest there, in reports in The New York Times and elsewhere.

"Cambodia offers an enormous potential for future capital gains," Faber recently wrote in an investment newsletter. The country, which plans to open stock and bond exchanges next year, also has the potential to produce two things the world now craves: rice and oil.

Twenty-two fund managers, most from the U.S., recently met in Cambodia to evaluate current investment opportunities there.

It's a struggle. The country posted a miniscule gross domestic product of \$8.4 billion last year. The Cambodian economy would fit in the back pocket of a normal U.S. large-cap stock.

China, in comparison, raked in 10 times that amount in foreign investment alone last year.

"The general principle is to go after those countries and companies that are unpopular and bombed out, and that are good value in terms of price-to-earnings, price-to-book and dividend yield," says Mark Mobius, president of Templeton Emerging Markets.

Some fund managers believe the trick to succeeding in Cambodia lies in staying small to avoid headaches caused by the country's notoriously corrupt government, weak laws, and business secrecy.

"We want the small and medium-sized investments below the political radar screen," says Douglas Clayton, a managing partner of Leopard Asia, which is raising \$100 million for its Cambodia fund.

"Cambodia needs several billion dollars of investment," Clayton says. "The challenge will be to build the businesses. Most are early-stage investments."

Clayton's fund — which opened to subscribers in April and sees opportunities in food processing, the garments industry, agribusiness, and property — is targeting investments between \$5 million and \$15 million.

The projected return for the Leopard Asia's initial Cambodian investment, a minority stake in a \$2.5 million, 250-unit condominium, is 60 percent — well above its normal 25 percent return target.

"As we dig deeper into this country and connect with the entrepreneurial class we are finding a lot of opportunities," says Cambodia Emerald Fund manager Peter Brimble, who is aiming to raise \$100 million.

"Five hundred million dollars is really just a few golf courses and hotels," Douglas Broderick, United Nations Development Program's resident representative in Cambodia, told The Wall Street Journal. "A lot more could be absorbed."

Emerging markets are expected to experience an average gross domestic product growth of 7 percent this year, says Mobius, while developed markets are expected to grow at an average of a little more than two percent.

However, even after their recent tanking, Vietnamese shares still aren't cheap enough for him to consider.

"If you're going to go there, you better think long-term," Mobius says. "Otherwise you can get stuck with a very illiquid security."