

Realizing Cambodia's Investment Potential: Conversation with Douglas Clayton, CEO, Leopard Capital Ltd.

KWR Special Report



Interview by Keith W. Rabin

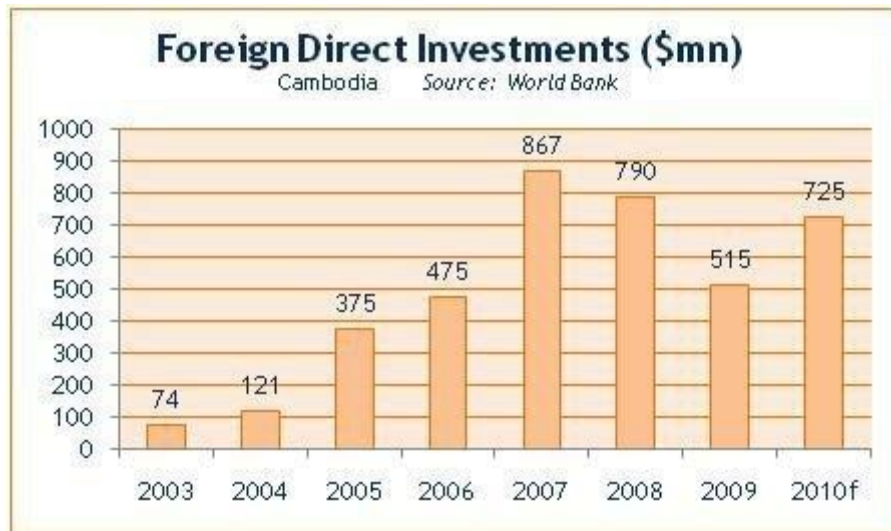
Thank you Doug for speaking with us today. Before we begin, can you tell us about your background and how you came to form Leopard Capital?

Over the past 25 years that I've been investing in Asia, I've seen numerous countries transform from avoided frontiers into popular emerging markets. I set up Leopard Capital in 2007 to invest in the next wave of pre-emerging markets. We selected our first target, Cambodia in 2007 and went out and launched a fund there while everyone was focused on the global financial crisis.

Cambodia is far off the radar screens of most investors, even those that focus on emerging and frontier markets. Can you tell us about Cambodia as an investment destination?

Cambodia is a remarkable country, a poster child of post-conflict healing. The economy is still small but will grow multi-fold over the next few decades. It's the most open of Asia's developing countries, has an inexpensive young work force, and is loaded with untapped natural resources, such as agricultural land, mineral deposits, and offshore oil and gas. Most of the big businesses are foreign owned, mainly by Asian investors.





While investors in the US and other developed markets increasingly recognize the potential of Asia they are usually focused on China and India. Additionally, during the OPIC investment conference we both recently attended in Jakarta, there was a lot of talk about the "VIP" countries (Vietnam, Indonesia and the Philippines) with little or none about other parts of Southeast Asia. How does Cambodia compare to these other locations and why should businesses and investors focus resources there as opposed to these larger markets?

Most global fund managers are drawn to countries with large populations, which enables the managers to raise larger funds. Frontier investors like Leopard favor outsized returns over outsized funds. We invest in places before they become trendy favorites and full of competitors. If everyone is talking about a theme it means the easiest money has already been made by the early movers.





What kind of investments has your firm been making there? What sectors do you see as having the most potential moving forward? What kind of returns do you expect and is that being realized in your performance?

Most of our portfolio centers on businesses providing goods, services and jobs to the aspiring members of the underclass – basic industries like financial services, utilities, and agro-processing industries. A second strategy has been creating high quality local brands, mainly in food and beverages, for import substitution. In the future we hope to get into commercial farming since rising commodity prices have really amplified the potential returns. We target investment returns of at least 25% and have exceeded that in our first two exits.



How hard has it been to deploy capital and what is your average sized investment? What are the biggest challenges of operating in Cambodia? How important is finding good local partners? Given the lack of a public market there what is the potential for exiting these investment?

Our fund is only \$34 million so we make investments of \$1-5 million each. There is no shortage of opportunities in this segment but most of the proposals are for start-up projects, which take a lot of work and are usually risky. We prefer to invest in existing businesses when possible.

