CORPORATE

HK-based private-equity fund Shaw Kwei eyes more buyouts in Singapore, rest of Asia

| BY FRANKIE HO |

Hope might be on the way for investors holding shares in some depressed S-chips and struggling Singapore-based companies. Private equity (PE) firms are again on the prowl in the local market, hunting for companies that can be taken private, revived and then resold.

One such PE firm is Hong Kong-based Shaw Kwei & Partners. Set up in 1999, it invests mainly in companies in the manufacturing and consumer-related industries. It completed the privatisation of two Singapore Exchange-listed companies in 1Q2012 after a relatively brief courtship with their respective major shareholders. Now, it is on the lookout for more opportunities in Singapore, its other key market besides Greater China.

"We are definitely open to it. A privatisation is a godsend. It allows people who are effectively locked in to get out," Kyle Shaw, its founder and managing director, tells *The Edge Singapore* during a trip to the city-state. "Some of the conditions still exist — low liquidity, low valuations and the unlikelihood that these companies will raise more money in a secondary offering."

SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Shaw says conditions for companies to be taken private exist

Shaw Kwei & Partners said last October that it would acquire Beyonics Technology and CHT (Holdings), citing a lack of investor following in both counters and a need for the companies to be more nimble, given the tough operating conditions they faced. Its all-cash offers valued Beyonics, a Singapore-incorporated contract electronics maker, at $139 million and CHT, a China-based adhesive tape producer, at $49.5 million. Beyonics was subsequently delisted in February and CHT in March.

Earlier this month, Navis Capital Partners, a Malaysia-based PE firm, announced a takeover of **Adampak** at 42 cents a share, valuing the Singapore-based maker of radio frequency identification (RFID) tags, customised labels and precision die-cut components at $110.7 million.

Separately, fund managers from six China-based PE firms visited Singapore this month to explore opportunities for investing in some S-chips and local companies with operations in China. Companies they met included **World Precision Machinery**, **Dukang Distillers**, **Q&M Dental Group** and **China Aviation Oil**. A couple of these PE firms already hold stakes in some S-chips, including **Yangzijiang Shipbuilding**, **Techcomp (Holdings)**, **Sound Global** and **Fuxing China Group**. The fund managers were on a roadshow organised by Financial PR.

"I'd say it's a good time to be out here," says Shaw, 50. "S-chips have definitely fallen out of favour here in Singapore. It's quite normal that, when you have a few bad apples that misbehave, it throws into doubt other companies that are similar."

Indeed, several S-chip bosses have lamented to *The Edge Singapore* that shares of their companies have been unfairly penalised by the fallout of a string of accounting and corporate governance scandals in recent years. Even though their own firms are financially sound and pay regular dividends, their shares have been hammered and now trade at low single-digit price-to-earnings ratios.

The situation is unlikely to improve, as policing a company in a foreign jurisdiction is tough, with language barriers only making it worse, according to Shaw, an American who speaks Mandarin. "A problem for a lot of Chinese companies listed in Singapore is that everything here is in English. Many of these people don't speak English. It makes it very complicated for them to really understand the requests made of them, in terms of complying with rules and so on. It can be quite frustrating."

Meanwhile, competition among PE funds for investment deals has not been overly aggressive in the space that players such as Shaw Kwei & Partners operate in, he points out. Shaw's firm typically invests between US$25 million ($31 million) and US$100 million in a company. Its average holding period is five years. "The more international firms are looking for much bigger deals than we are. That's left behind what I call the middle market, which is not as competitive," he says.

Shaw does not expect the renewed interest by PE funds in Singapore-listed companies to rise significantly anytime soon. "I don't think it's going to be a flood, but as long as the markets are soft, as long as there's a lack of liquidity and trading volume, companies will say 'Why am I listed?'"

In any case, companies with a business targeted at consumers, particularly those in Asia, would likely be viewed favourably by PE funds, as domestic consumer spending is helping to propel the region's economic growth at a time when exports are declining as developed economies languish, he says. "Anything that has to do with consumer-related products is an attractive area, given Asia's rising affluence and wealth generation. It's definitely a trend we've seen over the last five years and it's going to continue."

Components and products made by Beyonics are used by MNCs such as Seagate Technology, Panasonic, Hitachi and Epson, while CHT's adhesive tapes are used by car and electronics manufacturers, among others. In the case of Adampak, its RFID tags and customised labels are also used for various consumer products.

Beyond Singapore, Shaw says opportunities for Asia-focused PE funds remain plentiful in China, even though stiff competition among such funds has substantially driven up stock valuations of many Chinese companies. Most of the "over a dozen" companies his fund has invested in are based in China. "You can find all kinds of opportunities in China, where there are companies in various stages of development and with different needs. Generally, we are underpopulated with PE firms in Greater China, compared with Europe and the US."

The need for Chinese companies, especially family-owned ones, to bring in fresh blood is particularly pressing, given China's one-child policy, he notes. "A part of it has to do with the natural ageing of the management. People are getting older," he says, adding that there will be more opportunities for buyouts in China.

One of the recent high-profile deals involving a family-owned Chinese company was Morgan Stanley Private Equity Asia's US$300 million investment in Tianhe Chemicals Group last month. Based in Liaoning province, Tianhe sells its lubricant-oil additives, used for friction reduction and heat dissipation, in China. Morgan Stanley is expected to help it develop an overseas sales network. The investment was not a buyout, though, as Morgan Stanley has only a minority stake in the company.

Despite the opportunities in China, Shaw concedes that the operating environment for businesses there is harsh, and that PE funds facea tough task of helping their investee companies stand out from the crowd. For one, labour costs have risen 15% to 20% annually for the last five years, and prices of raw materials have been erratic, leading to instances where companies have been left stranded with high-cost inventory, he notes.

To generate decent returns, Shaw says, PE funds need to help their investee companies move up the value chain. He explains: "Let me use an analogy of a Mercedes-Benz and a Chery car. If you can move your business above the standard of a Chery but before the Mercedes', you can get into a nice area in which there is less competition and you can make decent margins. It's hard, but that's clearly what the winning companies in China will have to do. They will have to rise above the dog-eat-dog cutthroat competition."

Meanwhile, Shaw Kwei & Partners is also open to expanding its reach to other Asian markets, besides Singapore and Greater China, says Shaw. He singles out South Korea as "interesting", given its strength in technology. "It's really a leveraged play on China. There are a lot of Korean businesses in northeast China." He concedes, however, that his fund is "a bit late" to get into Indonesia, which has attracted a swarm of foreign investments in recent times. E