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Fintechs rethink IPO rush amid weak debuts, healthy funding options

IPO path for young fintech scene also eclipsed for now by Singapore market's bias towards Reits

BT EXCLUSIVE

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THE stinging performance of Uber's listing on the New York Stock Exchange – just as markets turned jittery again on renewed trade tensions – should add to the caution of young fintech firms in Asia charting a path towards an initial public offering (IPO).

Add fresh venture capital funding flowing through the region and a heavy Reit bias here to the mix, and the Singapore market may still have its work cut out in attracting large fintech firms based in this region.

To be sure, there has been some stirring interest. Eng-Kwok Seat Moey, head of capital markets at DBS, said tech companies, including fintech companies, are exploring a listing.

"Most of the fintechs we have been engaging with tend to be in the earlier life-cycle stages. However, though they may be young, there are several outfits that have the potential to develop into meaningful fintech listings over the next few years," she told *The Business Times.*

That being said, Richard Koh, founder of Singapore fintech M-Daq, said there remains too much emphasis in the public markets on the "Day 1 pop" as well as how well the IPO did after six to 12 months.

The M-Daq team. The firm earns from powering the FX conversion |in various local currencies for purchases made on AliExpress.
BT FILE PHOTO

M-Daq, which earns from powering the FX conversion in various local currencies for purchases made on AliExpress, clocked its first-ever profit for the full year only in 2018, after 10 years of operations. It handled S$6.5 billion worth of transactions last year that translated to revenues of about S$43 million. "A lot of companies are worried about the additional and often distracting stress on management on post-IPO stock price levels, which often are more impacted by externalities than internal fundamentals. Amazon did not generate a profit for over a decade post-IPO but chose to focus on developing and experimenting its business models," Mr Koh told BT. "The need to focus on quarterly reporting, profit guidance and other short-term objectives make a listing challenging for startups who are so used to significant autonomy and freedom to experiment."

Still, the recent spate of tech IPOs trading underwater should bring down the "unrealistic" expectations behind some startups, said one ex-banker-turned-fintech investor.

The funding flush has also allowed startups to avoid showing a clear revenue model, he added. The risk is that a poorly structured IPO becomes one of penalising "whomever is the bigger fool", especially if VC funding dries up as private investors take money off the table. "There is a lot of merit behind an IPO, but the governance burden is on the company."

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To that end, an investment banker said that large tech companies such as Grab will more than ever need to show a path towards profitability. In Grab's case, it includes showing how its payments services across business segments such as ride-hailing and food delivery have a sustainable future. Grab has said this year it has no immediate need for an IPO.

Meanwhile, fintech unicorn TransferWise has continued to delay an IPO. The UK-based startup just closed a US$292 million secondary sale that allowed some of its early employees and investors to exit as they sold their shares to VCs that participated in the latest round of fundraising, which values TransferWise at US$3.5 billion. In a tweet, Kristo Käärmann, co-founder of TransferWise, said going on the public market eventually will make growth capital cheaper for the startup. "Going public too soon would be a distraction that may slow us down. How to stay private longer? Be profitable... and be transparent." Ray Ferguson, chairman of local fintech Singapore Life, said trade sales by fintechs are more common than IPOs for now because bigger businesses are scaling by acquiring fintech capabilities. Startups are also taking on strategic investors who can help to build out a larger marketplace for the business, or refine the service. This comes as well as more VCs are channelling funds to tech startups in South-east Asia.

Amid all this, Singapore's government has put out bait to reel in high-growth firms to the Singapore bourse. Since February, high-growth and new technology companies have been able to tap on a S$75 million grant to defray some costs associated with listing on Singapore's equity market. Funds from the Grant for Equity Market Singapore (GEMS) will also be used to boost research coverage for mid- and small-cap enterprises, in the form of co-funding the salaries of Singaporeans hired as equity analysts.

SGX has as well allowed dual-class share structures, which are popular with tech firms. But one specific hurdle for the Singapore market remains that fear that investors here are not able to sustain an interest in high-growth stocks, even if tech firms pick Singapore as their listing home.

Chua Kee Lock, chief executive officer of Temasek-backed VC firm Vertex Ventures, put it bluntly. "We have clearly become a Reits market," he told BT, pointing out large global funds present here tend to look at utility stocks as a result. "The analysts here are not stupid. But they are cash-flow-driven. And to be fair to them, if I am selling a yield stock now, and tomorrow if I produce a report to say, this is a good startup company, my boss will say, 'get out of here, what do you know about technology stocks?' "

M-Daq's Mr Koh said that the GEMS listing is structured to address the "interdependent critical success factors" of defraying listing costs, and developing the local research community.

"There are many deciding factors in the venue of listing, with the key one being the cornerstone investors' preference, which in turn hinges upon whether there is a sufficient critical mass of comparative listings, and sufficient research coverage," Mr Koh said.

"SGX (Singapore Exchange) is known as a Reits listing venue of choice and this segment has grown to be very significant. But the very first few (listing venues) at the beginning must have undergone the same challenges."

SGX's head of equity capital markets Mohamed Nasser Ismail told BT that there are tech firms that may come to list "sooner than later". Trax, a Singapore-based startup with a valuation of more than a billion dollars, is reportedly considering a dual listing on SGX. Trax sells image recognition technology to consumer brands.

Asked about the recent troubles at SGX's first fintech listing Ayondo – which has had its trading suspended since Feb 1 as questions swirl around its financial viability and its compliance with UK capital requirements – Mr Nasser said any criticism on fintech listings here based on Ayondo's experience would be "sweeping". He pointed that Catalist listings – including Ayondo – are regulated under a sponsor-supervised regime.

Mr Nasser noted that fintechs are unique in working in a highly-regulated space. They can use IPOs to hold themselves up to regulatory scrutiny for the next stage of growth.

Singapore Life's Mr Ferguson concurred, saying that the age-old benefits of a listing that include building a reputation, financial stability, customer confidence, and liquidity for founders, still matter to startups.

"These issues of credibility matter even more to financial businesses," he said. "It's very important though, to get the timing right. Public companies are most suited to having higher predictability and lower volatility of operating results. Fintechs that can demonstrate that outlook will do well going public and will be best placed to leverage all the benefits."