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# Myanmar maverick

Serge Pun, chairman of Yoma Strategic Holdings, is the man of the moment as Myanmar embraces economic and political reforms. Turn to our Cover Story on **Pages 12 and 13** for his game plan in Southeast Asia's last frontier market.

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## COVER STORY

Myanmar has a population of 60 million and is endowed with arable land, minerals, gemstones and oil and gas



# Rising star of Myanmar

Yoma Strategic is garnering an enthusiastic investor following as Myanmar embraces economic and political reforms at a startling pace. What is the company's game plan in Southeast Asia's last frontier market? Can the stock keep going?

| BY LEU SIEW YING |

**S**erge Pun crosses a narrow iron bridge on the Hlaing River, on the outskirts of Yangon, and looks into the horizon. As far as the eye can see, there is nothing but paddy fields and undeveloped land. In his mind, however, Pun is visualising a new city fit for Myanmar's up-and-coming middle class.

"I'll take it all," he says, making a sweeping gesture with his arm.

That was 20 years ago, when Myanmar was beginning to shake off the socialist ideas and isolation that excluded it from the growth that most of Asia had been enjoying. Economic reforms were being implemented and the country was trying to open itself up to foreign investment.

A Myanmar-born, ethnic Chinese businessman who had lived outside his homeland for nearly half his life, Pun was both excited and emotional about the opportunity this created for him. He secured "land development rights" (LDRs) to some 500 acres of land and gradually turned it into what is now called FMI City, a gated residential enclave with plants lining narrow streets and local amenities such as shops and a bank.

The earliest houses built in the area were aimed at mass-market homebuyers. These houses typically have a built-up area of 1,400 sq ft and sit on 2,400 sq ft of land. In 1995, even before construction work began, some 800 units of these houses were sold within three months at about US\$35,000 each, Pun says.

The businessman went on to acquire more LDRs nearby for more salubrious residences, in an area now called the Pun Hlaing Golf Estate, where grand villas are seen standing on half-acre plots of land. In the years that followed, Pun also acquired and launched a host of other business interests in Myanmar. These businesses included a bank, a hotel, agriculture, cement and vehicle distribution.

Five years ago, Pun began bringing some of his Myanmar assets to market. In 2006, Serge

Pun & Associates (Myanmar) or SPA, in which he has an 85% interest, injected major stakes in FMI City and Pun Hlaing Golf Estate into Singapore-listed Seaview Hotel in a reverse takeover. The listed company, which was renamed Yoma Strategic Holdings, later went on to acquire a major stake in 100,000 acres of agricultural land from SPA.

The response from the market was lukewarm, though. The stock saw bouts of trading interest after the reverse takeover, but it failed

to develop a steady investor following. By October 2008, it had sunk to about seven cents where it flat-lined for three years.

The problem was that Myanmar, run by a secretive, capricious and sometimes brutal regime, faced broad economic sanctions from the US and Europe. And, companies with links to the country were regarded with suspicion by investors. Pun himself had been adversely affected by Myanmar's domestic turbulence before he brought some of his assets to the public market.

Notably, his Yoma Bank was a casualty of the 2003 financial crisis in Myanmar, which resulted in it having to drastically scale back its operations. Though it still has a network of 42 branches, the bank now largely provides Western Union-style inter-city remittance services. The 2003 crisis, as well as the abrupt relocation of Myanmar's administrative capital to Naypyitaw in 2005, also crushed demand for upmarket homes in Yangon, which sapped much of the life out of the Pun Hlaing Golf Estate.

In the past year, however, things have been changing fast in Myanmar. President Thein Sein, a former general who came to office in the 2010 election, has surprised everyone with sweeping reforms, a commitment to democracy and a willingness to engage Aung San Suu Kyi and her National League for Democracy. On April 1, the NLD won 43 out of 44 seats it contested in a by-election. The pro-democracy leader herself, who spent much of the last two decades under house arrest, won a seat



Aung San Suu Kyi's National League for Democracy won 43 out of 44 seats it contested in a by-election on April 1. That could pave the way for Myanmar to re-engage the US and Europe, raising the likelihood of sanctions being rolled back.

in Kawhmu, southwest of Yangon.

That could pave the way for Myanmar to re-engage the US and Europe, raising the likelihood of longstanding economic sanctions being rolled back, unlocking the country's vast economic potential. Myanmar has a population of 60 million, comprising mostly young people, and is endowed with arable land, minerals, gemstones and oil and gas.

