



Investment Opportunities in Myanmar

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Introduction

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VCG Partners and VinaCapital

Myanmar overview

- Southeast Asia's **2nd largest nation** by land mass, held back by years of economic isolation from the West
- **Strategically located** at the crossroads of China, India and ASEAN
- **Rich natural resource base** of oil, gas, copper, gold, forests, minerals, gemstones, arable land, and marine resources
- Pristine natural landscape and cultural diversity provide **tourism potential**
- Low-cost workforce and a **large consumer market** of over 60 million people



Population

- Approximately 60 million
- 45% under the age of 25

Ethnicities

- Bamar: 68%
- Shan: 9%
- Karen: 7%
- Rakhine: 4%
- Chinese: 3%
- Indian: 2%
- Other: 7%



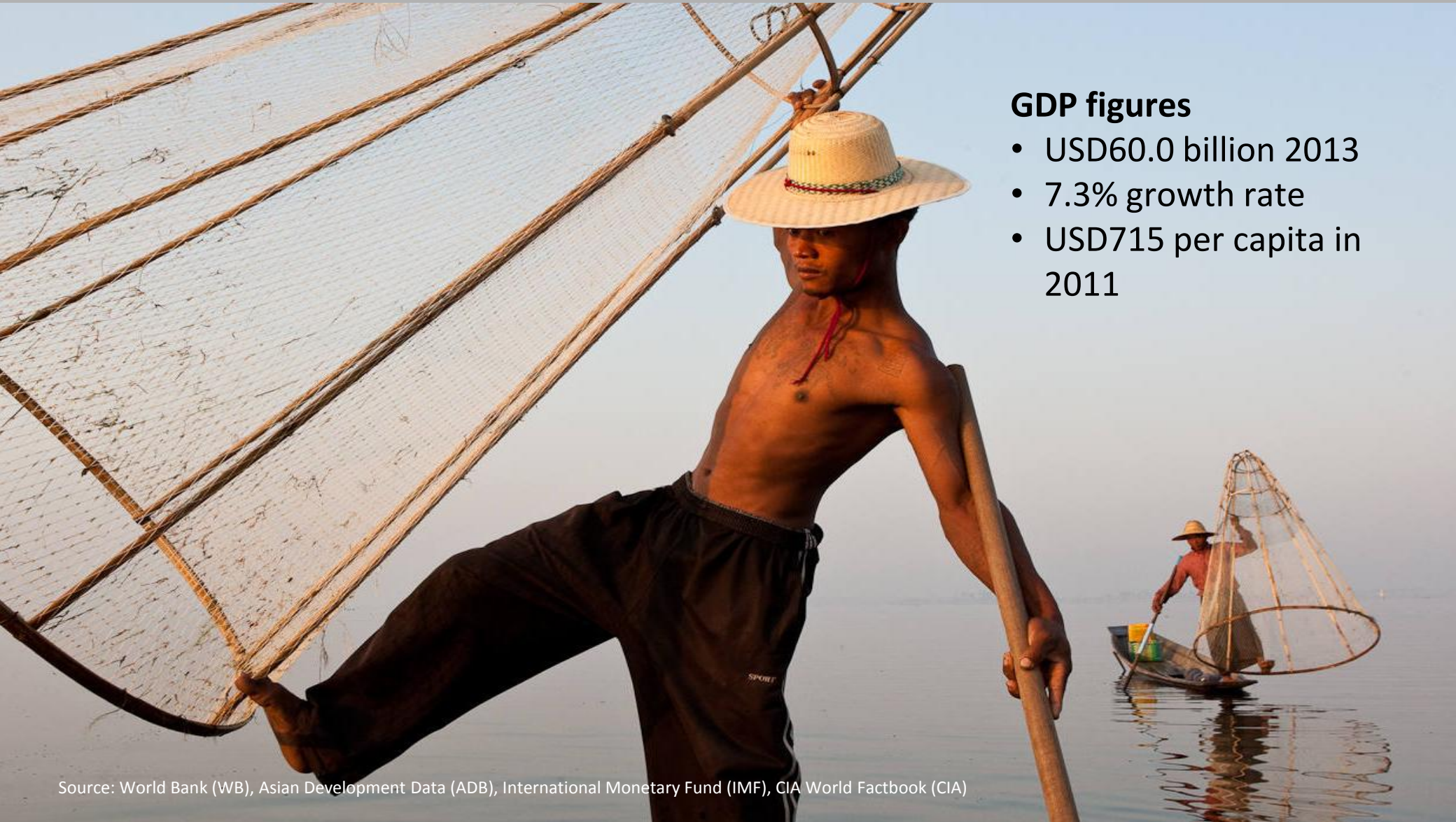
Source: World Bank (WB), Asian Development Data (ADB), International Monetary Fund (IMF), CIA World Factbook (CIA)

