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SE Asia Private Capital Markets Report 2020

Authors

Andi Haswidi
Head, ASEAN Research
andi@dealstreetasia.com

Valerie Law
Team Lead, Research
valerie@dealstreetasia.com

Editor

Deepshikha Monga
deepshikha@dealstreetasia.com

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Introduction

2020 has been a year like no other. An unprecedented healthcare crisis brought the world to a halt, disrupted markets and caused prolonged lockdowns, forcing individuals, governments and businesses to find new ways of working, transacting and living.

As the data shows, Southeast Asia, Greater China and India – the markets we cover in depth at DealStreetAsia – are at different stages of recovery from the COVID-19 pandemic.

Greater China has seen a spurt in dealmaking activities every quarter this year and is set to end 2020 on a strong note. Startups based in the market collected a combined $14.3 billion across 354 deals in the third quarter, a surge of almost 51 per cent in funds raised and a 33 per cent increase in deal volume over Q2.

Neighbouring India, meanwhile, is beginning to bounce back. Startups in the country inked 258 deals in the third quarter to gather at least $3.14 billion. The overall deal value in the quarter was more than double that seen in Q2. However, there is significant scope for recovery; the Q3 tally is only 77.8 per cent of the deal value seen in Q1.

In contrast, Southeast Asia saw the impact of the pandemic reflected in the third quarter as both deal count and value dropped, as we explain in this report. Different countries in the region have seen varying degrees of impact on startup fundraising in the first nine months of the year, highlighting the role played by governments and their pandemic control measures.

In addition to the data on startups, this report covers fundraising by private equity and venture capital vehicles with a Southeast Asia focus. We look at final closes made by such funds in the first nine months of the year as well as those currently in the market to raise capital for investments in the region.

General partners (GPs), who manage PE and VC funds, have not remained unscathed by the pandemic. In the absence of in-person meetings with their limited partners—these are large institutional investors who provide capital to PE and VC funds in expectations of an outsized return—due to travel restrictions, they have found themselves either extending fundraising timelines or slashing targets.

Funds with a mandate to invest in Southeast Asia have fared no differently, our data shows. This is especially true for venture capital firms, which are a major source of capital for this region's fledgling startup ecosystem.

A clear distinction, however, has emerged in the fundraising performance of regional funds—these are headquartered in Southeast Asia and are relatively young and smaller in size—and those with cross-border operations, with the latter outdoing the former in the first nine months of this year.

Based on startup and GP data, economic indicators, news on the vaccine front, and inputs from industry leaders, this report also makes an attempt to offer an outlook for 2021. The near term is likely to be fraught with challenges but there is much to be optimistic about when it comes to Southeast Asia and its potential.

We hope you enjoy reading this report and find it useful.

SE Asia Deal Landscape

Delayed feedback points to a muted 2021

Southeast Asian companies forged more fundraising deals this year than ever before, but lower valuations and challenging market conditions forced many to curb expectations of fresh capital. As of September 30, 2020, startups in the region had recorded 481 deals, 23 per cent higher year-on-year, but with a total investment value that is on par with the same period last year at $7.6 billion.

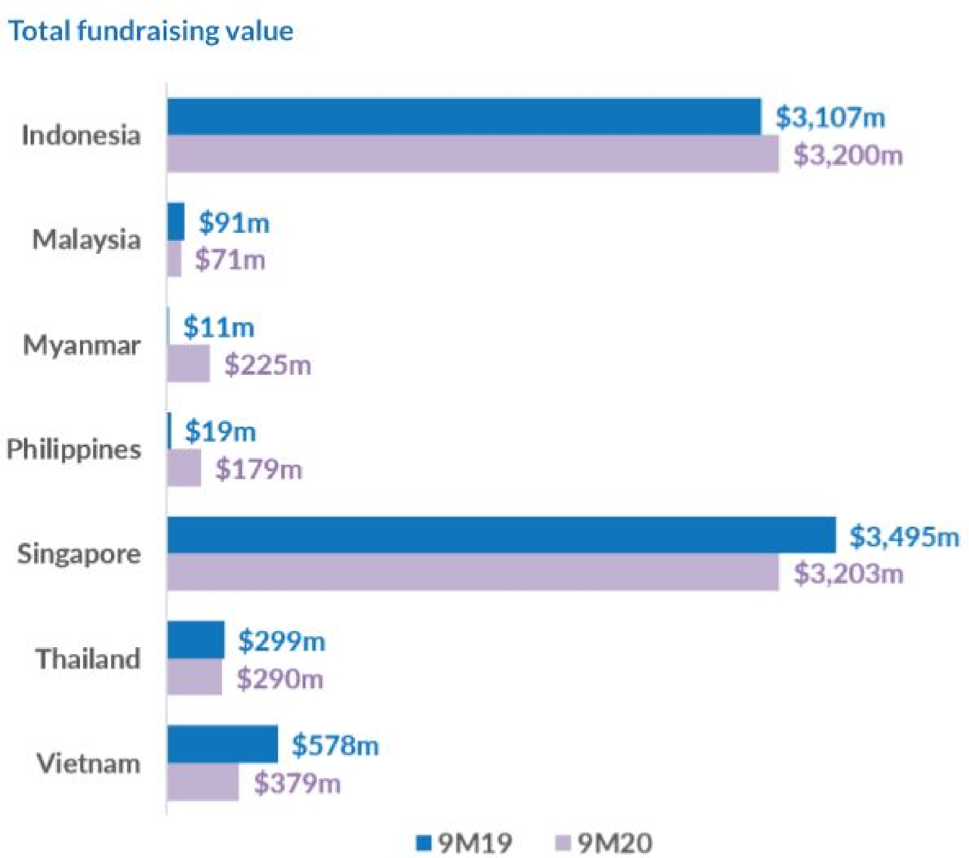
It is important to note that the nine-month data does not reflect the full extent of the COVID-19 impact on fundraising as most negotiations and due diligence processes in at least the first two quarters of the year were carried out prior to the lockdown period, which only began in April for most markets in this region. According to our quarterly deal review, the impact became clearly visible in the third quarter, when the total deal value fell 34 per cent compared to the previous quarter and 40 per cent relative to the same period last year.

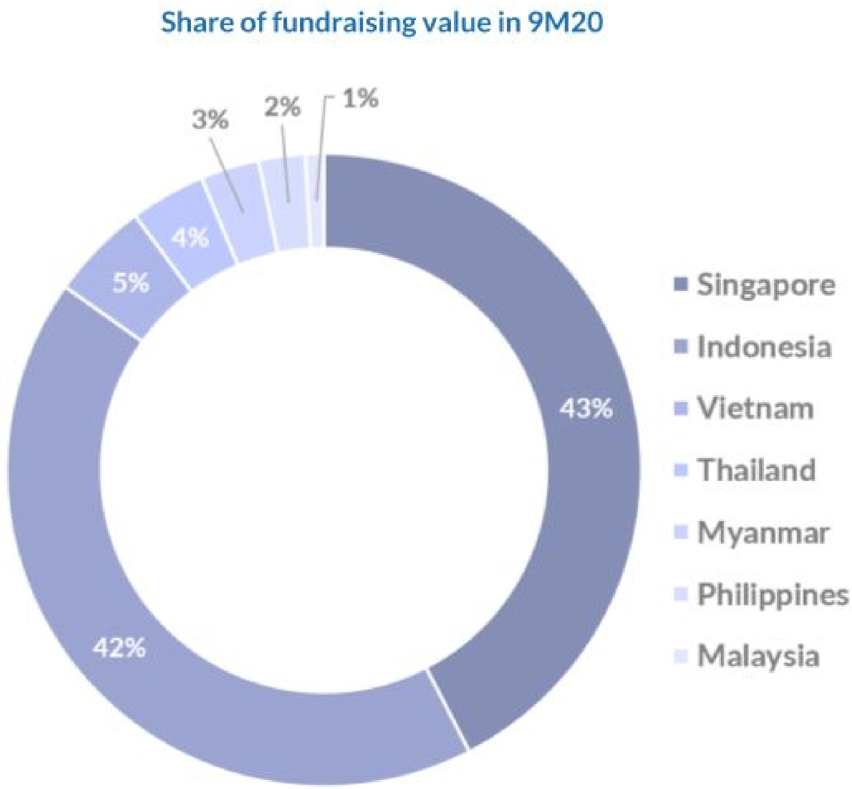
Q3 2020 data begins to show pandemic impact

Singapore, Indonesia lead deal tally

Singapore was the only market in Southeast Asia that witnessed a growth in both deal count and value in the third quarter. Local startups recorded 80 deals worth a total of $1.1 billion, higher than $924 million in the previous quarter as the city-state benefitted from its position as the region's financial hub and an effective government response to the pandemic. Overall, however, Singaporean startups received $3.2 billion from January to September, lower than $3.5 billion in the same period last year, due to the absence of mega-deals.

