Private equity mart 'can grow a lot more'

>Huge potential and benefit is tremendous, says Wahid

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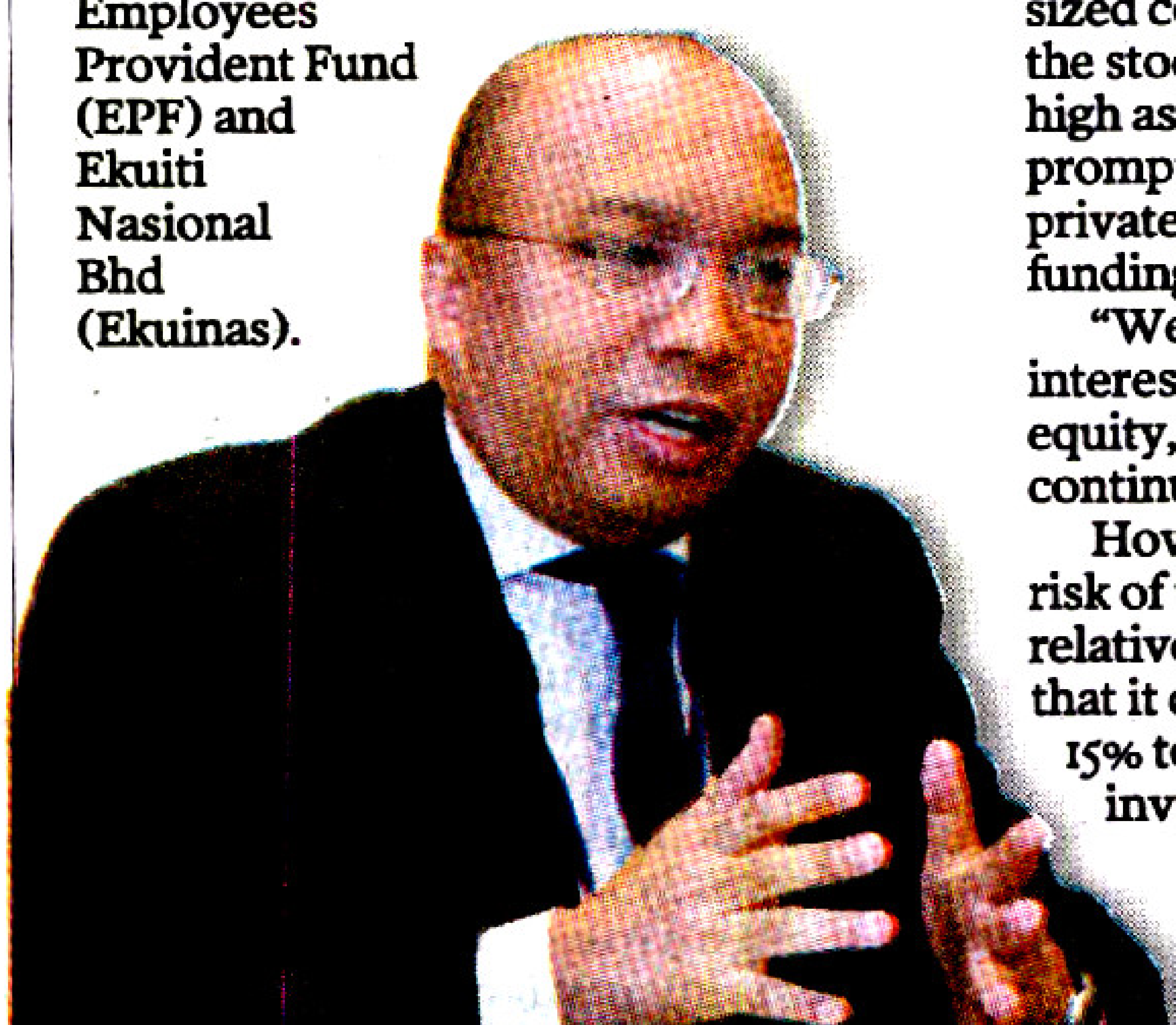
KUALA LUMPUR: Minister in the Prime Minister's Department Datuk Seri Abdul Wahid Omar believes the growth potential for the private equity market, as another form of capital investment, could be "a lot more" in tandem with the country's push for private investments.

"Whilst private equity is growing by about mid-teen levels, we believe the potential could be a lot more and the benefit is tremendous as value will be created arising from the private capital activities," he told a press conference in conjunction with the Malaysian Private Equity Forum 2014 hosted by the Employees Provident Fund (EPF) and Ekuiti Nasional Bhd (Ekuinas).



Wahid said private equity is one of the efforts to promote private investment, which hit RM160 billion last year, making up 60.5% of total investment.

"In the first half of this year, private investments amounted to RM97.5 billion, making up 69% of the total investment," he added.

Ekuinas CEO Datuk Abdul Rahman Ahmad (*pix*) said Malaysia is still left behind in terms of the local investment allocations toward private equity.

"With the support from the government and domestic investment institutions, (we) would see private equity as a way to enhance their returns ... we believe that with more capital flowing into the private equity market, they will be able to back more Malaysian companies," he said, adding that it helps Malaysia to become a more competitive economy.

He said, for instance, a small to mid-sized company that goes for a listing on the stock market may not get a value as high as in the past 10 to 15 years, thus prompting more companies to look into private equity as another source of funding.

"We've increasingly seen more interest among businesses into private equity, I hope this forum is a way to continue that momentum," he noted.

However, Abdul Rahman noted the risk of the private equity market is relatively higher, considering the fact that it could generate a decent return of 15% to 20%, compared with other investment instruments.

"Private equity is riskier because it is an illiquid investment, so it has to be long-term between three and five years," he said.

According to Abdul Rahman, the private equity allocation among all asset classes by local institutions is way below 5%, but it would be more comfortable if in the range of 5% to 10%, against 15% to 20% globally.

Meanwhile, UK-based CVC Capital Partners managing partner and head of South East Asia Sigit Prasetya said tax environment in the local private equity is more conducive compared with other countries that see a 25% capital gain charged on vendors in a sale deal.

"No capital gain tax for selling businesses in Malaysia, that's very important for private equity firms," he added.

He said CVC is looking for more acquisitions in the "stable" sectors such as manufacturing and consumer-related, financial services and media, with a target of 20% in internal return rate annually.

CVC, one of the world's leading private equity firms, has attracted public attention in recent years, particularly when it jointly acquired QSR Brands Bhd and KFC Holdings (M) Bhd with the EPF and Johor Corp for RM5.2 billion, a deal that was completed in January 2013.

He said CVC has set aside a fund size of US$500 million to US$700 million (RM1.59 billion to RM2.21 billion) to undertake acquisitions in Asia.

Over the past five years, Malaysia recorded 33 deals in the private equity market with a total value of US$3.11 billion (RM9.87 billion).

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