Myanmar overview



Religions: Buddhist 90% Christian 5% Muslim 5%

Source: CIA World Factbook (CIA)



GDP figures

- USD60.0 billion 2013
- 7.3% growth rate
- USD715 per capita in 2011

Source: World Bank (WB), Asian Development Data (ADB), International Monetary Fund (IMF), CIA World Factbook (CIA)



2012 Labour force

- Agriculture 70%
- Services 23%
- Industry 7%

2012 Key indicators

- Inflation rate 6-8%
- Central bank discount 8%
- Prime lending rate 13%

Source: World Bank (WB), CIA World Factbook (CIA)

Myanmar overview

At onset of a remarkable transformation

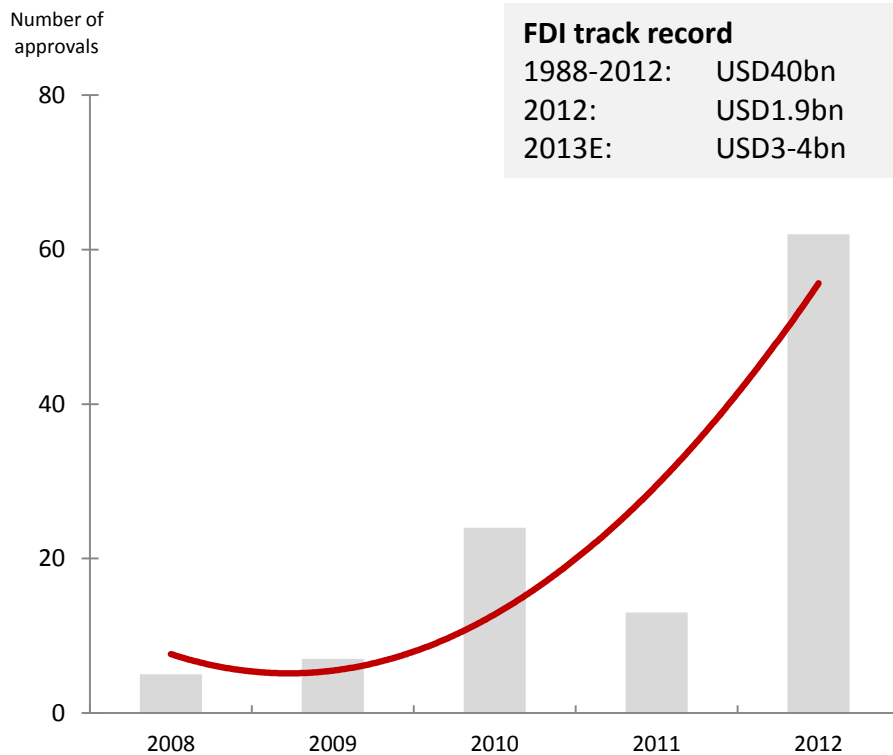
- Myanmar embraced wide-ranging political and economic **reforms** in 2011
- The **EU and USA** have lifted or suspended many sanctions that prevented Western investors from entering the market
- **MNCs** have reentered, either through 100% subsidiaries or JVs with local partners (Coke, Pepsi, Ford, Nissan, Mercedes, BMW, Unilever, Carlsberg, Heineken, Nestle, KFC, PWC, E&Y, Marubeni, Total, Chevron, ExxonMobil, etc)