Persistent funding gaps across SE Asian markets





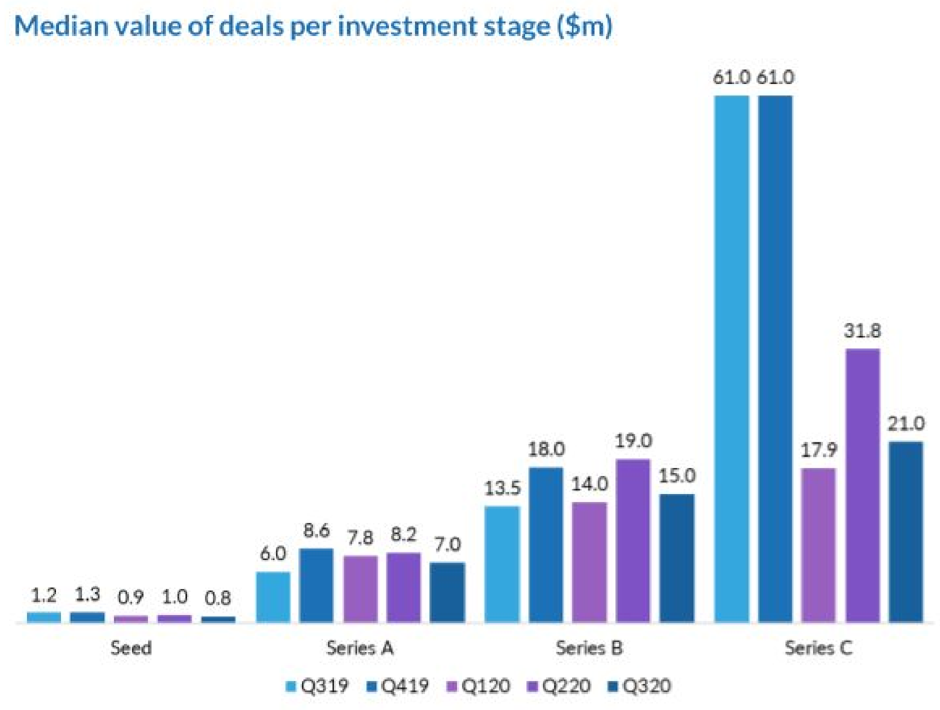
Indonesia was the only market to witness growth in both deal count and deal value in the first nine months. Startups in the archipelago reported 118 deals worth $3.2 billion during the period, higher than 110 deals and $3.1 billion in the same period last year. Indonesian decacorn Gojek raised at least $1.5 billion within the period, followed by e-commerce giant Tokopedia ($500 million) and travel tech unicorn Traveloka ($250 million).

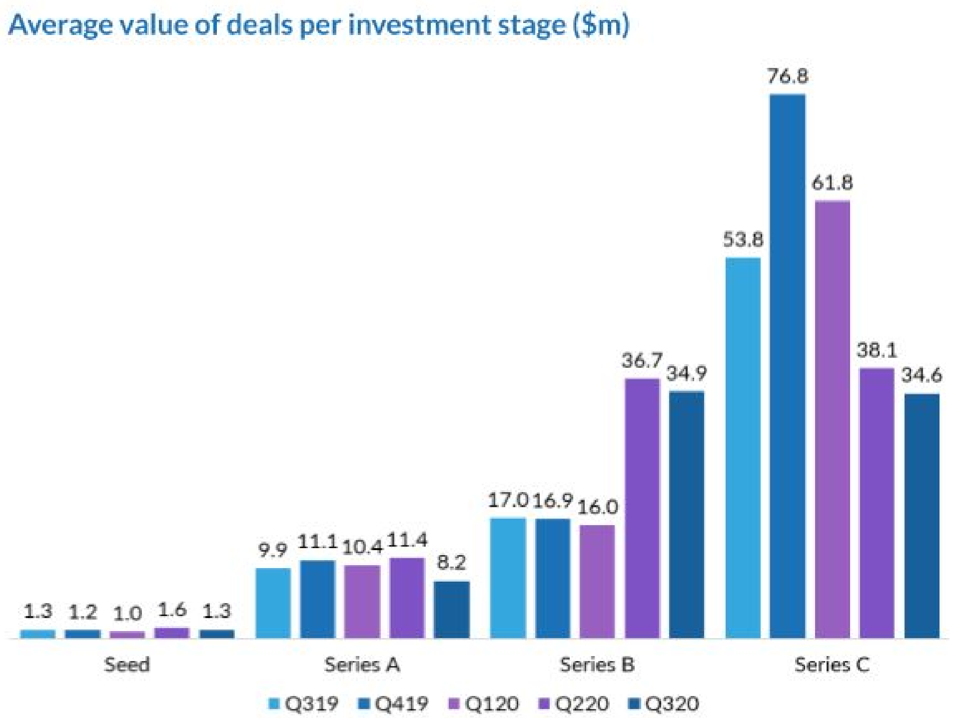
Despite travel tech being severely impacted by the pandemic, the long-term outlook for Indonesia's travel industry remains robust largely due to its untapped potential, as we highlighted in our [travel tech report] in June. The investment in Traveloka by EV Growth, GIC and Qatar Investment Authority in July is a clear testament to this view.

The valuation game

The median value of deals dropped across seed to Series C rounds in the third quarter as investors sought lower valuations. This is in line with [our investor sentiment survey] conducted in July, which indicated a high likelihood of a significant reduction in valuations this year. Investors had been concerned about high startup valuations even before the pandemic, especially after WeWork's botched IPO showed how over-optimistic the private markets had been.

In Southeast Asia, the decline in median deal value was steeper for growth-stage startups that saw their revenues plummet due to the pandemic. Many were forced to lay off employees to extend their operational runways. With economies in Southeast Asia suffering a worse-than-expected decline, more cost-cutting rounds – along with market consolidation - are likely early next year.

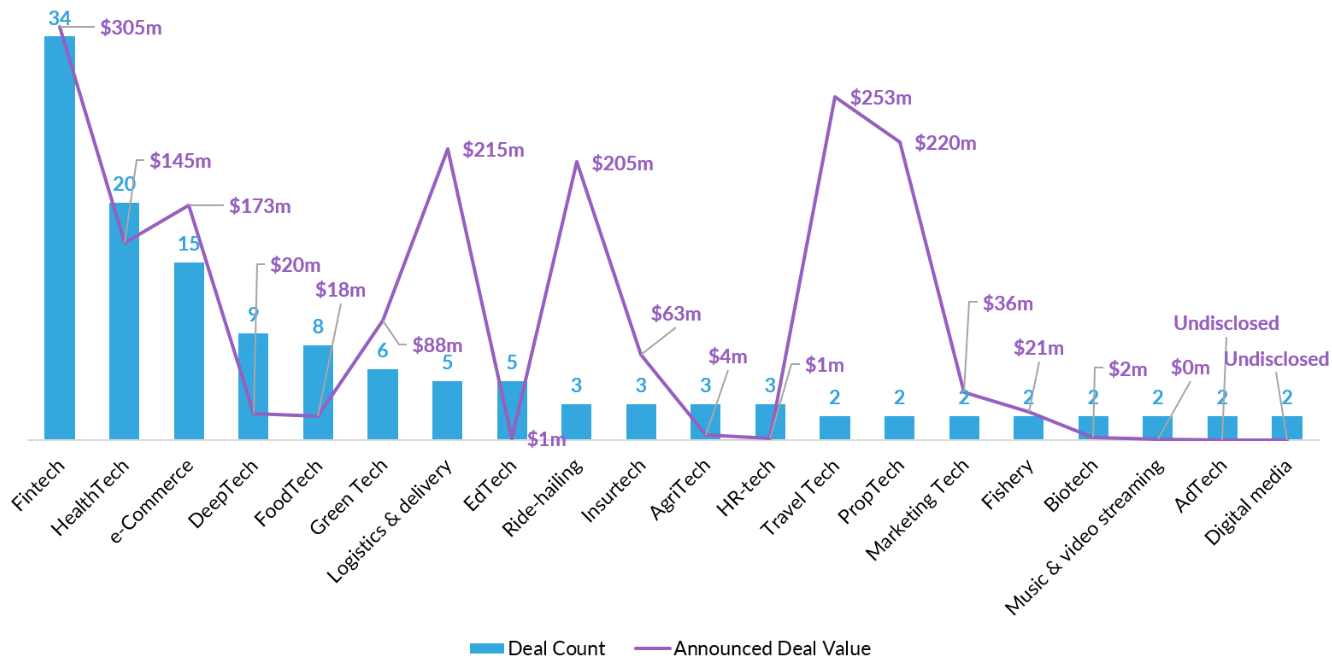




Despite the challenging market environment, the appetite for seed investments appears to remain strong. Southeast Asian startups closed 57 seed rounds in the third quarter, on par with the second quarter and higher than 48 a year before. Fintech and healthtech startups garnered the most interest from seed and Series A investors, recording 18 and nine deals, respectively, with a combined value of $118 million.

While the impact of the pandemic is reflected in deal count and deal value in the third quarter, it is also reflected in the types of sectors that attracted most deals. In the past, e-commerce and fintech are typically the top two most popular sectors in Southeast Asia. This changed in the third quarter when healthtech replaced e-commerce as the second most active sector in terms of deal count.

Pandemic-resilient sectors continue ascent in Q3 2020



The rise of healthtech startups is predictable as more people shifted to online medical consultations during the pandemic season. Our latest review of the telemedicine sector found that startups in the region have raised at least $246 million since 2014. Nearly 60 per cent of the funding went to Indonesian startups, with Halodoc emerging as the largest recipient with nearly $100 million, followed by Alodokter with $45 million.

Major players reported a more than four times spike in teleconsultations and a two-fold increase in daily active users at the height of the pandemic. Industry insiders believe the crisis has fast-tracked telemedicine adoption in the region by five years. Higher awareness of the benefits of telemedicine should keep adoption rates above pre-pandemic levels over the next 12 to 24 months.

