Appropriate targets and investee companies have been hard to find

Slim pickings for private equity houses

PE houses face a scarcity of deals, but many remain hopeful given the high-growth trajectory of Southeast Asia and with international players setting up office in Singapore.

When you ask private equity (PE) houses why they continue to flock to Singapore despite the dwindling number of deals in the country and in Southeast Asia, they will tell you that the short-term pain is worth the long-term gain. The region is primed for an upswing in PE activity in the coming decades as fast-growing markets become flush with investment opportunities, and a presence in the Singapore hub will ensure they can pounce on those lucrative deals. But, for now, PE firms are rolling with the punches and focussing on a few key plays, from privatisation of listed companies to technology acquisitions.

"On a year-on-year basis there has been a marked slowdown both in terms of number of deals that get to completion as well as the number of new deals that PE houses are looking at," says **Tan Choon Leng**, head of private wealth practice at RHTLaw Taylor Wessing LLP. "A near universal grouse that we hear from PE houses is the lack of appropriate targets and investee companies, especially in the healthcare and consumer sectors in Southeast Asia." Tan reckons there has also been a perception of growing instability in the region, citing developments such as Thailand's succession issue and Malaysia's financial scandal involving 1MDB, which makes it trickier for PE houses to pick the right deals.

There is a lot of "dry powder" in the industry – EY estimating around US$526.6b in September 2016 – but attractive deals providing healthy yields are harder to come by, says **Bill Jamieson**, partner, head, funds and financial services practice group at Colin Ng & Partners LLP. In fact, funds raised for Singapore had been increasing for years, notwithstanding a reverse in the first half of 2016, with many PE funds targetting Southeast Asia and using Singapore as a base for their business.

We are seeing a shift in global economic power from west to east as well as the growing middle class population in the region. "

"Despite the strong showing for funds raised, the challenge for many funds is finding the right investments in Singapore," says **Marcus Chow,** partner at Bird & Bird ATMD LLP. "Funds are sitting on dry powder but the challenge is nonetheless in finding good internal rate of return (IRR) projects. Going private transactions and delistings from Singapore Exchange remain a growing trend for Singapore. We are acting on one such transaction now," adds Chow.

Privatisation picks up

Singapore has seen a spurt of privatisation deals. This year, UOB Ventures backed the $269m privatisation of Eu Yan Sang, which specialises in traditional Chinese medicine. Other recent headliners include Northstar's S$331m privatisation of Innovalues, and the Warburg Pincus-backed $1.78b privatisation of ARA Asset Management. "These are examples of classic PE plays on profitable but undervalued companies," says Tan. "So long as the wider stock market remains relatively undervalued, it is likely that more such privatisation attempts will follow."

An increasing number of listed companies in Singapore are warming up to the idea of delisting due to taxing requirements and lower valuations, says **Evelyn Ang,** senior partner at Dentons Rodyk & Davidson LLP.

"Singapore listed companies are subject to public scrutiny and are required to comply with numerous listing requirements including rules on public disclosure of material information, requirements for shareholders' approvals for certain types of transactions and obligations to provide quarterly or half yearly reports to investors," she says. "Combined with thin trading volumes and depressed valuations of companies listed on the Singapore Exchange (SGX), the option of delisting would and does appeal to founders and controlling shareholders."

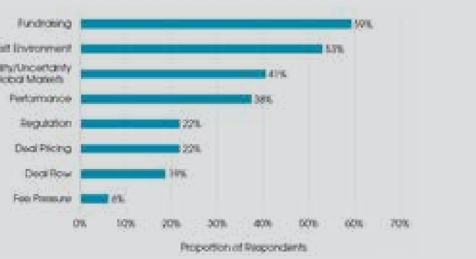
Ang cites a Bloomberg estimate that around 13 companies with a combined market value of $4.5b have announced their plans to delist from the SGX in the first half of 2016. This year alone, OSIM International, Eu Yang Sang International, Goodwood Park Hotel Limited, SMRT Corporation and Tiger Airways Holdings Limited delisted from the SGX. Foreign buyers looking to establish a foothold in Asia have led the interest in Singapore listed companies, says Ang. In November 2016, Dutch coffee and tea firm Jacobs Douwe Egberts (JDE) made a cash offer for all shares of Super Group Ltd, which owns the popular Owl brand of coffee, for approximately $1.45b. Ang reckons the acquisition will extend the coffee and tea business of the European billionaire's Reimann family into Asia. If the foray proves successful, she expects JDE to delist and privatise Super Group Ltd.

