Technology

Wild Digital Southeast Asia 2022

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We attended the Wild Digital Southeast Asia 2022 event on the 6th-7th September 2022 where over 1,350 participants came to listen in on the latest trends in the technology space. The speakers for the event include government agencies, founders of tech start-ups and unicorns as well as various venture capital (VC) firms. The key takeaways echoed throughout the event were:


Source: Wild Digital

1. **There is too much protectionism over local talent. Taufiq Iskandar (CIO, Penjana Kapital) reiterated that the success of digitalising Malaysia requires embracing foreign talent.**
2. **Shahril Hamdan (Economic Director, PM's office) encourages more communication among GLICs' venture capital division to ensure investments are allocated strategically.**
3. **Start-ups in Malaysia are now in the lifecycle where they need bigger funding (i.e. Series B, Series C) to scale up but lack the storytelling ability to convince VCs for bigger cheques.**
4. **There needs to be more awareness on technical and vocational education and training (TVET) to remove the stigma of it being a secondary career choice.**
5. **Q-commerce remains an enticing segment for VCs owing to its ability to structurally change consumer's shopping experience when executed well.**
6. **VCs are seeing the slowdown in the public market as an opportunity in the private market. 500 Global and Prosus Ventures are cutting bigger cheques as they go hyperlocal in Southeast Asia.**
7. **Play-to-earn in the Web3 space is currently facing an issue where the developers and players are solely profit-oriented. The games developed need to first be fundamentally fun to play, only then by adding tokenomics, it will be sustainable.**

Exhibit 1

Source: Wild Digital

The event kick started with a panel discussion on "**Changing Gears: Malaysia's Race to Become a Digital Nation"** featuring Shahril Hamdan (Economic Director, PM's office), Taufiq Iskandar (CIO, Penjana Kapital), and Gopi Ganesalingam (SVP, Ecosystem Development, MDEC).

Question: *Why is the adoption of digitalisation still low and uneven across industries and sectors despite rapid growth in the economy?*

Shahril: Significant milestones have been achieved in pursuit of the objectives tabled in the 12th Malaysian Plan which targets 25.5% GDP from the digital economy and 10.5% from e-commerce by 2025. However, connectivity

issues still exist and the solution to those problems highly hinge on the rollout of 5G.

Gopi: Different state bodies in the country itself complicate decision making process, creating a digital divide between urban and rural areas. In addition, the lack of knowledge among the respective state bodies and citizens further slows down the transition towards a digital economy. Hence, MDEC has launched programmes such as "SayaDigital" to upskill citizens in the rural areas, "AgTech" to help farmers to digitalise their workflow and "GLOW" to equip Malaysians with the skills to secure and carry out freelance jobs via digital platforms worldwide.

Taufiq: While the JENDELA initiative was helpful, adoption and connectivity issues persist. The government needs to further accelerate 5G rollout with force regardless of private sector participation as the private sector will only come in when there is a clear signal to profitability.

Question: *What can be done to drive digital investments?*

Shahril: The lack of transparency and accessibility in the start-up space creates a gap between venture capitals (VC) and founders. It would be great if there is a go-to platform (such as Crunchbase in the US) in Malaysia to help bridge that gap. There needs to be more communication between the VC divisions of respective GLICs (i.e. Dana Impak, MAVCAP, Penjana Kapital) to avoid cannibalising one another by overcrowding one area and leaving other areas under invested.

Gopi: MDEC will continue to bring in digital orientated FDIs into Malaysia across nine different sectors such as trade, agriculture, services, cities, healthcare, finance, content, tourism, and Islamic economy. MDEC is also grooming local start-ups to embrace the international stage such as Carsome and Aerodyne by ensuring they have the visibility and necessary funding in place. MDEC also launched the "Founders Grindstone" programme to empower talented entrepreneurs with better storytelling skills to efficiently pitch their investment thesis on an international level to attract global visibility.

Taufiq: The local market does not lack capital; it just needs to shift away from overly focusing on defensive sector (i.e. banking), bring back the animal spirit and take on more risk for these start-ups to get funding.

