The 2012 guide to

Myanmar
Silk Road Finance: investors’ gateway to Myanmar

To see Myanmar’s investment opportunities and get exposure to this new market, you just need to talk to Alisher Ali, managing partner at Silk Road Finance, who launched one of the first Myanmar-dedicated investment funds.

Opening up to the world

After years of isolation and international sanctions, Myanmar’s richly endowed economy is on the rise again.

Gaining exposure to rising Myanmar

Corporates are starting to flock to the country, and multilateral institutions are keen to voice their approval. In August 2012, the World Bank Group opened an office in Myanmar, re-entering the country after a 22-year absence.

Mandalay Capital

Your trusted partner in Myanmar

Building financial services

With foreign investment expected to flow into the country, the authorities want a banking system that can cope. Big foreign players are lining up to help.

Back on the map

Analysts polled in Euromoney’s Country Risk Survey believe political and economic risks in Myanmar have receded in the years since the global financial crisis, bucking the global trend.

Pushing at an open door

The world’s leading corporates are flocking to Myanmar to assess the investment opportunities of a country emerging from decades of isolation.
Silk Road Finance: investors’ gateway to Myanmar

To see Myanmar’s investment opportunities and get exposure to this new market, you just need to talk to Alisher Ali, managing partner at Silk Road Finance, who launched one of the first Myanmar-dedicated investment funds.

In July 2012, Alisher Ali, founder and chairman of Silk Road Finance, launched Mandalay Capital, a Myanmar-focused investment banking firm. The new venture advises international clients and partners on their planned investments in Myanmar, as well as building relationships with Myanmar institutions and companies, advising them on capital raising and strategy.

“I was delighted to establish Mandalay Capital as the first Myanmar-focused pure play investment banking firm,” says Ali. “Following our success in Mongolia and Central Asia, we are keen to pursue this unique opportunity to extend Silk Road Finance’s pioneering frontier markets experience into Myanmar.” Mandalay Capital has won the mandate to raise capital for a debut Myanmar-dedicated venture capital and private equity fund.

Ali’s group also launched Silk Road M3 Fund, the first investment fund to be focused on Myanmar, Mongolia and Mozambique, three resource-rich countries which he calls the ‘M3’. The open-ended fund seeks to generate positive returns by gaining early exposure to the world’s fastest-growing economies and will primarily invest in equities of internationally listed companies with assets and operations in these three countries, as well as high-yield fixed income and local currency instruments.

“I developed the M3 concept as an innovative investment theme for frontier markets investors,” says Ali. “Myanmar, Mongolia and Mozambique share some striking similarities and we are confident that their economies will be among the world’s fastest growing in the next decade and offer outstanding opportunities for investors.” The M3 Fund is the world’s first investment product offering investors an early, diversified portfolio exposure to these three resource-rich frontier markets, according to Silk Road.

Untapped resources

Former socialist economies, the M3 countries have massive, largely untapped natural resources. They experienced failed central planning economic policies. Now, their governments are committed to market-based economic reforms and attracting foreign investments which could generate a strong ‘catch-up’ phase in their economic development.

The M3 countries are both geographically and economically strongly linked with the BRICS (Brazil, Russia, India, China and South Africa). Mongolia is located between Russia and China, while Myanmar is well placed between China and India. Mozambique neighbours South Africa and has close links with India. It also has strong links with Brazil, thanks to both being Portuguese-speaking nations. BRICS countries are among the largest investors and trading partners of M3.
countries, which can strongly benefit from such ‘anchor’ proximity to economic powerhouses.

“Based on these factors, we estimate that Mongolia, Myanmar and Mozambique will be among world’s top five fastest-growing economies in the next decade, with Myanmar GDP growth projected at 12% pa while Mongolia and Mozambique expand annually by 15% and 10% respectively,” says Ali.

The governments of Myanmar, Mongolia and Mozambique are committed to developing functioning local stock exchanges, which would spur active participation by international investors in domestic capital markets. Interestingly, the M3 countries are uncorrelated, therefore, a diversified investment portfolio with exposure to M3 countries would benefit from the very low level of correlation between individual countries.

Ali believes the Silk Road M3 Fund is an attractive, liquid investment product and intends to actively market the fund among international investors such as family offices, funds of funds and high-net-worth individuals.

Silk Road Finance is an investment bank, operating in Mongolia, Myanmar and other resource-rich frontier markets, offering merchant banking, investment banking and asset management services. Eurasia Capital, the company’s subsidiary in Mongolia, is a leading, award-winning investment bank providing capital raising, cross-border M&A advisory, sales and trading and research services to its local, regional and international clients. Silk Road Management, the company’s asset management arm, focuses on investing in high-growth frontier markets, including Mongolia, Myanmar and Mozambique.

Alisher Ali, founder and chairman of Silk Road Finance
You can virtually smell the optimism in the air in the streets of Yangon. Recent assertive moves by Myanmar president Thein Sein to open up this resource-rich South Asian nation to outside investment have caught the world’s attention.

Myanmar may be one of the world’s poorest nations, but it is a country laden with potential, with pillar industries that stretch from oil and gas and mining to telecoms and consumer goods. The country has long struggled to develop its manifest human and natural resources. Its economy was worth just $52 billion in 2011, according to figures from the International Monetary Fund, placing it 73rd worldwide, while its 60 million people earned an average annual wage of just $587 in 2011, meaning that most people get by on barely $1.50 a day.

A richer truth
Statistics, though they rarely lie, can conceal a richer and more nuanced truth. Stay a while, and you see a nation overseen by a progressive president who has repeatedly stated the need to attract more outside capital. Talking to international media on 12 July, Thein Sein highlighted the country’s “tremendous potential”, and the importance of getting Myanmar back on its “own two feet”, allowing officials and businesses to “get on with the economic development of this country”.

