

INVESTING IN SOUTHEAST ASIA'S UNICORNS

Investors now have a pathway to investing in up-and-coming billion-dollar tech companies or unicorns

The Asian region, particularly Southeast Asia, is fast becoming a hunting ground for unicorns with venture capitalists and private equity funds bringing in billions of US dollars for the chase.

No, I'm not referring to the mythical horse-like creatures with golden horns on top of their heads. Instead, I'm referring to, in venture capital industry parlance, tech start-up companies valued at over US\$1 bil.

Since 2012, nearly US\$208 bil (RM856.3 bil) has been invested across over 8,500 equity deals to tech start-ups in Asia and the Pacific region, which stretches from China to New Zealand, according to CB Insights.

This includes investment in tech companies such as payments unicorn Ant Financial Services Group in China, Southeast Asia's most popular e-commerce platform Lazada in Singapore, on-demand logistics unicorn company Go-Jek in Indonesia, and of course the Malaysian-founded ride-hailing company Grab, the region's most valuable unicorn at US\$14 bil.

The term unicorn was coined in 2013 by venture capitalist Aileen Lee, choosing the mythical animal to represent the statistical rarity of

such successful ventures. A decacorn is a word used for those companies over US\$10 bil, while hectocorn is the appropriate term for such a company valued over US\$100 bil.

According to this definition, Grab has graduated from unicorn to decacorn status while the only other decacorn in Southeast Asia is Go-Jek, valued at US\$10 bil.

The most well-funded start-up across Asia and the Pacific is Ant Financial Services Group, with over US\$19 bil in total disclosed funding. Rounding out the top three most well-funded start-ups in the region are Grab, now headquartered in Singapore (US\$8.5 bil in total disclosed funding) and Olacabs in India (US\$4 bil), according to CB Insights.

According to a report by Bain & Company, since 2012, 10 unicorns including Grab, Go-Jek and Traveloka have created a combined market value of US\$34 bil, ranking Southeast Asia third in the Asia Pacific region behind



Alvin Gan

China and India.

Southeast Asia is expected to churn out at least 10 new unicorns by 2024 given the region's new phase of investment growth with deal value projected to total US\$70 bil over the next five years, the Bain & Co report added.

"Deeper integration of the Asean markets encourages companies to expand across borders, accelerating their growth."

VCs focus on Southeast Asia

Alvin Gan, head of IT-enabled Transformation practice, KPMG in Malaysia, says 2018 was a significant year for venture capital (VC) investment in Southeast Asia, with more than US\$7.8 bil invested across 327 deals.

"While the bulk of that investment went to a small number of companies, including Grab and Go-Jek, the numbers highlight the growing appetite of VC investors in Southeast Asia," Gan tells *Smart Investor*.

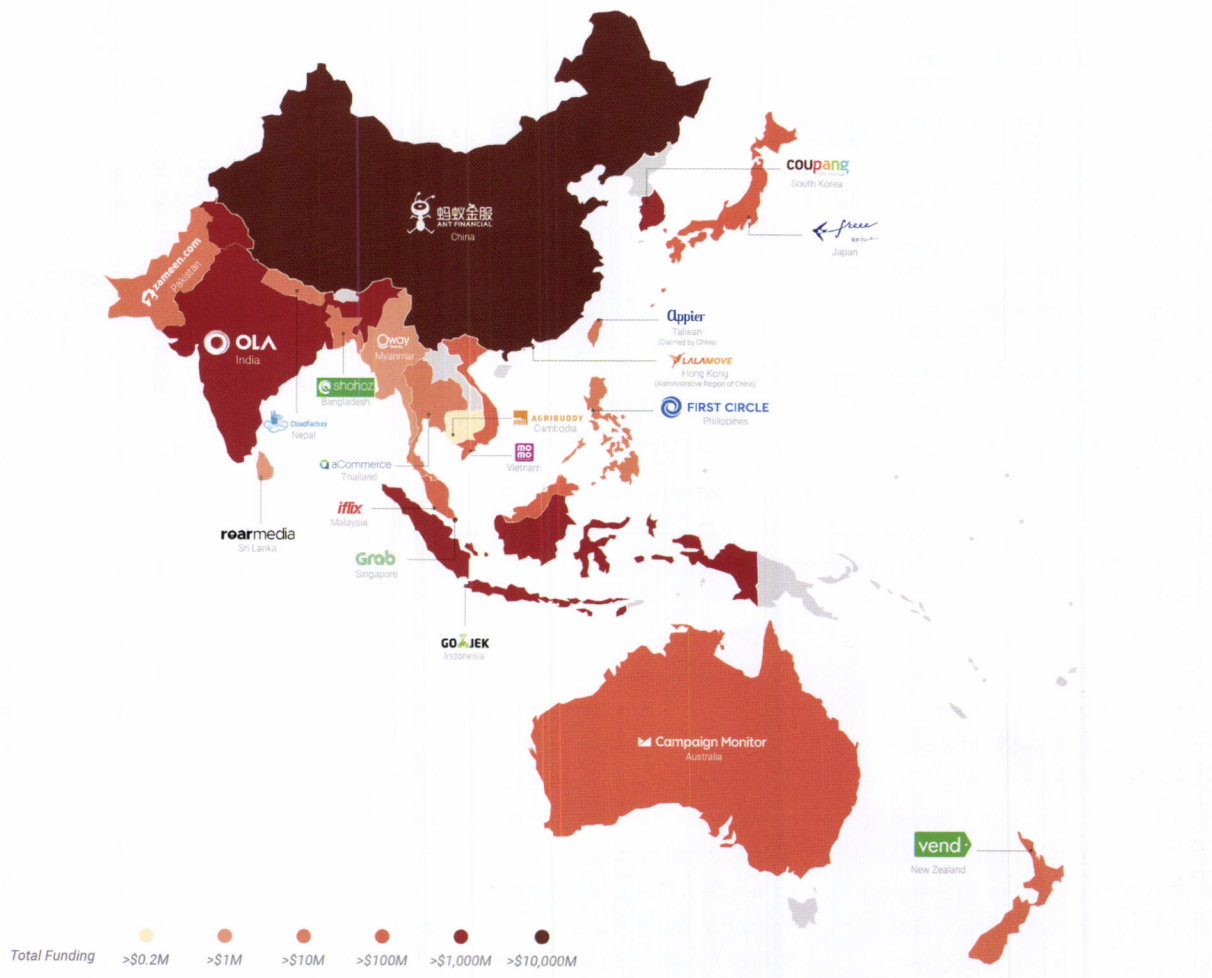
"Already in 2019, the region has seen some strong activity.

