Private equity start-up
Asiasons taps public money

Private equity has entered the public domain. And Singapore’s first listed private equity firm has come about following a takeover of Integra2000 by three Malaysians. Are stock market investors ready for the complex, less transparent world of private equity, with its long gestation periods?

BY SUNITA SUE LENG

Investors wanting to get a foot in the door of the coveted world of private equity used to have to fork out tens, if not hundreds, of thousands of dollars. Now, they can do it for about 14 cents a share on the Singapore exchange through a company called Asiasons Capital Ltd. Asiasons brands itself as the first private equity company that is publicly traded on the Srx.

Newly set up, Asiasons is the brainchild of three Malaysians: Azlan Hashim, Isted Lim Chih Li and Ng Teck Wah. A well-known face on the Malaysian corporate scene, Azlan is also presently chairman of Malaysian carmaker Proton Holdings, aside from being non-executive chairman of Asiasons. Lim is a 37-year-old former investment banker, while Ng used to be an executive director at Ernst & Young in Kuala Lumpur.

Lim and Ng, who are both managing directors at Asiasons, first met Azlan when the latter was chairman of the Malaysian stock exchange between 1998 and early 2004. “We had always spoken about building a private equity firm that would focus not just on Malaysia but Asia,” Lim tells The Edge Singapore in a recent interview. “We want to put our money where our mouth is.”

Having raised some US$10 million ($139 million) privately, Asiasons is now tapping the Singapore stock market to supplement its capital. However, the company is starting up at a point when private equity deals are stump ing after a blockbuster era and the risk appetite of investors in the present industry have failed to garner an endorsement from equity investors.

Since it listed last June, The Blackstone Group of the US has seen almost half of its US$100 billion ($139.2 billion) in capital raised over the last five years. Much further down the line, Singapore-based Symphony Investment Managers Ltd listed last July, in London, making it the first pan-Asian private equity firm to go public. It is down 29% from its IPO price. Anil Thadani, who used to run Schroder Capital Partners in Asia, chairs Symphony Investment. Private equity typically buys out struggling companies, turns them around and sells them for a large gain, usually years later. As these firms turn public, everyday investors have a chance to access them. But used to quick returns on the stock market, are these investors ready for the more complex, less transparent world of private equity, with its long gestation periods?

More money going into alternative investments
Private equity had its best year ever in 2007, according to data from Thomson Financial. Global deals reached a staggering US$722 billion last year, headlined by mega deals such as the US$44 billion purchase of utility TXU by KKR, Texas Pacific Group and Goldman Sachs and the US$26 billion purchase of the Hilton hotel chain by Blackstone. That’s more than double the value of deals two years ago and 8.9% higher than 2005’s figure.

In contrast, the first two months of this year has seen deal value nose dive 73.7% as turbulence in credit markets and a brake in the US economy takes a toll on deal making (see table). However, money appears to be available, even if deals have dried up. “Right now, it is difficult, as investors are sitting on their hands,” says Peter Douglas, head of Singapore-based hedge fund consultancy Giga. “But going forward, the volatile environment is probably good for alternative asset classes and probably bad for commercial securities, he reckons.

Investment bank JP Morgan estimates that dedicated private equity funds have about US$80 billion to invest over the next few years in Asia, outside of Japan. “There is a lot of liquidity out there, even after subprime,” says Asiazon’s Lim. “Investors are unsure where to put their money and as a result, even more money is going to alternative investments.”

He points to the fact that despite not having a track record, Asiasons has raised US$100 million so far. This is mainly from high-net-worth individuals in Malaysia, and to a lesser extent Indonesia and Singapore.

The company is gearing for a sum of US$150 million by 2009. On Feb 26, it closed a one-for-one rights issue at eight cents a piece, raising approximately $84.6 million. This, plus a placement last July of 188 million new shares at 7.5 cents each, gives Asiasons “permanent capital” of just under $50 million. This is a pool of long-term capital, unlike money raised from its high-net-worth investors, which typically has tenures of three to five years. Tapping permanent capital can also be less laborious than raising money for specific funds, allowing the private equity firm to be more nimble.

