Private equity briefing: Southeast Asia

December 2016
This quarterly briefing offers you a roundup of the private equity deals and capital activities across major sectors in the quarter and trends that are shaping investment decisions today.

It distills the perspectives of our teams of subject-matter professionals in the region into pertinent insights to keep you ahead in navigating the private equity landscape.
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3Q16 saw a considerable increase in the amount of capital being invested led from fundraising by the region’s two ride-hailing applications.

The overall value of private equity (PE) deals completed in 3Q16 was US$1.91b, across the 32 deals closed. Although this outstrips the total value from across 1H16, it must be noted that four transactions accounted for over 85% of the total value.

Evolving regional private equity environment
PE in Southeast Asia was historically focused on Malaysia and Singapore, followed by the emergence of Indonesia. These three markets have dominated PE activity, reflected by the fact that they accounted for over 85% of all investments across the past five years.

Increasingly we are seeing PE diversify from these core markets with a significant amount of time and resources being spent investigating the opportunities in markets such as the Philippines, Thailand and Vietnam. These markets, which have been dominated by local funds such as Lombard and VinaCapital to date, are being actively targeted by regional PE houses at a level far greater than before. As these economies continue to evolve, the number of opportunities of sufficient size is increasing.

This activity is supported by the number of investments. In 2012 there were a total of 13 investments, a number that is forecast to double for the full year of 2016. Political instability remains one of the key concerns for investors, and this has again come to the fore over recent months.

Investments into regions such as Cambodia, Laos and Myanmar remain limited and focused on building infrastructure such as banking and communications. That said, a number of PE investors have publicly stated their ambition and see these markets as a long-term growth story.
Ride-hailing applications
3Q16 saw a staggering US$1.3b raised by the region’s two ride-hailing apps. Go-Jek closed a US$550m fundraising in August, led by KKR and Warburg Pincus that also saw participation from Farallon Capital, Capital Group Private and existing shareholders. The investment valued Go-Jek at over US$1b. Next, led by SoftBank Group, GrabTaxi raised US$750m in September and saw investments from undisclosed existing and new shareholders.

The two investments have a common theme being a focus on Indonesia. While Go-Jek is entirely focused on Indonesia at present, Grab has stated that its key goal is to further penetrate the Indonesian market. This could see the two companies go head-to-head in a more aggressive manner going forward. The market in Indonesia for ride-hailing applications is estimated at US$15b by Grab, providing significant opportunity. Further, this market looks to increase as diversification into food delivery and logistics continues.

What the two investments do show is the fast evolution of the technology sector in Southeast Asia. According to CB Insights, there are now four unicorns (the others are Garena and InMobi, with Lazada having been acquired by Alibaba), three of which are in Singapore; the sixth highest number of unicorns in any country. This underlines the region’s vast potential for technology-based business models. Given that Southeast Asia is behind markets such as Japan, Korea and China in the tech maturity curve, it means that market is ripe to bring in business models that are proven elsewhere and can be rolled out in the region.

“T he year 2016 has seen some of the large PE funds get in the tech game. It’s great to see the momentum in this sector, which is a real bright spot. While overall PE deal activity this year to date has been flat, I see great potential given the liquidity needs across businesses in the region.”
In 3Q16, a total of US$1.728b was invested across 30 deals, with the total amount of capital being invested up by almost US$1b over the same period in 2015. This represents a strong pickup in deal value following a muted first half of the year.

The total number of deals closed in 3Q16 was 30, in line with the average across the last three years but slightly down on the same period in 2015, when 36 deals where closed.

The primary driver for the activity was the well-publicized fundraisings by ride-hailing applications GrabTaxi and Go-Jek, which raised US$750m and US$550m, respectively.

Driven by this, over 95% of the total capital raised in the quarter was invested in Singapore (54%) and Indonesia (42%). The majority of the deals continued to be focused on Singapore, accounting for 57% of the deal count, and a continued interest in Indonesia was observed, resulting in six deals being closed.

Technology remained the most active in terms of sectors (14 deals) but for 2016 year-to-date, it is still down by circa 20% on the levels that were observed across 2015. However, there are an increasing number of sizeable deals across this sector.

Figure 2: Investment activity

Source: Thomson One, Dealogic and Mergermarket
Table 1: Top investments in 3Q16

<table>
<thead>
<tr>
<th>Investment date</th>
<th>Company</th>
<th>Country</th>
<th>Sector</th>
<th>Value (US$m)</th>
<th>Acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep 16</td>
<td>GrabTaxi Holdings Pte Ltd</td>
<td>Singapore</td>
<td>Technology</td>
<td>750.0</td>
<td>SoftBank Group, undisclosed firms</td>
</tr>
<tr>
<td>Aug 16</td>
<td>Go-Jek Indonesia PT</td>
<td>Indonesia</td>
<td>Technology</td>
<td>550.0</td>
<td>KKR &amp; Co LP, Warburg Pincus LLC, Capital International Inc., Farallon Capital Management LLC, undisclosed firms</td>
</tr>
<tr>
<td>Aug 16</td>
<td>Siloam International Hospitals Tbk Pt</td>
<td>Indonesia</td>
<td>Provider Care</td>
<td>165.3</td>
<td>CVC Capital Partners Ltd</td>
</tr>
<tr>
<td>Aug 16</td>
<td>Broadway Industrial Group - FPS and FCD Businesses</td>
<td>Singapore</td>
<td>Diversified Industrial Products</td>
<td>111.4</td>
<td>Platinum Equity LLC</td>
</tr>
<tr>
<td>Aug 16</td>
<td>Carousell Pte Ltd</td>
<td>Singapore</td>
<td>Technology</td>
<td>35.0</td>
<td>500 Startups, L.P., Golden Gate Ventures Pte. Ltd., Sequoia Capital India, Rakuten Ventures</td>
</tr>
</tbody>
</table>

