

# Private Equity in Southeast Asia



## The region is now firmly fixed on the maps of global PE investors.

Private equity (PE) in Asia-Pacific is experiencing a shift as investor interest increasingly focuses on opportunities beyond China and India. But to succeed in Southeast Asia's dynamic—and increasingly competitive—emerging markets, PE funds will need to raise their games.

Although overall PE investment activity has continued the steady decline that followed the global financial crisis, investors' interest in Southeast Asia has remained consistent and robust. Total deal value slipped to US\$5.1 billion in 2010, from US\$7.7 billion in 2009—both well off the 2007 cyclical peak (see Figure 1). However, the fall-off in bigger deals valued at more than US\$200 million accounted for most of the decline. Deals remained strong for midsize and smaller companies in 2010.

Heightened enthusiasm for PE opportunities in Southeast Asia is also clearly apparent in a recent

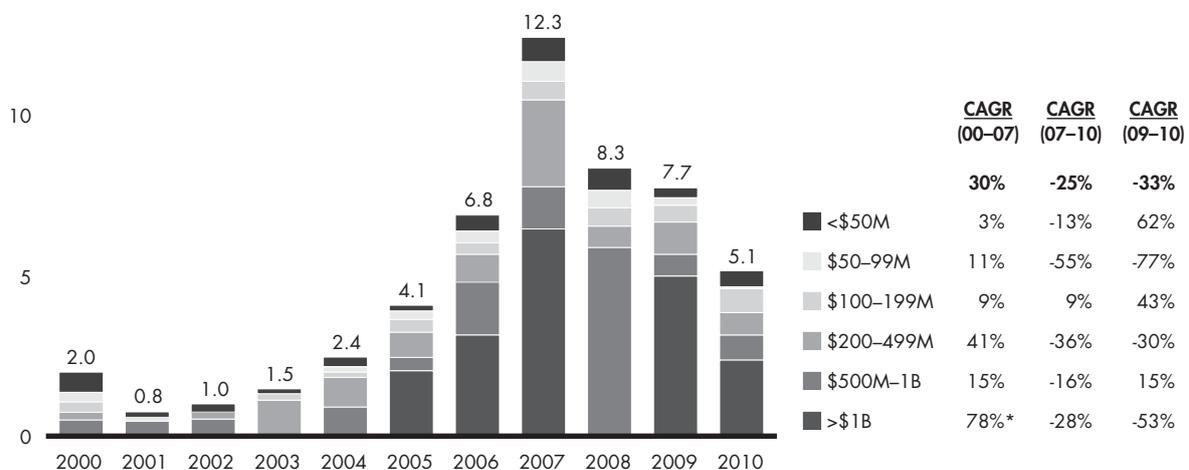
survey of institutional investors active in the region. China and India remain powerful magnets for PE interest: 55 percent and 32 percent of respondents cited the two emerging-market behemoths, respectively, as the region's most attractive in 2011 (see Figure 2). However, high valuations and challenging exit conditions limit the number of new deals that are being completed.

Along with revived confidence in Australia, the economies of Southeast Asia have seen the biggest jump in PE investors' interest. In 2010, only 7 percent of respondents to the latest Bain & Company Southeast Asia PE survey rated these markets as "most attractive"; this year, nearly three times as many did. Within the Southeast Asia sub-region, Indonesia, its largest market, and Singapore, its wealthiest, rank as the prime targets of investor focus. Respectively, 32 percent and 23 percent of our respondents described themselves as "very bullish" about their prospects. Farther afield, 15 percent expressed optimism about PE's prospects in Malaysia and Vietnam in 2011 (see Figure 3).

Figure 1: Smaller and midsize deals rebounded in 2010

SE Asia deal value by size (\$B)