Thein Sein and his progressive ministers, working from the country’s capital of Naypyidaw, have the attention and the goodwill of a world equally desperate to see it succeeded.

And for that to happen, capital, foreign and domestic, needs to be harnessed to get the most out of the country’s underperforming economy.

At the heart of Myanmar’s economic future lie its largely untapped energy and mineral resources. From a global perspective, Myanmar does not have particularly notable hydrocarbon reserves. Myanmar’s current contribution to the regional supply is relatively modest; total natural gas exports of 8.6 billion cubic metres in 2011 were less than a third of Malaysian or Indonesian exports. However, in a region concerned about energy security, Myanmar’s reserves generate particular interest from regional and global players.

### Opening up to the world

After years of isolation and international sanctions, Myanmar’s richly endowed economy is on the rise again

Myanmar snapshot stats, 2011

<table>
<thead>
<tr>
<th>GDP (nominal $bn)</th>
<th>51.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (PPP $bn)</td>
<td>82.7</td>
</tr>
<tr>
<td>GDP (growth rate, %)</td>
<td>5.5</td>
</tr>
<tr>
<td>Current Account balance ($bn)</td>
<td>-1.3</td>
</tr>
<tr>
<td>Labour force (people, mn)</td>
<td>31.4</td>
</tr>
<tr>
<td>Budget deficit (% GDP)</td>
<td>5.5</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>5.0</td>
</tr>
<tr>
<td>Poverty rate (%)</td>
<td>25.6</td>
</tr>
<tr>
<td>Central Bank discount rate (%)</td>
<td>9.95</td>
</tr>
<tr>
<td>Commercial bank prime lending rate, end-2011 (%)</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Sources: IMF, WB, ADB, CIA World Factbook

### GDP by sector

- **Agriculture**: 36%
- **Services**: 38%
- **Industry**: 26%

Source: ADB
Silk Road Finance believes that oil and gas will become the country’s leading economic driver, at least in the years to come. Myanmar in 2010 was ranked the world’s 41st largest oil exporter and number 23 on the list of exporters of natural gas. The precise and professional extraction and sale of both should boost Myanmar’s ranking in oil, and turn it into one of the world’s top 10 exporters of gas, both to China and, when sanctions are lifted, to Western countries.

Officials in Naypyidaw also rightly recognize Myanmar’s potential as a mining powerhouse. Everything from coal to copper to precious stones (notably rubies) lies hidden under Myanmar’s rich soil. Myanmar has a long history of mining operations, including production of gemstones, gold, silver, copper, lead, zinc, tin and tungsten.

Looking downstream
Myanmar wants to build out a primary, extractive energy industry, then surround it with top-class energy processing and services firms.

“We are selling [our reserves] to neighbouring countries but there are many other downstream possibilities of not just developing but processing gas into different products,” Sein has said. In other words, Myanmar doesn’t want to fall victim to the traditional diseases afflicting ‘new’ oil economies, from rising inequality to inflation.

Myanmar wants to build out a secondary and tertiary sector to benefit the country as a whole, rather than allowing the nation’s natural resources to drift overseas. “The important thing is not to export products simply as raw materials but look for ways in which we can develop value-added industries so they’re processed and exported at higher value,” the president has said.

The Dawei special economic zone will turn nearly 100 square miles of southern Myanmar scrubland into a massive industrial park, complete with highways, steel mills, shipyards, refineries and a petrochemical complex, as well as a holiday resort and two golf courses. The total cost of the project, led by Thailand’s largest construction firm, Italian-Thai Development, has been estimated at $8 billion.

Two other industrial complexes are also planned, as officials attempt to pull the country level with the likes of Vietnam, another regional economy hindered until recently by similar international
trade restrictions. These trade zones – at Thilawa near Yangon and Kyaukphyu, on the Andaman coast – could be completed before Dawei is up and running.

**Beyond extractive industry**

Myanmar isn’t just about carbon and minerals. Hydroelectric power should be another economic driver in a country that can only produce around 13% of its domestic energy needs. Hundreds of potential hydropower projects are being lined up for completion in the next few years.

Yet more potential lies in infrastructure, logistics, forestry and rubber products, telecommunications, hotels and tourism, real estate, agriculture and financial services. In Silk Road Finance’s view, Myanmar has potential to offer substantial returns for early investors across different industries and asset classes. Property prices are rising, new industrial zones are being built, and multinational oil and gas companies are already jockeying for positions in a post-sanctions Myanmar.

**Southern gateway**

The unique geographic location of Myanmar provides additional leverage for growth. Developing Myanmar’s infrastructure could create an important regional transport hub connecting China, India, the Middle East, ASEAN nations and further, afield, Korea and Japan. It could provide China with easy access to deepwater seaports avoiding the Malacca Straits. China National Petroleum Corporation (CNPC) is building a crude oil receiving terminal at Kyaukphyu port and two 800km pipelines from the port to Ruili in Yunnan Province. One pipeline will carry oil from the Middle East with a capacity of 440,000 barrels/day and the other will transport natural gas with a capacity of 12 billion cubic metres/year.

The Dawei special economic zone in the south of the country is potentially Myanmar’s gateway to the world, and a path between the two rising Asian superpowers of India and China. The country may become a key link in an increasingly global transport chain connecting India and Europe to Southeast Asia via Russia and the Middle East.

Legislators in New Delhi have talked about completing a highway connecting the Indian capital with Vietnam via Myanmar and Cambodia, just as China is keen to complete a rail line connecting Beijing directly with the Indian Ocean.