Unicorns of SE Asia 2020

Grab

gojek

tokopedia

traveloka

Lazada

Bukalapak

OVO

trax

VNG

BIGO LIVE

GO PAY
POWERED BY GOJEK

VNPAY
Cho cuộc sống đơn giản hơn

Note: Unicorns refer to privately-held companies valued over $1 billion. This explains the exclusion of publicly traded companies such as Razer and Sea Ltd. This list is based on media reports and disclosures, and does not constitute an endorsement or confirmation of the valuations achieved by these companies.

In 2019, there were 11 unicorns in Southeast Asia: Grab, Gojek, Lazada, Traveloka, Tokopedia, Bukalapak, Trax, OVO, Bigo, VNG and Revolution Precrafted. This year, there are 12.

Revolution Precrafted, which had the hallowed status of being the Philippines' first unicorn, dropped off the list in 2020. As we revealed in a series of articles earlier this year, the company's failure to deliver on its promise of quick-to-build luxury homes in its home market and attempts to raise minuscule rounds of funding belie a billion-dollar valuation.

New additions to the list are GoPay, the payments arm of Gojek, and Vietnamese payments startup VNPay, which last year bagged investments from SoftBank Vision Fund and Singapore sovereign wealth fund GIC Pte.

Then, there is the curious case of Singapore-based social media startup Bigo, which was acquired for $1.45 billion by China's YY last year. The company was accused, along with its owner YY, by Muddy Waters Research of fraudulent operations. In a November report, the investment research firm said, "We estimate that ~80% of Bigo revenue is fraudulent. Using more company-favorable assumptions yields a fraudulent revenue contribution of ~60%." However, until there is evidence to prove those claims, Bigo remains on our (and other industry watchers') list of unicorns.

Strong contenders to crack the unicorn club in 2021 include Indonesia's LinkAja, which recently collected $100 million in a funding round led by Grab, and healthtech startup Halodoc, which is on track to raise $200 million in early 2021.

Soonicorns of SE Asia

The landscape of Southeast Asia's soonicorns, or privately-held startups valued between $100 million and $1 billion, is dynamic in itself, but this year has been transformational for many companies as COVID-19 forced them into re-defining themselves and/or reorganising in order to survive.

In a difficult business environment, companies searched for safe havens. Fashion B2B e-commerce firm Zillingo tried to diversify into making personal protective equipment and fast moving consumer goods (FMCG), whereas ONE Championship accelerated its e-sports product line to tap on the surge in digital consumption, as mentioned by Teh Hua Fung, Group President, ONE Championship during DealStreetAsia's virtual summit this year.

Sociolla shelved its plans of rolling out stores as planned, repurposed its resources to cater to the fast-growing online business, and built warehouses and distribution centres in 21 cities across Indonesia. Youtrip, a multi-currency mobile wallet, may enter the soonicorns list as it pivoted from catering to travellers to serving shoppers looking to buy goods overseas. As a result, it reported a 300 per cent increase in transactions, according to IBS intelligence.

Some secured funding in what were possibly down-rounds while others were acquired in the midst of the pandemic (e.g. Moca). Then, there was the potential Tiki-Sendo merger in Vietnam that ultimately wasn't.

Soonicorns of Southeast Asia: Part 1

Headquarter	Firm	Vertical	Total Funding ($m)
Indonesia	Akulaku	Fintech lending	218
Indonesia	Alodokter	Telemedicine, healthtech	45.1
Indonesia	BeliMobilGue	Healtech, telemedicine	13.7
Indonesia	Blibli	E-commerce, B2C marketplace	Unknown
Indonesia	C88 Financial Technologies	Fintech, data analytics	28
Indonesia	Gudangada	E-commerce, B2B marketplace	35.9
Indonesia	Halodoc	Healthtech, telemedicine	65
Indonesia	HappyFresh	E-Commerce, online grocery	30
Indonesia	Investree	Fintech lending	24
Indonesia	Koinworks	Fintech lending	62.1
Indonesia	Kopi Kenangan	Food & beverage, coffee chain	237
Indonesia	Kredivo	Fintech lending	110
Indonesia	LinkAja	Fintech, e-payment	100
Indonesia	Maingames	Gaming, game developer	Unknown
Indonesia	Mekari	Saas, HR-tech	Unknown
Indonesia	Modalku	Fintech lending	1.2
Indonesia	PAYFAZZ	Fintech, e-payment	127.1
Indonesia	Ruangguru	Edtech	150.1
Indonesia	Sicepat Ekspres	Logistics, last-mile delivery	53.5
Indonesia	Sociolla	E-commerce, beauty marketplace	110
Indonesia	Waresix	Logistics, warehousing	127.1
Indonesia	Warung Pintar	Fintech, accounting	35.5
Indonesia	Xendit	Fintech, e-payment	0.12
Malaysia	Carsome	E-commerce, car marketplace	77.4
Malaysia	FashionValet	E-commerce, online fashion	6.4
Malaysia	MyCash Online	Fintech, e-payment	0.19
Malaysia	Socar Malaysia	Ride-hailing	18
Philippines	PayMaya	Fintech, e-payment	Unknown
Singapore	GoBear	Insurtech	97
Singapore	2C2P	Fintech, e-payment	70
Singapore	99.co	Proptech	33.1
Singapore	ADVANCE.AI	Deeptech, AI	136
Singapore	Anymind Group	Adtech	62.3
Singapore	Carousell	E-commerce, online marketplace	262.8
Singapore	Carro	E-commerce, car marketplace	229.5

Source: Crunchbase, media reports, DealStreetAsia - Research & Analytics

This list is not exhaustive.

Soonicorns of Southeast Asia: Part 2

Headquarter	Firm	Vertical	Total Funding ($m)
Singapore	CXA Group	Healthtech, AI	58
Singapore	Doctor Anywhere	Healthtech, telemedicine	31.1
Singapore	fave	Fintech, e-payment	32
Singapore	hmlet	Hospitality	48
Singapore	iSTOX	Fintech, blockchain trade	8
Singapore	Ninja Van	Logistics, last-mile delivery	196.5
Singapore	Nium (InstaReM)	Fintech, e-payment	59
Singapore	One Championship	Media, sports & entertainment	336
Singapore	Property Guru	Real Estate, proptech	740
Singapore	RedDoorz	Hospitality, hotel bookings	134.4
Singapore	ShopBack	E-commerce, cashback app	101.1
Singapore	Taiger	Software, enterprise solutions	31.3
Singapore	Trusting Social	Fintech, credit scoring	44
Singapore	Validus Capital	Fintech lending	50.2
Singapore	Zilingo	E-commerce, online fashion	307.9
Thailand	aCommerce	E-commerce, enterprise solutions	118.8
Thailand	Amity	Software, enterprise solutions	Unknown
Thailand	Ascend Group	E-commerce, e-payment	Unknown
Thailand	Eatigo	Foodtech	25.5
Thailand	Line Man	Food & beverage, delivery	110
Thailand	Omise	Fintech, e-payment	100.4
Thailand	OokBee	E-commerce, online publishing	28
Thailand	Pomelo Fashion	E-commerce, online fashion	83.6
Thailand	Rabbit (Card)	Payment	Unknown
Vietnam	Batdongsan	Real Estate	Unknown
Vietnam	Be Group	Transportation, delivery	Unknown
Vietnam	Coc Coc	Software, search engine	14
Vietnam	MatchMove Pay	Fintech, e-payment	83.4
Vietnam	Momo	Fintech, e-payment	133.8
Vietnam	Scommerce asia	E-commerce, logistics	Unknown
Vietnam	Sendo	E-commerce, online marketplace	112
Vietnam	Tiki	E-commerce, online marketplace	192.5
Vietnam	Topica Edtech	Edtech	53.5
Vietnam	Vato	Ride-hailing	Unknown
Vietnam	VinID	Fintech, e-payment	Unknown
Vietnam	Zalo	Internet, communications	Unknown

Source: Crunchbase, media reports, DealStreetAsia - Research & Analytics

This list is not exhaustive.

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How Indonesian startups are redefining industries by repurposing their capabilities

Author: **Willson Cuaca, Co-founder and Managing Partner, East Ventures**

A few lessons for the future from Indonesia-based startups that pivoted their business models through the COVID-19 crisis

The COVID-19 pandemic has brought about significant changes in working arrangements, consumer behaviour, and regulations. These changes have knocked companies off balance, forcing them to go back to the drawing board, re-strategise and build on their capabilities to adapt to the new normal.

For instance, a restaurant that has the capacity to seat 100 customers can now only allow half that number due to mandatory social distancing requirements and capacity caps. Even if the demand for eating out is high, restaurants can only make half their normal revenue from in-person dining due to regulatory changes.

However, the capabilities of that restaurant will persist. The chef is still able to provide the most delicious dishes and the waiters can still deliver the best service. The virus took away the capacity but it didn't take away the capability.

In a crisis, the most important question for businesses to answer is how to react. Companies must quickly recognize their core strengths and know how to repurpose their capabilities in light of the changing regulations and new consumer behaviour.

Ability to react fast

In reality, what we know about the digitization process thus far is that startups are a disruptive and adaptable force, irrespective of COVID-19. These firms are known to be observant and agile with founders who are resilient and driven.

An example of an agile startup is Sociolla, a beauty e-Commerce platform that has seen incredible growth even during the pandemic. In 2019, the company planned to expand its offline channel after growing to be one of the largest vertical commerce platforms in Indonesia. Based on the success of its first offline stores in Jakarta and Surabaya, the company had planned an aggressive rollout in 2020. However, COVID-19 disrupted those plans.