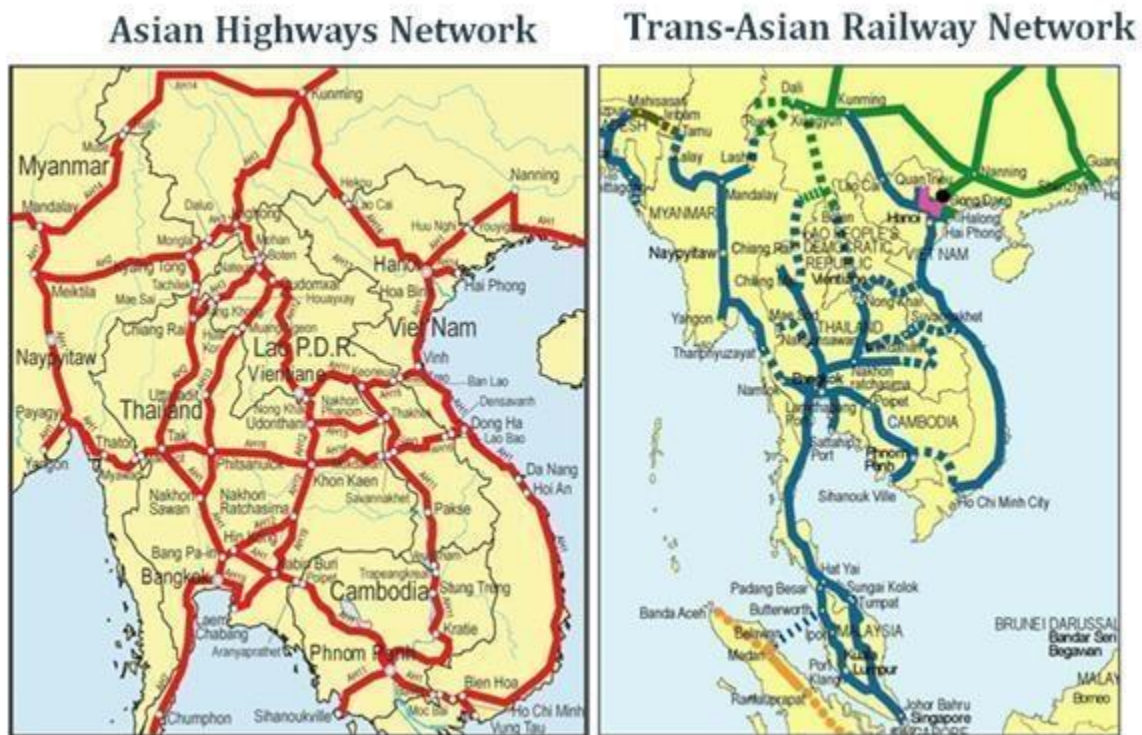
Taking a local partner is optional in Cambodia since 100% foreign ownership is allowed for most industries. The biggest challenge is finding experienced business managers given Cambodia's history and underdeveloped economy. In most of our investments we look to exit through trade sales to regional multi-national groups.



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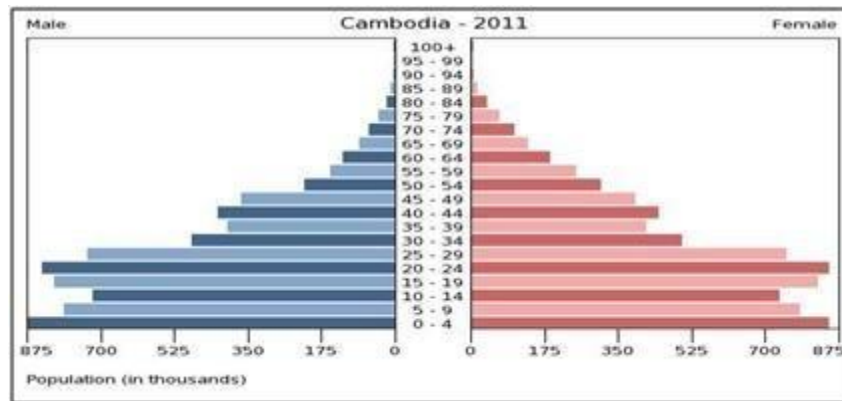
While there is a lot of talk about the potential of Southeast Asia and ASEAN as an increasingly integrated, unified market, most of the investment-oriented firms we speak to tend to focus on individual markets there rather than the region as a whole. That makes it difficult to attract the interest of large multinationals and financial institutions seeking size and scale in their investments. What is your view on this? Are you more focused on Cambodia as a discrete, niche but profitable opportunity in and of itself or do you see it as a strategic entry point into Southeast Asia as a whole?

With such a small economy Cambodia has little to lose and much to gain from regional integration, since there are few inefficient businesses to protect. Cambodia's labor costs are lower and its regulatory burden is lighter than its neighbors, so it is well positioned to attract new investment from its neighbors. But the core story of Cambodia is still the gradual utilization of its natural resources and tourism assets, which will happen regardless of the regional integration theme. For Cambodia, the effects of China's growth probably exceed the influence of ASEAN's integration.



US, European and Japanese companies are coming to recognize the increased consumption and demand and rising living standards in markets such as Cambodia. How realistic is it to think US, European and Japanese companies can find a market for their projects in these economies -- and what do they need to do to realize the potential of these markets?