**Regional cooperation and ASEAN**

Located in the ASEAN region, one of the most dynamic regions in the world, Myanmar joined the organisation in 1997 to promote regional peace, stability and prosperity through cooperation and integration with Southeast Asian countries.
Despite criticism from the West, ASEAN continued to engage with Myanmar and followed the principle of non-interference in the internal affairs of member countries. From ASEAN's point of view, a policy of exclusion, including economic sanctions, was not likely to achieve the desired result.

ASEAN (primarily Thailand) accounts for over 50% of Myanmar exports and, along with China, remains the major trading partners of Myanmar, as well as the source of capital and technical expertise.

ASEAN countries, primarily Thailand, are the major sources of capital for Myanmar. ASEAN rivals China in the total volume of investments approved by Myanmar Investment Commission (MIC). Thailand and other ASEAN countries were early investors in the Myanmar energy, lumber and resource sectors.

As a participant in the Asian Development Bank-supported Greater Mekong Subregion programme, Myanmar is cooperating with neighbouring countries to implement projects in transport, energy, telecommunication, environment, human resource development, trade, tourism, private sector investment and agriculture. Priority areas for investment include improved transport and trade facilitation, connections to maritime gateways and other interventions improving regional infrastructure, creating competitive trade and economic corridors.

Many economists believe Myanmar’s position on a modern map is in fact its greatest innate advantage, more even than its copious oil and gas reserves. Energy, after all, runs out, but people will always need to get goods from A to B, particularly in a region long on capital and short on transport infrastructure.

Geographic location and natural endowments generate huge opportunities in Myanmar, in many sectors. Myanmar’s economy is largely hobbled at present, lacking in large-scale investments, yet as the country opens up, and sanctions are lifted, global corporates will rush in. This is a country blessed with abundant natural resources and human capital: a country finally and inexorably on the rise again.
Gaining exposure to rising Myanmar

Corporates are starting to flock to the country, and multilateral institutions are keen to voice their approval. In August 2012, the World Bank Group opened an office in Myanmar, re-entering the country after a 22-year absence.

A much-read March 2012 country report by the International Monetary Fund noted that Myanmar’s new government was faced with an “historic opportunity”. With appropriate reforms in place, the IMF noted, Myanmar could become the “next economic frontier in Asia”, turning “its rich natural resources, young labour force, and proximity to some of the world’s most dynamic economies to its advantage”.

Public equities

The equity market in Myanmar is at an early stage in its development. The majority of companies in the country had been owned and governed by the state. Myanmar Securities Exchange Centre (MSEC) was established in 1996 by the Central Bank and Daiwa Securities, Japan’s second largest brokerage. Daiwa has been providing expertise through MSEC since its establishment. The stock market currently acts as an over-the-counter type of exchange with only two companies listed – Forest Products Joint Venture Corporation and Myanmar Citizens Bank. Both companies are government-controlled. MSEC also sells Myanmar government treasury bonds and acts as an agent for Central Bank of Myanmar. It has a 12-member staff, which is expected to double this year.

The Central Bank of Myanmar signed a memorandum of understanding with the Tokyo Stock Exchange and Daiwa Securities Group to assist the country to establish a stock exchange by 2015. MSEC is considering establishment of two bourses, in Yangon and Mandalay.

Although the local equity market currently offers limited opportunities for exposure to Myanmar, Silk Road Finance believes it will rapidly expand, with many state-owned and private companies being listed in the coming years. The Myanmar authorities are planning to privatize all state-owned oil refineries in bid to turn them into effective operations; they also intend to privatize other state economic enterprises through open tenders which have been scheduled for 2013. The government has already approached 22 local companies across a range of industries to list on the new securities exchange. Beyond

<table>
<thead>
<tr>
<th>Myanmar facts</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011 (estimated)</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP($billion)</td>
<td>20.2</td>
<td>31.4</td>
<td>35.2</td>
<td>45.4</td>
<td>51.9</td>
<td>54.4</td>
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<tr>
<td>GDP per capita ($)</td>
<td>350</td>
<td>533</td>
<td>587</td>
<td>742</td>
<td>832</td>
<td>855</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>5.5</td>
<td>3.6</td>
<td>5.1</td>
<td>5.3</td>
<td>5.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Inflation (% change y/y)</td>
<td>28.8</td>
<td>9.2</td>
<td>7.1</td>
<td>8.9</td>
<td>5.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Remittances (inflow, $ million)</td>
<td>99</td>
<td>115</td>
<td>111</td>
<td>133</td>
<td>141</td>
<td>—</td>
</tr>
<tr>
<td>Real FDI ($ million)</td>
<td>715</td>
<td>976</td>
<td>963</td>
<td>969</td>
<td>2,863</td>
<td>3,995</td>
</tr>
<tr>
<td>Current account balance ($ million)</td>
<td>131</td>
<td>-860</td>
<td>-701</td>
<td>-295</td>
<td>-1,315</td>
<td>-2,309</td>
</tr>
</tbody>
</table>

Sources: DFAT, IMF, MIBS, World Bank
resource sectors, non-resource companies are also expected to offer investment opportunities as the country has over 60 million people.

Investors may gain exposure to Myanmar through several internationally listed companies. The majority of these are listed on Bangkok Stock Exchange and Singapore Stock Exchange as Thailand and Singapore are major trading partners. The total market capitalization of internationally listed companies with assets in Myanmar is more than $50 billion. Energy and property dominate among the internationally listed companies. Yoma Strategic Holdings has the majority of its assets in Myanmar, while the others have major activities outside the country.

It is highly likely that Myanmar-based companies will seek opportunities to raise capital outside the country and therefore Silk Road Finance believes there will be more IPOs on international exchanges. It has been announced that Max Strategic investments, a holding company that runs gas station operations in Myanmar and is controlled by Myanmar construction and mining magnate Zaw Zaw, will be listed on Singapore Stock Exchange via a reverse takeover by Aussiiono Group, subject to regulatory approvals. If this deal proves successful it could set an example for other Myanmar companies that want to list and raise more cash on stock exchanges even before MSEC goes into operation in 2015.