Question: *How much impact does the "Malaysia Digital" initiative have on the economy?*

Shahril: It's a start into the right direction but companies still must go through the lengthy application process. Instead, it would be better if companies are granted the Malaysia Digital Status by default and the government can choose to revoke it if the companies do not abide by the stipulated framework. We also need to address another huge problem which is talent and wage issues. We cannot afford to keep protecting local talent at the expense of the country being left behind in the digital race. In the medium term, we need to embrace foreign talent by lowering the requirements (i.e. paid up capital) for corporations to bring in the necessary people.

Gopi: MDEC will be launching the "DE Rautau" programme in a few weeks' time to establish Malaysia as the preferred digital nomad hub in a bid to boost digital adoption and promote digital professional mobility and tourism across the country. MDEC has also introduced the Malaysia Tech Entrepreneur Programme (MTEP) which has granted more than 200 visas for tenure of 5-year to encourage foreign talent to establish start-ups in Malaysia.

Taufiq: Local population of 33m is still not enough, we still have limitations if we just focus on local talent. We should embrace talent from everywhere. Also, Malaysia is in a sweet spot to take advantage of being a significant player in the data centre space given our first mover advantage in harnessing renewable energy via solar which will lower down the cost of running these energy-hungry data centres. This way we can entice talent to stay, be it foreign or local.

Exhibit 2

Source: Wild Digital

The following topic on "**Embracing Adaptation: Building a Brighter Start-up Ecosystem"** featured Ahmad Kashfi (SVP, Ecosystem Development, Cradle Fund), Effon Khoo (CEO, Kakitanga.com), and Karl Loo (CEO, ServisHero).

Question:*Where are we today in the start-up scene? Is Malaysia up to par against regional and international competition?*

Karl: We are in the start-up lifecycle where many companies which started 5 years back with their Series A funding and are now looking to scale up, requiring access to Series B and Series C funding.

Question:*Why is it hard for start-ups to secure fundings for scaling up?*

Karl: Start-ups in Malaysia are generally not great in storytelling which makes it difficult for them to sell themselves on a larger stage hence it's difficult to convince VCs to cut them larger cheques required to scale up.

Question: *How has Malaysia's founders evolved?*

Effon: Founders in general today have become more resilient after the pandemic. Those that survived have become more adaptable and mature in their path towards profitability.

Question: *What role does Cradle Fund's MYStartup initiative play in the ecosystem?*

Kashfi: Having identified the five challenges faced by start-ups: (i) lack of private sector participation, (ii) lack of talent, (iii) no clear path from ideology to commercialisation, (iv) insufficient go-to-market channels, and (v) unconducive environment given current policies, Cradle Fund have created the MYStartup platform to address these issues and craft bespoke programs (i.e. pre-accelerators, accelerators, ideation, and capacity building) for start-ups at each stage of their lifecycle to provide a fair chance for them to develop business model and have access to funding. Essentially, we are trying to address the absence of a proper start-up platform in Malaysia like Crunchbase in the US. Cradle Fund aims to make MYStartup a global top 20 start-up platform by 2030.

Question: *What does it take to become a renowned start-up ecosystem globally? Are local founders overly dependent on government's incentives?*

Karl: It's unique that Malaysia's start-ups seem to be quite reliant on government's initiatives while start-ups in neighbouring countries are more driven by the private sector participation which is important in creating a thriving ecosystem. Also, we need more real-life examples of successful exit strategies to encourage more founders as well and motivate investors to participate in the local start-up scene.

Kashfi: We see that corporates in Malaysia want to work with start-ups, but corporates do not know how to engage with them, it's like an elephant trying to dance with a mouse. Hence, the Cradle Fund's MYStartup initiative is trying to bridge that

gap and help encourage more participation from the private sector in the start-up ecosystem.

Question: *Are we losing talent and how do we address this issue?*

Effon: Echoing the need for more successful stories locally, this has been a proven strategy in China where one success story has led to more participation from both entrepreneurs and investors. This also helps with talent retention as employees who have seen a proven strategy will be more motivated to stick around and grow along with the start-ups. In the immediate term, we need to build a larger talent pool. Malaysia needs to fix the visa processing duration and have foreign working visas granted or rejected within 3-5 days instead of having corporations waiting up to 6 months for an answer. Over the longer term, local education must improve the mathematics standard by advancing it 3 years ahead for Malaysians to be on par with foreign talent. Bringing in more expats into the local workforce will create healthy competition and motivate local talents to step up their game.