Markets are already anticipating the shift. For one thing, Yoma Strategic's Pun Hlaing Golf Estate is regaining its buzz. According to Pun, several half-acre plots of land have been sold in the last 12 months, and the buyers have committed to build within 24 months. "Three years from now, you will see a sudden surge in the number of homes in the development," he says. Yoma Strategic still has some 5.8 million sq ft of LDRs in the estate to be sold.

The company reported earnings of \$3.8 million for the nine months to December, versus a loss of \$1 million for the same period a year ago, owing to buoyant sales of homes and LDRs. (Yoma Strategic has a March year-end.) Its shares are up sevenfold versus a year ago, and up 139% since the beginning of this year alone.

Has Yoma Strategic's moment arrived? What is Pun's game plan in Myanmar? Can the stock climb higher? Or, has it already run too far?

### Building the Astra of Myanmar

Pun, 59, chairman of Yoma Strategic, has a somewhat portly frame, a head of wavy, grey hair and an affable demeanour. Standing in the basement of Bangkok's Grand Hyatt Erawan, he greets investors at an Asean investment forum organised by CLSA recently and generously offers to help familiarise them with Myanmar. By his side is Yoma Strategic's recently hired CEO Andrew Rickards, a former investment banker who has worked for firms such as Goldman Sachs, Schroders and Rothschild.

As he sits down to an interview with *The Edge Singapore*, Pun snaps a picture of this reporter with his iPhone. "There are so many name cards," he says. "It's hard to know who's who without putting a face to them." He then leans back in his chair and allows Rickards to lead the discussion about Yoma Strategic's plans, interjecting occasionally.

As Pun and Rickards tell it, Yoma Strategic is now preparing to reposition itself as a pure Myanmar play to ride the enormous investor interest triggered by the country's economic and political reforms. In an effort to boost its flagging stock four years ago, the company had acquired a retail property developer in Dalian, China. Just over a quarter of its asset base is currently exposed to China, although the Chinese assets do not contribute materially to its bottom line. "As and when the time is right, we will [review] our options, with the possibility of an exit from China," says Rickards.

Yoma Strategic will then look to broaden its business interests in Myanmar. According to officials at the company, some 85% of its asset base is currently exposed to property (including its Chinese assets). "Property is a very effective way to play frontier markets, but we see the future as more broad-based," says Rickards. "You can expect Yoma to be less dependent on property in five years; it will be a broad-based play on the Myanmar economy."

In fact, the company is aiming to become the **Astra International** of Myanmar within the next five years, says Rickards, who joined the company in November. Jakarta-listed Astra International is a unit of **Jardine Cycle & Carriage**, and has businesses spanning finance, telecommunications, automobile and agribusiness. "A conglomerate play is a good proxy for a country when that country doesn't have much alternative for investors to access the broader economy," Rickards says.

Yoma Strategic intends to achieve this part-



Pun: Yoma's NTA is quite a bit more than what the audited accounts reflect



Rickards: Yoma will be a broad-based play on the Myanmar economy



Yoma Strategic is building HDB-style apartments in Star City, Thanlyin, not far from the port of Thilawa

ly by acquiring assets from Pun's SPA group. "There is not enough firepower on the ground in Myanmar to fund all that needs to be done. Therefore, Yoma is the bridge between international capital markets and what the group wants to do," says Rickards.

Yet, Pun is also using Yoma Strategic to acquire and launch new businesses independently of SPA. In the vehicle business, for instance, SPA distributes Nissan cars as well as Suzuki cars and motorcycles in Myanmar. It also assembles some motorcycles in Myanmar. Yet, Yoma Strategic has directly secured a truck distributorship from China's **Dongfeng Automobile**. Yoma Strategic is now trying to expand its relationship with Dongfeng to include the servicing and assembly of its trucks in Myanmar.

In the immediate term, however, property is likely to remain the key driver for Yoma Strategic. The company recently acquired a 70% stake in the Star City project from SPA, which further boosted its exposure to real estate. Star City is located in the Thanlyin township, not far from the port of Thilawa. The company is currently building HDB-style apartments in the development, with prices starting from about US\$70,000 (\$87,618).

