



Country **OUTLOOK**

Kingdom of Cambodia



FOR A BALANCED APPROACH





PREAMBLE

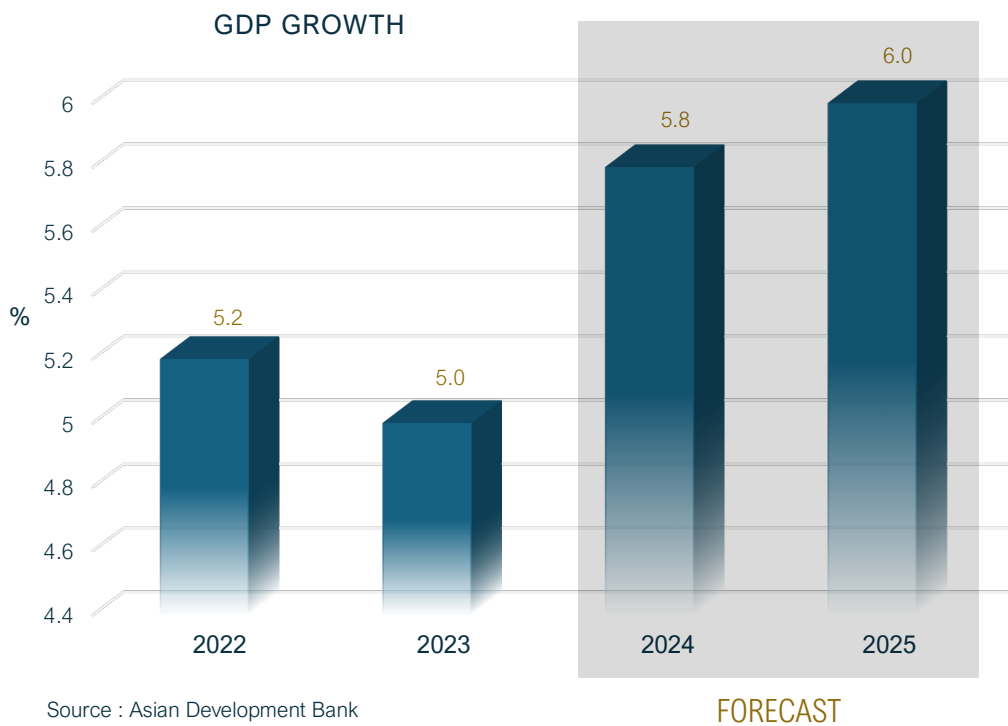
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The Executive Overview of the Country Outlook for the Kingdom of Cambodia, takes into account the underlying micro and macro influencing factors contributing towards investor appetite into the country.

These factors are not to be viewed as a holistic economic analysis of the country, but rather as the consideration taken into account by the Marcellus Capital Group (“MCG”) in its investment into the Kingdom of Cambodia.

ECONOMIC GROWTH

Cambodia’s economy is forecast to grow at 5.8% in 2024, climbing to an estimated 6.0% in 2025, fuelled by a further rebound in tourism and strong export-orientated manufacturing prospects.



Despite global economic challenges, Cambodia’s economy performed well in 2023 and according to Asian Development Bank Country Director, Jyotsana Varma, ADB expects growth to be robust in 2024-2025, with the garments, footwear and travel goods sectors poised for a significant upturn on the positive momentum during the last quarter of 2023.

The government is embarking on a transition from a least-developed country category, thereby enhancing the country’s international standing and investment attractiveness. This journey comes with obvious challenges, primarily in the lack of preferential trade agreements, which would normally accelerate high growth and employment.

Through this bold and dedicated transition by the government to rebuild pandemic diminished reserves, it does face challenges in global economic slowdowns, dynamic



energy prices, vulnerable climate, all of which could impact the long-term outlook.

Our opinion remains that the government is focused on enhancing its global economic integration and investment into sustainable infrastructure.

