

6th annual edition

AVCJ Private Equity and Venture Capital Report SOUTHEAST ASIA 2011

SAMPLE



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OVERVIEW

Always a bridesmaid?

Southeast Asia remains the touchstone for the perennial clichés about Asia’s diversity. The structures of ASEAN, for instance, impose a deceptive unity and coherence on a region whose levels of development vary from unadulterated First World sophistication to barely Third World subsistence, and whose political and legal systems vary from vigorous democracy to autarkic dictatorship. Yet at 600 million people, the population alone ASEAN outranks the European Union’s 500 million, and it contains the world’s fourth most populous country (Indonesia) as well as spanning a wide range of political and economic systems. Investors in Southeast Asia, sometimes chiding the region as a separate region compared to the coherent and integrated economies of China and India, could answer that they are simply not looking at the region’s own inhabitants, as typified by ASEAN.

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Asia’s fragmentation, however, private equity has developed considerably more there, gaining impetus from the “Little Tigers” period of early development in the 1970s and 1980s at a time when China and India still held back from deep market opening. In recent years, Southeast Asia – defined for these purposes as Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam – has tended to come in at just under 10% of private equity capital raised for Asia as a whole, and in 2010 this pattern held good at 8.5% of the total for Southeast Asia as a whole, or just over \$3.1 billion versus the entire Asia Pacific total of almost \$37.3 billion, only slightly down on 2009’s 8.8%. The close correlation between sovereign wealth funds and private equity – though the two are by no means automatic partners elsewhere – has also tended to leave the region punching above its weight in Asian private equity, with Singapore’s Temasek Holdings and GIC Special Investments above all among Asia’s most closely watched and keenly emulated direct investors.

Furthermore, investors with Asia already in their sights are seeing strong reasons to invest preferentially in Southeast Asia, even compared to the excitement over China and India. Peter Amour, CEO of mid-market leader AIF Capital, notes that, “in some ways, Southeast Asia is replacing India. They’re swapping places. We’re seeing the weight in terms of activity, deal flow, dollar amount in Southeast Asia coming up more and more. The economies in ASEAN are stronger, businesses are more sophisticated.” But this requires concentration on cross-regional plays that acknowledge the importance of China and India in the equation. “You cannot forget this regional integration theme, which is only going to get stronger,” he adds.

ASSETS UNDER MANAGEMENT

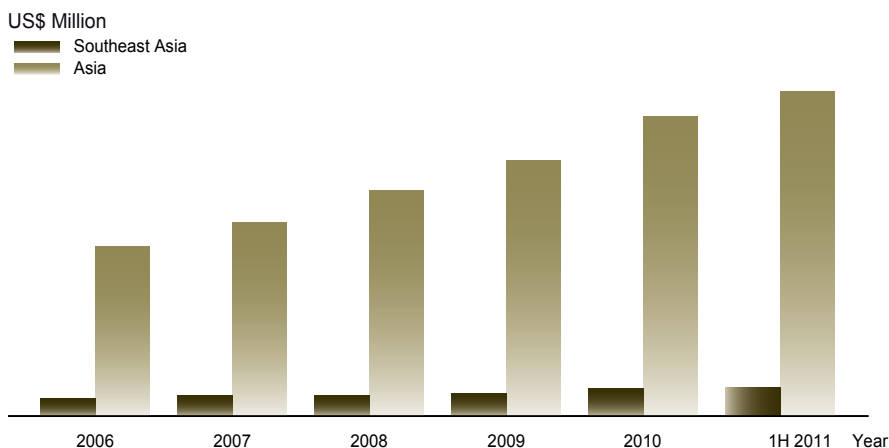
National Market Attractions

Southeast Asia's aggregate volume of capital under management continued its steady rise through 2010, amounting to \$28.5 billion, up from just over \$22.5 billion in 2009. And the first half of 2011 is showing an upward trend, ending the first half at over \$29 billion.

Even though the region's aggregate volume of this capital, though, gives some idea of the breakdown between the various country markets in terms of size and attractiveness. Over the past five years, Singapore has been the region's largest private equity market, by far, even if most of that capital is not destined for deployment within the Lion City. Malaysia, the region's second largest private equity market, with a far larger population and land area, has some \$4.46 billion of aggregate private equity capital as at end



FIG 2.1
SOUTHEAST ASIA - TOTAL CAPITAL UNDER MANAGEMENT IN PRIVATE EQUITY



Source: AVCJ Research

2010, less than one third of Singapore's total. Vietnam, a fashionable investment destination for years but a far less developed or proven economy has third place with just under \$4 billion under management, while Indonesia is building its way back into favor from a very low base: almost \$1.1 billion under management in 2010, but just \$192 million in 2009. And out of the other Southeast Asian countries with significant private equity activity, Thailand has \$642 million under management in 2010 – a level scarcely changed over the past five years – the Philippines has \$292 million, and Cambodia just \$48 million.

THE EXIT ENVIRONMENT

Way outs way up

IPOs and trade sales at least painted a far more optimistic picture in 2010 and the first half of 2011: if less money went in, more came out. Trade sales in 2010 rose to almost \$4 billion, compared to 2009's almost \$3 billion, with 28 successful sales compared to 2009's 20. Trade sales in 2011, however, failed to sustain the impetus, with trade sales in the first half of 2011 at just over \$2 billion, compared to almost \$3.5 billion for 1H2010. It was a mixed picture, however, with the best results – and unfortunately, the most dramatic fall in IPO value. In 2010, \$1.6 billion of value was generated on listing by private equity-backed IPOs, compared to 2009's \$884 million, and exceeded only by the 2008, when almost \$1.6 billion of IPO value was generated by private equity-backed IPOs. Then, in 1H2011, the bottom dropped out of the market in the most dramatic fashion: no private equity-backed IPO came to market at all in the first half, compared to \$876 million in 1H2010.

Interestingly, the IPOs that brought in that strong performance in 2010 were almost all either from non-typical private equity investors or were untypical listings in themselves. Miclyn Express Offshore, 2010's largest Southeast Asia-originated IPO at \$335 million, though another instance of Singapore's regional dominance in oilfield services, was actually floated in Australia, by owner Macquarie Capital Principal Transactions Group, in the ASX's largest IPO since Kathmandu in November 2009. The second largest private equity-backed IPO of 2010, Crescent Point Group investee Masterskill Education Group, was listed on the Bursa Malaysia at \$244 million. Singapore, traditionally the venue for Southeast Asia's largest sponsor-backed IPOs, only came in third, with CVC Capital Partners/Standard Chartered Private Equity-backed Amtek Engineering raising \$226.5 million.