Myanmar overview – growth drivers

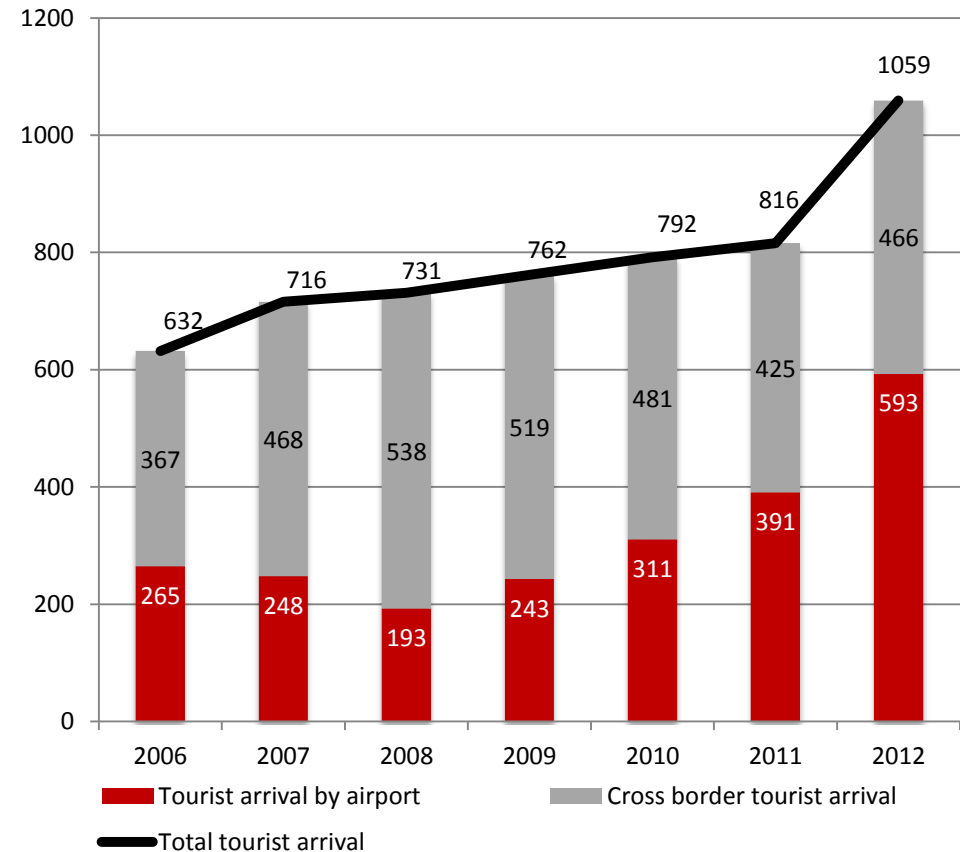
An economic 'lift-off' is expected as renewed trade links, FDI, and tourism drive growth