The pandemic hit the retail and F&B industries significantly, forcing a myriad of stores to close down or suffer from extremely limited traffic. Startups that were aggressively deploying money to open hundreds of new outlets in 2019 were among the worst hit, because of their excess capacity.

However, Sociolla, being an agile organization, quickly adjusted its strategy. Instead of rolling out stores as planned, the company repurposed its resources to meet the needs of its fast-growing online business. It shifted capabilities to build warehouses and distribution centres in 21 cities across Indonesia. The company also seized the opportunity of expanding to Vietnam, a faster recovering economy, and pivoted its SKU focus from make-up to personal care. Sociolla quickly noticed the shift in consumer behaviour as a result of COVID-19 and strategically repurposed its capabilities to meet consumer demand.

Repurpose and innovate

A similar challenge could be observed in the travel industry. For years, Traveloka had strengthened its core capability of creating a seamless platform for consumers to search and book travel and accommodation. Traveloka soon had the capacity to handle millions of transactions to travel and lodge in destinations across the globe.

However, ever since the virus broke in late 2019, transactions on the platform began to drop, hitting zero in April this year. Suddenly, its core capacity that had been built over time became irrelevant and underproductive.

Traveloka had to take drastic measures to cut its excess capacity. With the contraction of the demand for travel, the company decisively repurposed its capabilities to focus on customer service, allowing it to successfully process almost 1.4 trillion rupiah (approximately $98 million) worth of refunds in just a few months.

The challenge didn't stop there. In the following months, people were still wary and afraid of travel by air and most countries still closed their borders to foreigners. Instead of waiting for airline ticket demand to recover, Traveloka leveraged its capability by catering to consumer enthusiasm to explore their own backyard, focusing offerings on "staycations" and "road trips".

Consumer demand shifted to local, non-air travel. To avoid the possibility of contracting the virus, people took extra precautions during travels, looking for places that were accessible by car and vacation spots that offered more privacy. Thus, the demand for villas, bungalows or more spacious hotels near large cities in Indonesia increased. By early Q4, Indonesia's hotel industry had recovered to 70 per cent of its pre-COVID performance. This supported Traveloka's recovery as well.

Another adaptable and quick-moving industry that gained ground during COVID-19 was, of course, healthcare. Nusantics, a biotech startup based in Indonesia, initially focused on the beauty and wellness industry. Its original capacity was its ability to test the microbiomes of consumers for more data-driven beauty care. However, in light of the pandemic, its beauty business declined as lockdown regulations prevented consumers from being able to enjoy their services, which ranged from skin check-ups to facial care.

In light of COVID, a government task force noticed the company's capability in microbiome analysis and asked it to join the effort in developing locally made RT-PCR test kits in Indonesia. Nusantics successfully created a gold-standard prototype that was then mass produced and distributed across Indonesia, in collaboration with Bio Farma, a state-owned company. Nusantics is now developing the third generation of the test kit. The firm truly represents the resilient and nimble capabilities of an organization in tech.

Flight to the digital world

Not all good stories that came out of Indonesia are stories of struggle. Some of the startups in Indonesia actually found the new environment to be a place to thrive, a time to put their capabilities to the test and emerge stronger.

The recently published e-Conomy SEA 2020 report by Google, Temasek, and Bain & Company showed how new Southeast Asian users are moving online at a glacial pace. The region added 40 million new internet users in 2020, 25 million of which was accounted for by Indonesia. East Ventures internal data also confirms this flight to digitisation. In terms of e-Commerce adoption, this year, we were able to achieve the target initially set for 2022, 18 months ahead of schedule.

The pandemic forced people to stay, turning them to readily available digital products and services to fulfil their daily needs, ranging from food to education. Meanwhile, companies were also forced to adopt new and digital ways of doing business, ranging from the ability to telework, meet online, accept digital payments, diversify to e-commerce channels, and figure out how to manage distribution and logistics efficiently from afar.

Earlier reluctance to adopt technology among some of Indonesia’s educational institutions, educators and parents turned around as a result of the crisis. Again, with the social distancing policy in place, schools and other learning institutions are now facing indefinite closure, forcing more than 60 million students in Indonesia to adopt remote learning. To help students, Ruangguru moved fast by offering free programmes for both teachers and students.

To keep families fed, Indonesians turn to the already popular food delivery services like Go-Food and GrabFood. The two unicorns, who were hit by the drop in the ride-hailing sectors, reacted to this changing behaviour by, again, focusing their capabilities to their core business. They onboarded many new food merchants onto their platforms especially as a result of the temporary closures of malls.

As mentioned before, the same is true especially for companies in the e-commerce vertical. Established and new companies swarmed the on-demand grocery delivery services to provide fresh and dry produce directly to consumers' doorstep. Online shoppers also turned to e-commerce to fulfil their hobbies and needs, from personal care to biking. The shift brought more brands, MSMEs, and individual sellers to open an online store. Tokopedia added more than two million new merchants in the six months after the pandemic broke in Indonesia, compared to 7.2 million merchants that joined the marketplace in the 10 years before.

Reacting with resourcefulness

In pre-COVID times, companies already faced a number of uncertainties. However, COVID-19 not only amplified these issues but also pushed leaders to be more decisive, sharp and resourceful. Good leaders who were ready to take on these challenges with established structures and plans are now being challenged to be innovative and agile.

Nobody thought a global health crisis would hit us in 2020. Many did not have playbooks for an unprecedented moment in history like this. However, what we can see from the many examples of businesses moving with agility is that it is companies' response and reaction that can determine when they come out of this crisis.

Startups now have to sail through shallow, uncharted waters. In open water, a ship has more freedom to chart its course, can sail with heavier cargo, and move at full speed. Shallow water means it must travel slowly and with a lighter load.

One thing is for sure: the crisis may have taken the capacity of many companies but it did not and will not take away their capabilities. With a good team, reliable and speedy data, a sense of purpose and strategic planning, a ship can arrive in open water, leagues ahead of the competition.

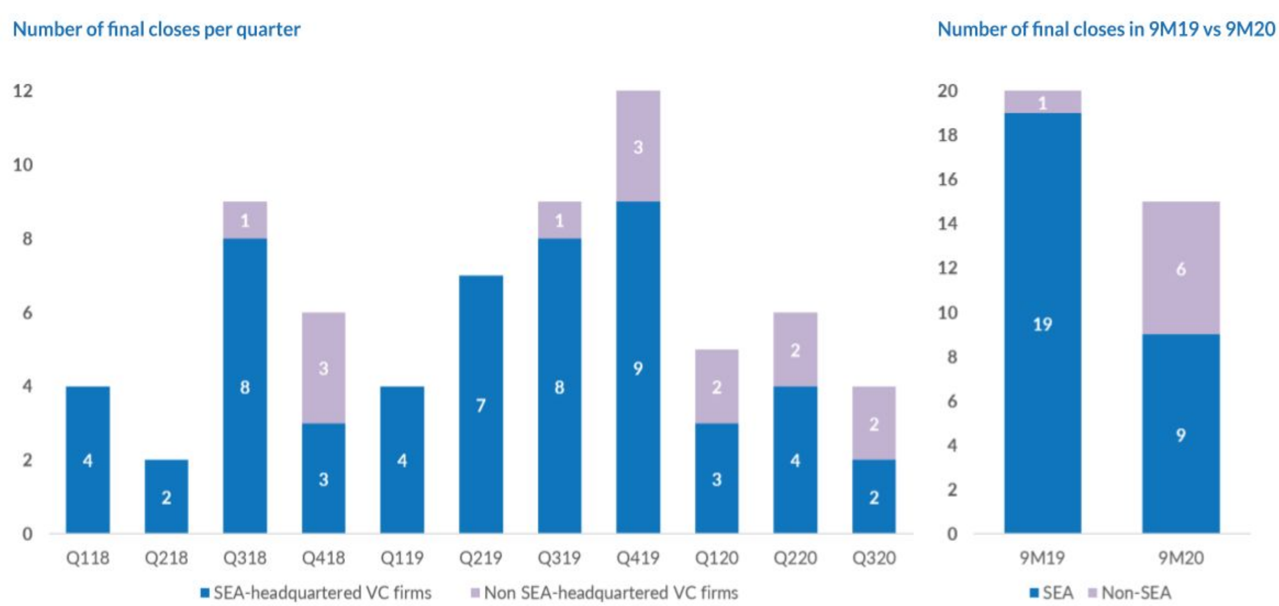
Venture capital

SE Asia lures more foreign funds as local VCs struggle

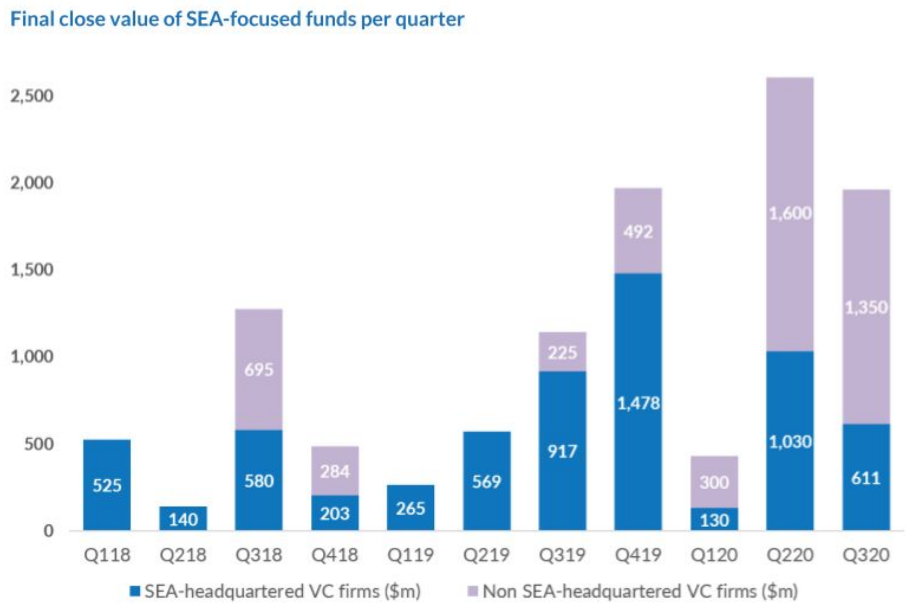
The impact of the COVID-19 pandemic on venture capital fundraising has been swift and painful. Only nine Southeast Asia-headquartered VC firms managed to reach a final close in the first nine months of this year. This compares to 19 and 14 in the same period of 2019 and 2018 respectively. The total value of funds closed reached $1.8 billion as of September, only higher by $20 million relative to the same period last year.

