

Myanmar

– The awakening tiger



Myanmar's emergence, especially in the light of slower growth in other parts of the world, is perceived as a significant economic opportunity for businesses and investors worldwide. As the last major frontier Asian country (with the exception of North Korea) to open up and connect to the global economy, and with a population of over 60 million people (comparable in size to its regional neighbours Thailand or Vietnam), it represents very large domestic consumer and labour markets. In particular, recent research¹ estimates that its middle and affluent class is expected to double in size from 5.3 million in 2012 to 10.3 million in 2020. To put these numbers in perspective, the greater Bangkok area currently has about six million people in the middle and affluent class, and an affluent consumer in Myanmar today has about the same purchasing power as one in Thailand.

The opportunities are obvious. Apart from a relatively untapped, fast-growing consumer market, Myanmar is rich in gas, oil and minerals, and undeveloped in major industry sectors. As a result, big international companies in sectors ranging from oil and gas, financial services, telecommunications, to hospitality and infrastructure are actively investing in Myanmar. As at August 2013, foreign investments into the country had reached over US\$43bn, with 600 foreign enterprises already given the go-ahead to operate in Myanmar². However challenges remain and businesses need to be agile in order to thrive within the country's rapidly changing business, political and social climates.

Continued political and structural developments in Myanmar are necessary to support these economic activities. The country has made great strides through various remarkable reform programmes, including the introduction of laws in a number of key areas, most notably the new Foreign Investment Law released in November 2012, and the liberalisation of its telecommunications sector through the issue of two new mobile telephony licences to international operators, Ooredoo and Telenor.

As a newly opened economy trying to find its own tempo in policy and law-making, the past two years of reforms have not been without hiccups. But this needs to be evaluated in the context of the nascent state of the country's institutions, and the relative progress and speed of reform it has managed to achieve. Its progress is arguably far ahead of what Vietnam and China managed to achieve in the late 1980s, roughly two years after opening up their respective economies. As we saw in Vietnam and China in the subsequent two decades, much will depend on how the country consistently devises and implements its policies for sustainable growth.

Current economic environment

Myanmar is rich in natural resources such as arable land, forestry, minerals, as well as freshwater and marine resources, gems and jade. In recent years, the country has also emerged as a natural gas exporter, with exports to neighbouring countries providing an increasingly important revenue stream. At present more than 80% of the gas produced by its three major offshore fields – the Yadana, Yetagun and Shwe – are piped out to Thailand or China under contracts signed when the country was ruled by military junta. This has led to shortages as Myanmar's demand for gas to fuel power generation increases with the economic liberalisation. To ensure sufficiency for domestic demand, the government has mandated that new discoveries of natural gas or oil will not be exported until Myanmar's own domestic demand is satisfied³.

Myanmar's economy is expected to grow 5.5% in the fiscal year ending March 31, 2014 (FY13) compared to 5.0% in FY12⁴, driven by higher investment in hydropower, natural gas and oil and commodity exports. GDP composition by sector in 2012 consisted of services (including transportation, travel, business services and other government services) at 41.8%, agriculture (including livestock, fisheries and forestry) at 38.8% and industry at 19.3%. However the distribution of the labour force is still largely skewed towards agriculture (70% relative to 23% in services and 7% in industry)⁵.

Assuming Myanmar maintains a high rate of labour productivity growth, as well as improvements in the use of capital, innovation, increases in competition and gains in operational efficiency, many believe its economy could quadruple in size by 2030⁶.

Regulatory environment surrounding foreign investment

The introduction of the Myanmar Foreign Investment Law (MFIL) in November 2012 improved conditions for foreign investors across various sectors.

As an example, one of the first US companies to be granted an investment permit under MFIL, Coca-Cola Company returned to Myanmar in 2012. The group plans to invest US\$200m over the next five years, starting with the opening of a new bottling plant in Crystal Springs in 2013. The same year, Carlsberg formed a Joint Venture (JV) with the local soft drink producer Myanmar Golden Star (MGS) Breweries, and Heineken entered into a JV agreement with local spirits leader Alliance Brewery Company Ltd (ABC). Both companies intend to brew and market beer in Myanmar, an indication of the confidence multinational companies have placed in the growth potential of the country.

Continuing economic and political reforms will nevertheless be necessary to draw and retain long term Western investments. While sanctions against Myanmar have mostly been lifted (except for the US), further easing will take time and depend on how the West perceives the continued reform towards democracy and the country's human rights record.