FDI approvals increased 3x in 2012



Source: Asia Development Outlook 2013 – ADB

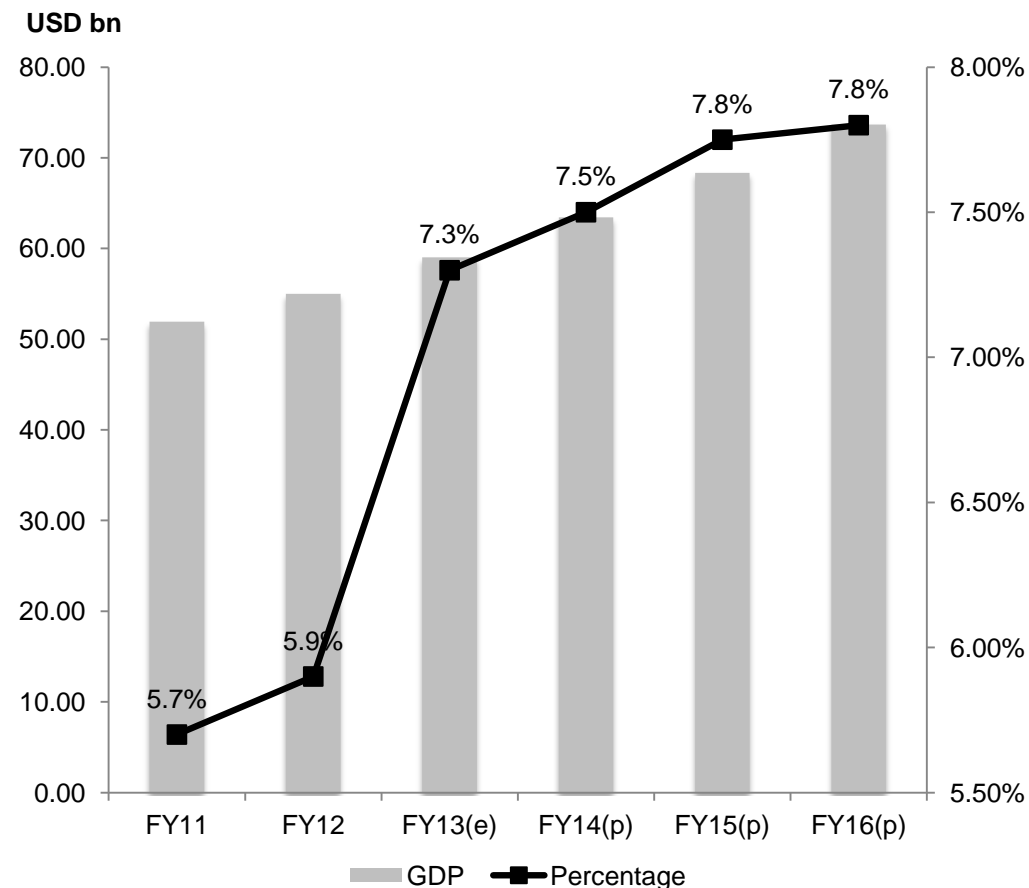
Surge in tourist arrivals spur growth



Source: Myanmar Ministry of Hotels and Tourism (MHT)

Asia's last major market; significant investment needed to meet economic potential

- World Bank reports 7.3% GDP growth for 2013; projects 7.5% GDP growth for 2014 and 7.75% for 2015
- FDI expected at USD50-60 billion by 2020 according to McKinsey
- 2011 Exports levels of USD8.8billion in will rise sharply as US and EU sanctions clearance trickle in and ASEAN 2015 integration proceeds