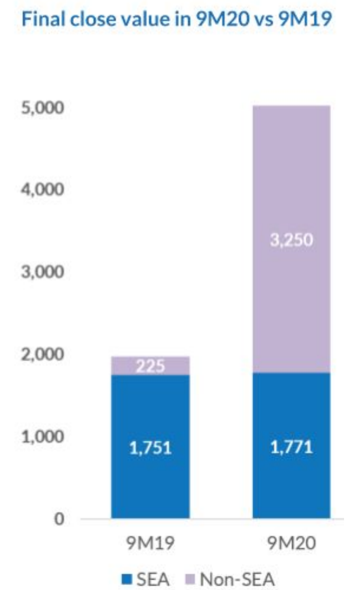
While local VCs are struggling with pandemic headwinds, Southeast Asia witnessed a growing interest from foreign funds seeking to tap into the emerging markets growth story. In the first nine months of the year, five foreign VCs closed six funds that target Southeast Asian markets as part of their investment mandate. This compares to just one fund with a total value of $225 million in the same period last year, and a $695 million fund in 2018.

Southeast Asian VCs struggle to close funds amid pandemic



Massive jump in capital raised by foreign VCs targeting SE Asia





Sequoia Capital India and US-based Lightspeed Venture Partners are two of the largest fundraisers among foreign VCs that raised capital for Southeast Asian opportunities. Sequoia Capital completed a final close of two funds for the region this year with a combined value of $1.35 billion, while the latter secured $1.5 billion. It is important to bear in mind that funds raised by these VCs are also allocated for other Asian markets outside Southeast Asia.

Among regional VC firms, Singapore-based B Capital is the largest fundraiser so far with $820 million. Overall, six Singaporean VC funds generated $1.2 billion in total final close in the first nine months, more than two-thirds of the total value from the entire region.

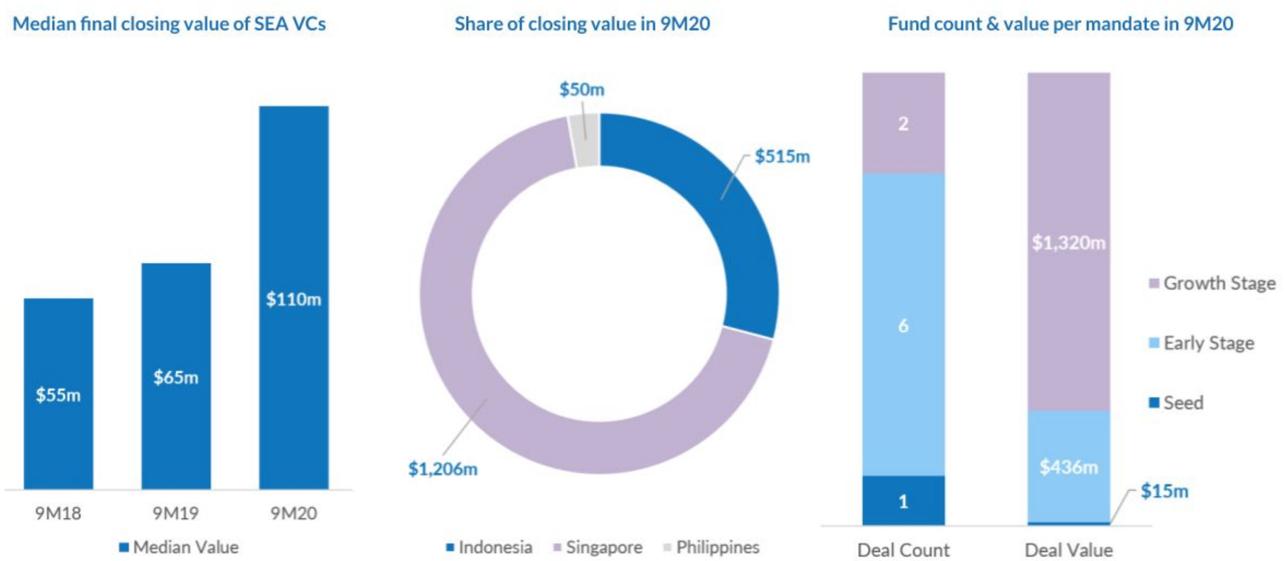
Singaporean VCs launched 12 new funds this year with a total target of $1 billion. Two of the funds, B Capital Opportunity Fund and Credence Partners Fund I, have secured interim closes at $200 million and $50 million, respectively. Overall, the fundraising performance of Singaporean VCs has slowed down this year. As of September, 14 funds had secured new capital worth $1.3

billion, down from 18 funds and $1.8 billion in the same period last year.

Fundraising activities have also been slower in Indonesia. Only two funds managed to reach a final close in the first nine months of this year versus four in the same period last year. The total value of closed funds, however, nearly doubled on account of a single fund, the $500 million tech fund from MDI Ventures. VC activities in the rest of Southeast Asia have traditionally been lower, but 2020 has been exceptionally hard. In the last three quarters, only one VC firm reached a final close, namely ADB Ventures that closed its $50 million debut fund. This compares to $544 million raised by seven VC funds in the same period last year.

Although we saw fewer final closes this year, VCs are raising larger vehicles to accommodate the growing demand for capital as Southeast Asia's tech startup landscape continues to expand and become more mature. The median value of funds raised by VCs reached $110 million in the first nine months, higher than $65 million and $55 million in the same period in 2019 and 2018.

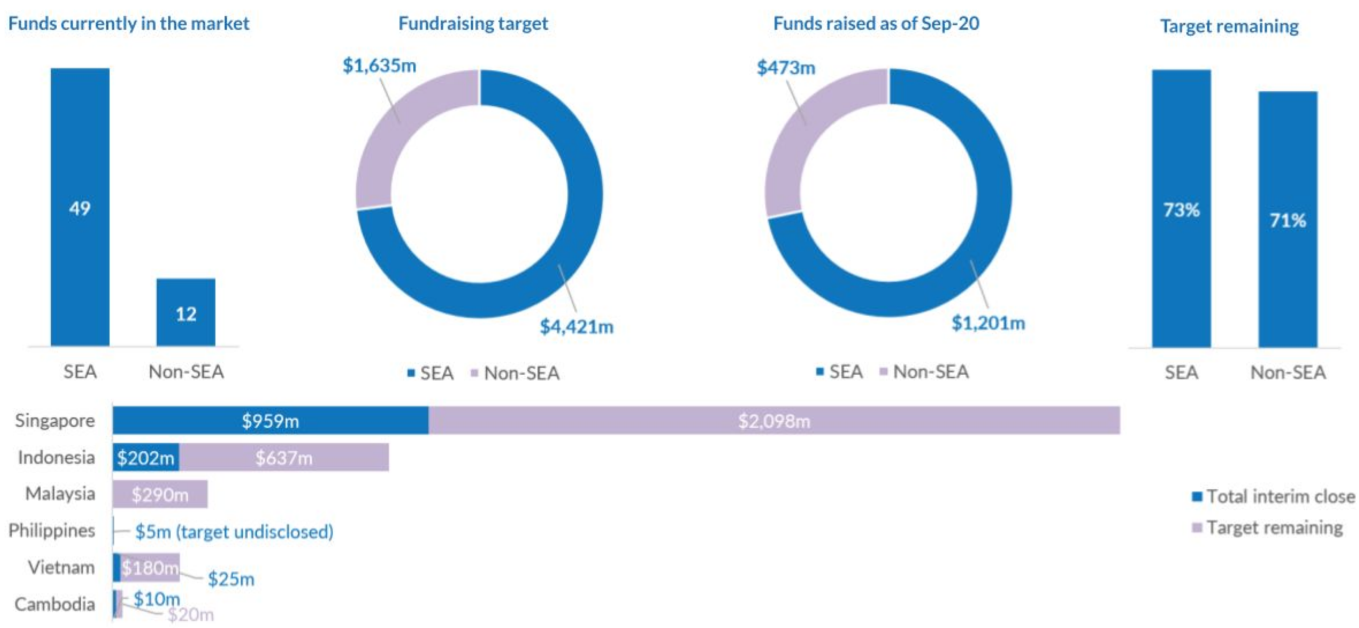
VCs raise larger vehicles as SE Asia's startup ecosystem matures



There are 61 Southeast Asia-focused VC funds currently in the market seeking to raise $6.1 billion. Of these, 22 were launched this year, while 27 have reached an interim close with a total value of $1.7 billion.