Hidden wealth

It is on the ground that you can see the ‘New Myanmar’ taking shape. This is a country of huge natural resources, from the gas hidden beneath the country’s coastal shelf, to the copper, gems, jade and coal lying under Myanmar’s rich earth, and the hidden wealth in the country’s forests. Global corporations covering everything from oil to mining to paper and pulp are swarming here in search of investment opportunities and, ultimately, profit.

But this is to overlook another of the country’s key tangible advantages: its people. Banks from Singapore, the US, UK, Thailand and Singapore, are lured here by the promise of millions of potential new customers. A bevy of consumer goods giants, from Coca-Cola to Unilever, will also open offices sooner rather than later, keen to sell fizzy drinks, shampoo and jeans to 60 million brand-deprived people. Unlike many other frontiers, Myanmar is not only about natural resources. It offers untapped opportunities across wide sectors that were subject to underinvestment for long decades.

### Myanmar-related International Equities

<table>
<thead>
<tr>
<th>Name</th>
<th>Ticker</th>
<th>Exchange</th>
<th>Market Cap, $mn</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTT</td>
<td>PTT:TB</td>
<td>Bangkok</td>
<td>30,426.99</td>
<td>Energy</td>
</tr>
<tr>
<td>PTT EXPLORATION &amp; PRODUCTION</td>
<td>PTTEP:TB</td>
<td>Bangkok</td>
<td>15,930.83</td>
<td>Energy</td>
</tr>
<tr>
<td>RATCHABURI</td>
<td>RATCH:TB</td>
<td>Bangkok</td>
<td>2,180.10</td>
<td>Electricity</td>
</tr>
<tr>
<td>SUPER GROUP</td>
<td>SUPER:SP</td>
<td>Singapore</td>
<td>952.79</td>
<td>Consumer</td>
</tr>
<tr>
<td>ITALIAN-THAI DEVELOPMENT</td>
<td>ITD:TB</td>
<td>Bangkok</td>
<td>461.49</td>
<td>Property</td>
</tr>
<tr>
<td>YOMA STRATEGIC HLDG S</td>
<td>YOMA:SP</td>
<td>Singapore</td>
<td>296.50</td>
<td>Property</td>
</tr>
<tr>
<td>INTERRA RESOURCES</td>
<td>ITRR:SP</td>
<td>Singapore</td>
<td>103.81</td>
<td>Energy</td>
</tr>
<tr>
<td>NORTHQUEST</td>
<td>NQ:CN</td>
<td>Canada</td>
<td>8.42</td>
<td>Mining</td>
</tr>
</tbody>
</table>

Source: Mandalay Capital, Bloomberg, as of 27 August 2012
Natural resources

In January, energy minister Than Htay, a progressive who favours economic liberalization and reform, noted that “foreign interest in the energy sector was clearly growing as it became likely that Western sanctions could be lifted”. The BP Statistical Review 2011 estimates natural gas reserves at 0.3 trillion cubic metres. However, Myanmar’s gas reserves could be much higher given the geology of the unexplored areas of its extensive coastline.

Htay has pegged the country’s natural gas reserves at close to 0.6 billion cubic metres, almost double the BP estimate. State-run Myanmar Oil & Gas Enterprise, created out of the old Burmah Oil Company nearly 50 years ago, reckons the country has 206 million barrels of proven recoverable oil reserves. Under new guidelines set in place in 2012, tenders for onshore energy blocks will be decided according to international bidding guidelines, while offshore blocks will be awarded directly by the government in private auctions.

Myanmar is attracting overseas capital to exploit its hydrocarbon resources. Currently, natural gas is produced at the offshore Yadana and Yetagun projects. Global multinationals Chevron of the US and France’s Total both have a stake in the offshore Yadana gas field in the Andaman Sea, as well as a 250-mile gas pipeline.

Two additional commercially viable offshore natural gas prospects – the Shwe and Zwatka fields – are in commercial development and expected to start exporting to China and Thailand in 2013. These exports and ongoing E&P activity will increase Myanmar’s significance as a supplier of natural gas in the region.

Other energy majors are now eyeing the country, as sanctions are lifted, from Norway’s Statoil to Gazprome of Russia. Energy firms from Belarus to Brazil have visited in recent months. A recent trade
delegation to Myanmar by British corporates was led by Shell and BP.

Early in 2012, the country awarded 10 of the 18 onshore oil and gas blocks that had been offered at the August 2011 tender. Malaysia’s Petronas and Thailand’s PTT were awarded two blocks each; China’s Tianjin New Highland, Hong Kong-listed EPI Holding and India’s Jubilant Energy were awarded one block each; the remaining blocks were awarded to an Indonesian firm, a Swiss-based firm and a Russia-linked firm. Myanmar is now offering nine offshore blocks, with Japanese companies expressing strong interest in the deepwater blocks.

Mining operations in the country have a long history. However, during the 1960s the government nationalized all private companies and mining was carried out mainly by state-owned enterprises. In 1989, friendly foreign investment policy was introduced to encourage exploration and the development of mining sector. Several foreign companies entered the country to develop and explore for copper and gold deposits. Mining giants China’s Norinco and Japan’s Itochu have invested, along with a welter of smaller names. Analysts are in broad agreement that Myanmar’s mineral wealth far exceeds its current capacity to extract, and profit from, its reserves. Now, as the country is being freed of sanctions and government has chosen to open-up to the world, foreign mining companies will be investing more into the country, 80% of whose area has been geologically mapped.