Major foreign investors in Myanmar

In 2013, the main foreign investors in Myanmar remained China (51 companies with investments of US\$14.19bn) and Thailand (69 companies with US\$9.98bn in investments), followed by Hong Kong (this includes Hong Kong incorporated companies with businesses primarily in China) and the UK (including British Virgin Island and Bermuda Island).

However, the recent trend shows that other investors such as South Korea, Singapore and Vietnam have also invested significantly

Figure 1: Foreign investments by country

Country	US\$m	%
China	14,200	32.0
Thailand	10,000	22.5
Hong Kong	6,500	14.6
UK	3,100	7.0
South Korea	3,000	6.8
Singapore	2,800	6.3
Malaysia	1,600	3.6
Vietnam	500	1.1
France	500	1.1
Japan	300	0.7
Others	1,875	4.2
Total	44,375	100.0

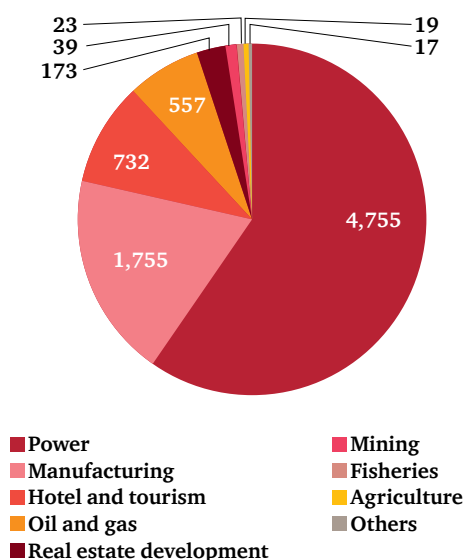
Note: Information as of December 31, 2013 by the Directorate of Investment and Company Administration, Ministry of National Planning and Economic Development, Myanmar.

over the past two years. Japan has a large local presence, with high profile governmental visits and active participation of aid agencies led by the Japan International Cooperation Agency (JICA), but the actual committed investments are still small to date.

Key sectors for foreign investment

The key sectors for foreign investment are currently infrastructure (roads, power plants, telecommunications and logistics) and manufacturing, followed by hotel and tourism, oil and gas, and real estate development, as shown in Figure 2. International players in each of these sectors are set out in Figure 3.

Figure 2: Foreign investments by sector in US\$m (April 2011 – November 2013)



Source: Directorate of Investment and Company Administration, Ministry of National Planning and Economic Development, Myanmar, December 31, 2013.

Domestic investments

The Myanmar government's programme to privatize state-owned enterprises (SOEs), started in 2010, should provide additional growth to the economy. For example, in 2013 local conglomerate KBZ Group of Companies announced its intention to fully control Myanmar Airways International (MAI) by buying the remaining 20% stake from the Myanmar government. Most of the SOEs have

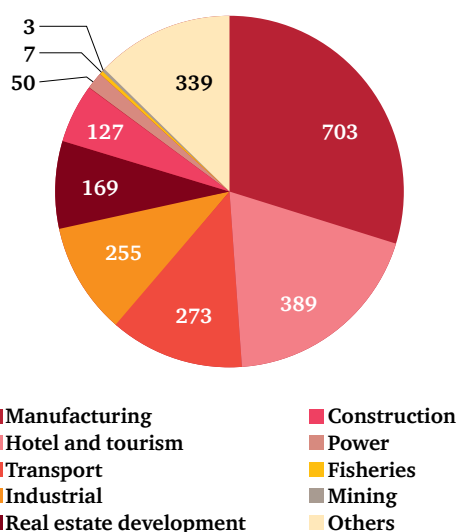
been spared the rigour of competition in decades of socialist rule, and some are loss-making. As we have seen with many China SOEs, there are significant opportunities to improve their operations and profitability via corporatisation and/or privatisation to bring in profit discipline and private sector funding and expertise.

Domestic investments are mainly concentrated on manufacturing, transport, hotel and tourism and real estate development, as shown in Figure 4.