\$15B

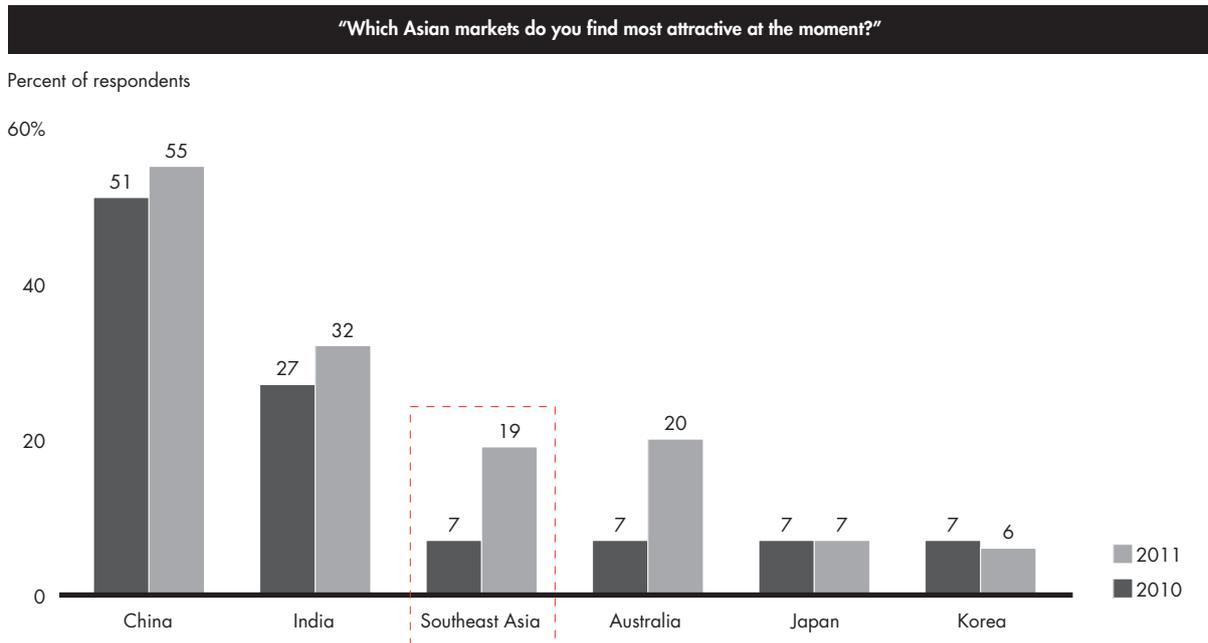


\*CAGR from 2005-07

Note: Investments with announced deal value only; excludes deals of value <\$10M; does not include bridge loans, franchise funding and seed/R&D deals; excludes infrastructure project finance deals, real estate, real estate investment trust and hotels & lodging property deals; SE Asia includes Indonesia, Malaysia, Philippines, Thailand, Vietnam and Singapore.

