

THAILAND



Lombard bullish on Thailand

“Most people have been very frustrated with the Thai market”

Once upon a time, Thailand was the darling of the Asian investment community. Today, Thailand has become anything but a popular destination for Asian asset buyers. Hotel lobbies, formerly packed with investment bankers, have become decidedly more relaxed and somewhat lonely. Private equity is no exception; few funds have succeeded in cracking the Thai market.

Obviously, there are exceptions. Among the few is San Francisco-based Lombard Investments. Not only has the firm made several investments in Thailand in the past year, but the firm may well stake its future on its achievements in that market.

Starting its life as a US-focused buyout fund manager, Lombard has moved most of its business to Asia (it still manages some local funds), where it first landed in 1996 as a result of a joint project with China Development Industrial Bank (CDIB). This followed years of eyeing the Asian boom from afar. Shortly after linking up with CDIB, Lombard launched its first regional fund; Lombard Asian Private Investment Company (LAPIC) subsequently closed on \$252.5 million worth of commitments from California Public Employees' Retirement System (CalPERS) and the Asian Development Bank (ADB).

LAPIC, which is in the later stages of its investment life, has made 11 investments to date. These investments are spread out evenly across the Asian region with transactions in Hong Kong, South Korea, Thailand, Taiwan and the Philippines.

Speaking to *AVCJ*, Managing Director William Kerins described the portfolio as a solid one. “We have some very good companies and we have a few failures, like everyone else.” The most successful and more notable of those investments include Good Morning Securities, which Lombard co-sponsored with H&Q Asia Pacific and Singapore's GIC Special Investments. The securities firm has since been sold to South Korea's Shinhan Financial Group for a substantial 6x profit. Lombard also has a sizable stake in Thai Union Frozen Products, Thailand's largest seafood processor and owner of the Chicken of the Sea brand, another winner for the firm.

The fund's last deal, closed in May 03, involved a \$20 million stake in Taiwan-listed Fu Sheng Industrial, a manufacturer of among other things, golf clubs and air compressors. “Fu Sheng is a terrific, world class company,” says Kerins of the recent deal. “Analysts love the company because it produces titanium golf clubs, but we also like it because of the compressor business, which people tend to ignore because it is not as sexy. The [air compressor] business

is an important and dominant one as nearly all factories need them. Compressed air is as basic to the production process for most goods as electricity and water,” adds Kerins, who estimates Fu Sheng controls approximately 20% of the China market.

Missing from the list of countries is everyone's favorite: China. While positive about that

market, Lombard prefers to avoid direct exposure to Chinese equities and instead chooses to invest in companies with large Chinese business exposure headquartered outside the Middle Kingdom. For example, Fu Sheng, which has a number of factories and established sales and marketing distribution channels in China, is Taiwan-headquartered and therefore subject to Taiwanese laws, which are generally more familiar to international portfolio managers.



William Kerins

Times have changed

In 2001, Lombard, working with the International Finance Corporation (IFC) as co-sponsor and as a key investor, made an unusual move (for an Asian private equity firm) and launched a vehicle focused entirely on the largely avoided Thai market. The Thailand Equity Fund (TEF) closed on \$245 million with CalPERS and ADB joining the IFC as some of TEF's major investors. DEG (the Development Bank of Germany), the Thai Ministry of Finance, several other Thai-government entities, as well as 13 Thai banks, joined the sponsoring institutions to fill out the roster.

Why Thailand? Popular thinking is that deal flow for most investors has been very slow as businesses and bureaucrats have a tough time coming to terms with their own situations. Or as Kerins puts it, “Most people have been very frustrated with the Thai market.”

So why Thailand? Answer: times have changed, and Lombard was willing to make a major investment in building its local presence, including recruiting talent such as Pote Videt, CSFB's former Head of South East Asia and another Goldman Sachs alumnus, now Lombard's Managing Director in Bangkok. “Deal flow has picked up considerably for us,” says Kerins. “And owners now have more realistic valuations for their business.” Fund size matters, as it attracts business: TEF is currently the largest Thai-focused private equity fund in the market, it has committed around \$35 million to local companies and according to Videt, is “looking into seven to eight very hot prospects.” □

—ALLEN LEE