

# The Daily Dispatch

## Weekly Special Feature

November 11, 2022

*From Grab to Sea, ASEAN tech confronts end of golden decade*

By: Tsubasa Suruga (Published on October 28, 2022)



*Illustration by Hiroko Aida*

SINGAPORE -- A 10-minute drive from the central financial district in Singapore, Grab's new nine-story headquarters that houses 3,000 employees shows how far the company has risen since its early days working from a small rental car office storeroom. "We would just grind it through," said CEO Anthony Tan at the opening of the building in August.

In line with its 10th anniversary, the event was joined by dozens of drivers -- now five million strong in eight Southeast Asian markets -- honking and circling the entrance in their ride-hailing cars. Also present as confetti flew was Singapore's prime minister-in-waiting Lawrence Wong, waving a large green flag bearing the company's logo.

While 2022 was supposed to be a time of celebration for Grab, long considered one of Southeast Asia's symbols of innovation, there was no such fanfare in the stock market as investors have become increasingly impatient with the company's performance. Grab shares have cratered since the company went public last December, with market cap falling 80%.

Grab is one of a number of regional tech companies worried about shareholders as it tries to reverse years of losses. Another Singaporean company founded the same

year, e-commerce operator Lazada, still relies on funding from its Chinese parent Alibaba. Older peers like Sea, whose stock price has plunged over 80% from its peak, are quickly downsizing as losses mount.

The birth and growth of these businesses have become the very symbol of the meteoric rise of Southeast Asia's tech ecosystem. "Many corners of society have been digitally transformed thanks to them," said Ryu Muramatsu, founding partner of GMO VenturePartners, a leading Japanese venture capital company in the region.

As more startups emerged, so did investors hunting for returns in an ultralow interest rate environment. Venture capital funding in the region ballooned to \$24.8 billion in 2021 -- more than 120 times in 10 years -- while funding deals rose 16 times, according to analytics company Preqin.

"When investors were first expressing interest [in the region], the general belief was that there could never be a \$100 million company [even for venture capital funds]," said Chris Kaptein, managing partner of Integra Partners, a Singapore-based early-stage venture capital.

But since last December, rising interest rates, inflation and a stronger prospect of economic recession in developed markets have extended to private startups the effects of the brutal tech sell-off, dampening once-high valuations.

So far this year, venture capital deals in Southeast Asia stood at 1,030 through September -- up 24% over the same period a year ago -- bucking a global 5% decline, according to Preqin. But the region's total deal value was mostly unchanged at \$16 billion, showing the average deal size has decreased.

Growth-stage companies are focusing on limiting cash burn and survival until the market returns. Whether Southeast Asia's first-generation startups like Grab and Sea can meet

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Grab CEO Anthony Tan, left, poses with Singapore's prime minister-in-waiting Lawrence Wong at the opening of the company's new HQ.

*Photo courtesy of Grab*

their targets and validate business models will be a crucial test for the region's ecosystem amid its first-ever market downturn.

Shane Chesson, founding partner of Openspace Ventures, an early investor in Indonesia's Gojek, the ride-hailing and food delivery arm of GoTo, said the region's ecosystem is "on a path of evolution when it comes to profitability and sustainability."

"We're seeing great talent being developed within the industry, advances into new sectors, and increased innovation, but we've still got a lot to prove," he said. "We're not yet profitable. We're not yet sustainable. So we have to get to a point where we can say that there are many success stories."

Grab began its journey in Malaysia first as a ride-hailing platform for taxis and private cars. After becoming a unicorn in just two years, the startup launched an ambitious yet costly foray into other businesses, including the crowded food delivery and fintech sectors.

Its superapp covering one of the world's fastest-growing regions demonstrated vision and was successful in acquiring users but led to years of huge losses. Though improving its bottom line, Grab still posted a net loss of \$1 billion for the first half of the year.

On Sept. 27, Grab held its first investor day at the headquarters it had opened a month earlier, joined by

dozens of investors and analysts from around the region eager to hear the company's plans.

For the first time, the loss-making company pledged to break even on a group level by the second half of 2024, though on an adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) basis.

Grab's Chief Operating Officer Alex Hungate -- who joined in January after heading Singapore's airport service provider SATS and HSBC Singapore -- outlined a series of new initiatives, the key of which is renewed focus on GrabUnlimited, a monthly subscription program.