Cambodia is projected to graduate from LDC (least developed country) status by 2027, and its approach to business and FDI (foreign direct investment) could provide a blueprint for other countries looking to achieve a similar sustainable and irreversible transition.

The Doha Program of Action for LDC's adopted by UN member states in 2022, provides assistance to such countries through their graduation, with a smooth transition plan, however it is worth noting that Cambodia is using its own proactive strategy to undergo such transition on a solid footing that ensures sustainability, taking bold steps to expedite its transition to an upper-middle-income country by 2030.

The country seems to be following the right trajectory, having bounced backed sharply, making it the 14th fastest-growing economies this year, according to the International Monetary Fund.

Furthermore, Cambodia has achieved astonishing progressive results over the past two decades, and, in our opinion, this has been largely attributed to the openness of its economy to international trade and investment, particularly following its accession to the World Trade Organisation in 2004, which resulted in its merchandise exports of USD3.39B at the time, increasing to USD22.47B in 2022. This, naturally, sent positive signals to foreign investors, resulting in FDI increasing many times over.

FDI increased from USD130M in 2004 to USD3.58B in 2022. Further to this, another important measure of impressive FDI growth is that net incoming FDI, as a percentage of GDP, increased from 2.5% in 2004 to 11.9% in 2022.

The country has the ability to think outside the box, embracing new approaches, particularly demonstrated by its implementation of the Cambodia Export Diversification and Expansion Program (CEDEP), which has displayed significant support to the rice and silk sectors, cassava, marine fishery and a culinary academy.

The Cambodian Government has significantly improved the business climate, which has made it possible to increase private sector investment.

It has a liberal foreign investment regime and actively courts FDI.

In 2021 Cambodia adopted a new law on investment that contains investment incentives, investor guarantees and revision and improvement in investment procedure. The latter is aimed at attracting and promoting quality, efficient and effective investment tailored to support socio-economic development priorities.

The country has signed various free trade agreements with trading partners, including ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement and bilateral free trade agreements with China and the Republic of Korea in 2022.

In 2023 Cambodia concluded the Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates.



From the above, it is plain to see that Cambodia has managed to combine its openness to external investment, trade and business, thereby helping sustain economic reforms.

POLITICAL STABILITY

The Honourable Hun Manet, the eldest son of the former Prime Minister, Hun Sen, has succeeded his father as Prime Minister and leads a new generation of leaders in the new cabinet.

This followed an overwhelming victory by the ruling Cambodian People's Party (CPP) in the general election held in July 2023.

It remains common public knowledge that generally the people of Cambodia are well satisfied with the political state of affairs in the country. This is clearly demonstrated by the general peaceful and humble ambience one feels in its capital city, Phnom Penh.

The government continues to build and strengthen foreign relations with China, as well as the United States.

SUSTAINABILITY

Cambodia's National Environment Strategy and Action Plan (NESAP) is focused on ensuring environmental protection and sustainable natural resource management, as the pillars of the country's socioeconomic development.

The NESAP provides the country with a roadmap for achieving many of its Sustainable Development Goals, prioritising policy and governance improvements and financing mechanisms that will assist in Cambodia achieving environmentally sustainable economic development, including a USD260M pipeline of current and planned environmental projects and programs included in the NESAP.

The NESAP has a solid constitutional and legal foundation, with a clear basis in the Constitution on the management and protection of the environment and natural resources.

The NESAP is a strategy for all government ministries, as well as the private sector, civil society and development partners, to integrate environmental concerns into economic policies and investments.

This overall strategy supports integrated and sustainable land use management, and aims to improve the quality of the rural environment, focusing on pollution control and waste management.

COMMITMENT

In summary, MCG is of the opinion that the Outlook for the Kingdom of Cambodia is positive.

Despite the obvious challenges presenting themselves to the country, including its low credit risk rating, there is substantive evidence that the government is committed to the betterment of the country and its people on the global stage.

On this foundation, MCG is committed to its contribution towards the government's bold initiatives and strategies.