Cambodia's small population and spending power makes its domestic market too small for many foreign manufacturers to care about. Companies that can bring down the cost of products to make them affordable for low-income people will do the best.



One of the objections that we often hear when dealing with clients who are considering entry into emerging economies is fear over market stability and lack of a well-defined legal and regulatory system as well as their ability to seek and enforcement judgments should there be any problems. How do you respond to concerns of this kind?

Most emerging markets have fairly weak legal and regulatory systems, but national culture has to also be taken into account. Over the past decade there have been few legal disputes between reputable foreign investors and Cambodians, I think in part for cultural reasons – Cambodians seem to work well with foreigners; most are reasonable and agreeable people and tend to think long term. Just in case, foreign investors usually include offshore arbitration clauses in their contracts, but it is quite rare for anyone to actually need to resort to that.





I see that you recently have begun to focus your attention on opportunities in Haiti and have begun to make investments there. What made you choose to focus your attention there? Why did you choose to become active in a market so far from Southeast Asia? How are you able to give both markets the attention they require?

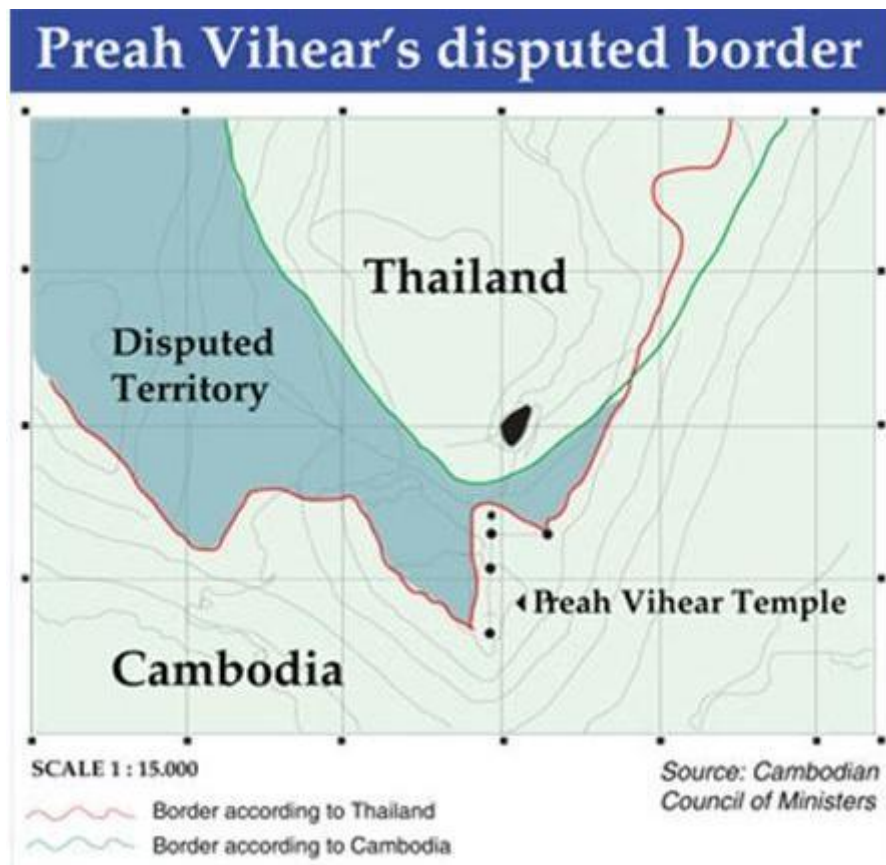
Haiti has similar investment needs to Cambodia even though it happens to be on another section of the world map. Both are small countries that are the poorest in their region and get disproportionate donor assistance. We see a lot of commercial opportunities in each, in building out the private sector. Managing any multi-national business requires having good local expertise

and executives who can sleep on airplanes.

Given there is no ETF or ADR/GDR's for firms focused on Cambodia is there any way for investors to gain exposure there?

The easiest ways now are by investing in a Cambodia-focused private equity fund or buying a condo. Cambodia's stock exchange is scheduled to open later this year, so that will offer a third alternative.

Cambodia is currently embroiled in a border dispute with Thailand, which has become violent and has gone on for several months. In addition some analysts are concerned about political stability within Thailand itself. Is this affecting your investments there? How important is this conflict in terms of future growth and development in the region?



Our guess is that the border tension will ease after the upcoming election in Thailand. Both sides are not fighting to capture territory but to send messages to voters. Meanwhile, Thai-owned businesses continue to operate normally in Cambodia, however the conflict has pushed Cambodia toward closer integration with Vietnam's economy.

Thank you Doug for your time and attention. Before we conclude do you have any final words to leave with our readers?



Cambodia has achieved so much since I first visited it 20 years ago. Most people simply have no idea until they come visit Phnom Penh.