

Lombard Investments

Shunned by some investors wary of its political uncertainty, size of economy and profit-making potential, Thailand is deemed by others to possess long-term growth potential and they believe the timing for entering the market is now. Hui Chen Chou reports.

Lombard Investments is a perfect example. Headquartered in San Francisco, the international fund house facilitates companies desiring capital for expansion, financial restructuring or management buyouts. It has three Asian-focused funds namely: Lombard Asian Private Investment Company Limited, a regional fund; the Thailand-focused Thailand Equity Fund; and the most recent Lombard Asia III.

Core investors in Lombard's funds include CalPERS, the Asian Development Bank and the IFC. Lombard Asia III targets investments in South East Asia and Greater China. Each fund averages US\$250m. The firm is also the founder of Asia Corporate Governance Association, an independent and non-profit organization.

Lombard Investments first entered the Thai market in 1998. It has 50 portfolio companies in Asia, 19 of them are of Thai origin; the latest being Krungthep Land, a developer in residential housing and high end condominiums, which Lombard purchased for approximately Bt600m in convertible debenture form in February this

year through Lombard Asia III fund.

Thai stocks traded with valuation discount throughout most of the 1990s up until 2004. The overall Thai stock market has a price-to-earnings multiple of around 11 to 12 times, which is low relative to its regional peers and is due to sluggish market sentiments spurred in part by the coup in 2006. This makes Thailand an alluring investment destination, according to Pote Videt, managing director of Lombard Investments.

Lombard has reaped enviable rewards from investing in the country. It disposed of 40% of its shareholding in Central Pattana, the leading shopping mall developer and operator, securing an IRR of 59% while garnering an IRR of 47% as it divested part of its stake in Ticon Industrial Connection, the leading industrial facility outsourcing company in Thailand. Its Thailand Equity Fund posted a gross IRR of 41% up to the end of 2006, as apposed to the public benchmark of 7% per annum for the same period.

"We are generally focused on domestic demand sectors, which we believe exhibit sustainable growth and good risk/return parameters. For example, retailing investments are great proxies for a rapidly growing middle class," says Videt.

"For the international or export-oriented sectors, we always keep an eye on the long-term competitiveness of Thailand vis-à-vis China and India. Therefore we like sectors



Pote Videt, Lombard Investments

like auto parts, where Thailand has huge economies of scale within SE Asia and tourism-cum-hospitality, where Thailand has natural and historical competitive advantages," he adds.

On other investment fronts, Lombard generally avoids investments in companies with politically connected shareholders or which are heavily dependent on government contracts.

Private equity is not a well understood or well utilised funding option in Thailand. For this reason an education process with prospective investee companies lasting a year or more is often required before deals are closed.

One niche for Lombard, that some investors shy away from, is family-controlled businesses, which are prevalent in the corporate hierarchy in Thailand as well as elsewhere in Asia. They tend to perceive relinquishing ownership as a threat to their power.

"We see solid family-controlled firms where generational change is raising problems or issues, making the families more open to constructive input from active investors. However, I should note that it takes months to access decision-makers of such family-controlled enterprises and takes years to develop substantive dialogue and trust," Videt points out.

Videt says: "The fact that Thai economy has continued to grow at 4-5% annually amid the political uncertainties during the past 2-3 years points to the strength and resiliency of the private sector, although we should note that there is a lot of concern about the impact of the strength of the Baht on export competitiveness."

Selected domestic demand portfolio co.s of Lombard in Thailand

Company	Business	Year	Investment Type	Fund Status
Asia Books	Specialty retailing	2006	Buyout	Merged with retailer. Holding.
Central Pattana	Retail mall operations	2003	Expansion capital	Partially exited in 2006
Kantana Group	TV and film production	2005	Convertible debt	Holding
Preuksa Real Estate	Low-cost housing	2005	Expansion capital	Listed in 2005
Trinity Watthana	Investment bank	2002	Expansion capital	Partially exited in 2003

Source: Lombard Investments