8th Annual Private Equity
Southeast Asia Summit 2013

Why Private Equity Firms are Betting on 'Red-Hot' Southeast Asia

Darwin Jayson Mariano

Southeast Asia is taking the centre stage – once again. In 2011, Southeast Asia's aggregate GDP topped US$2 trillion*; the region is home to young and increasingly affluent population of 600 million; and "growth in the region's six largest economies is forecast to accelerate by, on average, 4.5% to 6.7% compounded annually through 2015." Great headlines that make global private equity firms take notice.

For the uninitiated, private equity (PE) funds are the reserve of capital that is invested by private equity companies. PE funds are usually set up as either a limited liability company or a limited partnership (LP). There are, however, other types of structures that exist which are also controlled and managed by the specific private equity firm that is acting as the general partner (GP).**

**Source: Bain Southeast Asia Private Equity Brief*
***Source: secondventure.com*

So, why does Southeast Asia generate a lot of buzz lately among PE investors looking for growth and value? Possibly because the region is 'sizzling hot' these days and is expected to remain so in the next couple of years.

'Red-Hot' Southeast Asia

In a recent Asia-Pacific Private Equity Outlook 2013 report by Ernst & Young, Luke Pais, Ernst & Young's M&A Leader for the ASEAN, opined that investors' strategy is shifting. "Historically, China and India have been high on limited partners' (LPs) radars, but increasingly we are seeing a shift in investment strategy and a recognition of Southeast Asia as a destination for that shift." he says. "Curiosity from LPs is piquing, and Southeast Asia is becoming a very exciting market."

Let's look at some deals that happened lately.

Gathering from the same EY report, we've learned that since 2011, Indonesia has seen 13 deals worth close to US$900 million. Deal value in Thailand is at US$114 million over the same period. On the sell side, firms and fund managers are able to take advantage of their investment on Southeast Asian assets.

"In 2011, Navis Capital Partners sold Singapore-based King's Safetywear Limited, a manufacturer of industrial safety footwear and personal protective equipment, to US-based Honeywell International for US$345.8m. Navis purchased the company in 2008 for US$83.5m. That deal was preceded by Navis' sale of Linatext, a Malaysia-based maker of specialty rubber-based products purchased for US$31.1m, to the Weir Group for US$200m." the report says.

Robust fund-raising activity has also been seen in the region. According to Bain Southeast Asia Private Equity Brief, PE funds focused on Southeast Asia "attracted US$1.6 billion dollar in new capital" last year. And that may be just the tip of the iceberg.

"Historically, China and India have been high on limited partners' (LPs) radars, but increasingly we are seeing a shift in investment strategy"

Luke Pais, Ernst & Young's M&A Leader for the ASEAN

"Three funds focusing exclusively on investments in Indonesia and six smaller ones targeting opportunities in Vietnam are looking to line up more than US$2.5 billion.

"Twenty-two funds focused on Southeast Asia are currently on the road, aiming to raise an aggregate US$6.4 billion for investment in the region. This is in addition to the capital that global and pan-Asian funds will deploy into the region."

Even countries that are not a traditional investment destination are making good showing. One such example is the Philippines.

"The Philippines awaits its share of investment. Historically, private equity firms have had a fleeting interest in the country, opening and closing representative offices as needed. This was largely due to political instability, but that is changing. The current trend is seeing a rapid shift away from corruption to transparency, fostering a more welcoming environment for international businesses and creating confidence among foreign investors," says Renato Galve, Head of Transactions Advisory Services in the Philippines.

In fact, Bloomberg reports that the Philippines beats global stocks by an amazing 124% as of Feb 2013, showing

signs that things are doing well, economically, in the country.

Bain & Company and the Singapore Venture Capital & Private Equity Association (SVCA) ran a survey lately to look at the region's prospects and results revealed that there are clear signs of optimism going around, "which could mark 2012 as the start of Southeast Asia's time to shine."

Nearly
80%
expect deal activity to increase

40%
of respondents plan to invest more than **US$150 million** in 2012

Source: Bain-SVCA Southeast Asia Survey

The financial foundations for PE expansion look solid. Debt issuance is at record levels. Mergers and acquisitions activity is buoyant. Singapore's pipeline of initial public offerings is full.

'Frontier Markets' are also doing well

As investors try to maximize growth in emerging markets, PE firms are also looking beyond traditional economic powerhouses and are now increasingly turning their attention on frontier markets including Myanmar, Bangladesh and Cambodia to fulfil the funds' future growth potential.

Frontier Markets is an economic term which was coined by International Finance Corporation's Farida Khambata in 1992. It is commonly used to describe a subset of emerging markets. The frontier equity markets are typically pursued by investors seeking high, long term returns and low correlations with other markets.***

Douglas Clayton, Founder & CEO of Leopard Capital, told CNBC.com "Myanmar will be one of the great investment stories of 2013, it's changing very rapidly now. This is a country, for 50 years that missed out on the whole Asian miracle.

"It is going to catch up very rapidly as the reforms take place…. everything is being changed, (from) the foreign exchange regime to the foreign investment code, and so on," he says.

In addition, Bangladesh and Cambodia, because of its increasing strength in manufacturing and growing consumer markets, are expected to do well.

"Bangladesh is one of the cheapest places to manufacture in, and as China gets more expensive, factories are rapidly moving down into places like Bangladesh and Cambodia," Clayton adds.

***Source: Wikipedia.com

Risks are abundant – but so too are the treasures of a region ripe for private equity and foreign investors.

All Aboard!

With all these developments in the region, coupled with the fact that US is still beset with great economic challenges and Europe still mired in difficulties, Southeast Asia is now starting to show its prowess in terms of investor attraction. There are still some issues that need to be addressed – no doubt about that – including transparency, standards and regulatory frameworks, these things are solvable and are outweighed by the vast potential that the region holds.

A quote from the Ernst & Young report probably says it best: **Risks are abundant – but so too are the treasures of a region ripe for private equity and foreign investors.**

About the Author:
Darwin Jayson Mariano is the Online Content Manager and the Regional Editor - Asia for International Quality & Productivity Center (IQPC), a leading producer of events and conferences for business leaders around the world. You can contact him on Twitter @whoisdarwin or email darwin.mariano@iqpc.com.sg

References:
http://www.secondventure.com/Private-Equity-Funds-and-General-Partners.asp | http://www.ey.com/Publication/vwLUAssets/Asia-Pacific_private_equity_outlook_2013/$FILE/Asia-Pacific_private_equity_outlook_2013.pdf | http://www.bloomberg.com/video/philippines-beats-global-stocks-by-124-sA8WLH1xSSWeXPDUFHyQfA.html | http://www.cnbc.com/id/46451418/Private_Equity_Firm_Bets_on_Asiarsquos_Frontier_Markets |http://www.forbes.com/sites/baininsights/2012/06/26/can-private-equity-strike-gold-in-emerging-markets/ | http://www.bain.com/Images/INDUSTRY_BRIEF_Southeast_Asia_Private_Equity.pdf