By Lee Min Keong

STARTUP CONTINENT

THE MOST WELL-FUNDED TECH STARTUPS IN THE ASIA-PACIFIC

The most well-funded VC-backed tech companies in Asia and the Pacific with new funding since 2014.
 Excludes countries whose most well-funded start-up has not raised more than \$200K.
 Excludes debt and lines of credit. Data is as of 3/4/2019.



Source: CB Insights

In addition to Grab's US\$4.5 bil deal, Thailand-based on-demand delivery platform Lalamove raised US\$300 mil, while beauty marketplace Zilingo in Singapore raised US\$226 mil."

Having seen the astonishing rise of Grab, can other Malaysian start-ups follow in its footsteps?

Gan believes the potential

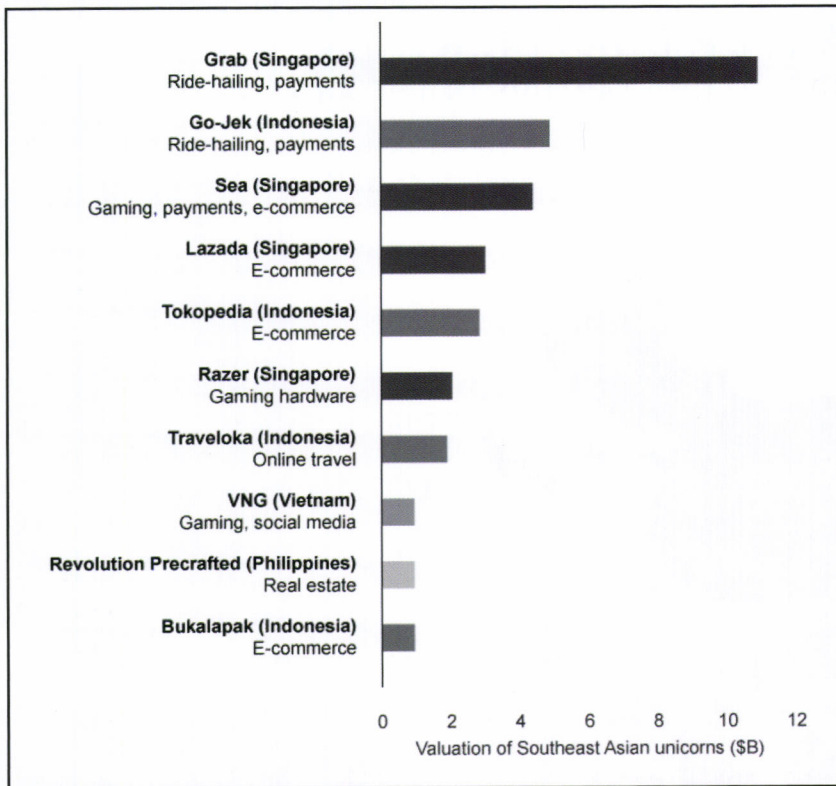
is there. However, he adds, for Malaysian start-ups to be part of this positive wave, it will involve a combination of things: passion for the services and products offered, monetising customer data and ensuring a steady stream of talent comes to be part of that growth.

Ben Lim, partner at venture capital firm Nexea Angels Sdn

Bhd, believes Malaysia has the right eco-system to spawn a new wave of unicorns. Dispelling the notion that Grab is just a one-off, he says Malaysia has "a huge potential" in producing unicorns.