Figure 3: Major foreign investors in key sectors

	Company	Country
Infrastructure	China Communication Construction (CCC)	China
	China Rail Construction Corporation (CRCC)	China
	China State Construction Engineering Corporation	China
	Hyundai Engineering & Construction	Korea
	Shimizu Corporation	Japan
Manufacturing	Coca Cola Company	US
	Fraser and Neave (FNN)	Singapore
	PT Hanjaya Mandala Sampoerna Tbk	Indonesia
	Siam Cement Group (SCG)	Indonesia
	Tata Motors	India
Tourism and hospitality	Unilever PLC	UK
	All Nippon Airways (ANA)	Japan
	Best Western	US
	Keppel Land	Singapore
	Pan Pacific Hotel Group	Singapore
Oil and gas	Shangri-La Asia	Hong Kong
	Yoma Strategic Holdings	Singapore
	China National Petroleum Corporation (CNPC)	China
	China National Offshore Oil Corporation (CNOOC)	China
	Daewoo International Corporation	Korea
	Essar Global	India
	Petronas Carigali Sdn Bhd	Malaysia
	PTT Exploration and Production Public Company (PTTEP)	Thailand
Total SA	France	
Real estate development	Bouygues Construction	Singapore
	Fragrant Property	Thailand
	Mitsubishi Corporation and Estate	Japan
	Shine Group	Vietnam
	Yoma Strategic Holdings	Singapore

Figure 4: Domestic investments by sector in US\$m (April 2011 – November 2013)



Source: Directorate of Investment and Company Administration, Ministry of National Planning and Economic Development, Myanmar, December 31, 2013.

Major deals in Myanmar

Some of the major deals announced during 2013 and 2014⁷ were:

Oil and gas sector

The Myanmar government offered 18 onshore blocks for foreign investment in 2012. The bids were won mainly by Asian companies; India's EPI holdings, Malaysia's Petronas, Thailand's PTTEP, Indonesia's ISTECH Energy and Hong Kong's EPI Holdings. Other winners included Swiss company Geopetrol and Russia's CIS Nobel Oil. The Myanmar government put up 30 offshore blocks including 19 deep water fields for bidding in mid-2013 and this had attracted top western oil majors such as Shell, Exxon Mobil and ConocoPhillips. The list of winners is slated to be released in March 2014.

Infrastructure sector

Qatar-based Ooredoo and Norway's Telenor won two separate 15-year mobile telephony licences in a tender process during the first half of 2013. The licences were issued in January 2014. Ooredoo has pledged an investment of US\$15bn and will begin rolling out its network within six months with planned 97% coverage within five years. Telenor will launch services within eight months and targets 90% coverage in five years. One more telecommunication licence will be granted while the incumbent government operator, MPT, is seeking a foreign partner and is likely to be corporatised.

A consortium led by Yongnam Holdings is participating, along with others, in a government tender for the new Hanthawaddy International Airport on the basis of a public-private partnership agreement for a 30-year concession period. The project is valued at US\$1.1bn.

Mitsubishi, Marubeni and Sumitomo established a consortium with nine local companies to develop Thilawa Special Economic Zone project (factories, high-tech industry, textiles, labour intensive and manufacturing industry). Investment amount totals US\$100m.

Consumer retail sector

Mitsubishi Motors established a JV with Yoma and First Myanmar Investment for sale and after sale service of new cars, with investment totalling around US\$6.5bn.

Heineken and Carlsberg formed JVs with local partners to produce and distribute beers. Both companies will have fully operational breweries by the end of 2014 and plan to invest US\$60m and US\$50m respectively. Heineken purchased a 57% stake in the JV for US\$34m.

Coca Cola opened a bottling plant in April 2013 on the outskirts of Yangon together with Myanmar's Pinya Manufacturing Co. It has pledged US\$200m over the next five years to increase production and distribution across the country.

Unilever started operating its first factory in Myanmar to produce food products. The Anglo-Dutch company pledged to invest US\$650m over the next decade as it increases its foothold in emerging markets.

Energy

Bukit Asam will form a JV with a local company in Myanmar with a total investment of up to US\$900m to build two power plants. The JV will develop the first 2x100-megawatt coal-fired power plant with the second plant planned to be double this size.

Green Earth Power to invest approximately US\$275m on a new solar power facility with generating capacity of 210 megawatts. The project will be completed in 2015.

Asiatech Energy won a US\$170m contract to build a combined cycle gas fired power plant of 230 megawatt by the end of 2015 in Mawlamyaing Township, the fourth largest city in Myanmar.

Industrial products and services

Yoma Strategic Holdings, First Myanmar Investment Co., Ltd and Sumitomo Corporation entered into a JV to operate authorised service stations to distribute Hino trucks and buses in Myanmar for US\$725m.

The trading company Intraco announced in February 2014 that it would enter into a JV with Tat Hong Holdings Ltd and Mr Aung Moe Kyaw. The JV company has paid-up capital of US\$0.5m and will operate a crane rental and distribution business from May 2014.