Among local VCs, 49 funds are in the market seeking a total of $4.4 billion, of which nearly 70 per cent are Singapore-based VCs. Meanwhile, around 11 Indonesia-focused VCs are looking to raise $839 million, of which $202 million has been secured so far. Local VCs have raised at least $1.2 billion in interim closes so far this year.

Funds in the market to raise $6.1 billion for SE Asia



With the pandemic rearing its head again in Europe and a spike in cases in the US, investor sentiment is likely to be tepid in the near term. As limited partners continue to be cautious and selective, many fund managers, especially the relatively newer ones in Southeast Asia, will have a harder time raising new capital. The good news is that there is plenty of dry powder available with fund managers for this region. We expect a greater level of prudence and capital concentration around the big, established businesses as VCs hedge their bets.

Check out our third quarter review of VC fundraising activities to access more data and insights from industry insiders.

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How AI and virtual data rooms will enable dealmaking

Global financial compliance company DFIN has transformed to service deals in 2021 as they become increasingly driven by digital technology

Through the course of 2020 across Southeast Asia, digital has moved from being at the peripheries to occupying centre stage. This year saw an addition of 40 million new internet users in the region according to the e-Conomy SEA 2020 report from Google, Temasek and Bain.

Even businesses that were no strangers to digital technology have increased their reliance on it - a trend that is expected to continue through 2021.

This is true of the dealmaking business where there has been a shift, albeit a gradual one, in an industry that has skewed very heavily towards in-person meetings and interpersonal relationships. A recurring theme through the many webinars conducted by DealStreetAsia this year was about how COVID-19 affected due diligence at a time when physical meetings were no longer possible.

Kyle Shaw, founder and managing partner of private equity firm ShawKwei & Partners said, “Before COVID, we would get on a plane, visit people, take a look around, kick the tires, and that would help form an impression of whether or not we really wanted to do serious due diligence. Right now, we’re a bit precluded from doing that. We’re stuck just looking and thinking about it. If we do have somebody on the ground who can go visit, then that’s an alternative.”

Through COVID-19, investors have, on the one hand, become more interested in companies that operate in a purely digital space. On the other, they have learnt to work with virtual due diligence, to the extent possible.

Abheek Anand, managing director, Sequoia Capital said, "(For a company in the purely digital space) If you want to get a product demo, it's actually easier to get one on Zoom than to go meet a founder in person. It is the same if you want to look at metrics, or talk to customers who are all digital."

Sequoia has made several bets globally post-COVID without in-person meetings and Anand said that a lot of proxies were deployed to put these deals in place. He said, "We do a lot of references and spend time looking at numbers. I don't think that the quality of the diligence that we have done has gone down. It has actually gone up because we're far more efficient, doing it remotely."

Helping to reduce the more onerous, resource-intensive and time-consuming aspects of due diligence in dealmaking is where firms like DFIN, a global financial compliance company, step in. Describing its role in the dealmaking process at a DealStreetAsia webinar, Adam Nguyen, co-founder and senior VP at eBrevia, a DFIN company said, "With AI, you can do preliminary due diligence, quickly and cheaply. You don't have to bring in an entire law firm. AI and technology are not there to replace the human component but can speed up repetitive, inefficient tasks. Technology can help with processes that are taking away from the building of relationships between PEs and founders."

These onerous tasks have been known to get in the way of dealmaking. For instance, a Fortune 100 company was fined $100 million in 2019 for not complying with Europe's GDPR (General Data Protection Regulation). The source of the fine: an investee company which had been involved in a data leak, years before the deal.

Such an occurrence could have been avoided with DFIN's technology suite that safeguards the dealmaking process from nasty shocks and disruptions. The firm offers ongoing data privacy impact assessment, protection for personally identifiable information and managing the reporting and communication of sensitive documents with investors and shareholders in a secure data vault.

The company services 100 per cent of the top 50 PE firms and top 100 investment banks. A note from the company says, “Leading global brands such as Spotify, Uber, Zoom, etc. chose to partner with DFIN to navigate key moments in their capital markets journey. The reason is simple: our deal solutions are tailored by industry leaders who understand the sensitive minutiae of fundraising, M&As and preparing for an IPO.”

Through 2020, the firm has seen an uptick in the demand for its services. Peter McMillan, managing director, APAC, Donnelley Financial Solutions, said, “We have seen an increase from last year as more PE firms choose the IPO route to the strategic or secondary sale route. Additionally, we have also seen a significant increase in SPACs sponsored by PE firms. Although the complexity associated with deal execution had increased due to the pandemic, deals were mostly on track.”

Many of the firm’s PE clients used its virtual IPO solutions for more effective remote collaboration, he added.

For instance, Venue, DFIN’s virtual data room solution, played an important role in enabling the $2.5 billion acquisition of biotechnology firm Synthorx by European healthcare giant Sanofi. The transaction was “exceptionally complicated,” according to McMillan since Sanofi was far from being the only company interested in acquiring Synthorx.

In addition to sharing several financial and regulatory documents, interested parties also wanted access to highly confidential clinical trial data that was not yet in the public domain. Sanofi’s European base meant that the deal had to comply with GDPR.

Speaking of his experience with the Venue platform, Dr Enoch Kariuki, senior VP of product development at Synthorx, said, “When you have multiple potential buyers asking hundreds of questions every day, being able to easily upload and share the right information with the right people in a virtual data room is key to a smooth transaction.” Kariuki also pointed out that several parties involved in the deal had a pre-existing familiarity with Venue and were convinced of its security and efficiency.

McMillan said, "Venue is able to mitigate risk 91 per cent faster with its suite of data privacy assessment and auto-redaction capabilities. It also allows PE firms and portfolio companies to communicate their quarterly financial reporting requirements to investors and analysts in a secure environment, accessible only by permissioned parties."

Similarly, DFIN's eBrevia service expedites the due diligence process, extracting content from legal documents and drawing attorney attention to the most relevant portions of the contract being reviewed. When law firm Morris, Manning & Martin represented the seller on an over $1 billion M&A deal, it performed sell-side diligence on 1,200-1,400 documents and draft related disclosure schedules in just a week.

John Martin, an associate in Morris, Manning & Martin's corporate practice, estimated that eBrevia's AI was able to do about 80 per cent of the contract review work through its extraction of relevant clauses from the agreement, with the attorney reviewing, supplementing, and providing higher-level analysis of those findings as needed.

McMillan said, "As we can see, DFIN is a full-service platform that can assist companies throughout their lifecycle. Our expertise and scale complement our technology to deliver a comprehensive yet flexible solution."

Asked about his outlook for the year ahead, McMillan said that 2020 had acted as a catalyst to dealmaking transformation, based on interaction with Asian clients. Many of the firm's clients are clear that they want solutions with a greater degree of flexibility to meet the transactional requirements for 2021. Among the most common requests: more data-driven, value-based approaches to understanding the target business, speed of deal execution, and the ability to align technology to due diligence playbooks.

"We expect dealmaking to benefit as the economy rebounds from the pandemic and as the markets in Asia continue to mature, the demand for premium technology platforms will see a continued increase in 2021 and beyond," said McMillan.

Private Equity

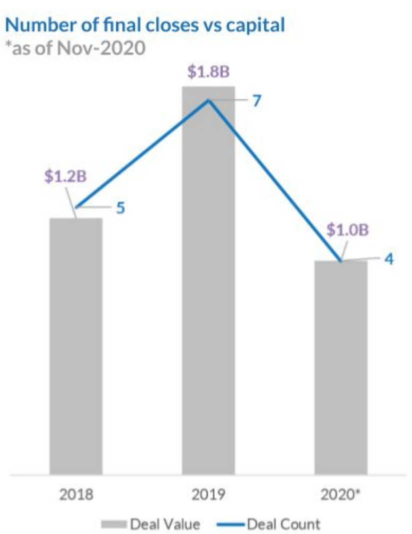
Pandemic curbs momentum, but outlook brightens

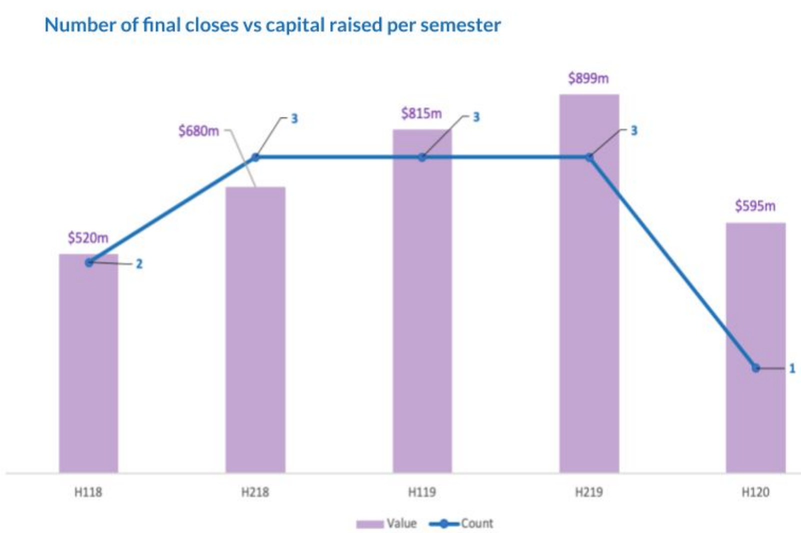
Fundraising momentum slowed down for Southeast Asia-focused private equity funds in this year as of November. Activities in the private capital space, however, are picking up as markets reopen and major economies in the region expected a V-shape recovery.