The ground floor of the apartments could eventually be turned into 500,000 sq ft of commercial space for rent, according to Pun. "There will be a good income stream accumulated over the years as more space becomes available. Five years from now, we hope to see good rental flow from this commercial space." Star City will eventually also include a commercial centre and more up-market apartments.

With the rising price of property in Myanmar's urban areas, Pun thinks that shares in Yoma Strategic do not fully reflect the value

of the company's assets, despite their strong run. In the first place, he points out that much of the stock's rally represents a recovery from very depressed levels. "[The low share price] was a result of the 2008 financial crisis and we never got beyond it because there was very little interest in Myanmar," he says.

Pun also points out that Yoma Strategic's net tangible assets (NTA) of 23.7 cents a share as at Dec 31 reflects the historical cost at which its property assets were acquired and not their current market value. The LDRs for Pun Hlaing Golf Estate were acquired at US\$7.50 psf, while the LDRs for FMI City were bought for US\$3 psf. "Today's going price is north of US\$20," Pun says, referring to Pun Hlaing Golf Estate. "If you take the actual selling price in the last six months and compute what our assets are worth, it is reasonable to say that our NTA is quite a bit more than what the audited accounts reflect."

### Escape and return

Pun's family uprooted and moved to China shortly after General Ne Win took control of Myanmar in a coup d'etat in 1962. Pun was

just 11 at the time. About a year after they arrived in China, the Cultural Revolution broke out, which resulted in Pun missing out on crucial years of formal education. Yet, the turbulent period turned out to be a journey of discovery for the boy. According to him, he fully embraced Mao Zedong's ideas and volunteered for hard labour on a farm. In the 4½ years he spent there, he was held up as an example of a model worker.

"Whether you are communist, capitalist or Marxist, you better get ahead and be at the top. Of course, if you don't believe in something, it is difficult. As a boy, I did believe in Marxism and Mao. That made it easy for me to get ahead," Pun says. It wasn't long before he became disillusioned with what was happening in China, though. "When I realised many things, my belief system broke down, like sandcastles. It was all fake. It was all misplaced trust and loyalty."

In 1973, Pun escaped to Hong Kong, arriving in the former British colony with just HK\$1 in his pocket. He found a job as an office boy at a German property consultancy, and soon impressed his employers sufficiently to move on to a sales position, eventually becoming a sales manager. Ten years later, he struck out on his own and set up Serge Pun & Associates. His business model was to secure syndicated funding from investors to acquire properties that he improved or refurbished and then sold for a profit. Through the 1980s, he made money from projects in Hong Kong, China, Singapore and Thailand.

In 1989, Pun was invited to visit Myanmar by General David Abel, who was at various times the country's minister of commerce, finance, and national planning and economic development. It was the first time that Pun had set foot in the country since he had been whisked away by his family in the 1960s. By 1991, Pun decided that he wanted to return to his homeland. He set up First Myanmar Investment to raise syndicated funding from investors, which he used to build FMI City.

Pun made good progress during those early years. In the past decade, however, things became a lot tougher. Businessmen with close ties to the generals who controlled Myanmar began to use their connections to profit from the issuance of licences and permits, without making serious investments or building real businesses. "Crony capitalism really took hold. And, for much of the last decade, SPA, including FMI City, didn't grow as much as it would have, had it taken a different tack," says Rickards. "[But] Serge stuck to his guns."

For his part, Pun says he doesn't regret avoiding the growing crony capitalism culture in Myanmar. "If you think about it philosophically and understand what you want to do [and] are guided by your choice, you will be at peace. We are not sad if we don't win projects. We simply don't play the game," he says.

Now, Pun's decision to stick to the straight and narrow path could be about to pay off in a big way. While a number of entrepreneurs with good connections to the junta run the biggest business groups in Myanmar today, they have also been blacklisted by the US and EU countries, according to *The Irrawaddy*, a news magazine run by Myanmar exiles. That makes it tough for them to seize the opportunities created by Myanmar's opening up.

By contrast, Pun is being courted by hordes of foreign companies wanting to ride Myanmar's growth. "Our star is somewhat in the ascendant compared with the 10 years leading to [the current] regime," says Rickards. "Because of our SGX listing, we get approached by companies that want to have partnerships in Myanmar."

Pun has come a long way since visualising FMI City across the Hlaing River. But his journey to establishing a bigger business presence in Myanmar might only just be starting. ■

