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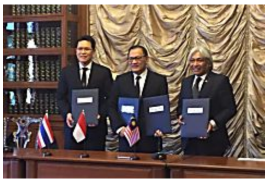
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# For investors, Myanmar is still for the brave

PETER JANSSEN, Contributing writer

Hintha Business Centres, which offers serviced offices in Yangon, is one of eight investments Anthem Asia has made in Myanmar. (Courtesy of Anthem Asia)

YANGON, Myanmar -- The dust has settled in Naypyitaw, where a government led by the National League for Democracy has replaced the quasi-democratic, military-backed regime of President Thein Sein. With some of the political uncertainty about the country's future now shelved and the economy in good shape Myanmar is arguably primed for economic takeoff.

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Gross domestic product grew by an annual 7.2% in 2015 and is forecast to achieve 8.4% growth in 2016, the Asian Development Bank estimates. And yet, faced with a myriad of internal challenges after 50 years of military rule, Myanmar remains a frontier market, ripe for pioneering private equity investors but perhaps not for more mainstream investors, however large.

PE firms are starting to make an impact, although challenges remain even for these daring risk-takers. TPG Capital, one of the world's largest PE fund managers, has clinched two sizeable deals in Myanmar, including an investment in early 2014 in Apollo Towers Myanmar, a telecommunications infrastructure provider, and the purchase of 50% of Myanmar Distillery Company, one of the country's largest spirits producers, in December.

A telecom tower erected by Apollo Towers, one of TPG's first big investment targets in Myanmar (Courtesy of Apollo Towers)

Apollo Towers last year secured a $250 million loan from the Overseas Private Investment Corporation, the U.S. government's development finance institution. The $250 million loan, once dispersed, will be used to repay some of the vendor financing from tower suppliers and to pay for additional towers needed to achieve the national goal of 75% mobile access this year.

Since the launch of Apollo Towers the company has erected more than 1,600 towers, with technical assistance from experts brought in by TPG. The PE firm has also has brought in senior marketing and production experts at Myanmar Distillery, producer of the Grand Royal whisky brand, and upgraded the company's wastewater treatment facilities.

TPG has brought in an estimated $200 million to Myanmar to cover the two deals, industry sources estimate, but its help in finding expertise may be even more valuable to Myanmar. "What [Myanmar] companies need more than capital is help," said Thura Ko Ko, managing director of YGA Capital, a Myanmar-based firm that advises TPG. "They need expertise, access to markets and so on," said the investment capital specialist, a Myanmar national who previously worked in Hong Kong.

PE firms are traditionally pioneers in frontier markets such as Myanmar. "When other people get cold feet, we go in," said Nicholas Nguyen, director of Rising Dragon Singapore. "This is why we are frontier investors." Rising Dragon, a venture capital company, has been making investments in Myanmar for the past three years in sectors such as oil and gas, gold mining, property, a rubber plantation and MySQUAR, the operator of the MyChat social media platform, which listed on the junior market of the London stock exchange in July.

Venture capital firms are investment vehicles that focus on young or start-up companies. Other private investment structures include private equity funds, which typically collect money from wealthy individuals and financial institutions and invest the funds in privately owned or publicly listed companies that they hope to sell later for a profit. "Angel" investors typically provide small-scale infusions of capital for very young start-up companies, sometimes through collective investment funds.

**Launch hiccups**

Traditional PE funds, which often have a 10-year time limit to make investments, sell the assets, repay investors and make a profit, have faced some launch hiccups in Myanmar -- a land that has been largely off the western business radar for the past 50 years.

One of the main challenges for PE funds has been the scarcity of viable Myanmar companies in which to invest. While Myanmar boasts some of the region's most resilient entrepreneurs, local companies are often either too big to need foreign cash, too small, too dominated by family owners, unfit for investment or fearful of foreign investors. Many are unfamiliar with Western-style management requirements, such as the need for a business plan when raising capital. Normally, a PE fund based in a country like Myanmar would need five to 10 sizeable local investments in its portfolio before it could raise cash from institutional investors abroad.