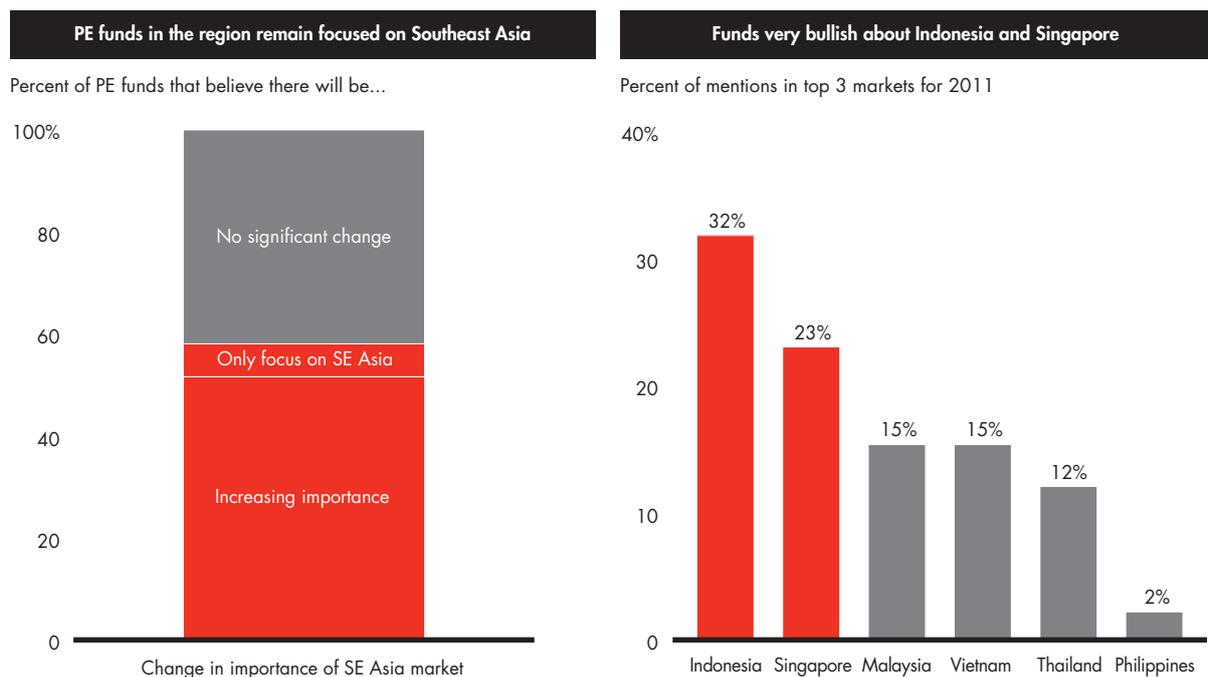
Sources: AVCJ; Bain analysis

Figure 2: Southeast Asia attracting investors' attention



Note: Respondents asked not to choose more than three markets  
 Sources: Probitas Private Equity Market Review and Institutional Investor Trends Survey for 2011

Figure 3: Increasing interest in Southeast Asia, especially Indonesia and Singapore



Sources: Bain SE Asia PE Survey; Bain analysis

## New capital flows into the region

Increasingly, investors are putting their money behind their optimism. With Asia-focused funds wielding some US\$185 billion in 2010, new capital under management surged by 6 percent and accounted for 12 percent of all new global funds raised. More of that new capital is starting to bypass China and India and is heading directly to Southeast Asia. In one of the more notable developments of the past year, PE firms are raising capital for funds that focus on a single market in the sub-region. For example, the Quvat Capital Partners III fund and the North Star fund together raised more than US\$1 billion for deployment in PE investments in Indonesia alone over the past year.

Flush with capital, PE funds expect to close more deals in Southeast Asia. In the Bain survey, nearly three-quarters of respondents said they expect their funds' deal activity to increase. And they expect to pour more money into the deals they do. Nearly 70 percent forecast that they will invest as much as US\$100 million annually over the coming two to three years. Last year, only half of the funds surveyed anticipated committing as much. About one-third expect that the size of the individual deals they consummate will be larger, and they anticipate strong increases in growth investments and private investments in public equities.

When we asked where that money would be directed, three sectors—each of them with a compelling growth story—topped PE fund managers' lists of targets.

- **Consumer:** With urbanization and rising disposable incomes spurring more consumption by young populations across the region, more than 80 percent of survey respondents expect that consumer goods and retail will remain the most attractive sector in 2011.
- **Healthcare:** Expansion in this sector, too, will be driven by rising living standards, fueled by government investment in hospitals and clinics, medical equipment, pharmaceuticals and other health infrastructure.
- **Energy:** Rising commodity prices will spur massive capital investment in natural resource development, oil and gas exploration and production, and related upstream and downstream services to power the region's rapid growth.

## Competition is heating up

The combination of a greater number of PE funds wielding more capital and scrambling to invest in Southeast Asia will inevitably increase competition. The consequences are already becoming evident through a scarcity of high-quality target companies and higher asset prices. Survey respondents cited difficulty in finding attractive companies to invest in and sellers' inflated price expectations as two of the biggest constraints on PE going forward.

