

# FINANCIAL TIMES

## Cambodia begins to attract money

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Cambodia, once regarded as a spill-over investment from Vietnam, is showing signs of standing on its own feet as frontier funds start to produce strong returns.

Frontier investors such as Leopard Capital – a private equity fund which launched a potential \$100m Cambodia-focused fund in 2008 only to close with \$34m – is now finding renewed interest in the country, holding the door open as other regional funds begin to sense an opportunity.

Vietnam's largest asset manager, Vinacapital Investment Management, in January announced it would be expanding into Cambodia with a pledge to invest \$100m, launching a dedicated fund targeting real estate, infrastructure, hospitality and agriculture investments.

“On the face of it, it is looking like a great opportunity,” says Kathleen Ng, managing director of the Centre for Asia Private Equity Research.

“There's huge interest in directing funds to south and south east Asia – Sri Lanka, Laos and Cambodia – and we are seeing funds, from Vietnam in particular, beginning to regionalise.

“There's an emerging sense of opportunity with some funds having a lot of luck in raising funds. Leopard Capital, in particular, was oversubscribed last year,” she says.

Larger funds such as Frontier Investment and Development Fund and Cambodia Emerald fund are aiming to raise \$250m and \$100m respectively.

Douglas Clayton, chief executive at Leopard Capital Cambodia, says his fund is achieving returns of between 25 and 30 per cent, albeit on relatively small investments by the standards of the region.

“We have achieved that in our exits so far,” says Mr Clayton. “We have made 10 investments and exited two.”

Leopard says a Laos hydropower investment showed returns of 66 per cent on a partial exit and a Cambodia mobile telephone deal achieved an internal rate of return of over 25 per cent.

“Cambodia is positioned to outgrow most of the world as it has avoided any debt crisis, has a young population willing to work hard for modest wages, and is resource rich,” Mr Clayton says. The ground-floor appeal of the country – sandwiched between the regional economic giants Vietnam and Thailand – meant the fund could pursue a highly varied portfolio, taking a 33 per cent stake in an established microfinance company and a 55 per cent stake in Kingdom Breweries, a company incubated by the fund.

“In general, we have supported the development of high-quality Cambodian brands, which are still in short supply,” he says.

Ms Ng says real estate had been profitable for one fund and that others were now scouting for condominium deals. With the condo market in Thailand reaching saturation point, locations such as Cambodia are an obvious choice.

“It’s always the same for most first movers, you’re getting in ahead of the regulators and there are profits to be made before loopholes are closed,” she says.

Leopard says it is yet to see meaningful challenges from competitors in the country. “Vinacapital announced plans to raise \$100m to invest in Cambodia but hasn’t said it has actually raised any money yet,” Mr Clayton adds.

“A consulting firm, Emerging Markets Investments, has reportedly raised a \$10m fund for Cambodia and Laos but hasn’t announced any investments yet. We still don’t really face a competitive environment yet, which is nice.”

Nevertheless, there are still obstacles to investment in one of Asia’s poorest countries – where gross domestic product in 2010 barely broached \$30bn – not least that it has yet to gain a stock exchange that allows foreign funds to list their investments locally and exit them.

The Cambodian finance ministry this week announced the long-awaited exchange, which had been scheduled to open in July, would be delayed until the end of the year to allow companies time to comply with listing regulations.

So far, there have been 15 licences issued to securities companies to operate on the Cambodian exchange, including four brokers, two investment advisers, two dealers and seven underwriters partly or wholly owned by US, Malaysian, Vietnamese, Japanese or South Korean companies.

Laos already has a functioning exchange and Leopard says its second Cambodia fund will also target the south-east Asian country since “we keep getting shown interesting deals that we wish to include”.

The company says it is also considering opportunities in nearby Burma. “We eagerly await further reform in Myanmar [Burma] since that country will enter a multi-decade phase of rapid growth once its regulatory environment liberalises and sanctions are eased,” Mr Clayton says.

Besides the microfinance company and brewery, Leopard’s portfolio includes a power transmission company, a property development group, a hydro-electric company, a seafood processing plant and a bank.

In the future, the fund hopes to invest in commodities, playing to Cambodia’s strengths of food production, timber and rubber. “We are increasingly focusing on agricultural investments given the elevated prices of commodities,” Mr Clayton says. “We are also looking to migrate the most successful business models from one frontier economy to another.”