Start-up funds also face the lack of track record in Myanmar, which only began to escape Western economic sanctions in 2012. Thura Ko Ko, who returned to Myanmar in 2010 to look for investments for big PE funds such as TPG, opted against setting up his own Myanmar-specific fund. "I felt it was a little bit too early for the country to raise a good sized country fund and, more importantly, I didn't have a track record in the country. By working with TPG and its network, we can bring to bear capital as well as industry, operational and transactional expertise on situations in Myanmar," he said.

To date, only a few PE fund management companies have established themselves in Myanmar, including Golden Rock Capital, Mandalay Capital/Silk Road, Myanmar Investment Group and PMM Partners, a partnership between Serge Pun & Associates and Simon Murray & Company. In 2013, PMM launched its first Myanmar fund, the Myanmar Opportunities fund (MOFI), with $50 million in committed capital, making it the first PE fund to complete its targeted fund raising in the country.



Financial Times

Nick Powell, managing partner of PMM Partners © PMMP

"Our team has successfully executed five investments in sectors including consumers, technology, energy and resources, and diversified industries," said Nick Powell, managing partner and head of the fund management team. "We have recently realized a partial exit on one of our first investments and returned capital to investors," he said.

PE funds often try to return capital to investors within the first five years of the fund's life, with profits following. "The ability to exit investments is a critical yardstick, especially, given the lack of exits historically in country," Powell said, adding that PMM is now raising more than $100 million to launch a second Myanmar fund in June.

"At the beginning, we recognized it was early for private equity investing in Myanmar. Our institutionalized approach was arguably over-engineered for the country's investment 'ecosystem'... but we also believe in the value of a disciplined investment approach in terms of generating attractive returns for investors while also creating value for our investee companies," he noted.

Guy Eugene is a managing partner at Myanmar Investment Group, which aims to launch a $100 million fund this year. © Lauren DeCicca

Other PE funds are also hoping to launch this year. "Frankly, we wanted to start last summer, but then the election came up," said Guy Eugene, managing partner of Myanmar Investment Group. "It was too early for rich capitalists last year," said Eugene, who has spent 25 years in the PE industry raising billions of dollars for investment funds in emerging markets such as China, India and Vietnam. MIG is hoping to launch a $50 to $100 million fund for international investors later this year, together with a smaller fund of $20 to $30 million for local investors.

**Easy exits?**

One obstacle all private equity firms face in Myanmar is finding an easy exit route. In most countries the favorite mechanism is often an initial public offering on the local stock exchange. But that will not work in Myanmar. Although the Yangon Stock Exchange (YSX) was officially opened for trading on March 25 (with one listed company -- First Myanmar Investment, run by

Serge Pun, a local tycoon) the bourse will offer no exits for foreign investors in the near future.

Under its current rules only 100% Myanmar-owned companies can list on the YSX. Myanmar's Company Act, passed in 1913, defines a company as "foreign" if a single share is owned by a foreign entity. This means that all companies seeking to list must be 100% locally owned. Even joint ventures are excluded. Pun is among prominent local business people who have lobbied for a change in the law, and are hopeful that further liberalization might relax the restriction on foreign ownership.

However, there are other means of getting out of local investments, such as arranging a so-called trade sale to another foreign entity eager to get into Myanmar's expanding market. "I think most of the money made in PE will be made in trade sales, because five to seven years from now when we want to sell I think people will be ready to buy in to this country," Eugene said.

"It is a bit early for the big guys, for the big companies in America, but five to seven years from now if you hold up a really good company with good corporate governance, paying taxes, good management, you can sell the company to some corporation that wants to come in."