Four SEA-focused funds reached a final close this year with at least $1 billion in total proceeds as of the publication of this Asia PE/VC Summit 2020 report. This compares to a total of $1.8 billion by seven funds in 2019 and $1.2 billion by five funds in 2018. The slowdown in fundraising momentum began in the first semester as most markets in the region entered a period of lockdowns, ending a growth momentum recorded in the previous three semesters.

Quadria Capital was the only SEA-focused VC to complete fundraising in the first semester with its $595 million second fund. Business activities appear to have picked up in the second half of this year, marked by the completion of three more funds this year.

Four funds have raised $1 billion so far in 2020



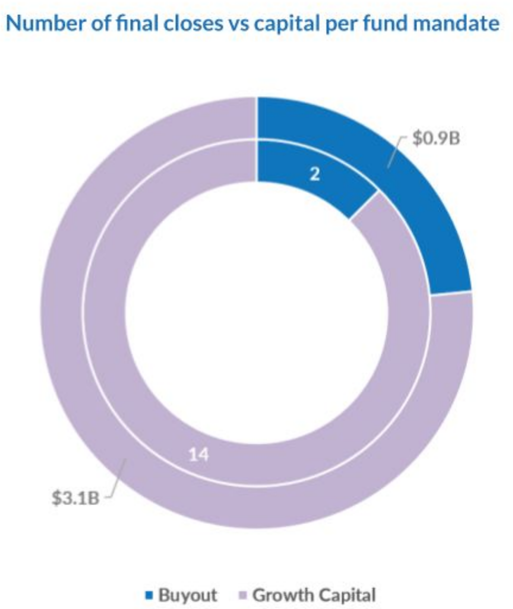


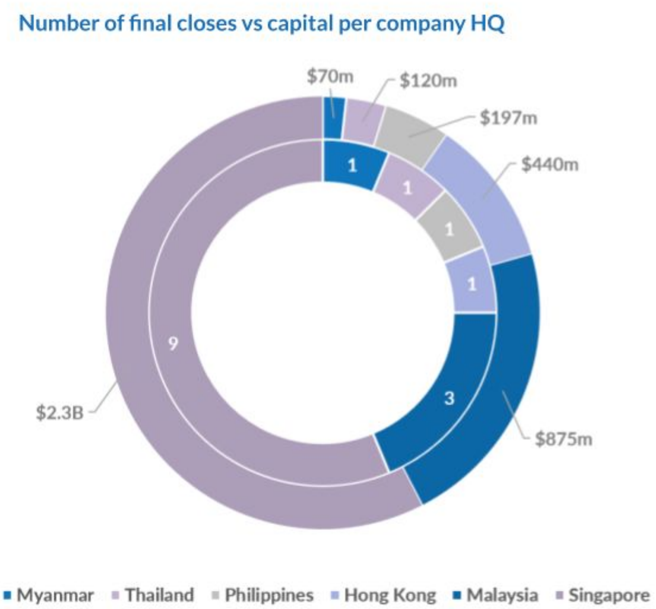
Looking at data from January 2018 through November 2020, SEA-focused funds raised $4 billion in total. Close to 80 per cent were raised by 14 growth capital funds. Only two buyout funds reached a final close in the period, raising a total of $940 million. No regional real estate PE funds reported final closes, unless we count a special situations fund by Altus Capital Partners, which focuses on real estate investments.

As the region's premier financial hub, Singapore-based PE firms dominated fundraising activities within the period, contributing more than half of total funds raised as of November as 10 funds managed to reach a final close worth a combined $2.3 billion, followed by Malaysian firms that gathered $875 million for two funds.

Although there is no absolute guarantee for cure and vaccines against COVID-19, most GPs that we interviewed are of the opinion that the toughest economic pressure is already behind most markets in the region.

Growth capital dominates SE Asia-focused funds





At $595 million, Singapore-based Quadria Capital's second fund is the largest raised by a regional PE firm since January 2018, our data shows, followed by Kuala Lumpur-based Creador, which raised $565 million through its fourth fund. Creador is the only Southeast Asian PE firm to close two funds in the past five years with a total value of close to $1 billion. To date, boasting AUM of $1.5 billion, the firm has invested in over 30 companies (and exited 12) across Malaysia, Indonesia, the Philippines, Vietnam and India.

Southeast Asia-focused funds leaderboard since January 2018

Buyout

Headquarters	Fund Manager	Fund	Market Focus	Final Close Value	Closing Date
Singapore	Southern Capital Group	Southern Capital Fund IV	SE Asia	$500m	Jan-19
Hong Kong	Morgan Stanley PE Asia	North Haven Thai Private Equity LP	Thailand	$440m	Oct-18

Growth Capital

Headquarters	Fund Manager	Fund	Market Focus	Final Close Value	Closing Date
Singapore	Quadria Capital	Quadria Capital Fund II	SE Asia; S Asia	$595m	Apr-20
Malaysia	Creador	Creador IV	SE Asia; S Asia	$565m	Jul-19
Singapore	Dymon Asia Private Equity	Dymon Asia Private Equity Fund II	SE Asia	$450m	Jun-18
Singapore	ABC World Asia	ABC World Asia Fund I	SE Asia; S Asia; China	$283m	Oct-19
Malaysia	Ekuiti Nasional Bhd	Ekuinas Direct Fund IV	Malaysia	$240m	Jan-19
Philippines	Navegar	Navegar II	Philippines	$197m	Jul-20
Singapore	Basil Partners	Basil Growth Fund III	SE Asia; S Asia	$170m	Sep-18
Thailand	Blueprint Forest	Blueprint Forest SEA Fund	SE Asia	$120m	Oct-20
Singapore	Altair Capital	Altair Fund I	SE Asia	$100m	Dec-19
Singapore	Ascent Capital Partners	Ascent Myanmar Growth Fund I	Myanmar	$88m	Nov-20
Singapore	Archipelago Capital Partners	Archipelago Asia Focus Fund I	SE Asia	$75m	May-19
Myanmar	Delta Capital	Myanmar Opportunities Fund II	Myanmar	$70m	Apr-18
Malaysia	COPE Private Equity	COPE Opportunities IV	Malaysia	$70m	Dec-18
Singapore	ACA Investments	Daiwa ACA APAC Growth Fund	SE Asia	$51m	Jul-19

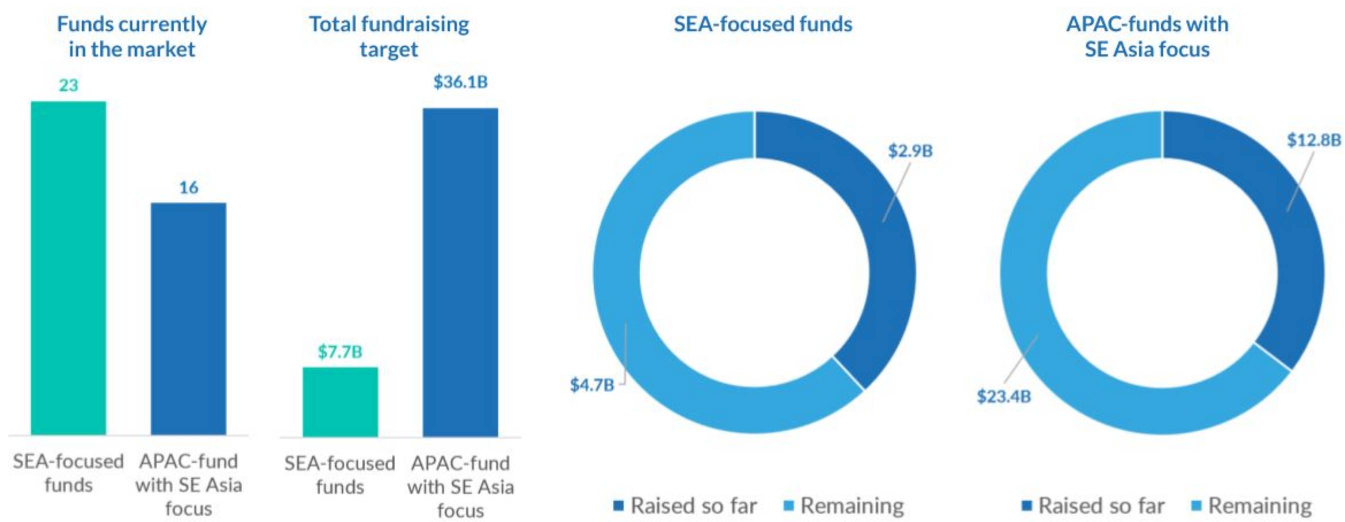
Beyond closed funds, interim close data suggests an encouraging outlook. Five firms reported interim closes in the first half, higher than three in the previous semester and two in the same period last year. Indies Capital was the latest to report a fundraising update after reporting $100 million first close for its third fund. Currently in the market to raise $800 million, Northstar Group said it had secured a third of its total target by April. Overall, PE funds still managed to record new fundraising milestones despite the unprecedented challenges brought about by the

COVID-19 pandemic.

As of the publication of this report, 23 SEA-focused private equity funds are currently in the market to raise $7.7 billion. At least 16 funds have raised interim close so far with a total value of $2.9 billion. This year saw the launch of two new funds by Emerging Markets Investment Advisers and Archipelago Capital Partners, each looking to raise $100 million to invest in Mekong countries and $250 million for Southeast Asian markets, respectively. Both PE firms are headquartered in Singapore.