Banking

Myanmar’s banking sector is dominated by four state-owned banks. Private banks have been allowed to operate since 1992 and their number has grown considerably to reach 19. Services such ATM machines, foreign exchange counters and hire purchase services were re-introduced in October 2011, but the banking system is very far from what we are used to seeing in other parts of the world. However, the potential of the financial services sector, which has been hindered by sanctions, is attracting enormous interest. A number of foreign banks have representative offices in Myanmar, although these offices cannot conduct any commercial banking operations yet and often monitor Myanmar-based projects which received financing offshore.

With the forthcoming liberalization of the Myanmar banking system and with the expected

<table>
<thead>
<tr>
<th>Production of Mineral Commodities (t)</th>
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<tbody>
<tr>
<td>Copper, refined</td>
</tr>
<tr>
<td>Pig Iron</td>
</tr>
<tr>
<td>DRI</td>
</tr>
<tr>
<td>Steel</td>
</tr>
<tr>
<td>Lead, refined</td>
</tr>
<tr>
<td>Nickel, Ni content</td>
</tr>
<tr>
<td>Tin, Sn content</td>
</tr>
<tr>
<td>Zinc, Zn content</td>
</tr>
</tbody>
</table>

Source: Silk Road Finance

“Myanmar may be the world’s last great untapped tourist destination... It’s close to two rising powers of the tourism industry, India and China, and close enough to Europe and Asia’s city hubs to attract millions of curious visitors each year”
market entry of foreign financial institutions, Myanmar’s domestic banks are expected to expand the range of services they offer. Phasing out the deposit-to-capital ratio and expanding the list of collateral will significantly contribute to development of the banking sector. Interest rate liberalization started with some freedom in setting deposit rates, and should be extended to loan products. Silk Road Finance believes that a level playing field between state and private banks, including in the areas of regulation and supervision, is critical to promote competition.

Real estate potential

Real estate is also in great demand as global corporates and diplomats vie to secure property in leading cities. Quality, affordable real estate is thin on the ground in Yangon and other major cities, and out of the price range of all but the biggest corporates. But, again, this creates opportunities as well as threats for foreign multinationals seeking property in which to house leading executives. Yangon, despite being home to 4.35 million people, is a city with huge real estate potential. There are the vast, beautiful and often unoccupied colonial buildings in the centre of town, close to the port, and huge stretches of prime greenfield and brownfield land to the south of the city. Silk Road Finance believes that economic growth and an improving business environment will create high demand for mid-range and high-end properties. Much of the growth will be concentrated in Yangon, Myanmar’s largest city and commercial capital. Demand from investors will also boost orders at a range of industrial zones in Yangon, as well as in Naypyidaw, Pyin Oo Lwin and Mandalay.

The final destination

Then there is tourism. Myanmar may be the world’s last great untapped tourist destination with pristine beaches, warm sea and blue sky. That this one of the world’s most beautiful countries, its heart lying either in the grand and mystical temples of Bagan or in the extraordinary sixth century golden Shwedagon Pagoda in Yangon, is a fact to which most visitors will testify.

It’s close to two rising powers of the tourism industry, India and China, and close enough to Europe and Asia’s city hubs to attract millions of curious visitors each year.

Silk Road Finance believes that the opening up of Myanmar puts the tourism industry on the verge of once-in-a-lifetime boom. The tourism sector of Myanmar could soon be transformed into the fastest growing in Asia if investment needs are alleviated. According to official figures, just shy of 836,000 foreign tourists visited Myanmar in 2011, yet that figure is tipped to rise to 1 million in 2012 and 3 million in 2013. Despite this impressive growth, the number of tourist arrivals is modest compared to 18.9 million in Thailand and 24.7 million in Malaysia, which suggests big potential for further growth.

With the development of the tourist industry, the hotel business is likely to explode. As an illustration, Malaysia has 2,707 hotels and over 190,000 hotel rooms, while Myanmar currently...
has 731 hotels and 25,000 rooms. Few five-star hotels exist at present in Yangon and only a few are wired up to accept credit cards. Furthermore, hotel business may accelerate as Myanmar gets ready to host the 27th Southeast Asian Games in Naypyidaw, Yangon and Mandalay in 2013.

Agriculture
Covering an area of 678,528 km², Myanmar’s primary economic sector is agriculture and forestry. Some 65% of the workforce works in this sector which represents 36% of national GDP. The country is the sixth largest producer of rice. Before military rule in Myanmar, the country was the largest producer of rice in the world, but rice production and exports have declined. After 30 years of socialist economy the country, one of the most prosperous regions of Southeast Asia in the 1960s, is now underdeveloped and one of the poorest. In spite of its importance, the agriculture sector is undeveloped in terms of technology and equipment and requires substantial modernization as well as investment by the state and the private sector.

Health care and education
The general state of health care in Burma is poor, with government expenditure as a proportion of GDP ranking among the lowest in the world. The Ministry of Health is the major provider of comprehensive health care in the country. The National Health Committee implements and gives guidance in the formulation of health programmes. Government, private households, the social security system, community contributions and external aid are the main sources of finance for health care. Silk Road Finance believes that healthcare will benefit from positive developments in the Myanmar economy and attractive investment opportunities will arise. Demand for quality medical services will increase along with the increase in the population’s disposable income. Due to low government spending on health care, the industry needs increased private sector and foreign investments.

The annual budget allocated to education by the government is also very low. Myanmar was once an example to its neighbours in terms of educational standards, but now lags far behind. With economic liberalization and improving living standards, Myanmar is likely to experience a deficit of world-class specialists in many sectors of the economy, from resources sector to professional services to social services, including education itself. Demand for education is set to increase with an estimated 30% of the population under the age of 14. As the country prospers, demand for quality education will increase along with the increase in disposable income.