Southeast Asia's golden promise

Aside from privatisation plays, PE houses in Singapore are also preparing for the shower of opportunities as Southeast Asian economies strengthen further. "This market is definitely receiving greater PE attention than it has in the past and is likely to keep PE houses very busy for the foreseeable future," says Tan about the Philippines, citing Baring Asia PE's US$137m investment in Telus International. The Philippine economy expanded at its quickest pace in three years, growing at 7.1% in the third quarter of 2016, making it one of the fastest growing economies in Asia.

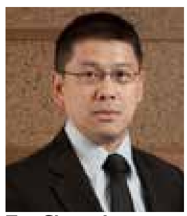
Tan reckons there are a lot of reasons for optimism in the Southeast Asian PE and mergers and acquisitions industry.

Asia-based private equity & venture capital fund manager views on the key challenges facing them



Source: Preqin Fund Manager Survey, June 2016 (views for the next 12 months)

There are some opportunities to pick up acquisitions



Tan Choon Leng

Bill Jamieson

Marcus Chow

Evelyn Ang

Not only are the US elections and its destabilising effects over, but the Southeast Asian market will look relatively more attractive than Europe, which will face continued uncertainty and relatively low growth rates. Other than the Philippines, Indonesia is also attracting PE attention after the completion of its tax amnesty in the first quarter of 2017 and the increase in the number of sectors open to foreign investment. In addition, Jamieson says, "Singapore is the PE hub of Southeast Asia and a hub for PE firms looking to invest into India. Hence, when we discuss private equity in Singapore we must necessarily discuss the investment opportunities in the region." He also points out that privatisation of state-owned entities in countries such as Vietnam presents "once-in-a-lifetime opportunities" for PE players to invest in.

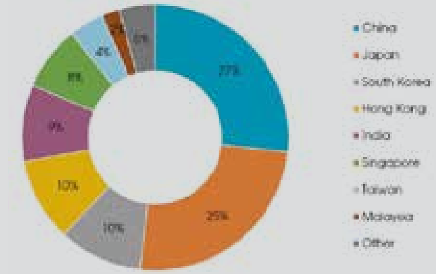
PwC predicts that seven of the world's 12 biggest economies in 2030 will come from emerging markets, which is why PE houses are ramping up their presence in Singapore. "We are seeing a more active private equity market with more international PE players setting up office in Singapore over the recent years," says **Ling Tok Hong**, private equity leader at PwC Singapore. "This demonstrates the keen interest of PE in Singapore and the region, in line with a megatrend – we are seeing a shift in global economic power from west to east as well as the growing middle class population in the region."

Ling notes that with a crush of PE interest in the region and the limited number of deals available, competition is becoming fierce and forcing PE managers to differentiate themselves by demonstrating their ability and track record in creating value.

Key sectors

Given the increased spending power of the growing middle class in the region, analysts identified key sectors driving activity in PE. These are infrastructure, healthcare, retail and e-commerce, financial technology (fintech), and food & beverage (F&B). The larger ticket transactions were in the traditional engineering, manufacturing, F&B, and logistics industries, including large ticket real property plays, notably in the acquisition

Asia-based private equity & venture capital investors by location



Source: Preqin Private Equity Online

of Asia Square Tower 1 by Qatar Investment Authority from Blackrock, says **Sheela Moorthy,** partner in the Singapore office of Norton Rose Fulbright.