For a monthly fee of a few dollars, the program provides benefits and deals across services on the superapp, from free deliveries to calling only drivers with high ratings.

"The idea is that it's an umbrella that can embrace all of the spend that the customer has with us across all the verticals," Hungate told Nikkei Asia.



Grab began its journey in a spartan office in Malaysia, left, before eventually setting up new headquarters in Singapore.

*Photo courtesy of Grab*

The focus on the program highlights the change in Grab: deepening relations with current users over signing up new ones, thereby lessening reliance on its many incentives. For the April-June quarter, Grab's incentive payouts to consumers amounted to \$311 million, one of the main reasons for its \$572 million loss for the period.

"[GrabUnlimited] is more effective ... than having separate promotional activity in each vertical stand-alone," Hungate

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noted, saying it is better from a competitive perspective as well "because we are the only cross-vertical player that operates across all of Southeast Asia."

The logistics and finance veteran noted that the average gross merchandise value -- the total value of a transaction made through a service -- for food delivery from GrabUnlimited subscribers was 2.4 times higher than that of nonsubscribers, while transactions were twice as much on average.

Grab has already achieved positive EBITDA for its main mobility business, which accounts for around half its total group revenue. But the subscription program would help its promising delivery business, which is expected to break even by the second quarter of 2023.

This renewed focus is particularly crucial, as Grab launched a digital banking business in Singapore this September with plans to enter Malaysia and Indonesia next year. The company's investment in online lending is expected to peak in 2023 and take another three years to break even.

Hungate noted that it has been a tough market for growth companies still trying to turn positive, with higher discounts impacting their valuation. Though the superapp operator still has over \$6 billion on its balance sheet, "Grab is obviously included in that category," he said.

"If you're a startup that doesn't have a strong value proposition, and maybe therefore has a weaker competitive position, you may not be able to raise funding," Hungate said. "We believe there will be a consolidation of the market in favor of those that really have a stronger customer proposition and a stronger balance sheet."

Southeast Asia's tech space began to blossom in the early 2010s -- around five to 10 years behind China -- in tandem with the rise in mobile phone penetration across the region. Investors and governments at the time were looking at leading tech ecosystems like Silicon Valley, trying to foster a similar scene at home.

"It came about from the lessons our Chinese team learned," said Chua Kee Lock, CEO of Vertex Holdings, the venture capital arm of Singapore state investor Temasek and an

early investor in Grab.

As the ride-hailing wave of America's Uber Technologies and Lyft hit China, mobility became the next growth sector with the rise of startups like Didi and Kuadi Dache. By the time Vertex tried to enter, however, Chua said the valuation of these companies had already swelled.

"When you miss it, it's too late. We told ourselves, this time, let's not miss it," Chua said. After searching for similar companies across the region, Vertex invested in Grab and helped the company relocate to Singapore, where the prospect of additional funding was higher with the government actively promoting startups.

For years, however, regional startups were derided as "cloners" or "copycats" of Silicon Valley and China. A notable example was Germany's Rocket Internet in the region, a startup incubator that gained notoriety for imitating successful businesses in one market to set up copycats in another.

Southeast Asian tech companies continue to lose money

	Valuation (In billions of dollars)	Stock price (Year-to-date percentage change)	EBITDA (In millions of dollars)
Grab (Singapore)	8.8	-66	-334
Sea (Singapore)	26.2	-78	-506
GoTo (Indonesia)	14.6	-48	-495
Bukalapak (Indonesia)	1.7	-37	-20

\*Valuation and stock price as of Oct. 26; EBITDA for April-June quarter  
Source: QUICK FactSet, company announcement

"It's very easy to say that. But in reality, it's very different," said Magnus Grimeland, CEO of Antler, a Singapore-based early-stage venture capital company. He originally worked with Rocket Internet as the co-founder of Singapore's e-commerce company Zalora Group in 2012.

Companies would have to build networks of logistics and partners, all in a region with a complex mix of business cultures, languages and people. "You have to do a lot of local innovation. It's a lot of blood, sweat and tears to make that work here," Grimeland said.

Many startups and talent that Rocket nurtured would later become some of the biggest names in the region. Gojek's

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founder Nadiem Makarim helped Rocket set up its Indonesian base until he returned to focus on the ride-hailing company he founded in 2010. Singapore's food delivery service Foodpanda and Lazada were both backed by Rocket from the beginning.