In this regard, our support to the Kingdom of Cambodia will be accelerated through our bespoke financial structuring, providing project funding and partnership in the country. To this end, MCG has, as of April 2024, engaged structured funding in excess of USD500M to projects in the Kingdom. It is our explicit intention to grow this support to in excess of USD1B through our structured financing models.

Furthermore, MCG has appointed its local Cambodian representative, and is currently undergoing the process of exploring the possibility of incorporating its own Fund Management Company in the country.

THE MCG STRUCTURED FINANCING MODEL

One of the MCG Structured Financing Models is a bespoke supportive financial mechanism providing project funding.

It is common knowledge that the financial industry has seen a surge in the use of Bonds in various forms and structures and, of late, this surge has accelerated in, what is commonly referred to as, Sustainable or Green Bonds.

MCG has embraced this space of Sustainable Bonds within its core financial model adopted in Structured Funding for our global clients.

The model is acutely cognisant of investor appetite and, more specifically, the desire to invest into projects and businesses without having to go through a tremendous amount of due diligence and the weight of risk versus return.

In line with this desire, the MCG Sustainable Bond Model draws the investor's attention to the security over the investment, thereby mitigating the risk of the project or business. This is achieved as we place the investor's funds, through a regulated Administrator, into an A-Grade Structured Note.

Our Structured Investment Model, providing absolute returns, is recognised by A-Rated European Banks, which provides a loan-to-value against the Structured Note, placed into the absolute returns investment structure.

These absolute returns, together with the coupon on the Structured Note, provides liquidity, through a Feeder Fund, to the Client as a loan from MCG, thereby mitigating the debt instrument (Bond issuance) risk to the project or business owner (Client).

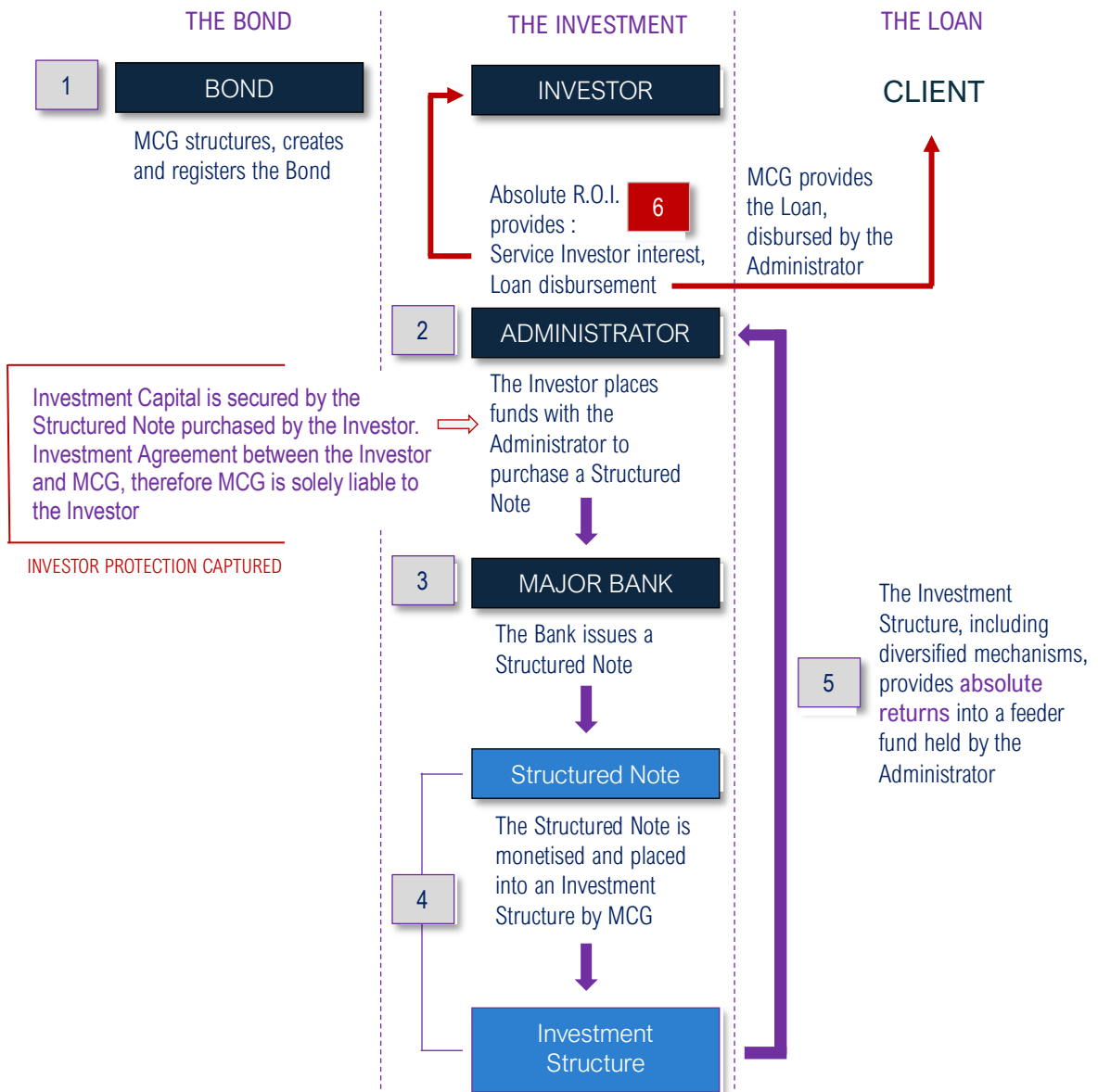
Further to the above, MCG provides a suite of bespoke services and offerings encompassing a broader range of structured financing, inclusive of Private Managed Investments services globally.