IT and telecoms
Myanmar’s telecommunications sector remains antiquated and inefficient, in spite of efforts to modernize it. Myanmar’s low technological capacity and low internet penetration (less than 1% of the population as of 2010) support the argument for opening its telecommunication sector to foreign investment and competition. It is expected that a young labour force with rising income, new business start-ups and restructuring of the financial sector will bolster demand for telecommunications services. Myanmar’s telecommunication sector is envisaged for liberalization over the next few years as new telecommunication law is being reviewed to create four new telecommunication licences in the country, which will apply to both local and foreign investors.
Mandalay Capital is an investment banking firm, advising Myanmar companies on raising capital in Asia as well as internationally and offering investors access to a wide range of investment opportunities in Myanmar. The firm provides capital raising, project development, strategic advisory and research services to its Myanmar and international clients.

Strategically located between China and India, Myanmar is currently undergoing a historic transformation, from a long-isolated state with its economy crippled by sanctions into a nation that once again could become one of the most prosperous in Asia with the successful process of democratization and market reforms. Earlier this month, the US administration issued keenly-awaited approval for American companies to invest in Myanmar, which will accelerate foreign investments into the country’s capital-starved economy. Endowed with significant natural resources, the second largest landmass in South East Asia and a population of over 60 million, Myanmar represents one of the world’s most attractive investment opportunities.

Alisher Ali, founder and chairman of Silk Road Finance, stated, “We are confident that Mandalay Capital will be effective in helping Myanmar companies in raising capital in Asia as well as internationally. We also hope that our firm will make a positive contribution to the development of capital markets in Myanmar in years to come.”

Mandalay Capital has recently published its first research report, titled “Myanmar Outlook 2012: A New Dawn for the Golden Land”. The firm provides highly valued, independent research to various groups of investors. Mandalay Capital combines a deep understanding of the companies and the markets with the ability to provide unbiased analysis and timely insight.

The firm has built a Yangon-based team with a focus on sourcing, structuring and closing Myanmar-related deals and investment projects. Mandalay Capital has won the mandate to raise capital for a debut Myanmar-dedicated venture capital and private equity fund. The firm is well positioned to act as a financial adviser in structuring and executing capital raising transactions, including IPOs and secondary offerings as well as private placements.
Building financial services

With foreign investment expected to flow into the country, the authorities want a banking system that can cope. Big foreign players are lining up to help

Myanmar’s financial services industry has all the potential in the world, yet much of this budding promise remains unrealized.

That’s all about to change. Myanmar’s banking sector is about to undergo a revolution, as local and foreign lenders ramp up services, offering retail customers a wide array of products. Foreign players – a few at first, to avoid overloading the system – will enter the market, invited in by a progressive government keen to see Myanmar’s financial services sector compete with the best the region has to offer. A decade from now, it is hoped, the local banking sector will have advanced in leaps and bounds, a testament to the forward planning of this far-seeing government.

Tight grip

To be sure, much has still to be done. Myanmar’s banking sector remains a work in progress. Since 2003, when a run on the country’s lenders led to the closure of 10 leading local financial institutions, Myanmar’s leaders have kept a tight grip on the industry.

Back then, rigid rules were imposed. To secure a loan of, say, $100,000, you had to stump up three times that total in collateral. And since assets were hard to value, gaining access to credit was virtually impossible. Cash became king: if you wanted capital to invest, you turned to friends, loan sharks or business kingpins.

Yet the country’s banks didn’t entirely fade away.

Many kept their heads above water, largely by processing the billions of dollars in annual remittances that flood in from Myanmar’s army of overseas workers. The country boasts several widely trusted lenders, notably Yoma Bank, Asia Green Development (AGD) Bank, Co-operative Bank and Ayeyarwady Bank.

In 2011, the Ministry of Finance and Revenue approved the construction of ATMs, and the roll-out of basic consumer-finance products, while authorizing 11 private banks to handle and trade foreign currencies. In May 2012, the banks were issued with SWIFT codes, allowing them to process global wire transfers.

“Myanmar may have one of the lowest rates of per-capita income but this is also a country awash with cash, and wealth generation and protection will become a major business in the years to come”

It remains tricky to transfer money internationally: doing so requires an agent (such as a tour operator or a high-end hotel) to have a direct link to an international bank account, usually based in Bangkok or Singapore. Moreover, banks here are still in the early stages of technological development. Few actually have ATMs, and no teller machine in the country as yet accepts an international card.

But times are changing. Officials in the capital Naypyidaw are grappling with the problem. An influx of foreign investment, expected in the coming years, will create its own demands, particularly on the banking side, and the country’s authorities want to be ready.

Already, foreign banks are being let indirectly back into the country, or encouraged to establish solid links with local players. In March, Maybank of...
Malaysia was allowed to start offering remittance services electronically to Myanmar citizens via an electronic link-up to four local lenders, including Ayeryawady Bank.

Lure of the unbanked
Foreign banks are also keen to set up shop physically here. They are lured in by 60 million new banking customers (less than 1% of all Myanmar people are believed to have bank accounts) and the need to act as the financial partner of choice to a plethora of multinational corporates. Among the global lenders keenest to establish a presence are Standard Chartered Bank and HSBC of the UK, Australian lender ANZ, Bangkok-based Kasikornbank and Singapore's DBS.

Singapore has effectively kept Myanmar connected financially to the world for years. Virtually every credit card transaction processed in Myanmar passes through Singapore.

Private banking will be another key service provided by incoming banks. Myanmar may have one of the lowest rates of per-capita income – most people here live on around $1.50 a day – but this is also a country awash with cash, and wealth generation and protection will become a major business in the years to come.