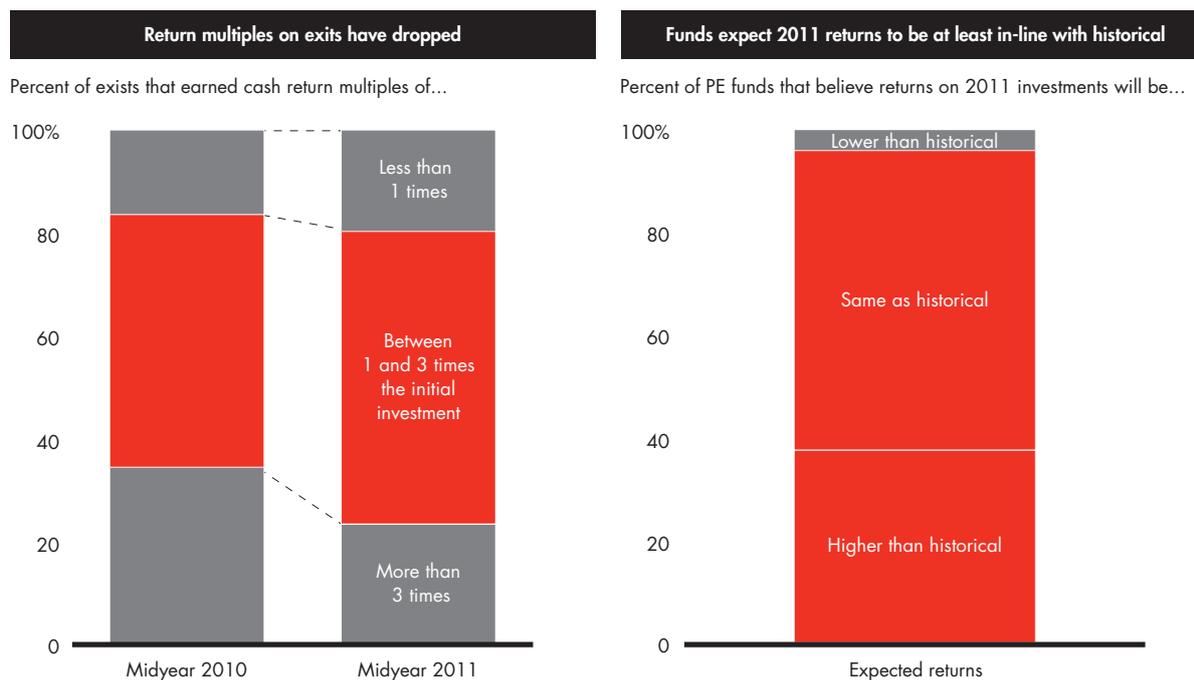
One PE fund expectation that has yet to catch up with the tough new competitive realities: PE investors think they will continue to reap outsized returns. Indeed, based on the latest data, returns are being squeezed. The percentage of PE exits that earned a cash multiple of less than one times the initial investment increased slightly over the past year, as those that realized a multiple of more than three times dropped (see Figure 4). But lower returns have not diminished fund managers' optimism that returns will continue at high historic levels or even improve.

To bring expectations into alignment with Southeast Asia's new realities, PE funds will need to adapt in three critical areas.

**Proprietary sourcing.** To find the best companies quickly and avoid overpaying, fund managers need to forge alliances and have people on the ground who can spot opportunities before competitors do. They also should reinforce local connections. For example, in Indonesia, TPG, a major US-based firm, is teaming up with a local PE fund. Taking another approach, a major global fund has formed an alliance with a leading industrial group in the region, giving it a first look at acquiring business units the conglomerate decides to divest. Fund managers also can raise their visibility with target companies by participating in conferences, boosting marketing and entertaining activities, and opening local offices.

**Enhanced due diligence and deal-execution process.** Funds that excel in converting more acquisitions into winners and avoiding the losers use a probing due-diligence process to dig deeper into a potential target's operations before they commit to an investment. Superior due diligence is especially critical in Southeast Asia because PE firms are targeting smaller companies—often private ones or carve-outs of larger companies—where information often is less transparent. In addition, competition against other trade and financial bidders is fierce.

Figure 4: Despite falling returns in 2010, firms have high expectations in 2011



Sources: Bain SE Asia PE Survey; Bain analysis

**More hands-on portfolio activism.** To boost value creation, fund managers need to complement their deal teams by hiring dedicated operating partners and recruiting talented associates who combine experience in both banking and operations. Leading firms are strengthening their internal portfolio operating team, establishing a portfolio value creation committee and developing a playbook to institutionalize best practices. As they expand their portfolios across the region, PE firms will want to develop a network of outside experts across their geographic footprint and increase their use of external support.

As they have learned in every attractive new region, PE investors need to tailor their approach to the specific characteristics of each market. Southeast Asia is no exception. The diversity of small, distinctive markets in the region requires nimbleness and flexibility, and funds that develop those traits will be best positioned to win.

**Key contacts in Bain's Private Equity practice in Southeast Asia:**

Suvir Varma (*suvir.varma@bain.com*)  
 Sebastien Lamy (*sebastien.lamy@bain.com*)

**Singapore Venture Capital & Private Equity Association (SVCA):**

Li Hwee Bin (*ed@svca.org.sg*)

For additional information, please visit [www.bain.com](http://www.bain.com)