China-centric and pre-IPO investments
Like traditional private-equity firms, Asiasons will scout around for buyout opportunities and distressed assets. However, as it has just started putting its money to work, its investments to date are mostly in shorter-term “pre-IPO” assets — companies that are poised to go public in 12 to 24 months. “Our aim is to do a few quick turnarounds to show a track record,” says Lim.

Asiasons has three funds. The first is the Dragonrider Opportunity Fund. About 70% of that fund is invested in China with the focus on domestic-demand plays and resource-related plays. These would be companies in sectors such as food and beverage, furniture, renovation, textiles, precious metals and minerals such as molybdenum and iron ore. Asiasons isn’t alone in honing in on China. The country is a big draw for the private-equity world, given its strong growth prospects. A survey of Asia-Pacific private-equity funds by KPMG released last December found that six out of 10 respondents say their fund has assets in China. Moreover, in the next five years, almost three-quarters of respondents say their company will remain or put new money in China.

The AsiaCo Eco Energy Fund is its second fund. Among its sustainability- and climate-change-related investments is a project in Shenyang, China, which produces chemical-free, recycled-wood products. In Southeast Asia, it is looking at companies that provide services to biodiesel plants and those that help build biomass plants. The third fund is the AsiaPte Property Investment Fund but that has yet to start up.

Global private equity volumes

<table>
<thead>
<tr>
<th>MARKET</th>
<th>SHARE (%)</th>
<th>NUMBER OF DEALS</th>
<th>VALUE OF DEALS ($mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>53.8</td>
<td>1,976</td>
<td>21.3</td>
</tr>
<tr>
<td>Europe</td>
<td>28.9</td>
<td>2,053</td>
<td>18.2</td>
</tr>
<tr>
<td>Asia-Pacific, excluding Japan</td>
<td>9.8</td>
<td>137</td>
<td>5.6</td>
</tr>
<tr>
<td>Japan</td>
<td>6.5</td>
<td>272</td>
<td>0.3</td>
</tr>
<tr>
<td>Asia-Pacific including Japan</td>
<td>1.9</td>
<td>900</td>
<td>5.6</td>
</tr>
<tr>
<td>India</td>
<td>0.4</td>
<td>0.0</td>
<td>1.0</td>
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</tbody>
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Asiasons will derive revenue from a management fee of between 1.75% and 2.5% on funds managed. The bigger source of earnings, however, will be the "investment carry" or profit share when investments are monetised. Private equity funds make their money by exiting their investments through an IPO or sale of their stake to another entity. The standard rate in the industry for profit sharing is 20%.

Mismatch of expectations

However, nurturing or rehabilitating companies takes time and exiting them calls for the right climate. A normal, unlisted private-equity fund is usually set up with a shelf life of 10 years, says Chia Yow Boon, managing director of Catalyst Advisors, an independent private equity consultancy. The fund manager gets the first five years to draw down on capital, make investments and then divest everything within the 10-year period. "Everyone is patient enough to wait for the bulk of returns to come in during the harvesting period, which is towards the tail end," he explains.

However, in a listed vehicle, it would take some years for the investment and divestment cycle to reach a steady state. Until that happens, there could be a lot of volatility in earnings the first five years to draw down on capital, says Chia. The fund manager needs to be patient with portfolio companies, he adds, since exit of investments through an IPO or sale of the stake is going to be "a mismatch of expectations".

Finally, "valuation in a big, big, big problem", says Chia of Catalyst Advisors. Private equity firms typically have a wide range of investments that straddle different industries and see at different stages of their life cycles. There may be a lack of comparables for companies in the portfolio. Moreover, "if companies are making losses or have yet to reach break-even, you can't use price-to-earnings ratios while price-to-book is even less relevant," he adds.

Asiasons does not have to worry about the "match of expectations" problem. As Chia sees it, investors here are more used to companies that have clear earnings streams and are more attuned to Asia Private Equity Review, which esti- mates that there is some US$200 billion available in Asia, for which China and India are clearly the primary investment targets. But as investments turn increasingly skittish, the great- est challenge for Asiasons may be just staying in the game. A lot of private-equity firms come and go," says Koh of SMU. With its invest- ment returns often in the multiples, private equity dangles riches. But whether those returns filter down to individual investors re- mains to be seen.

You can't grow companies and hope to make money overnight. Companies have life cycles. You have to give them time.
— Annie Koh of SMU

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