Financial superstructure
Myanmar is also in the early stages of completely rebuilding its financial superstructure. Authorities in Naypyidaw are planning to reform and simplify their complex exchange rate system, while the authorities are preparing to replace the official peg with a managed float. As the Central Bank of Myanmar (CBM) builds out a comprehensive financial framework – the first in the country’s modern history – more financial investors will flock to the country, as the risks of ploughing in capital recede further.

Myanmar’s financial services industry has long been in the doldrums. But thanks to a progressive government, and the goodwill and ambition of global and local lenders, its fortunes are on the turn. Myanmar may not currently be a byword in banking terms, but that will change, and soon. In every way – industrially, economically and increasingly financially, this is a country on the rise.

“Cash became king: if you wanted capital to invest, you turned to friends, loan sharks or business kingpins”
Back on the map

Analysts polled in Euromoney’s Country Risk Survey believe political and economic risks in Myanmar have receded in the years since the global financial crisis, bucking the global trend.

The world awaits Myanmar’s economic and political transition. The country is emerging from five decades of economic and political isolation. In a recent paper, the IMF hailed the country’s “historic opportunity to jump-start economic development, and lift living standards”, given its wealth of natural resources, young workforce and proximity to China and India.

The government’s path of reform is in its early stages. Structurally, the country faces huge challenges to repair and expand crumbling infrastructure networks, particularly in rural areas, where electricity and transport provision is scarce. The education and healthcare systems will also require decades of investment and reform if they are to attain the levels found elsewhere in South East Asia.

In its turn, the Asian Development Bank enthuses “Myanmar could become one of the next rising stars in Asia if it can successfully leverage its rich endowments – such as its natural resources, labour force, and geographic advantage – for economic development and growth.”

Analysts participating in Euromoney’s Country Risk Survey (ECR), appear to share this view. The survey, which measures economists’ opinions of country risk across a range of political and economic criteria, shows Myanmar has risen 26 places in the survey’s global rankings since September 2008, driven by a combination of political reconciliation and rapid economic growth in recent years.

Myanmar’s scores for economic risk in the ECR survey have remained resilient in recent years as natural resources, particularly gas, have driven growth. GDP growth is forecast to reach 6% in 2013 by the IMF.

Strong economic scores are one reason why Myanmar is rated ahead of Cambodia and Laos, despite the higher per capita income found in both countries.

Scores of four points or higher in each category of risk – including the survey indicators for bank stability, monetary policy/currency stability and government finances, contribute to an overall economic score of 44 points – testifying to a level of confidence in the country’s economic management not present in Cambodia (24), Pakistan (33) or Bangladesh (40).

Analysts polled in Euromoney’s Country Risk Survey believe political and economic risks in
Myanmar have receded in the years since the global financial crisis, bucking the global trend.

Macroeconomic performance
Myanmar’s real GDP growth slightly picked up to an estimated 5.5% year on year in fiscal year 2011 (ended 31 March 2012) from 5.3% registered in the previous period. The growth was supported by foreign investment and strong commodity exports. Nominal GDP estimated to have reached $51.9 billion in FY2011, growing eight times in the past decade. GDP per capita exceeded $830 in FY2011.

Silk Road Finance expects Myanmar’s economy to expand by 6% this year, laying the foundations for future strong performance during 2012-16. A substantial increase in exports (in particular, natural gas, power and agriculture), investments in major projects, government spending and private consumption are likely to be the key drivers of growth in the period. Demand for commodities, foreign investments and government spending were major drivers of the Myanmar economy over recent years.

Inflation is estimated to have declined to 5% from 8.9% a year earlier. Prices moderated due to a fall in food prices and an improvement in the government budget balance. The fiscal deficit narrowed to 5.5% in 2011. Gross international reserves increased to $7.9 billion thanks to natural gas exports and foreign direct investment inflows primarily into the energy sector.

Myanmar economy largely depends on energy and agriculture. Energy sector and agriculture are the main sources of export revenues. In FY2011, Myanmar’s exports are estimated to have exceeded $9 billion. According to the Central Statistical Organisation of Myanmar (CSO), natural gas accounted for close to 40% of total exports. Agriculture, forestry and fishery exports are estimated to account for over 25% of exports. The major trading partners were Thailand, Singapore, China, India, Malaysia, Japan and South Korea.

With the help of the IMF Myanmar is reforming its complex exchange rate system. It adopted a managed float for the national currency on 1 April to gradually unify multiple exchange rates. The process is expected to complete by the end of 2013, when the country scraps all restrictions on international payments and transfers.

In Silk Road Finance’s view, the outlook for Myanmar’s economy is strongly positive. Given the country’s rich mineral resources and expected massive foreign investments in coming years, Myanmar has the potential to be among the five fastest-growing economies over the
next decade with an average 12% annual growth rate. In a recent state address President U Thein Sein said that Myanmar’s GDP per capita would triple by FY2015. The president emphasized that the country needed foreign loans, grants and expertise to achieve its development goals.

**Political reforms**
The reform process is reducing political risks associated with Myanmar. The government of Myanmar initiated the process of political, economic and administrative reforms. Reforms included the release of Aung San Suu Kyi from house arrest and dialogue with the opposition, a general amnesty of many political prisoners and abolition of press censorship. The government set up the National Human Rights Commission, adopted new labour laws, reformed anti-corruption laws, etc. The National League for Democracy, an opposition party led by Aung San Suu Kyi, entered the national parliament with a landslide victory in parliamentary by-elections in April 2012.

Recognizing notable political changes in Myanmar, the European Union suspended longstanding targeted sanctions on the country for one year. Easing of sanctions by the US paved the way for re-engagement of Myanmar with the international financial institutions such as World Bank, Asian Development Bank and International Monetary Fund. The US further eased sanctions, lifting restrictions on financial transactions and permitting US companies to invest in Myanmar.