Exhibit 3

Source: Wild Digital

The topic on labour was further discussed in the session titled **"Onwards and Upwards: Driving Growth in the Auto Workforce"** featuring Teoh Jiun Ee, co-founder & academy CEO of Carsome (Malaysia's first tech unicorn start-up).

Question: *Why did Carsome decide to start an academy?*

Jiun Ee: We experienced a shortage of workers in the auto industry when the pandemic hits in 2020. Seeing that the existing education system lacks sufficient courses to address this, we started our internal learning department which focuses on training our own inspection team. Fast forward till today, we have more than 200 students both internal and external in our academy.

Question: *What is the current awareness towards vocational studies?*

Jiun Ee: Awareness towards technical and vocational education training (TVET) remains very low in Malaysia and the establishment of our academy aims to change that. We are trying to promote TVET and change the misconception towards it. TVET should not be considered a secondary career path because these skill sets are equally important in addressing the daily needs of the economy.

Question: *What programmes are you offering in the academy?*

Jiun Ee: We started with the vehicle inspection programme two years back and today we have added two more modules (i.e. automotive technician and automotive management). Our courses consist of three months classroom study followed by nine months of practical learning rotating across various departments. The students are not bonded, they have a choice to be attached to Carsome upon graduating or move to other companies of their choice.

Question: *How are your plans for regional expansion progressing?*

Jiun Ee: We have expanded in Thailand, Indonesia, and Singapore. The key is to adopt the proper framework to match the regulation of each country. However, the labour challenge remains an issue. Therefore, we will continue to promote awareness on TVET in the countries we operate in. We also provide scholarships to students in Thailand as part of our CSR initiative.

Exhibit 4

Source: Wild Digital

The focus then shifted to quick commerce titled **"Q-commerce Shake Up: Rise & Resilience in Times of Crisis"** where Sayantan Das (MD, Foodpanda Malaysia) and YC Ng (Partner, AV Ventures) shared their views.

Question: *What was the conviction to start quick commerce and how has that conviction changed over time?*

Sayantan: Foodpanda started as a food delivery company and as things progressed, we wanted to be closer to our customers to ensure healthy retention rates and high satisfaction levels. While we are unable to control individual restaurants' food quality and supply, we can have that opportunity in the grocery delivery segment. Hence, we started establishing our own micro warehouses (PandaMarts) allowing us to be closer to both customers and suppliers, stripping out the middleman and providing a better experience to customers.

Question: *What is driving venture capital firms to pile into the Q-commerce model*

YC: Venture capital (VC) view the quick commerce (Q-commerce) model is an amalgamation of having a virtual e-commerce store and the necessary logistics to provide an end-to-end seamless shopping experience. As Q-commerce firms continue to build their logistical network in a dense environment, it enables quicker delivery. The pandemic has accelerated this demand among consumers looking for a reliable firm to have their daily goods delivered in a seamless and quick manner.

Question: *What kind of growth is FoodPanda doing today?*

Sayantan: With more than 60 PandaMarts in Malaysia, we have seen our gross merchandise value (GMV) for the group grow >100% YoY and our current GMV is scheduled to touch c.RM1.6b for 2022 on a group level. We are excited to be in the fast growth segment and will be rolling out another 100 PandaMarts over the next two years.

Question: *We have seen many Q-commerce laying off workers recently in the western markets. Why is Q-commerce in Southeast Asia less impacted?*

YC: This is because many Q-commerce in southeast Asia only started very recently as compared to other markets which are more well-established. Hence, starting from a smaller base and still in an early lifecycle, these companies in Southeast Asia are less impacted from the huge paradigm shift from 2021 to 2022.

Question: *Given that Q-commerce is an asset heavy business, is there a clear path towards profitability?*

Sayantan: Foodpanda on a group level has improved its adjusted EBITDA margins by 5-7 ppts YoY and there is still a lot of room for improvement. While it's an asset heavy business, investors often forget how quickly Q-commerce is able to generate cash flow. Our inventory turnover is much quicker at 7-14 days compared to supermarkets of an average of 45 days. This way, our business model enables higher volume with quicker turnaround time, allowing FoodPanda to negotiate better pricing with suppliers and pass on these savings to consumers.