Source: Thomson One, Dealogic and Mergermarket

“The Go-Jek deal highlights the significant market opportunity that Indonesia presents, particularly from a technology perspective. Few countries in the world have the ability of growing a company with so much value when only focusing on the domestic market.”

Joongshik Wang
Partner
Transaction Advisory Services
Ernst & Young Solutions LLP
Exits

- There remains limited disclosure around PE exits in the region, with a number of deals going unreported and therefore not captured by the analysis.
- Exit activity in 3Q16 saw two deals being completed. The largest deal was SPi Global’s (a CVC portfolio company) sale of its CRM business to Japan-based Relia in a US$181m acquisition.
- The other deal in the quarter was EQT’s disposal of its investment in Econ Healthcare back to the founders.
- Southeast Asia remains high on the agenda for Japanese corporates. Across the past 24 months, there has been a notable rise in the amount of time being invested in trying to identify investment opportunities across the region.

“As the equity markets in the US and Europe cool, investor interest may shift back to markets such as Southeast Asia. This would make the potential to exit through IPO a much more attractive proposition.”

Source: Thomson One, Dealogic and Mergermarket
Vietnam’s gross domestic product (GDP) growth hit 6.7% in 2015, the highest in the last five years. GDP growth is estimated at 5.6% year-on-year in Q2 2016, slowing from 6.7% due to the impact of the El Nino on the agricultural sector, costing the economy US$681m. The reduced global demand for commodities (e.g., oil, rice) has further affected GDP growth. However, as the effects from El Nino fade, economic growth will improve through the recovery of the agriculture sector.

Most sectors have witnessed strong growth across the past five years. Whereas industries such as agriculture, manufacturing and mining still dominate the economy, sectors that serve the service industry such as health care, education, food and beverage, and transportation have seen particularly strong growth.

Economic growth gains momentum, with opportunities for investment.

Figure 5: Real GDP breakdown (2015)

Figure 6: Historical GDP growth by sector, actual (2010-2015)

Vietnam M&A landscape

- The total value of M&A deals in 2015 was estimated at US$5.2b, and US$3b in the first half of 2016. It is expected that the M&A value for the full year of 2016 will exceed US$6b, exceeding the highest record currently held in 2012, and will continue to edge up in the following years.

- Many M&A transactions have been seen in real estate, consumer goods and food and beverage production. The majority (60%) of the total transactions were between domestic enterprises, with each worth an average of US$5m, while those by foreign investors were over US$10m.

- The strategic aim of M&As being frequently cited is to enlarge and diversify business portfolios of the purchasers while allowing sellers to recover capital.

- Vietnam’s Ministry of Planning and Investment indicated optimism for M&A activities in the energy, banking, infrastructure, hotels and office sectors.

Private equity

- Vietnam has seen a number of large PE-backed transactions across the past five years, which has seen the likes of KKR and Warburg Pincus investing into Masan and Vincom Retail.

- There has been more limited activity in the mid-market space where, on average, less than 10 deals per annum are recorded.

- High growth and a young population means that Vietnam is now attracting significant interest from PE across the spectrum.

“Historically, local PE funds have dominated the PE landscape, particularly at the mid-market level. This is now evolving with the regional and global funds looking to be active and this can be seen through some of the deals that have been executed across the past 18-24 months.”

Toan Quoc Nguyen
Partner
Transaction Advisory Services, Ernst & Young Vietnam Ltd
The middle and affluent class in Vietnam is expected to double to 30 million in 2020, with per capita disposable income to rise from US$1,400 per year to US$3,400.

The current population is young, with 75% born after 1975. As they age, demand for health care services will increase.

Vietnam’s higher education system has grown quickly over the last 15 years, which is accompanied by quality concerns.

It is widely acknowledged by local and among international observers that the system needs significant improvements in the standards of its programs and outcomes for graduates.

With Vietnam’s population of more than 90 million, the food and beverage sector is a key industry and contributes significantly to the country’s economy.

Vietnam’s domestic retail market is growing rapidly, making it highly attractive in the eyes of foreign investors.

Vietnam currently ranks among the top five in Asia and 11th globally for retail growth.

The manufacturing sector saw robust growth in recent years. The success is sustained by low labor costs, growing consumer market and favorable political environment.

As such, Vietnam is considered as a reliable substitute to China, but some manufacturing sectors are more vigorous than others.

As demand increases, the logistic sector is in need of better-quality services to seize the potential on offer.

Yet most providers are small- and medium-sized players that are short on capital and infrastructure such as warehousing, IT and even transportation.

Service sectors such as health care, education and food and beverage are where we see the most attractive opportunities for PE in the short to medium term. Tech is the other sector to watch, with a vast number of start-ups attracting funding.”
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