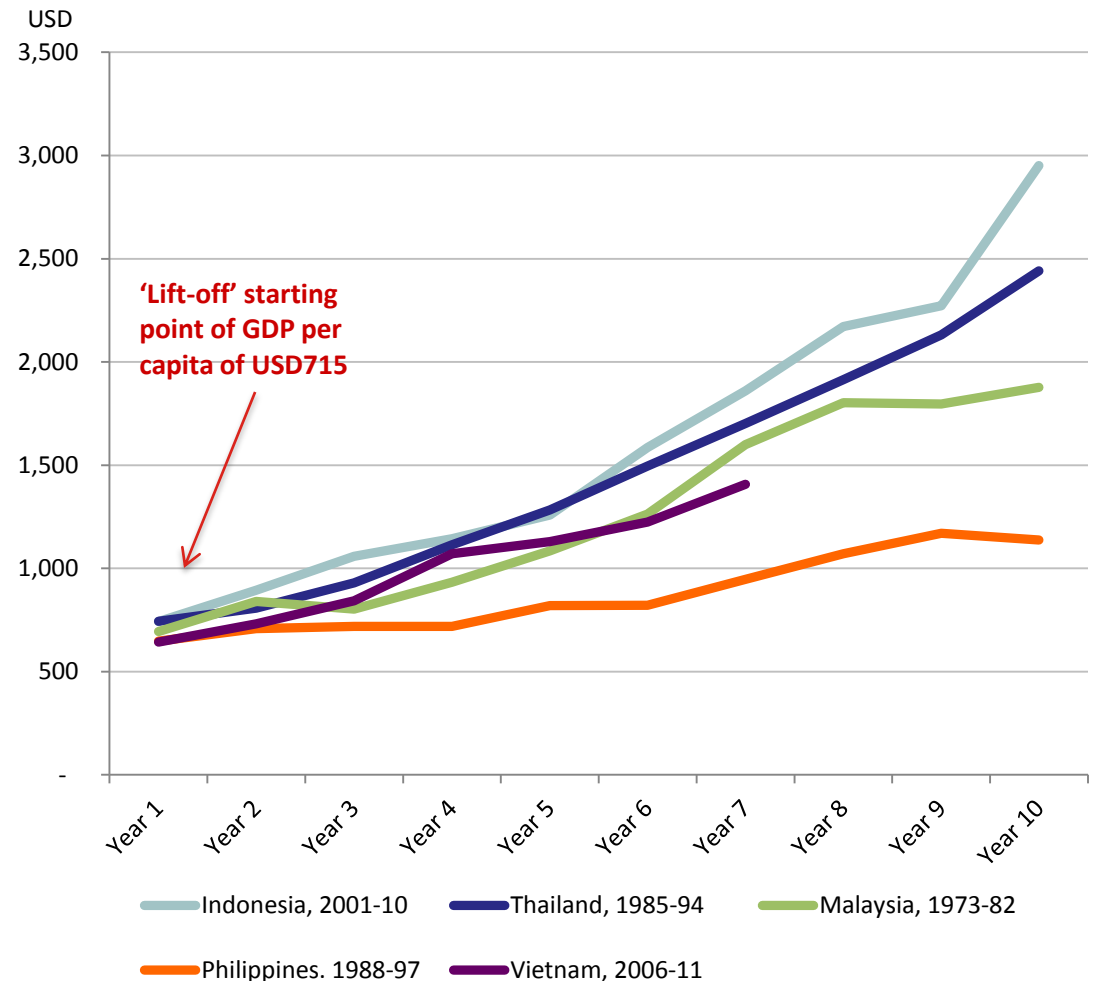


Source: World Bank database.

Myanmar's economy

- Myanmar's GDP per capita stood at **USD715** in 2011.
- Myanmar should follow a comparable growth path that neighboring ASEAN economies enjoyed in the past
- Asian Development Bank projects 8% GDP growth for Myanmar over the next decade.

Historic GDP per capita growth in selected Asian countries



Source: Asia Development Outlook 2013 – ADB

Headline political reforms matched by legal and regulatory upgrades

- Leadership commitment to reform, with national reconciliation and international re-engagement
- Improvement of the regulatory, legal, and policy environment underway, demonstrating the desire for greater foreign investment
- Crucial reforms have been enacted to encourage foreign and domestic investment. These cover a unified exchange rate, a new Foreign Investment Law, a new Citizen's Investment Law, a new Central Bank Law and a Securities Exchange Law.
- Myanmar accedes to New York Convention on recognition and enforcement of foreign arbitration

Foreign Investment Law

- Passed in November 2012, allows foreign investments in three forms:
 - 100% foreign owned company, joint ventures with local private or public entities, business co-operation contracts
- 5 year tax holiday, remittance of proceeds, and protection against nationalization
- Foreigners may enter into long term leases of land for up to 70 years

Myanmar Citizen Investment Law

- Passed in July 2013, Myanmar citizens/companies enjoy the same benefits as foreign investors
- Eventual possibility of locals being permitted to transfer share ownership of a local company to foreigners

Central Bank Law

- Financial and banking systems undeveloped; this has been a major obstacle for potential investors
- Law signed on July 2013 promotes a stable banking system, allowing autonomy, transparency and accountability of the Central Bank

Securities Exchange Law

- Law passed on July 2013 allowing the establishment of a modern stock exchange
- The Tokyo Stock Exchange and Daiwa Securities were selected to establish a stock exchange

Upcoming major events/milestones

- 2014 ASEAN Chair
- 2014 Auction results for major offshore oil and gas blocks to be announced in March
- 2014 Myanmar Condominium Law expected to be enacted
 - Allows for strata title and perhaps mortgages on non landed properties
 - Allows for foreign investors to buy into condo apartments
- 2015 General Elections
 - Constitutional Reform supported by NLD and current President Thein Sein
- 2015 ASEAN Free Trade Area
 - Duty Free/Tariff Free trade amongst all ASEAN nations for free movement of goods and services for greater regional economic integration
- 2015 Expected launch of the Myanmar Stock Exchange

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Myth

Investment environment in Myanmar is similar to China and Vietnam at the onset of their reforms

Truth

Myanmar is far more developed than China in the 1980s and Vietnam in the 1990s

Myanmar's private sector is far more developed

- Unlike China and Vietnam, Myanmar didn't suffer from civil war and a subsequent communist revolution which nationalized all businesses
 - Some family owned businesses have been operating successfully for over three generations
 - Private land ownership was recognized
- Reform in the 1980s encouraged local private ownership of businesses and the 1982 Citizenship Law allowed for the naturalization of non-ethnic Burmese
 - Opportunities were created for Chinese and Indian entrepreneurs living in Myanmar to directly own businesses, properties and real assets
- Despite Western imposed sanctions, Burmese businesses have thrived from investment and trade with neighboring countries

Industry leaders in key sectors of the economy are mostly privately owned

- The private sector controls:
 - Agriculture and food processing
 - Banking – 21 private banks vs 5 state owned banks
 - Real estate construction and development – the largest contractors are private family owned or business consortiums
 - Retail – both modern trade and traditional
 - Tourism – Travel agencies, guest houses, motels, hotels are mostly privately owned
 - Transportation – taxis, buses, long distance buses are all privately owned. 7 of 8 domestic airlines are privately owned, including the flag carrier Myanmar Airways International

Colonial rule left the legacy of British Common Law

- There is familiarity with the British legal concepts and common law principals.
- The laws are relatively easy to interpret and apply
- Legal contracts are recognised in both Burmese and English

Myth

Myanmar has been isolated from the rest of the world

Truth

Myanmar has been isolated from the West, but it has enjoyed robust trade and investment with neighbouring countries including: China, Thailand, Malaysia, India and Singapore.