Exhibit 5

Source: Wild Digital

Subsequently, Kahilee Ng (Managing Partner, 500 Global) and Sachin Bhanot (Head of Investment SEA, Prosus Ventures) were called upon to talk about **"On the Ground: The Rise of Global Venture Capital Firms Going Hyperlocal in SEA"**. 500 Global has more than USD3b AUM and provides seed cheques of around USD350k to USD500k while Prosus Ventures' smallest cheque size recently was USD700k and the focus for Southeast Asia is in the range of USD5m-USD15m.

Question: *In the post-pandemic era, what are the headwinds?*

Khailee: Things are not that bad. Despite the public market cooling down, VCs like us are still maintaining the same appetite to back good founders. Note that there are many great companies that were founded and backed by VCs during the public market down-cycles such as (i) Apple and Microsoft during the 1975 energy crisis, (ii) LinkedIn and Mailchimp during the dot-com bubble, and (iii) Airbnb, Square, Twilio and Uber during the Global Financial Crisis. 500 Global backed Twilio in 2008 during the worst period of the public market down-cycles and yielded a 12x return.

Sachin: The current slowdown in the public market provides a good reminder to both emerging founders and investors that a company must be built on strong fundamentals. With the Southeast Asia (SEA) region having the benefit of hindsight given that the region is at least 3 to 5 years behind the likes of China and the western countries, we believe that there is still an abundance of potential that has yet to be unlocked in the SEA region.

Question: *What are the areas or sectors are you interested in?*

Khailee: There is a population of 600m in the SEA region and many of them are only recently coming online in the past two years thanks to improved connectivity. Instead of crowding into tier-1 or tier-2 cities in SEA which is only a small piece of the large pie, we are focusing on e-commerce and logistics start-ups that are willing to buck the trend by venturing into tier-4 and tier-5 cities of the SEA region which is the way to unlock the entire potential of SEA.

Question: *As a global VC firm and now focusing on going hyperlocal in SEA, how does your approach differ?*

Sachin: It's less about being different but more about compatibility and working together. You need to have global insights as well as local on the ground knowledge in the region you want to invest in; hence, the fly-in-fly-out model does not work. One can't be successful if one's operating in the USA and attempting to tap into the fishery sector in a tier-3 city in Indonesia. Therefore, Prosus Ventures' approach is to have a strong local presence in the SEA region itself and share its global insights

and network to its targeted start-ups and nurture them from being a local story into a successful global name.

Question: *How important are the opinions of the international firms to these local start-ups?*

Khailee: It is super important because while you are building these start-ups to be known locally and regionally, subsequently when these start-ups are ready for an exit strategy (i.e. IPO) on a global stage, you definitely need to ensure that global investors are aware of them. Hence, our approach to investing in hyperlocal SEA start-ups is to leverage on their local knowledge and magnify them on the global scene with our network and resources.

Question: *How do you approach talent management in the shoes of (i) a founder of a start-up and (ii) as a boss in a VC firm?*

Sachin: From the founder standpoint, the initial team is very crucial. Prosus Ventures generally looks for founders that are inherently builders instead of the "we prefer founders that sell over founders than build" approach. We like founders who has paradoxical traits such as: (i) having the macro vision but able to switch its approach if micro conditions required, (ii) decisive but also able to accept feedbacks, (iii) knowing their strengths and understanding that their strengths can become their weaknesses, (iv) dare to imagine but also outcome orientated, and (v) willing to hire people that are smarter than them. Identifying these traits is not easy simply because they are not quantifiable with a single framework, therefore to a certain extent it depends on intuition.

Khailee: 500 Global has backed over 3,000 companies in 80 countries with 20 offices around the world. Out of our global talent pool, 25% of them are based in Malaysia. We have proved that this is a successful model and urge more firms to build its talent in Malaysia.

Exhibit 6

Source: Wild Digital

The final panel discussion revolved around the world of decentralisation, titled **"Web3.0: What's Next in the Metaverse Gaming Paradigm"** featuring Guo Cheng (CEO, STEPVR), U-Zyn Chua (CTO, Cake Defi), and Cora Chen (Head of China, Polygon).

