

HKVCA Forum: Firms justify SE Asia valuations

As GPs and LPs refocus time and resources on Southeast Asia, finding management talent is more of a concern than high valuations, according to a Southeast Asia panel at the 2013 HKVCA Forum in Hong Kong.

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"The next ten years will be a Southeast Asia play," Datuk Jared Lim Chih Li, managing partner of Asiasons Capital, said on a panel of Southeast Asia-focused GPs at the HKVCA Asia Private Equity Forum. He said that there will be "serious opportunities" springing from the consumer, resources and infrastructure sectors in Southeast Asia.

Due to its popularity, valuations in the region, in particular Indonesia, remain expensive. Industry sources have previously said firms have paid up to 20x EBITDA for Indonesian businesses.

That's an extreme example, but panelists agreed that higher valuations generally are understandable. Patrick Walujo, co-founder and managing partner of Northstar Equity Partners said, "the consumer sector is so expensive because the growth is there."

Li agreed saying, "the growth is there, the market is there." He explained Asiasons owns casual restaurant chain TGI Fridays, which recently opened its first location in Jakarta. "The sales that we saw in the first two weekends was the largest amount for any TGI Fridays in Southeast Asia."

Valuations are therefore not GPs' biggest concern. Li continued, "We do find Indonesia expensive [relative to other Southeast Asian countries], but if you look at small- and medium-sized deals, you can still get them at 6x-8x EBITDA, and these are decent, middle-sized companies."

"The most challenging part of doing business in Southeast Asia is talent," Northstar's Walujo explained. "No matter how much you want to pay, those people just aren't available. So we tend to shy away from industries where expertise is not available."

Walujo said finding talented management teams is a critical part of investing in Southeast Asia. "We are highly invested in the infrastructure of our organisation, making sure that we have the people and the ability to affect the operations of these businesses."

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