- Border Trade
 - Reported to be **USD800 million** for first half of 2013 by Myanmar Commerce and Consumer Affairs Dept, but actual figures are much higher
 - China – **USD7.8 billion** reported for the four years from 2008-11 (but is sure to be much higher)
 - Exports: energy resources, jade, agriculture
 - Imports: textiles, garments, electronics, auto parts, chemicals, machinery, building materials, agriculture
 - According to the Harvard Kennedy School Ash Center, the largely unrecorded jade trade generated revenues of about **USD8.0 billion** in 2011 on 43 million kilograms of jade sold.
 - This is twice the reported revenue from natural gas exports and 17% of 2011 GDP.
 - The official reported value of jade exports was **USD34 million**

Myanmar trade and investment with neighbouring countries



June 2013 annual trade show in Naypyidaw generated revenues of USD2.6 billion.

Thailand – **USD1.5 billion** from 2008-11

- Exports energy resources, precious stones, rubber
- Imports textiles, chemicals, FMCGs, auto parts, building materials



Investment from neighbouring countries

- Investors and businessmen from China, Thailand, Singapore, Malaysia and Hong Kong have been profitably operating in Myanmar for over two decades
- Investments have been in:
 - Energy resources
 - USD 1.0 billion in Total/PTT/Chevron JV gas pipeline to Thailand
 - USD 2.5 billion in PetroChina/Daewoo/GAIL JV oil and gas pipeline to China
 - Minerals and Mining
 - Numerous Chinese SOEs have invested in copper, tin, zinc, and gold mines
 - Precious Stones
 - Private Chinese investments in Jade mines
 - Consumer goods
 - Myanmar Brewery JV between Singapore's Asian Pacific Brewery and military
 - Food and agriculture
 - CP Group of Thailand invested in animal feed and livestock farms
 - Hotel Groups/Chains
 - Singapore chains like Sedona Hotels, Park Royal
 - Hong Kong group like Shangri-La

Myanmar trade and investment with neighbouring countries

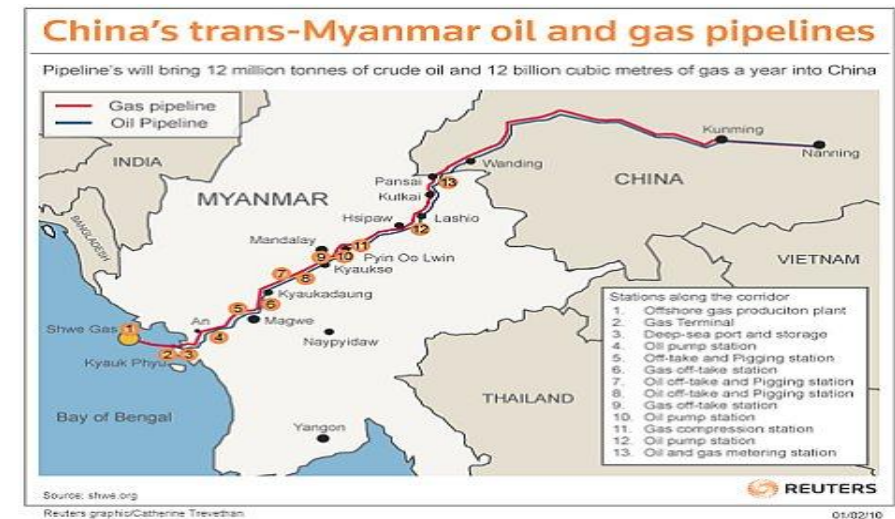
Energy to Thailand

Natural gas extraction platforms in the Yadana Field. Myanmar extracted natural gas supplies 50% of Bangkok's energy needs.