The MCG expansion strategy incorporates establishing its own Platform for the issuing of Structured Notes, funding against these Notes, and the issuance of financial instruments such as SBLC's, MTN's, NCD's, T/Bills and T/Bonds.

We, furthermore, through our Principal, have the ability to discount and monetise financial instruments.

Through our global network, we offer loans against assets, such as MTN's (executed on a repo basis), commodities (gold, silver etc.), and the provision of credit facilities for the buying and selling of bank instruments.

An illustration of the MCG Structured Finance Model is provided below.



MCG CARBON CREDITS PROGRAM

MCG is committed to the UN SDG (Sustainable Development Goals).



Our commitment is backed by the introduction of our very own Carbon Credits Program, currently being crafted and processed for international participation.

The MCG Carbon Credits Program incorporates the benefits of carbon offset held on a centralised Carbon Credits Registry funded by a percentage of Corporate Bond disbursements to project owners, thereby providing every sustainable or green Bond crafted for our clients, carbon credits to the project owner.



The payment for such carbon credits, drawn as a percentage from every loan disbursement to clients, is audited and placed into accredited and certified carbon credit projects globally.

MCG is pleased to announce that of our current total engagement in projects in the Kingdom of Cambodia, in excess of USD500M, 50% of these projects qualify as Sustainable Projects that we are financing.

RISKS

S&P Global has given the Kingdom of Cambodia a Credit Rating of “B-Stable”, thereby supporting our view on the political and economic environment in the country.

Whilst the risks are plain to see, from our Outlook above, we are of the opinion that these risks are being adequately addressed by the government.

CONCLUSION

In conclusion, given our positive Outlook on the Kingdom of Cambodia, we are committed to working closely with the government of Cambodia, the Asian Development Bank, and agencies involved in furthering and bettering the country’s position on the global stage.

The Marcellus Capital Group is, indeed, honoured to be able to play a small role in the development of the Kingdom of Cambodia.



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MCG



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Traditional Values. Futuristic Thinking



Sustainability



MCG Asia



MCG (Cambodia)

MCG Memberships



Swiss Chamber of Economics
Schweizerische Wirtschaftskammer

