# Back to the future

## Myanmar's relatively abrupt transformation from impoverished pariah to upbeat high-growth investment target has resulted in some interesting challenges for private equity and venture capital

**WHEN PRIVATE EQUITY-BACKED APOLLO** Towers Myanmar tapped a $250 million loan from the US government earlier this month, it demonstrated that after five years of free-market democracy in Myanmar, US sanctions had finally eased to the point where PE could thrive. However, as an infrastructure deal with a rapid growth outlook and no clear exit horizon, Apollo Towers also suggests investors must approach this market with a blend of energy and patience.

The loan from the Overseas Private Investment Corporation will help the telecom tower provider's owners – TPG Capital, Tillman Global Holdings and Myanmar Investments International –leverage a kind of two-speed economic development. Myanmar's mobile penetration rate has rocketed from 5% to more than 75% in the past two years, allowing for sizeable short-term benefits but also betraying an often prohibitively underdeveloped base market. More broadly, this accelerated infrastructure set-up is only a small step in a gradual reintegration into the world economy.

Apollo's US backing was negotiated well before the sweeping November 2015 election victory of Myanmar's ruling democratic party. But the formalization of the loan as Aung San Suu Kyi's government gets in gear has contributed to warming investor sentiment for the country that between 1962 and 2011 was controlled by a military junta and closed to international trade. The more stable political backdrop should translate into opportunity for private market investment groups that are not overly tied to constraining protocols such as inflexible timeframes or minimum investment sizes.

"Private equity is a great thing, but in an emerging economy like Myanmar, permanent capital is more important," says Aung Htun, managing director at Myanmar Investments and formerly the founder of Bangkok-based PE firm Thai Strategic Capital. "Private equity gets jittery after a few years, and that's not the market in Myanmar. I wouldn't call it venture capital either – I'd call it catching-up capital."

### In from the cold

The country's four decades of economic and political detachment have created a unique investment environment with a lot of catching up to do. As a result, the surge in mobile penetration awkwardly juxtaposes a 25% access rate for electricity and glaring shortcomings in transportation and education infrastructure.

This leapfrogging into modernity exemplified by the emergence of a mobile-first internet market has coincided with a mysteriously sudden and bloodless rejection of oppressive militaristic isolationism that has no apparent parallel in the region. The recent foreign trade openings of Thailand and Vietnam, for example, were more predictably bureaucratic, with long-unfolding development stories characterized by slower growth from a stronger economic base.

"Myanmar is literally opening the roof and starting from scratch with businesses that have existed for 40 years without outside investment or even banking," says Nick Powell, managing partner at Myanmar-focused PE firm PMM Partners. "A lot more of it is greenfield, but it's a much broader venture market with a big existing consumer base and companies that can grow at 30-40% because they haven't had access to capital, products or expertise."

> "Everything you look at is an opportunity, but to unlock it, you need an ecosystem, and it's just not there" – Aung Htun

PMM has embraced this opportunity by focusing on daily consumables with a national footprint, including a recent investment in an established whiskey producer, Asia Beverages. This strategy plays on the notion that unlike many emerging economies, Myanmar offers most of its rapid growth potential outside of the tech-enabled cities. While the young, middle class capital of Yangon remains the most accessible market, the opportunity posed by its population of six million urbanites pales in comparison to the zero-to-one marketing upside of 40 million rural consumers with the lowest per capita GDP in Southeast Asia.

For foreign institutional investors, the Myanmar playbook for accessing these consumers will depend on which end of the business spectrum is being targeted for engagement. The largest segment may be a rising class of entrepreneurs that investment firm Antham Asia sees as the country's future brand leaders, particularly as a new sense of political security invites 5 million Burmese expatriates to help fill a local skills gap.

"In the past, there was uncertainty, but the election of the new government and the positive reforms over recent years are encouraging more of the Myanmar diaspora to return, especially from Singapore, Australia, the UK and the US," says Genevieve Heng, director and co-founder at Antham. "We see returnees ¬– 'repats' ¬– coming home to give back by either starting a business or joining existing firms. There is a genuine desire to return to help the country and this will be positive for Myanmar."

### Development bottle-necks

Leveraging this optimism remains a difficult matter of implementing practical action plans under a still fledgling administration that hasn't fully articulated its economic policies. Meanwhile, a scarcity of best-practice local institutions is limiting much-needed partnering inroads and a vacuum in logistical services has all but ruled out business models above the most fundamental end of any given market's value chain.

This context creates first-mover opportunities in the essential infrastructure upon which most future investments will be built. But sourcing deals in these booming foundational sectors is complicated by valuation difficulties related to a lack of precedence for growth projections. For Myanmar Investments' Htun, effective approaches to this challenge require an understanding that local support structures will need to be established by public-private partnerships exercising the step-by-step diligence of patient capital.

"When you go there, literally everything you look at is an opportunity, but to unlock it, you need an ecosystem, and it's just not there," he says, noting that after three years in the country, his firm has reviewed about 180 investments and closed only two deals. "It's hard work, there are very few intermediaries and it takes time to do deals, but we've got a few more in the pipeline that we'll close this year. If you're patient, you get it done."