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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 cloaked 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 SGX.

Newly set up, Asiasons is the brainchild of three Malaysians: Azlan Hashim, Jared Lim Chih Li and Ng Teck Wah. A well-known face on the Malaysian corporate scene, Azlan is also presently chairman of Malaysian carmarker 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$100 million ($139 million) privately, Asiasons is now tapping the Singapore stock market to supplement its chest of funds. However, the company is starting up at a point when private equity deals are slumping after a blockbuster era and the risk appetite of investors in the public markets has diminished. It also comes at a time when even the 800-pound gorillas in the 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 market value wiped out. **KKR Private Equity Investors**, which listed in Amsterdam in May 2006, has lost just over a third of its value in the last year. The Blackstone Group was rated the fourth largest private equity firm in 2007, based on capital raised over the last five years. Kohlberg Kravis Roberts, which owns KKR Private Equity Investors, was ranked No 2.

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?

GWYNETH YEO/THE EDGE SINGAPORE

Lim: There is a lot of liquidity out there

Ng is a turnaround and restructuring specialist

Chairman Azlan sits on several other boards

Global private equity volumes

		YTD 2008 (AS AT END-FEBRUARY)		
TARGET PRIMARY NATION REGION	RANK VALUE (US$ MIL)	MARKET SHARE (%)	NUMBER OF DEALS	Y-O-Y GROWTH IN VALUE OF DEALS (%)
Americas	20,389.5	57.8	247	-80.2
Europe	9,776.4	27.7	165	-57.8
Japan	2,700.7	7.7	27	123.2
Asia-Pacific, excluding Japan	2,212.1	6.3	45	-26.8
Africa/Middle East	202.0	0.6	6	-94.4
Industry Total	35,280.8	100.0	490	-73.7

		FULL YEAR 2007		
TARGET PRIMARY NATION REGION	RANK VALUE (US$ MIL)	MARKET SHARE (%)	NUMBER OF DEALS	Y-O-Y GROWTH IN VALUE OF DEALS (%)
Americas	553,833.5	63.5	1,976	21.3
Europe	252,045.1	28.9	2,012	-10.2
Asia-Pacific, excluding Japan	34,117.1	3.9	400	5.0
Japan	23,525.4	2.7	252	-0.1
Africa/Middle East	8,483.8	1.0	59	13.4
Undisclosed Target	0.4	0.0	1	—
Industry Total	872,005.3	100.0	4,700	8.9

THOMSON FINANCIAL

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$872 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 Hotels chain by Blackstone. That's more than double the value of deals two years ago and 8.9% higher than 2006's figure.

In contrast, the first two months of this year has seen deal value nosedive 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 GFIA. But going forward, the volatile environment is probably good for alternative asset classes and probably bad for conventional securities, he reckons.

Investment bank JP Morgan estimates that dedicated private equity funds have about US$30 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 Asiason'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 gunning for a sum of US$500 million by 2009. On Feb 26, it closed a one-for-one rights issue at eight cents a piece, raising approximately $34.6 million. This, plus a placement last July of 188 million new shares at 7.3 cents each, gives Asiasons "permanent capital" of just under $50 million. This forms 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 Asiasons 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 Asiasons Property Investment Fund but that has yet to start up.

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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 Yew 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 from year to year — something which may not go down well with stock market investors. As Chia sees it, investors here are more used to companies that have clear earnings streams or projects, be they in manufacturing, services or property development.

"You can't grow companies and hope to make money overnight. Companies have life cycles. You have to give them time," says Annie Koh, dean of executive and professional education at Singapore Management University's (SMU) Lee Kong Chian School of Business. Koh's areas of specialisation include private-equity and hedge funds. Aside from long timeframes, she adds that private equity is more attuned to conducting its affairs away from public scrutiny. Unlisted, they don't have to report quarterly or comply with an array of governance rules or kowtow to analysts. Meshing private equity with public markets could thus lead to a "mismatch of expectations".

Finally, "valuation is 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 are 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 breakeven, you can't use price-to-earnings ratios while price-to-book is even less relevant," he adds.

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— Annie Koh of SMU

Took over Integra2000

Investing in a private-equity company also means taking a big bet on the people who run the show and make the investment decisions. Asiasons has a team of 12 based in Singapore, Kuala Lumpur, Hong Kong and China. Chairman Azlan, who sits on several other boards including Malaysian government investment arm Khazanah National and the Employees Provident Fund, helps formulate strategy. The economics graduate from Australia's Monash University had previously helmed Bumiputra Merchant Bankers Bhd, Amanah Capital Malaysia Bhd and Bursa Malaysia Bhd.

Lim, who graduated from the UK's University of Bristol, started his career as a research analyst in Singapore with DBS Bank then joined Credit Lyonnais Securities Asia (both in Singapore and Malaysia). He then moved into corporate finance at ECM Libra Avenue Securities in Kuala Lumpur, where he did restructuring and turnaround work and is credited with bringing in the only two China-based assets to list on Bursa Malaysia. Ng, the third principal, is also a turnaround and restructuring specialist, with 20 years of experience. This was largely with the corporate finance division of Arthur Andersen and subsequently Ernst & Young in Kuala Lumpur.

Asiasons listed by taking control of beleaguered Integra2000 in July 2007. The Catalist company provides payroll and IT solutions as well as engineering services to the oil and gas sector and had been the subject of shareholder infighting. Last year, it posted a loss of $5.5 million. Lim, Azlan and Ng have a combined stake of 60% in Asiasons. Lim says Asiasons is deciding what to do with the businesses it inherited from Integra2000.

Meantime, it has acquired a "long-term strategic" 20% stake in **Westcomb Financial Group**, which Lim says gives Asiasons another source of revenue, aside from its core private-equity business. Part of that stake — 13.4% — came from Azlan, who has been chairman of Westcomb since November 2006. The boutique corporate-advisory firm was once a leader in IPOs but in November 2005, was barred by the SGX from IPO advisory work for three months so that it could improve its internal processes.

A year later, founder and CEO Peter Choo, relinquished his role to become deputy chairman while chief operating officer Aw Soon Beng stepped up to become CEO. Lim says Asiasons doesn't get involved in the running of Westcomb and is "quite comfortable with the way Soon Beng and his team are running the company."

For Asiasons, the prerogative is to scale up its brand-new private-equity business in a region whose time has come. Lim cites figures from *Asia Private Equity Review*, which estimates that there is some US$200 billion available in Asia, for which China and India are clearly the primary investment targets. But as investors turn increasingly skittish, the greater 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 investment returns often in the multiples, private equity dangles riches. But whether those returns filter down to individual investors remains to be seen. E