Eventually, these new local entrants gained traction. In 2016, Alibaba acquired Lazada to expand its overseas business, with the latter now a leading e-commerce player. Grab's acquisition of Uber Technologies' regional business in 2018 cemented the view that localization was key to success in the complex region.

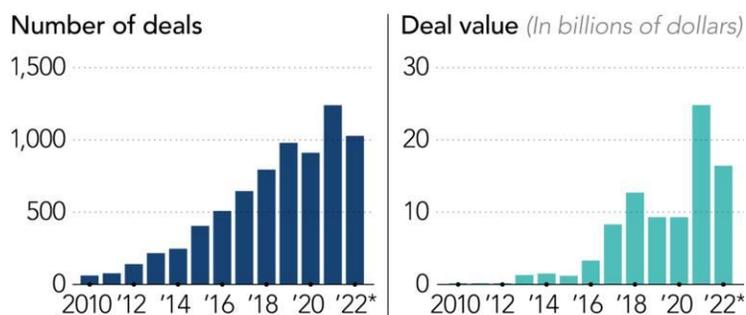
"People said American companies like Facebook, Amazon and Uber are going to dominate [Southeast Asia]. Funnily enough, it wasn't really the way it necessarily emerged," said Chesson of Openspace. Most importantly, Chesson added, these deals "built a certain confidence and a certain talent base."

As the market grew, however, so did investors' fear of missing out. The meme "spray and pray" guided them as they threw money at multiple startups in the hope that one or two would eventually reap a hefty return.

Non-traditional investors like SoftBank Group's Vision Fund -- which also invested in Grab and Tokopedia, the e-commerce arm of GoTo -- and Tiger Global Management poured millions into the region's unicorns.

Even untested startups saw seed-stage funds like Silicon Valley's Y Combinator, often referred to as an accelerator, pumping in money to increase valuation and set the new companies up for future funding.

## Funding to Southeast Asian startups ballooned over the decade



The abundance of cash allowed startups to stay private longer and continue receiving additional funds despite heavy losses. These cash-rich fledglings focused on expanding market share, as the huge investor pool meant a bigger chance that rivals could step in and challenge them.

In hindsight, the startups should have focused more on profitability. But back then, gaining market share was a rational move, almost a "rule of the game," said Muramatsu of GMO VenturePartners. "It was clear they would eventually have to become profitable. But they couldn't steer the ship because everyone else was doing the same."

"In the old days, you only needed to get there fast. So what you do is prioritize speed over capital efficiency," said Chua of Vertex. "But they cannot do fifty things anymore. They have to do five things well, and then get there faster and become more profitable. This is a natural evolution."

During the pandemic lockdowns, investors continued making deals via video conferences without doing the necessary boots-on-the-ground basics. "Many people say it was efficient. But I think it's lack of discipline. It created a tremendous bubble," Chua said.

Still, aiming at a population of 680 million with digital adoption nascent, investors remain bullish on the long-term prospects for Southeast Asia and fundraising continues to be strong. Investors are also shifting from China, alarmed by Beijing's crackdown on tech companies and prolonged zero-COVID curbs that have shaken the economy.

"If anything, I'm more excited," said Kaptein of Integra Partners. "The rate of growth that we see in companies, the willingness of clients and governments to help support the digital ecosystem has only increased."

In late September, SuperReturn Asia -- the world's largest private equity and venture capital conference -- was held for the first time in Singapore instead of Hong Kong. A record 1,000 executives from over 40 countries participated in the five-day confab.

Even this year, the region is seeing more cash coming in, with many region-focused funds oversubscribed. In the first six months, local venture capital companies closed 23 funds

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with proceeds of over \$3 billion, comparable with full-year performance in 2021, according to DealStreetAsia.

The strong data suggests "the full-year performance [of 2022] is likely to surpass pre-pandemic levels, which peaked in 2019," the report noted.

Still, the rubber hit the road this year. As exits need to start performing, investors are placing much greater focus on short-term profit. Just like the tech companies that won the region through localization, investors will need to be on the ground.

"This is a good time. Some people, unfortunately, may not survive this downturn," said Chua. "But I think it's a lesson to be learned."

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Source: Tsubasa Suruga (2022). From Grab to Sea, ASEAN tech confronts end of golden decade. *Nikkei Asia*.

