Private Debt
Investor

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NEWS & ANALYSIS

Private credit in Asia: The end of the Golden Age?

Credit is a huge market overall in Asia-Pacific but private debt represents only a small proportion. Andrew Schantz of Bain Capital outlines the opportunity ahead.

An investor would be hard-pressed to open a finance magazine over the past several years without seeing some mention of the 'Golden Age of private credit'. While most of this attention is focused on North America and Europe, some of this Golden Age activity is finding its way into the Asian private credit markets. From Bain Capital's base in the region, we have seen managers with an existing Asia presence raise larger funds, new regional managers launched, and global managers open Asia offices. All this attention and activity naturally leads one to ask: "Are we headed for saturation?"

At Bain Capital, we oversee one of the largest alternative asset platforms in Asia, from which we leverage insights from almost 20 years in the region and our network of 11 local offices. With this perspective, we believe the answer to the question of looming private credit oversaturation in Asia is firmly no. To see why this is the case, it is helpful to put the recent activity in context.

Market size

According to our recent analysis, with a market size totalling $63 trillion, the Asian credit market is the largest in the world; nearly equal the size of the combined North American ($46 trillion) and European ($23 trillion) credit markets. Not only is the Asian credit market sizeable, but it is also growing, with a 10-year compound annual growth rate of 6 percent.

Andrew Schantz

In 2023, the aggregate Asian credit markets grew by almost $1 trillion. To put it another way, in 2023 alone an extra $1 trillion of credit capital was required in the region. While this refers to aggregate credit capital need, and not just private credit, it shows the immense size and growth of the overall financing requirements in Asia.

Private credit penetration

Non-bank credit (which includes private credit) accounts for just over 20 percent of the Asian credit marketplace. In comparison, non-bank credit comprises 65 percent of the credit market in North America. We believe this disparity in penetration signals a significant opportunity. We believe the value-add case for private credit, with its ability to structure customised, in-demand financing solutions outside of the traditional bank credit box, is clear and therefore expect the share of non-bank credit in Asia to increase.

Given the Asian market size, even a 1 percent shift from bank to non-bank credit, which would still leave non-bank credit penetration at a third of North American levels, implies a $630 billion increase in regional non-bank financing needs.

Capital raising

The lack of private credit penetration has resulted in low fundraising levels, despite the massive market opportunity. Since 2019, our analysis shows $586 billion and $276 billion of private credit capital was raised for North America and Europe, respectively. Over that same time period managers in Asia would have needed to raise approximately $750 billion to reach similar levels of penetration; however, over the past five years only $47 billion was raised for private credit in Asia.

Additionally, our estimate of private credit dry powder in Asia at the start of 2024 was approximately $30 billion. One must consider these figures in the size of the overall Asian credit market, the annual increase in financing need and the degree of private credit white space. This is not a drop in the bucket; this is a drop in the ocean.

An entry level economics class will often tell you the price of any materially undersupplied good or service will be driven up. And private credit in Asia is no exception, with the asset class realising historical pricing premiums of 300-500 basis points over other markets.

While we believe the opportunity is both vast and attractive, it is not easily accessible. A depth of market understanding is generally required to effectively capture the investment potential – starting with keen insight into the diversity of the Asian marketplace.

The countries in this region represent a range of markets, currencies, languages, cultures and business norms. One thing they all have in common is they are driven by local relationships, with attractive transactions often shown to well-networked local investors long before they make it to offshore funds. Beyond connectivity, local teams are vital for managing the jurisdictional complexity that comes with such a range of markets, particularly navigating insolvency regimes and regulatory systems.

Therefore, to have an effective regional platform we believe a manager must be present in multiple countries. Managers offering a single office in a single country often do not have the connectivity or local knowledge to effectively invest across the entire region, in our view. Scaling to achieve a competitive position requires significant time, talent and investment – hurdles that largely inhibit new entrants.

Thus, the conundrum: managers increasingly recognise that Asia presents a clear, meaningful and attractive private credit opportunity; however, in general there are few managers willing to invest in the requisite infrastructure to access it.

To, therefore, answer our original question, while the increased talk of a Golden Age of private credit will understandably raise questions of oversaturation, we do not see signs of it in Asia. In fact, we believe we are in the early stages of a massive opportunity for private credit in the region.

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