Question: *How do you define sustainability in the play-to-earn space.*

Chua: The play-to-earn space is currently becoming more like work which defeats its initial purpose of bringing fun to the players. Most play-to-earn are now being funded by inflation, whereby the players keep repeating the same process with the aim to solely earn tokens and sell those tokens for profit. Instead, it would be more sustainable if the games created are first fun to play and it actually enriches the community as opposed to constant farming for one's own benefit which reduces the yield for others.

Guo: Gaming is essential for the infrastructure that we are building, and it is critical that the game itself must first be playable and fun before adding the earnings part into it, then it will be sustainable. The model should be play-and-earn instead of play-to-earn.

Question: *Most play-to-earn games in the market are only participated by crypto experts. How do we encourage mass adoption?*

Cora: It is definitely more complicated for Web2 users to begin adopting Web3 at this stage due to the lack of knowledge regarding setting up crypto wallets to purchase tokens or transferring cross-chain assets. To ease the transition from Web2 to Web3, certain NFT marketplaces in the Polygon ecosystem have started accepting credit card payments via gateway providers such as Stripe to lower the threshold for Web2 users. In addition, Polygon also encourages more game developers to come up with more innovative and unique Web3 native games instead of duplicating existing Web2 games into the Web3 ecosystem.

Guo: Coming up with an excellent game play is the most difficult part of game development. So, for the initial stage, we are at now, instead of developing new games for the sake of it being new, we prefer to reuse existing games that has been proven in the Web2 space (i.e. PUBG, Counter-strike, League of Legends) and convert it to be playable in the Web3 space where players can run around physically in a virtual reality (VR) arena to have that 4D experience. When there are enough players in the ecosystem because they truly enjoy the experience, only then do we add on the tokenomics into the game.

Question: *What is the future of Metaverse and play-to-earn games?*

Cora: We believe Polygon and Ethereum will be the future of web3 games in the Metaverse. Polygon is currently working in the Web2 space with Google, Meta, Activision, Metamask and Opensea to tap into all these various segments to pave a way for these to exist in the Web3 ecosystem.

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net. Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	OP	4.13	4.45	7.7%	5,109.7	Y	12/2022	11.3	14.4	27.1%	26.6%	36.4	28.8	5.7	16.3%	1.9	0.5%
GHL SYSTEMS BHD	MP	0.97	1.10	13.4%	1,107.3	Y	12/2022	2.1	2.7	-16.4%	30.2%	47.1	36.2	2.1	4.5%	0.0	0.0%
INARI AMERTRON BHD	OP	2.80	3.45	23.2%	10,391.0	Y	06/2023	11.0	12.1	4.2%	9.8%	25.5	23.2	4.1	16.2%	10.4	3.7%
JHM CONSOLIDATION BHD	MP	1.18	1.30	10.2%	658.0	Y	12/2022	5.8	7.4	19.0%	27.4%	20.2	15.9	2.2	11.9%	0.5	0.4%
KELINGTON GROUP BHD	OP	1.41	1.70	20.6%	906.6	Y	12/2022	6.9	7.4	39.0%	7.5%	20.5	19.1	4.0	20.8%	1.7	1.2%
KESM INDUSTRIES BHD	MP	7.10	7.50	5.6%	305.4	Y	07/2022	4.2	16.7	-55.0%	300.0%	166.7	42.3	0.8	0.5%	9.0	1.3%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	29.90	34.50	15.4%	5,947.0	Y	06/2023	173.0	182.5	4.1%	5.5%	17.3	16.4	2.6	16.0%	35.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	3.09	3.70	19.7%	1,186.7	Y	12/2022	17.2	20.3	8.6%	18.4%	18.0	15.2	2.0	12.0%	7.0	2.3%
SKP RESOURCES BHD	OP	1.77	2.10	18.6%	2,765.4	Y	03/2024	11.6	12.4	6.3%	7.7%	15.3	14.3	3.1	21.1%	5.8	3.3%
UNISEM (M) BHD	MP	2.70	3.35	24.1%	4,355.3	Y	12/2022	15.0	16.7	22.1%	11.3%	18.0	16.2	1.9	10.8%	6.0	2.2%
Simple Average								25.8	29.3	5.9%	44.4%	38.5	22.8	2.8	13.0%		1.6%

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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