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Private equity boons: Asean integration and sensible housewives

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KUALA LUMPUR -- Navis Capital expects Asean economic integration next year and more informed business practices to provide good opportunities for the regional private equity market.

The Malaysia-based private equity firm already has $5 billion under management, and believes the impending Asean Economic Community in 2015 will provide a platform for local companies to cross-sell between themselves and grow bigger.

Navis Capital Managing Partner Nicholas Bloy expects regional private equity funds to grow as more well-informed players take to the field.

There will be more opportunities for private equity to create "local champions" capable of "taking their expertise, products and brands across borders to bigger consumer bases," Nicholas Bloy, the managing partner of Navis Capital, told the Nikkei Asian Review.

Bloy says the private equity market will definitely grow as awareness of its value increases among business owners in Southeast Asia. He notes that more investors are becoming involved, including sovereign funds such as Malaysia's Ekuinas and Singapore's Temasek.

Ten years ago, the region was overlooked compared to China and India, which were larger and more obvious. Navis was founded by Bloy and two partners in 1998, and has grown enormously in term of fund size and the number of fund managers.

"We started with $67 million in 1999 and now we have $5 billion," Bloy says. "The size of our investments has grown to $75 and $200 million from $5 and $10 million 15 years ago."

With 8 offices now around Asia-Pacific employing over 100 people, Navis remains steadfast on basic investment principles despite its increase in size. Typically, it looks for competitive non-listed companies that lead in their fields manufacturing consumer and industrial products, and avoids government-linked companies.

"Governments are unpredictable," says Bloy, who considers housewife consumers a much safer bet: "They are more predictable."

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An exemplary Navis investment, Malaysia's Drypers makes diapers for babies and adults. With the third largest market share, Drypers was up against powerful international brands such as Pampers, Huggies and MamyPoko when Navis bought in. The company's manufacturing facility was not running at full capacity and annual turnover was about $30 million.

Navis took an active role after buying its stake. It implemented cost reductions that resulted in better product pricing, increased spending on advertising, improved consumer targeting and reformed manufacturing practices.

The actions drove up market share and revenues and enabled Drypers to go beyond Malaysia to the Philippines, Singapore and Thailand. The company captured a 22% regional market share as Southeast Asia's top diaper producer with annual sales hitting $80 million at one point. Having raised the company's profile and performance in a few years, Navis sold its stake and moved on.

Bloy believes consumer and industrial-based companies are the best investments in Southeast Asia. "I want to be nicely diversified across slightly different industries," says Bloy, arguing that the balance provides a hedge for the portfolio.

Among the region's emerging economies, Malaysia remains the favorite at Navis for the high returns it has generated -- typically a 40% internal rate of return compared to the rest of Southeast Asia, Hong Kong and mainland China, which typically offer from 20% to 28%.

"Malaysia, from an investment point of view, when you strip away the government's side of the economy, is very transparent," says Bloy. "It has a great ecosystem -- such as good accounting practices, taxation and English-speaking talents -- for doing private equity deals."

Bloy says Navis has also done well in Thailand but has so far invested selectively in Indonesia because of the riskier environment. "But I am warming up to Indonesia as well as Vietnam," Bloy admits.

According to Bain & Company, there was $45 billion worth of private equity deals in 2013 in Asia Pacific. The consulting firm predicts a 10% increase in deal activity this year due to a better economic outlook and an easing of valuation expectations among sellers.

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