Energy to China

Recently completed Oil and Natural Gas Pipelines cuts across Myanmar into Yunnan, China. This is key to the continued development of Southwest China



Food and Beverage



Myanmar trade and investment with neighbouring countries

Hospitality



Myth

Since Myanmar is a poor country there is no consumer class.

Truth

There is a thriving middle class in the large cities benefitting from domestic consumption and trade with neighbouring countries.

Consumer spending power

- Traffic worsening: over 10,000 new cars added to Yangon roads each month
- Used 2007 Toyota Corolla sells for USD 15,000 even though prices have dropped over 70% in the last two years
- Since there is no loan financing, cars are paid for in cash
- Major auto brands, even luxury brands, have set up new car dealerships



Mercedes-Benz



Modern trade is widely available in the cities

Supermarkets sell premium imported products from all over the world



Shopping malls are packed and many new malls are under construction

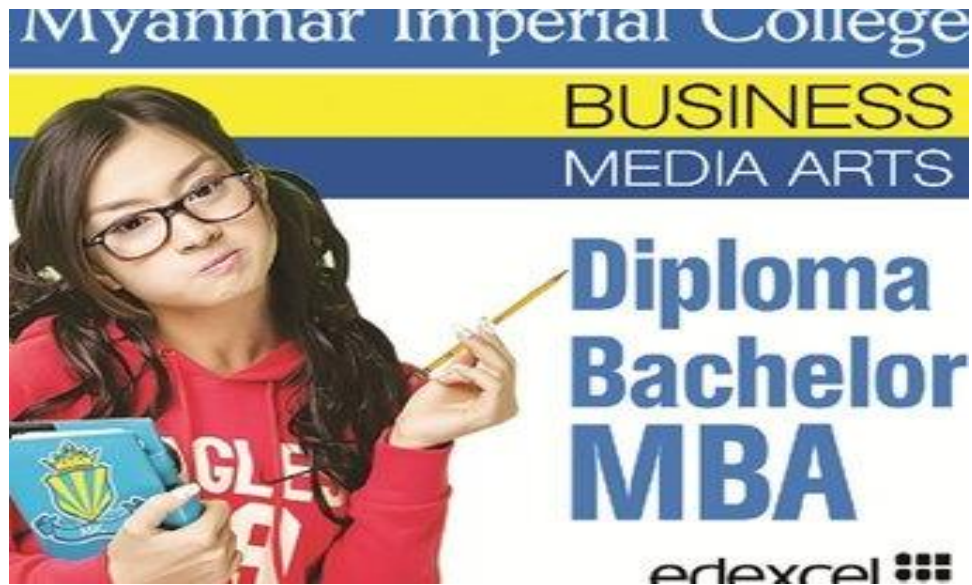


Consumer spending power

Local bakery, restaurant, doughnut chains are bountiful



Overseas and local private education services are booming



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Investment opportunities – attractive sectors



Consumer goods and retail

Continued increase in domestic demand for consumer goods from rising GDP per capita.



Infrastructure, real estate development related products and services

Much needed infrastructure (power, water, telecoms, transport, etc) upgrades and real estate demand will benefit contractors and construction material suppliers. Tourism boom will benefit hotel owners and operators.



Agriculture and food

Abundant land, water and labor provide an opportunity for food processing/services.



Financial services

Financial backbone upgrade necessary with increased investment and trade.



Healthcare and pharmaceuticals

Undeveloped and overcrowded healthcare facilities provide opportunities for continued growth.



Education

Capitalise on demand for higher standards of education and the core Asian value of investing in education.

Potential to invest in equity, debt, and quasi-debt in businesses with high growth potential.

Types of possible private equity deals:

- **Expansion capital** in small and medium-sized businesses in high growth sectors of the economy.
- **Pre-IPO placements** in larger companies whose scale and profitability allow for listing on regional stock exchanges.
- **JV Projects** involving select real estate developments where long term land leases were obtained at favorable rates.
- **Co-investment** with foreign companies in joint ventures and other initiatives in Myanmar.

Deal 1 – Expansion of famous local restaurant chain

- Successful restaurant and bakery chains compete on quality, consistency, and service.
- Expansion and brand extension for a leading Burmese restaurant chain with over 16 outlets.
- Brought foreign franchised restaurant brands to Myanmar.
- Opportunity to introduce management talent and international F&B franchises within VinaCapital's network/portfolio.

