

Reviving Cambodia

New Indochina fundraising includes Cambodia, where an investor-friendly government is trying to reverse decades of ruin.

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The pioneer spirit is still around. Namely, Leopard Capital and Dragon Capital, which have recently revealed fundraising efforts that include Cambodia. The fragile nation was decimated by the Khmer Rouge, who ruled by torture and mass extermination from 1975–1979.

Cambodia's recovery from that period is accelerating. In 2011, GDP growth was 6.7 percent and 6.5 percent is expected in 2012, according to the IMF. People, money and ideas are also flowing between Vietnam, Cambodia and Laos, creating opportunities for regional integration, sources say.

The government allows 100 percent foreign ownership and encourages private equity investment to help revive industry, says Doug Clayton, chief executive of Leopard. "If customs won't release your shipment you can pick up the phone and call the minister, who will say 'give me a couple hours and I'll come back to you,'" he says. "It's a pro-foreign investment government that wants us to succeed."

Leopard is raising a second fund backed by three development banks and a European pension fund with a target of \$75 million, according to industry sources.

Another fundraising effort comes from Vietnam-based Dragon Capital, which is targeting \$100 million for Vietnam, Cambodia and Laos, according to Bill Stoops, chief investment officer. Dragon is aiming for a first close on \$50 million by summer, with DFIs and family offices as investors. In the second round, it hopes to attract funds of funds, he says.

The two firms have different approaches. Leopard's strategy focuses on small-and-medium-sized businesses. Leopard raised \$34 million in a first fund that resulted in 11 investments, including a small stake in Acleda Bank and IPR, a microfinance institution. It also started a beer company called Kingdom Brewers and is about to invest in a mineral water company.

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Doug Clayton

Clayton describes Leopard's model as a combination of private equity and venture capital. Leopard's local team of 25 runs financial control and actively participates in the portfolio company's business plan. "A very hands-on approach is more important in a frontier market because human resource levels are very low."

Dragon, by comparison, is targeting large agricultural sector investments, Stoops explains. Cambodia used to be a major world producer of rice, rubber and agricultural goods until the Khmer Rouge devastated industry. Cheap land concessions are now offered to foreign investors to revive agricultural exports.

Dragon aims to invest in rice and rubber plantations, bringing in multinationals with operational expertise to get the business going. On the financing side, it will work with DFIs for cheap concessional loans, potentially providing leverage of 3-1 in deal financing. "Combine that with cheap land and labour and multinational operational expertise – that's the real opportunity in Cambodia," Stoops says.

Other sectors aren't so open. Cambodia has local tycoons with connections rather than business skills sitting on underutilised assets they've been awarded. But sources say the kingpins are ruling property, mining and oil. "We stay out of those sectors," Clayton says.

Challenges are plenty. Leopard, for example, is in an ongoing legal dispute with bankrupt portfolio company Nautisco Seafood, Cambodia's largest seafood processor, over a restructuring plan.

No private equity track record exists, making it difficult to raise money. "It's a hard story to tell," Clayton admits. "People think it's the same as 30 years ago. Institutions say they have to write \$50 million cheques, so come back when you're big."

But maybe Cambodia's most pressing problem is the management class – it's non-existent, sources say. The Khmer Rouge liquidated anyone who was even suspected of having a formal education, whether speaking a foreign language or wearing glasses. Few locals have the required business skills. Leopard tends to bring in human resources from the region.

Clayton remains optimistic. He adds that the Cambodians don't think they have all the answers. "In China or Vietnam, locals tend to think they don't need foreigners. Cambodia is growing rapidly and they want foreign partners to coach them through."