Available at: <https://asia.nikkei.com/Business/Business-Spotlight/From-Grab-to-Sea-ASEAN-tech-confronts-end-of-golden-decade>

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TODAY'S TOP NEWS

## Manila Water, Maynilad investing P344b in 5 years

Water concessionaires Manila Water Co. Inc. and Maynilad Water Services Inc. announced Wednesday massive capital expenditures of P344 billion to improve water service in their respective concession areas in the next five years.

## DOTr wants private sector to take over MRT 3 ops

The Department of Transportation said Wednesday the government is not selling the assets of Metro Rail Transit Line 3, but only plans to privatize the operations and maintenance of the rail system.

## Bill condoning agrarian reform loans gets nod

The House Committee on Agrarian Reform on Wednesday approved a Marcos priority measure emancipating agrarian reform beneficiaries from the debt burden arising from the award of agricultural lands under the Comprehensive Agrarian Reform Program (CARP).

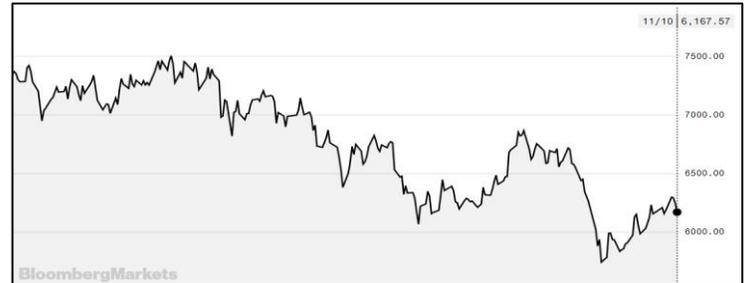
## Megaworld booked P8.4b net income in 3 quarters

Office and condominium builder Megaworld Corp. said Wednesday net income attributable to the parent company's shareholders rose 3% in the first 3 quarters to P8.4 bn from a year ago. Consolidated revenues in the first 9 months went up by 15% to P42.5 bn from P36.9 bn as all segments maintained double-digit growth.

## SEC approves Alternergy's P1.89-b IPO

The SEC approved the planned P1.89bn IPO of Alternergy Holdings Corp. to finance renewable energy projects. The SEC en banc rendered effective the registration statement covering 4,320,669,117 common shares in its Nov. 8 meeting, subject to the company's compliance with specific requirements.

## Philippine Stock Market Update



Previous Close:

6,167.57

1 Yr Return:

-12.08%

Open:

6,307.73

YTD Return:

-11.45%

52-Week Range:

5,699.30 - 7,552.20

Source:

Bloomberg

## Foreign Exchange

As of November 10, 2022

US Dollar	Philippine Peso
1	58.08

## BVAL Reference Rates

As of November 10, 2022

Tenor	Rate
1Y	5.041
3Y	6.510
5Y	7.052
7Y	7.324
10Y	7.721
20Y	7.872

## Daily Quote

"Not how long, but how well you have lived is the main thing." — Seneca

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## MORE LOCAL NEWS

### MPIC says profit hits P4.4B

LISTED conglomerate Metro Pacific Investments Corp. (MPIC) announced on Wednesday that its consolidated core net income for the third quarter of the year reached P4.4 billion, an increase of 26% from the same period the previous year.

### SMIC profit up 50% to P43B as economy picks up

SM INVESTMENTS Corp. (SMIC) reported a 50% growth in its nine-month consolidated net income to P42.9 billion from P28.6 billion a year ago due to increased economic activity.

### JFSC earns P2B, terminates Dunkin' Donuts deal

JOLLIBEE Foods Corp. (JFC) recorded P2.14 billion in attributable net income for the third quarter, up by 36.3% from P1.57 billion a year ago, after booking record sales, revenues, and operating income.

### Megaworld registers P8.4-B profit

ANDREW L. TAN'S Megaworld Corp. posted P8.4 billion in nine-month attributable net income, up by 3% from last year, as sales beat pre-pandemic levels.

### Monde Nissin income down 46% after product recall

MONDE NISSIN CORP. posted a P1.55-billion core net income in the third quarter, lower by 46% versus last year, as sales were affected by a product recall in Europe.

### Economy outperforms, expands by 7.6% in Q3

The Philippine economy grew at a faster than expected pace in the third quarter, on track to achieving this year's growth target. The economy as measured by the gross domestic product (GDP) grew by 7.6% in the third quarter, faster than the 7.0% growth in the same period last year, and the revised 7.5% growth in the 2Q2022.