Marvin Yeo is a founding partner of Golden Rock Capital, which has already raised $20 million for its Myanmar fund. © Peter Janssen

The poor global investment climate may also help Myanmar exit strategies. "If you look at what's happening in the rest of the world Myanmar is definitely one of the bright spots in Asia," said Marvin Yeo, founding partner of Golden Rock Capital. The slowdown in China and the rest of the world has had little impact in Myanmar because its manufacturing and export sectors are still small.

"Myanmar is less correlated than almost any [other] market to the global economy, having been cut off from the rest of the world for half a century. As a corollary to that, Myanmar is starting from a very low base, and given that it is arguably the most strategically located country in Asia, it only bodes well for the country and we are betting on mean reversion -- that Myanmar will eventually regain its former economic glory," Yeo told Nikkei Asian Review.

"The caveat is that the new government has to be credible and they have to be able to articulate some kind of vision in order to continue with the smooth political transition that we have seen so far," he said.

## Early days

It is early days yet for the new government, , which came to power on March 30 under de facto leader Aung San Suu Kyi and her hand picked President Htin Kyaw. . So far, Suu Kyi's National League for Democracy has indicated that its priorities will be improvements in health, education and agriculture. To what extent foreign investment will be welcome in those sectors remains to be seen.

"This government obviously has the mandate from the population as well as the support of the international community and that's great for investments," said Thiri Thant Mon, managing director and co-founder of Sandanila, an investment advisory group.

"We hope that they will also be cognizant of the fact that private enterprise can play a very big role in developing the country, and that private enterprise needs to be nurtured. We do need a lot of investment across the board -- infrastructure, education, health etcetera -- and not all of that is going to come from donors. We need to attract investment capital as well," she said.

Sandanila, which was set up in November, acts as an advisor to large Myanmar conglomerates and the government, scouting out investments, but has refrained from launching a PE fund for the time being. "We will raise funds but it has not been our focus, because we want to identify the opportunities first," noted Thiri Thant Mon. "In Myanmar we need more companies to become investable," she added.

Thiri Thant Mon, co-founder of Sandanila, is not planning to set up a private equity fund in Myanmar right away. © Sandanila Company

If Sandanila does launch an investment vehicle it would most likely aim at raising permanent capital, for example through a publicly listed entity or a private vehicle bringing a few key strategic partners into Sandanila or

one of its subsidiaries which would then invest in companies in Myanmar.

Alternatively the firm's partners could inject more of their own capital, noted Thiri Thant Mon. "For the country right now it's slightly difficult to navigate a short investment period because businesses need some time to get going and even for established companies it takes time to execute a project here. We think the prospects are really good in this country but it's going to be a long road, and those who think and act long-term will succeed," she added.

Consumer products are likely to be among the first sectors to draw PE firms. "It's a no-brainer. It's generally the most low-risk way of participating in a country's growth," said Golden Rock's Yeo.The firm's first deal, the recently launched Myanmar Personal Care Company, will be making "My Paris" perfume for the domestic market. Golden Rock's Myanmar Strategic Opportunities Fund has raised $20 million and plans to secure another $80 million before closing.

"We are targeting a $100 million fund primarily focused on the consumer and services industries as we believe that an asset-light strategy is the most de-risked way of participating in the Myanmar growth story," Yeo said.

Anthem Asia, an independent investment and advisory group, has deliberately avoided the PE fund formula, which it thinks is unsuited to Myanmar's current economic realities. Under a more flexible philosophy, the firm has launched eight small-scale investments over the past three years, ranging from serviced offices and an early learning center to an upscale health club and digital creation agency. "We see deal flow and deal size increasing gradually," said Anthem Asia's managing director Josephine Price, who has actively managed private equity funds across Asia for two decades.

"In terms of investment interest, I have attended a number of conferences and the message is that Myanmar is still for the brave," she said, noting that most current investment was from international development institutions such as International Finance Corporation, an arm of the World Bank, and family offices, which provide investment services to wealthy individuals. "All in all, the prospects are better, but this is a long haul, not a five-minute wonder."

*Additional reporting by Gwen Robinson, Chief editor, Nikkei Asian Review.*

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