Jumping on PE train

Rising awareness has helped boost the attractiveness of PE as an alternative funding and investment option.

AMID the current low yield environment, investors who are seeking good returns through the public equity sphere are faced with a dearth of deals. On the other hand, small and medium enterprises (SMEs) and start-ups are finding it difficult to secure funding to grow their businesses.

Rising awareness—combined with a slew of positive factors, the most notable being a surge in the understanding of private equity (PE)—has helped boost the attractiveness of PE as an alternative funding and investment option.

PwC Malaysia and PwC Vietnam deals leader Tan Siew Mion foresees tremendous growth prospects for PE over the next five to 10 years as Asean economies continue to expand.

"I would categorise the PE market in Southeast Asia and Malaysia as an emerging market," he tells FocusM. "I see global and regional PE funds seeking to invest in businesses that can be scaled rapidly to capture the growing demand for goods and services in Southeast Asia."

Bridging the funding gap

This influx of PE funds augurs well for both SMEs and start-up companies which are feeling the squeeze as bank lending becomes more stringent while public equities funding tends to flow more slowly to them.

"When large public institutions invest in the public equities market, most of the time they are using a trading-based investment approach," CMS Opus Private Equity management director Azam Azman tells FocusM. "They buy and sell via on- or off-market transactions to ensure that they have the needed liquidity and obtain the needed returns via capital gains and dividends."

Such market manoeuvres benefit the larger entities who also have more access to cheap loans from banks. Unfortunately, the same cannot be said of SMEs which make up 97% of total business establishments.

Rather, SMEs tend to be the first to face funding turbulence such as loan cuts when economic sentiment is weak. Azam says that this is where PE can play an important role in enabling these companies to progress through their growth cycles.

Potential Excelerate Group Ltd founder and managing director Datuk Seri Sherwin Chew concurs that PE funding can fill the void in the event bank financing does not materialise as hoped.

"There is a lot of good potential among SMEs but the problem is that a good business idea without money is useless," he tells FocusM. "You need money to develop the true potential of that company."

An investment option

Importantly, he points out that with PE funding, the benefits for companies go beyond just securing capital.

"With PE, it is not just about investing in the company per se; an investor will also be assessing how their connections and team of professionals can add value to the company that they are investing in to enhance and create greater value," argues Chew. "In this sense, getting funding from PE differs from getting it from banks. With banks, they give you the money and you have to figure out the rest."

Importantly, it is not just companies searching for investors which are benefitting from the development of the PE market. "The PE market is much more focused on the exit strategy; only if we see an exit opportunity do we find an entry point," explains Gobi Partners' investment director Victor Chua.

"Gobi Partners' investment director Vicker Chua says the companies which have regional growth prospects will tend to be more attractive for PE investors."

Chua points to companies which have regional growth prospects. "At this point, most of the investment opportunities are country-centric. Companies should start looking at how they can scale regionally," he argues. "This helps with diversifying country risks and will attract more PE firms to invest in them."

Chew says that PE funding can fill the void in the event bank financing does not materialise as hoped.