### Debt-to-GDP ratio rises to 17-year high in Q3

The share of national debt to the country's output has jumped to 63.7%, the highest rate in 17 years. Data from the Bureau of the Treasury showed that the country's debt level, when measured against the gross domestic product (GDP), increased to 63.7% in the third quarter from 62.1% in the second quarter.

### Bulacan airport civil works 42% complete

The New Manila International Airport, set to be the country's largest airport, is gaining headway in its civil works, with land development completed by 42%, according to the Department of Transportation. San Miguel Aerocity Inc. expects to finish the development works by the end-2024, as it eyes operating in 2027.

### 2GO Group returns to profitability in Jan-Sept

SM Investments' subsidiary 2GO Group Inc. swung back to profitability during the first nine months of 2022. 2GO Group reported a net income of P240 million in the January to September period, a turnaround from a net loss of P939 million in the same period last year.

### JG Summit nets P6.5 billion in first nine months

Gokongwei-led JG Summit Holdings Inc. (JGS) remains cautious in its margins for the last quarter of the year, even as its core net income for the first nine months grew by more than tenfold. JGS reported a core net income of P6.5 billion for the January to September period, up from P0.6 billion in the same period recorded last year.

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## TODAY'S TOP ASIAN NEWS

### F&N earnings down 11.1% despite higher revenue

BEVERAGE and publishing company Fraser and Neave : F99 +4.13% (F&N) on Thursday (Nov 10) announced an 11.1 per cent drop in net profit to S\$124.9 million for the financial year ended Sep 30, from S\$140.4 million the year before.

### Hong Kong: Stocks surge 6%

HONG KONG stocks surged 6 per cent at the open on Friday (Nov 11), following a bumper session on Wall Street as lower US inflation dimmed expectations of more aggressive Fed interest-rate hikes. The Hang Seng Index rocketed 6.08 per cent, or 978.40 points, to 17,059.44.

### China's Comac secures 330 orders for passenger jet

Chinese plane maker Commercial Aircraft Corporation of China (Comac) has secured 330 orders for its homegrown C919 narrowbody and ARJ21 regional jets, and raised its 20-year aircraft demand forecast at China's biggest air show.

### Bangladesh: initial IMF pact for \$4.5 billion loan

Bangladesh reached a staff-level agreement with the International Monetary Fund for a US\$4.5 billion loan, a key step that would allow the nation to buffer its economy amid dwindling foreign exchange reserves.

### SoftBank buyback spree sparks buyout speculation

SoftBank Group has accelerated the pace of its share buybacks, reigniting speculation that Masayoshi Son is laying the groundwork to take the company private. The Japanese tech investor bought ¥197.6bn of its shares in 10 days in late Oct. – almost half of the amount allotted in a buyback scheme planned for a full year.

## TODAY'S TOP GLOBAL NEWS

### Twitter bankruptcy a possibility – Musk

ELON Musk, in his first address to Twitter employees since purchasing the company for US\$44 billion, said that bankruptcy was a possibility. Yoel Roth and Robin Wheeler, two executives who until today had emerged as part of Elon Musk's new leadership team, have resigned, according to another person familiar with the matter.

### China property crisis threatens \$1.6t of debt

CHINA'S deepening property crisis is piling pressure on a US\$1.6 trillion corner of the country's onshore bond market, as cities and local administrations step in as white knights to bail out troubled developers in a state-backed bid to aid the sector.

### Amid recession fears , India is seen as oasis

AGAINST the backdrop of the so-called China+1 strategy where more businesses and investors are looking to diversify beyond China, one country that is seeing increased attention is India.

### Binance calls off acquisition of FTX

Binance, the world's biggest cryptocurrency platform, said in an abrupt reversal on Wednesday that it was scrapping plans to acquire rival FTX.com, citing reports of mishandled customer funds and alleged gov't probes. This is a further blow to FTX founder Sam Bankman-Fried, who is considered a cryptocurrency wunderkind.

### Facebook parent Meta to cut more than 11,000 jobs

Meta Platforms said on Wednesday it will let go of 13 per cent of its workforce, or more than 11,000 employees, in one of the biggest tech layoffs in 2022 as the Facebook parent battles soaring costs and a weak advertising market. The broad job cuts are the first in Meta's 18-year history.