Tourism and hospitality sector

Yoma Strategic Holdings has established a JV, Chidwin Holdings, with First Myanmar Investment to acquire luxury tourism assets. Yoma Group will hold 70% of the share capital and FMI will hold the remaining 30%.

Hilton is expected to open a 300-room hotel in Yangon in early 2014, increasing the hotel capacity in a country undersupplied with accommodation. Shangri-La is investing US\$115m in its second hotel, expected to open in 2017.

Pan Pacific Hotels Group (PPHG) announced a conditional JV with Shwe Taung Group (STG) to develop Pan Pacific Yangon. Opening in 2016, the hotel will be part of a mixed-use development. PPHG, WTG and City Square will hold 20%, 60% and 20% respectively.

Best Western acquired Green Hill Hotel in 2013 making it the first US based hotel in Myanmar. The company plans to expand its portfolio with the launch of a new hotel in Nay Pyi Daw in the later part of 2014.

All Nippon Air acquired Asian Wings for US\$25m and will help Asian Wings establish an international presence. This partnership marks ANA's first investment in a carrier outside Japan and the first overseas investment in any Myanmar carrier.

Manufacturing sector

Thai Siam Cement, with a local partner, is scheduled to construct a fully integrated greenfield cement plant costing US\$386m in Myanmar, to support the future construction boom. It is expected to start building in mid-2016.

PT Semen Indonesia has set aside US\$200m to purchase a cement company in Myanmar. It is now reviewing three Myanmar cement makers with a capacity of at least one million metric tons.

Tata Motors has established a truck assembly plant in the Magway Region of central Myanmar to distribute and sell the trucks produced from the assembly plant. The company invested US\$20m for the assembly plant.

Deals outlook for 2014 and beyond

The expectation is that M&A activity in Myanmar will continue its growth in 2014, as foreign investors prepare to invest into the resource-rich country. The speed of growth will depend on the development of basic infrastructure and banking reforms. There is particular interest in the energy, resources, infrastructure, consumer and real estate sectors.

The government has several initiatives to continue attracting foreign investments. A consortium between Mitsubishi, Marubeni, Sumitomo and a public-private partnership comprising the Government of Myanmar and local enterprises was established in October 2013 to develop the 2,400 hectare Thilawa Special Economic (SEZ) and should be completed by the end of 2014.

Reforms to open the banking and insurance industries have been promised by the Myanmar government for 2015 and many international groups have already opened representation offices in the country.

Myanmar's chairmanship of the Association of Southeast Asian Nations (ASEAN) provides potential opportunities for further integration with ASEAN markets, which should lead to an increase in future exports and motivate inflows of foreign investments in Myanmar.

However, many challenges remain. Among the best countries to do business, Myanmar is still ranked 182nd out of 189 countries by the World Bank, due to its delays for licence approvals, its lack of transparency and its increasing rents and electricity prices. The 2015 presidential election and the constitutional reforms in its run-up will be closely watched by foreign investors. Negotiating lasting peace agreements with ethnic groups, handling of the Rohingyas group and managing racial and religious tensions will also be key issues.

The country needs immediate investments in infrastructure to facilitate manufacturing and create jobs. In particular, electricity and commercial real estate are in critical short supply. Brownouts are still a daily occurrence. Companies are operating out of residential properties. Banking reform is also urgently needed as both local businesses and foreign investors are hampered by the lack of local credit to finance their growth. Local interest rates start at a prohibitive 13% per annum.

Finally, besides the hard infrastructure, the country needs to invest in the soft infrastructure of human capital development and its government institutions. Corruption, investment restrictions and complexity of the legal system are still "unknowns" and teaming up with the right local partners is of key importance for successful investment in Myanmar – therefore the need for due diligence is crucial for potential investors to safely exploit the opportunities of Asia's last frontier country.

Notes:

¹ Vietnam and Myanmar: Southeast Asia's New Growth Frontiers, Boston Consulting Group, December 2013.

² Directorate of Investment and Company Administration, Ministry of National Planning and Economic Development Myanmar.

³ "Burma won't export new gas finds until domestic needs met, says official", The Irrawaddy, February 7, 2014.

⁴ Myanmar Country Report 2013, Economist Intelligence Unit.

⁵ CIA World Factbook, 2013.

⁶ Myanmar's Moment: Unique opportunities, major challenges, McKinsey Global Institute, June 2013.

⁷ News reports, PwC research.

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