"Not only do we export highly talented people, but we have a multi-cultural testbed for market testing. These factors are good for producing

Since 2012, Southeast Asia has given rise to 10 unicorns with a combined market value of US\$34 bil



Source: TechCrunch, CB Insights, Yahoo Finance, Bain analysis

unicorns that span beyond borders and cultures. That’s how we have a slight advantage in producing unicorns – with the Southeast Asian market as our home ground,” Lim tells *Smart Investor*.

He says the cycle for the creation of unicorns in the region has just begun, with Grab, Go-Jek, and a few more unicorns. “Organisations like Nexea are already facilitating investors and start-ups in getting investments done from end-to-end.

“Once more unicorns and start-up investors start to emerge, there will be the next wave of investments into more potential unicorns. It is no longer a matter of if it will happen, it is only a matter of time when it happens,” he adds.

KPMG’s Gan says to ensure Malaysia has the right ecosystem to nurture more unicorns, the various stakeholders involved in this space – policymakers, regulators, players and investors – need to come together and work in tandem. He cites the banking sector in Malaysia as an example. Banks have stopped looking at start-ups as competitors and instead are constantly looking for ways to form new collaborations, he adds.

“In November 2018, CIMB announced its partnership with RippleNet to allow instant payments across Asean – making it one of the first banks to leverage blockchain technology. It is only with collaboration that Malaysia can sustain the successes to date,



and one day be a hub for our very own unicorns,” he says.

Ways to invest in a unicorn

With the valuation of Asia’s top unicorns shooting through the roof, it seems there is little chance for individual investors to invest in the region’s top tech start-ups unless you are a venture capitalist or angel investor.

Fear not, there are now several ways that you can invest in unicorn companies if you have substantial amounts of investment funds. One of these options is Kenanga Investors Bhd’s newly launched Kenanga Global Unicorn 1 (KGU1) fund.

The fund feeds into the Ericsenz-K2 Global Unicorn Fund (target fund) which is a unitised fund targeting superior medium term returns by investing primarily in the securities of unicorn companies.

“Unicorn companies were much rarer two to three years ago, but now there are between 80 and 100 each year attaining that status that is often associated with signs of a near term IPO.

“Asia is leading the way with at least 30% of unicorns today coming from China when it used to be a term mainly associated with US-based companies,” says Kenanga Investors’

CEO and executive director Ismitz Matthew De Alwis.


With many unicorn companies choosing to stay private longer, he notes they are not accessible to the everyday investor. "It is the first time this form of private equity investment is available to investors in Malaysia. The KGU1 offers exclusive access for our clients to invest into these otherwise hard-to-reach investment opportunities".

The fund is suitable for sophisticated investors with medium to long-term investment horizons. Available in both ringgit and USD classes, the minimum investment amount is RM100,000 (MYR class) or US\$25,000 (USD class).

Another avenue for individuals to invest in potential unicorns are alternative private investment platforms. One such online platform is Fundnel, which allows investors to discover private market opportunities in unlisted companies, secondary unicorn shares, and professionally managed private equity. These range from SMEs across Asia, including Malaysia, to some of the world's largest tech companies and investor funds.

Fundnel helps companies in the region raise capital more efficiently while also enabling sophisticated investors from Malaysia and Southeast Asia to access regional investment opportunities, explains Fundnel co-founder and CFO Khai Lin Sng.

She is optimistic that some of the companies listed on the Fundnel platform may well turn out to be unicorns. "Some are 'sooncorns' or soon-to-be unicorns, that's the new terminology!" Sng quips.

To date, the Singapore-based fintech has sourced over US\$100 mil worth of deals, and currently serves investors from Asia Pacific including Singapore, Malaysia, India, Australia, and Indonesia. 

THE NEXT WAVE OF MALAYSIAN UNICORNS?

While Grab is held up as the poster boy of Malaysian unicorns, some sceptics say it is just a one-off since it is still the only Malaysian unicorn. Grab had started off as a humble taxi-booking app – MyTeksi – in 2012.

However, Alvin Gan, head of IT-enabled Transformation practice, KPMG in Malaysia, begs to differ. Asked which local start-ups have the potential to achieve Unicorn status, Gan says he is "excited to see the likes of iFlix, Jirnexu and Carsome over the next few years".

iFlix is a video on demand service focused on emerging markets and already has US\$298 mil (RM1.23 bil) in total disclosed funding from investors, according to CB Insights.

Carsome is Southeast Asia's fastest growing online car-selling platform that connects customers to used car dealers nationwide while fintech company Jirnexu owns and operates several brands including RinggitPlus.com, one of Malaysia's leading financial comparison website.

"These companies have done many things right. For example, in a world where customers want everything on-demand, they have utilised data to provide personalised services and products to end customers," says Gan.

He notes that these companies have also established strong local partnerships, as iFlix has done with Media Prima to provide local content.

"In fact, should these local-based start-ups wish to venture abroad, collaboration with local parties will be key. Carsome, for example, partners with local parties in expanding their footprint into different countries. Continuously evolving products and services offered will also be key for local start-ups to thrive.

"Jirnexu, compared to its direct competitors, is the only company in Asia that provides end-to-end full stack fintech solutions," he adds.