Lifting of sanctions in the near future will spur economic growth, expand foreign trade, attract FDI and develop the country’s highly prospective resource sector. A new foreign investment law, to be adopted in 2012, is expected to improve investor protection and business environment. Special economic and industrial zones will be aiming to attract FDI. With the coming into operation of the Shwe and Zawtika gas fields and new pipelines to China and Thailand, natural gas production and exports are set to increase in coming years. Increasing exports, foreign investment, government spending and domestic consumption will be the key drivers of growth in the next 10 years.

“There is a sense that there are great opportunities here. Some companies are going to move in very quickly”

Fisherman on Inle Lake, Myanmar. Intha people possess the leg-rowing style and the unique coop-like fishing equipment.
Pushing at an open door

The world’s leading corporates are flocking to Myanmar to assess the investment opportunities of a country emerging from decades of isolation

Myanmar’s largest city Yangon, for so long an international backwater, the emblem of a country hamstrung by international sanctions, is again the focus of attention of a thousand multinational corporations.

Very few members of the Fortune 500 list could profess to having no interest at all in this fascinating and culturally multifaceted nation of more than 60 million people.

At its heart, this is a country that leans both east and west. It is a sort of swing-door, sitting between (and as celebrated Myanmar author Thant Myint-U has noted, often squeezed between) Asia’s two rising superpowers, China and India, countries that have largely supported Myanmar throughout the sanctions era. Yet the country also leans toward the West, to Europe and the US: children of the military and intellectual elite often polish off an education at a British private school by attending a top US college.

So Myanmar’s emergence from a decades-long state of relative isolation has been celebrated around the world. A new, civilian government, sworn in last year and led by the current president and former prime minister Thein Sein, has released political prisoners, legalized trade unions and embraced the opposition leader Aung San Suu Kyi, herself a member of parliament in the capital, Naypyidaw.

Already, a real democracy is emerging, following by-elections on 1 April this year. All eyes are now on full elections in 2015, after which Thein Sein has intimated that he will stand down and let a new generation of politicians rule the country.

Bearing fruit

This process of political and economic opening-up, which until now mirrors the regeneration of the economies of China and Vietnam over the past 30 years, has born immediate fruit.

In July, the US Congress, recognizing the giant strides made by Thein Sein’s government, lifted nine-year-old sanctions on the country, allowing American firms to invest in Myanmar’s financial services, energy and mining sectors. Europe, Canada and Australia followed suit. Some sanctions remain in place, notably the US ban on oil imports from Myanmar, but Congress allowed the White House to waive the restriction by 2013 if economic reforms continue apace.

Myanmar’s government issued draft legislation covering foreign investment in March: the so-called ‘FDI law’ outlining how much of a local asset a foreign corporation or interest can buy. The FDI law, which was compiled with the aid of several Japanese institutions, extends tax holidays to new companies to five years, from three years at present, and entitles foreign manufacturers to tax relief of up to 50% on all export-related profits.

It also allows foreigners to lease land from the state for up to 30 years, and allows foreign firms to use the prevailing market-set exchange rate to book transactions, as Myanmar moves to a managed float of its currency, the kyat (pronounced ‘ch-yat’).

The wording of several aspects of rules governing foreign investment was clarified in the FDI law, notably the part where joint ventures between local and outside interest must be at least 35% paid up by foreign capital. Other aspects of the law may be stiffened before it is signed into effect, which is likely to happen this autumn, with a separate law governing investments into Myanmar’s special economic zones (SEZs) expected in late 2012 or early 2013.

Another law, permitting far greater press
freedom is also set to be approved by parliament before 2012 is out. This media law will in theory eradicate all existing aspects of press censorship, after which the government will start issuing proper operating licences to all media firms.

Far and fast
Given how far, and how fast, Myanmar has developed and opened up in a few short months, the country and its leaders deserve a hearty round of applause.

Trade delegations are pouring into the country. Virtually every week brings a new influx of corporates and government advisers from around the world. A major delegation of British corporates arrived in early July, including emissaries from the likes of Standard Chartered Bank, BP, Shell, Rolls-Royce and law firm Mischon de Reya.

One prominent member of a British trade delegation to Myanmar in July, led by the Foreign and Commonwealth Office (FCO), saw the excitement first-hand among seasoned corporate executives. “There is a sense that there are great opportunities here,” he says.

“Some companies are going to move in very quickly”.

A host of other trade delegations have also all made the pilgrimage to a country desperate to benefit from the positive forces of globalization. A major US delegation in July boasted representatives from 70 companies including Coca-Cola, Goldman Sachs, Google and Ford Motor Company. Already, one US firm, General Electric, has signed a deal through a local firm, Sea Lion, to provide $2 million worth of medical equipment to hospitals in Yangon.

All eyes are now on the FDI law. If politicians in Naypyidaw get it right, balancing the needs of foreign corporates with a desire to protect the rights of local workers and investors, foreign direct investment will soar.

The world wants to embrace the country, and Myanmar, after decades of relative isolation, is desperate to embrace it back. With wise heads prevailing in Naypyidaw, and foreign corporates desperate to help Myanmar get things right, this is set to be one of the great investment stories of the next few decades.
Silk Road Finance is a successful investment bank, operating in Mongolia, Myanmar and other resource-rich frontier markets, offering merchant banking, investment banking and asset management services.

Mandalay Capital, a member of Silk Road Finance is the first pure play Myanmar-focused investment banking firm, offering corporate finance and advisory services to Myanmar companies as well as international and Asian strategic and financial investors seeking investment opportunities in Myanmar.

Silk Road Management has successfully launched Myanmar Human Capital Fund, the first ever Myanmar-focused venture capital and private equity fund. The Fund will invest primarily in knowledge-intensive industries to unlock shareholder value in growth companies and contribute to the human capital development in Myanmar.