

SECTOR OVERVIEW

A. Financial Services (banks, finance companies)

1. To date, Creador has invested in four financial services companies: two in India and two in Indonesia. Financial services in both India and Indonesia are considered underpenetrated and demonstrate high untapped potential given their expected economic growth.

2. For example, India's banking credit growth has been consistently strong at more than a compound annual growth rate (CAGR) of 20% since 2000 with the domestic sector leading demand. However, banking assets as a percentage of gross domestic product (GDP) remain low at 71% compared with developed markets such as the United States at 231% and the United Kingdom at 224%. Informal sector loans, comprising local landlords, moneylenders, and pawnbrokers, still dominate the lending space among rural and poorer households. Thus financial inclusion and penetration have been focus areas for Reserve Bank of India to support more socially sustainable growth.

3. Similarly in Indonesia, banking assets have grown at 17% per annum since 2010, while net interest income grew at 16% CAGR over the same period. Industry nonperforming loans have decreased from 6.0% in 2006 to only 1.9% in 2013, which has allowed bank profit before tax to grow at 26% CAGR since 2010. The net interest margin in Indonesia is one of the highest in the region at 5.9% compared with 3.7% in the Philippines, 3.3% in Thailand, 2.8% in Malaysia, and 1.8% in Singapore. As in India, banking assets are low at 34% of GDP in Indonesia.

B. Consumer Services (health care, education)

4. Most of Creador's portfolio companies are in the consumer sector, based largely in Indonesia and Malaysia. The countries that Creador invests in all have fast-growing middle-class populations with growing disposal incomes. To illustrate, since 2005, GDP per capita in Indonesia has grown by 7% of the CAGR, in India by 8%, and in Malaysia by 5%.

5. Coupled with the effect of increased urbanization, Creador is highly optimistic that demand in the consumer sector of these countries will continue to yield exciting opportunities, especially in the absence of strong homegrown brands that can provide high quality yet affordable goods and services. In particular, Creador seeks out businesses that have built strong brands in high-growth, underpenetrated industries by reinventing and transforming traditional local businesses into modern and accessible franchises.

6. For example, when evaluating its cereal business in Indonesia, Creador noted that the industry had grown in value by 16% every year since 2006, but only had 0.5% market penetration when compared with the overall breakfast market. Similarly, Creador saw that dairy consumption in rural Indonesia was growing by 25% per annum due to better distribution channels and increased wealth.

7. In Malaysia, Creador identified an opportunity to build a reputable pharmacy chain in secondary and tertiary tier cities, as the highly fragmented market in these areas meant existing players were unable to take advantage of economies of scale. Creador's analysis also showed that Malaysia remains an unsaturated pharmacists' market with only 3.4 pharmacists per 10,000 people compared with 13.6 in Japan, 8.0 in the United Kingdom, and 6.8 in the United States.

For education, Creador observed a shortage of doctors, dentists, pharmacists, and nurses vis-à-vis government benchmarks, hence the decision to invest in a health science education provider.

C. Business Services (business-to-business services, outsourcing, payment processing, logistics)

8. In the business services space, Creador's focus has largely been on banking services, including payment processing and credit scoring. Key drivers for payment processing are the transition from paper-based payments to electronic payments, as well as the relatively low credit and debit card penetration in our countries of interest.

9. For example, in Malaysia, Creador invested in a payment solutions provider as it saw that the industry had ample room for growth given that Malaysia only had 0.27 credit cards per capita compared with 2.71 in Japan, 2.18 in the United States, and 1.45 in Singapore.

10. Creador also looks for companies that are able to develop or import innovative technologies that can bridge the gap and expedite transactions between banks, merchants, and consumers.

11. Creador's investment in CTOS, Malaysia's leading credit bureau, on the other hand, was predicated on increased penetration of existing products as well as expansion of new product offerings and customer segment served. This included introducing FICO scoring, a credit scoring methodology in the United States that measures individual creditworthiness, to Malaysia.

12. Even though this space is rapidly evolving, Creador believes it remains underexplored by investors. Creador see this industry as a key part of the portfolio given its instrumental role in accelerating real economic growth.