Deal 2 – Expansion of flexible packing materials manufacturer

- Expansion of a market leading manufacturer of flexible packing for the FMCG, food and beverage industry. Already operating at over capacity.
- The company benefits from increased consumerism and the growth in food processing sector catering to both local and export demand.
- Client base of well known national brands and plans to improve operations and standards to cater to MNC clients.

Opportunity to restructure mid sized companies with revenues over UDD50 million into offshore entities, benefitting from Foreign Investment Law provisions, improve operating efficiencies, implement ESOP to recruit/retain foreign management talent, install IT/accounting systems

Deal 3 – Pre-IPO of leading coffee mix brand

- Pre-IPO Placement and restructuring capital for a market leading 3-in-1 instant coffee mix producer and brand. Has national reach with an established distribution platform.
- Coffee powder is imported from Brazil. Opportunity for VinaCapital to help source coffee and management talent from Vietnam portfolio companies.

Deal 4 – Leading multi format supermarket chain

- Well known retailer with over 20 outlets. Operates mini-marts, supermarkets, hypermarkets, and drug stores.
- Eyeing national expansion and needs to bolster its over stretched middle management.
- Opportunity for VinaCapital to introduce Vietnamese consumer products for resell.

Deal 5 and 6 – Expansion capital for construction materials producers

Myanmar is currently undergoing a construction boom arising from upgrading dilapidated infrastructure and supplying demand for residential and office space in the cities. There will be long term demand for basic construction materials manufactured locally. Currently imports dominate, but this entails higher costs because of transportation.

Deal 5 – Expansion capital for Mandalay based cement producer

- Expansion capital for market leading cement producer/brand in the Mandalay region to expand capacity to meet current demand from real estate and infrastructure projects underway.
- Has competitive advantage of using energy and cost efficient manufacturing technology
- Mandalay is the centrally located agricultural heartland, the hub of trade with China and India and the 2nd largest city in Myanmar.

Deal 6 – Expansion capital for Yangon based brick maker

- Majority of new building developments in Yangon are low to mid rise projects under 15 stories, requiring extensive use of bricks and mortar of exterior and interior walls.
- Has competitive advantage of factory location near city, quick and low cost quality production.

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Myanmar government will revert back to old ways

- Economic interest of military and generals aligned with economic reforms
- A need to reduce dependency on Chinese investments/support by opening up to the West

Constitutional reforms

- Military controls 25% of Parliament, amendments require 75% approval
- Main opposition party, NLD and Current President Thein Sein support reforms

Ethnic and religious diversity

- Armed rebel groups control resource rich and border trade areas, ethnic violence
- Disputes have economic undertones, with development stability should follow

Economic slowdown in China will reduce demand for Myanmar exports

- China is Myanmar's largest trading partner and a source of major investment funds
- Myanmar exports strategic energy assets. Jade demand will decrease, though prices should remain stable as supply will drop accordingly

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VCG Partners – Best positioned for private equity investment into Myanmar

- Managing Director with 17 years investment experience at Lehman Brothers, International Finance Corporation/World Bank Group, and Schroder Capital Partners Asia
 - 5th generation Burmese Chinese with established local relationships
 - Investing in Asia through many cycles since the 1997 economic crisis
 - Wharton Business School graduate
- Backed by VinaCapital, one of the largest frontier markets investment managers in ASEAN, with over USD 1.5 billion AUM:
 - Approximately 150 international and domestic staff across five offices in Ho Chi Minh City, Hanoi, Danang, Singapore and Yangon
 - Platform for recruitment of talent for investee companies, capital structuring, due diligence, and corporate finance services.
 - Ability to source co-investors and industry expertise from existing business relationships.

Key terms of the fund

Name	Myanmar Opportunity Fund Limited
Fundraising	USD25-50 million. Additional fundraising may be undertaken when 75% of funds raised have been invested or are allocated for investment
Structuring and listing	Listed closed ended fund
Target sectors	Consumer staples, construction materials, agriculture, financial services, hospitality and real estate
Life	5 years, then a vote for continuation
Investment size	USD 5-10 million
Investment holding period	2 to 4 years
Manager's involvement	5% of initial fundraising
Target IRR	25%+
Fees	2.5% placement fee, 2.0% management fee, 20% carry subject to an 8% hurdle without catch up
Leverage	Nil
Co-investment opportunities	Any shareholders holding more than 10% of the fund may be offered co-investment rights
Governance	Commitment and adherence to the implementation and promotion of international business practices

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