F&B businesses continue to receive interest among PE firms, notes **Doris Yee,** director at Singapore Venture Capital & Private Equity Association, as shown in Standard Chartered Private Equity's investment into Phoon Huat, a family-owned business and leader in the baking ingredients sector. Similarly, PAG's investment into Paradise Group, a homegrown restaurant chain with restaurants across Southeast Asia, is expected to help it expand into China. "This is perhaps a reflection of Singapore's own foodie culture with very high expectations on quality which in turn pushes up the standards of food-related businesses in Singapore," says Yee.

Jamieson adds that there has been a trend towards picking undervalued F&B companies with potential for regional growth such as Viz Branz, F&N, and Super Group. A notable transaction was the investment by Hera Capital and DSG Consumer Partners into Salad Stop!, a local F&B chain with fast-growing regional franchises, and there will likely be more F&B transactions in the local market based on current valuations.

Southeast Asia's burgeoning and increasingly tech-savvy consumer market is also fuelling investments into the e-commerce and fintech sectors. Regional e-commerce retailer Lazada received a US$500m investment from Alibaba, which also bought additional stakes worth the same amount from early investors, including Rocket Internet. On the technology front, meanwhile, there was buzz around the acquisition of Singapore-headquartered and micro-optics and optical sensing leader Heptagon by Austria's global sensor manufacturer AMS. Valued at approximately US$570m, with a potential earn-out of up to US$285m based on certain 2017 targets, the investment attracted the likes of Vertex, Granite Global Ventures, Credence, and Nokia Growth Partners.

"Our clients have been investing private equity into fintech," says Jamieson. "The support from the government for the development of this sector will encourage more financial investors into this space through Singapore."

There are excellent opportunities as well in the troubled offshore marine sector. "Companies under distress would present some opportunities for PE firms with the right expertise and appetite to pick up some acquisitions at attractive valuations," says Jamieson.


Ling Tok Hong


Sheela Moorthy


Doris Yee

HONG KONG VIEW

Deal search toughens for HK firms

Private equity firms in Hong Kong are finding it harder to come by deals with remarkable returns, resulting to some doubling down on overseas bets. Hong Kong and Singapore might be rivals to become Asia's top private equity (PE) hub, but they are also brothers facing a common dilemma: an increasing shortage of attractive deals. Analysts reckon that the market still presents fantastic, if fewer, opportunities. This has pushed PE firms in HK to partner with Chinese investors and lock down more lucrative deals overseas.

"It seems harder to find attractive deals of the right size and investment returns," says Mark Chan, managing partner of HM Chan & Co in association with Taylor Wessing. "As such, some PE firms may find it tough to keep their investors happy. Having said that, there are still very good, albeit fewer, opportunities in the market."

Overseas deals

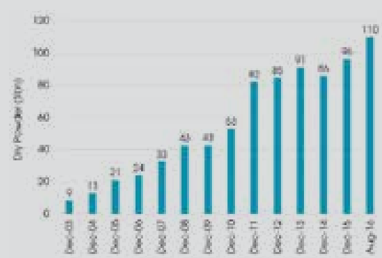
HK has been one of the largest PE centres in Asia for decades, providing an investment channel for overseas investors into Mainland China. But with the domestic economy slowing down and recent policy shifts, HK-managed PE houses are teaming up with Chinese corporate investors to hunt for overseas deals.

"An increasing number of corporate investors are looking for overseas opportunities with a main focus in real estate, including construction, hospitality and infrastructure for sound capital gain and stable rental return," says Danny Po, AP & China M&A tax leader at Deloitte China. Recent transactions in the PE market reflect this appetite for foreign investments, a trend which has been encouraged by China's national strategy of outbound investment.

Po shares a notable deal involving a China consortium led by a state-backed developer. Together with other PE investors, the consortium invested in a biotech industrial park in South San Francisco with an aim to enhance cooperation between China and the United States on biotech research and development.

In another major deal, an Australian investment group backed by a Chinese provincial government and private equity fund proposed a residential development project near Sydney Olympic Park.

Estimated dry powder of Asia-based private equity & venture capital fund managers



Source: Preqin Private Equity Online