Asia News

PE investors still gung-ho about China

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China's public equity markets may persist with an anaemia that has endured for three years. However, private equity takes a longer, more sanguine approach. When Chinese stock markets swooned, general partners were in no hurry to reflect lower business valuations in their portfolio – the relaxed message being that it was a long term transaction, things would come round and there was no need to panic with marked-to-market valuations.

Well, you can accept that if you want to. It seems that private equity investors today are pretty satisfied with what they are getting.

"Venture capital, opportunity deals and buyouts are all being carried out now in China," says Sebastiaan Van Den Berg, managing director of HarborVest Partners (Asia). "In Chinese growth deals private equity is now far more involved with company operations compared to a more passive stance in the past."

Van Den Berg felt the operational value-added in terms of leadership that is provided in active engagement and change management has largely come from the bigger private equity firms. He was speaking on the China investors' panel at the Asia Private Equity Forum in Hong Kong.

Investors alighted upon China because of its growth story, and are gratified that, even though the limited partner base has not become entrenched locally, the sector has depth.

"We set up because we saw China and US as the main engines of world growth," says Denis Tse Asian Ambassador of the Institutional Limited Partners Association. "China is the only stand alone market that can be approached systematically. Other Asian markets have to be handled technically depending on their position in the economic cycle."

He added Chinese private equity is becoming more like western private equity. However, "you have to become more diligent in your selection of Chinese managers, to make sure your returns are satisfactory compared to what you can get in the USA."

With the wider breadth of strategy types on the counter for Chinese private equity, it has thrown into sharp relief the need for specific skills, and this is a feature that is becoming more apparent in China.

"Going forward the market will continue to mature because of increasing investment diversity," says Lawrence Wong, vice president at Auda Asia. "There is an increase in both sector and strategy diversification and that is a positive development, as in the more general funds, Limited Partners don't know how funds would be allocated."

Is there a slowdown at portfolio level in Chinese companies, reflecting economic conditions elsewhere in the world?

"The slowdown has changed things for General Partners," says Alexa Zhang, managing director, Asia Pacific, Wilshire Associates. "Just pricing a deal at a discount to IPO is not enough. It is nevertheless healthy for the market and private equity firms can withstand the pain."

"It has slowed down a bit," adds Lawrence Wong. "Some companies have missed targets, but profits haven't fallen. Some exporters and manufacturers have been affected by the global recession but local consumer oriented firms have expanded fast."

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