Beyond SEA-focused funds, at DealStreetAsia, we are also tracking Asia-Pacific private equity funds that include markets in Southeast Asia as part of their investment target. We have identified 16 such funds that are currently in the market to raise $36.1 billion, of which a third are secured. While SEA-focused funds are dominated by growth capital, most of these APAC funds have a mandate for Southeast Asian buyouts. Three buyout funds reached a final close this year with $11.6 billion in total proceeds versus two real estate funds with $3.1 billion and zero for growth capital.

SEA-focused PE funds in the market to raise $7.7B



ACA Investments to double down on local businesses

A tumultuous 2020 has left ACA Investments determined to double down on local businesses in the region and domestic demand in small, but strong markets

Companies with strong local business models, firms with offerings pitched at a homebound audience, countries driven by domestic demand and challenger social media networks from India figure among the interest areas for ACA Investments in 2021.

The Japanese investment group with over $1 billion assets under management sees Asia as already on the path to recovery after the bruising impact of the COVID-19 pandemic. “We have seen the delay in schedules of fundraising and in some IPOs. But I'm seeing a recovery as activity begins to resume,” said ACA Investments executive chairman Akihiro Azuma.

The impact across sectors for 2021

Azuma believes that the full impact of COVID-19, especially on the SME sector, will become apparent only through 2021.

“A lot of these companies will become bankrupt or default on their loans. The sector is poised for a struggle. On the other hand, because competitors will drastically decrease, the ones who survive will enjoy a quick recovery and even more growth,” he said.

Asia, he added, is likely to bounce back faster than the US or Europe on the back of the funds being poured into the region.

This year, ACA Investments led a $5 million Series A round for Malaysia-based corporate healthcare benefits management platform HealthMetrics and a $10 million Series B round for e-commerce aggregator iPrice Group. Late last year, it had also led a Series E round for online news aggregator SmartNews.

Asked if these investments are indicative of the big themes going forward, Azuma said, “I don't think the big themes will differ from what we are doing. But we will consciously focus on more localized businesses. We used to consider companies with potential for scale from a global perspective, but now we are looking at firms with revenue or a profit point in a local market. Maybe something related to the internet or that ties into time spent at home, for instance, on-demand services.”

Another focus area is the burgeoning social media platforms in India. Azuma said, “Although we have not had the opportunity to look into these deals, it is an area of personal interest. With the situation in China, we want to see from the social media perspective and beyond, how maybe India can replace China’s position.”

On the other hand, in Singapore, ACA has invested in sectors like ports which have been seriously affected by the pandemic. Azuma said, “The speed of recovery is quite high for companies with good management. They are trying to change their current rank or position in the market. Of course, people are affected but there are non-affected sectors and others that are bouncing back quite rapidly, with the right leadership.”

Asked how companies in sectors that were badly affected by the pandemic ought to revive themselves, ACA Investments partner Hiroyuki Ono said, “There are some sectors like airlines or tourism where private sector investors cannot really help, even if they come to us with a bright and exciting business plan.”

The responsibility for these sectors lies clearly with local governments. Ono added, “Perhaps only someone like Temasek can help.”

When it comes to SMEs though, he encouraged them to view this as an opportunity to revamp and grow. He said, "There is a market for companies in difficult sectors who are showing recovery and have management teams who bring in support – financial or via new investors or suppliers."

He acknowledged a gap between those with dry powder and those that needed investments. It can be bridged by leaders capable of convincing investors of the opportunity and an intrinsic value that has not been well defined or explained.

"A few years ago, purpose investing was more on the radar – what we need now is a well-defined purpose that can salvage a company plus leadership," he said.

The geographic impact

ACA had earmarked $100 million for investments in Vietnam over a three-year period in 2019. Those plans continue apace.

Speaking about priority markets, Azuma said, "Initially, our firm was focusing on Vietnam and Indonesia. But now, Indonesia could be difficult. Whether it is Vietnam or any other country, what we are looking for is a one-stop-shop. A country with a strong domestic market and an economy that may be small but which is on a high growth trajectory. Vietnam has obviously managed COVID-19 well, and remains one of the countries where we have a focus, especially on the logistics space."

The impact of digital transformation on investor relations and fundraising

Digital transformation, which had seemed imminent for a while now, has proved its potential earlier than expected. With travel restrictions, even investor relations are shifting to the digital space.

Ono said, "We are planning to go more digital on investor relations. Our next step will be whether it is possible to digitally fundraise for target funds. It is also about providing multiple touchpoints for our clients, which will allow more flexible access to our content (fund reports, meetings and new investment opportunities) through offline meetings or online platforms. We are currently developing an online platform to serve such client needs."

When it comes to relationships with portfolio companies and sourcing deals though, physical visits are still likely to be the norm. Ono said, "We still prioritize visiting the portfolio companies' sites and facilities before making our investment decisions which we could not easily do at the moment."

The road ahead for iPrice and SmartNews

Speaking of how the events of 2020 have affected its fundraising outlook, Paul Brown-Kenyon, Chief Executive Officer, iPrice Group, said that having completed its Series B fundraising round at the end of 2019 had left the firm in a stronger position. He said, "With COVID-19, we adjusted our plans with a focus on initiatives with shorter payback periods (and a plan to reach breakeven within 2 to 3 years). Notwithstanding the above, we are considering additional fundraising in 2021 to allow us to capture more of the opportunities we see."

Reflecting on the changes the year brought, Brown-Kenyon added, "On the positive side, we have seen strong growth in SEO traffic, which has jumped by 60 per cent across our platforms." This is coupled with an increasing interest from media partners such as e-wallets, telecommunications companies, super apps and other firms looking to leverage iPrice's product discovery/price comparison services.

Brown-Kenyon believed what remained constant despite disruptions was the vision driving iPrice – to be the e-commerce companion for the Southeast Asia region. He said, "The specific initiatives that we pursue have evolved, slightly. With some plans put on hold given COVID-19 (for instance given the impact of the virus on the travel industry), other plans have been accelerated (for instance our partnerships where we see strong demand). Even with the current situation, our outlook looks rosy."

News aggregator SmartNews clocked an increase in growth in the United States, its largest global market, driven by the need for news on the pandemic as well as the Presidential elections. A spokesperson for SmartNews said, “The spread of the COVID-19 has increased the social need for news, which led to user increase. In the U.S., we will continue to focus on local news as users seek information that is more relevant and accessible in their community. In Japan, we will continue to diversify our features to provide weather and local restaurant information in addition to our existing news.”

2021 Outlook

Waiting to exhale

In July, DealStreetAsia's research and analytics team surveyed 50 institutional investors who are active in Southeast Asia to learn how the COVID-19 pandemic was affecting their business. Close to two-third said they had allocated additional capital for existing portfolio companies to ensure they would have enough runway to ride through the pandemic.

When asked for projections, the investors were cautiously optimistic about 2021. They also highlighted three major risks for the upcoming year: no treatment for COVID-19 by the end of 2021; a prolonged economic slowdown; and rising protectionism.

There have been many new developments since we conducted the survey. Some provided better visibility, while others just added more noise to an already foggy outlook. Here is what we know so far.

Cause for optimism

- Private equity and venture capital firms are flush with billions of dollars of capital. VC firms with a mandate to invest in Southeast Asia alone raised $4.9 billion in the first nine months of the year.

- Southeast Asia is awash with startup business opportunities, driven by consumer class expansion and, more recently, by a rise in entrepreneurship amid low employment opportunities in the formal sector.

- Rapid digitalisation during the pandemic season has fundamentally altered many aspects of people's lives and will create a lasting impact, providing ample opportunities for early movers and businesses that have the capacity to adapt.

- The US-China rivalry will continue to redraw global supply chains, potentially benefiting manufacturing and financial hubs in Southeast Asia.

- Quantitative easing in developed economies will continue to sustain capital flow into emerging markets, where global investors seek higher return on investment.

A note of caution

- The pandemic is likely to extend fund holding periods and dampen dealmaking pace as general partners (GPs) become more selective about investments.

  According to IFC, "The entire life cycle of a Fund Manager—from fundraising, to deploying capital, to exiting—will take longer… Heightened market uncertainty will result in slower and more prudent deployment of capital for investments and in longer holding periods, as exit multiples will suffer."

- A recovery from the health crisis remains unclear, with other countries in Europe seeing a resurgence of COVID-19 cases.

  "I can only say we're not out of it. And the problem is the shape of the recovery is unclear to all of us… We probably have to remain disciplined and flexible," said Rodney Muse, co-managing partner at Navis Capital, at DealStreetAsis's Asia PE-VC Summit 2020.

- Not all the changes in consumer and enterprise behaviour caused by the pandemic will stick.

"...it is yet to be seen how sustainable the trends are. Some of the trends around acceleration will be sustainable, but I equally anticipate a reversal on some fronts. So, I think we are yet to understand this famous new normal going forward. From that perspective, we haven't made any fundamental calls one way or another," said Thomas Lanyi, managing director at CDH Investment Advisory.

- The acceleration in adoption of digital services needs infrastructure reforms to be sustainable. "Money has to go into these different sectors – payments, broadband, last-mile logistics – for the digital potential to be achieved," said Philippine private equity firm Navegar managing partner Honorio Poblador IV.

How far these factors will shape economic recovery in the region will be greatly influenced by governance. In this era of unprecedented crisis, the private sector relies not only on effective government policies, but also assistance. But government capacities vary across different countries. Overall, the trajectory of recovery is not going to be smooth and even across Southeast Asian markets.

Not yet out of the woods

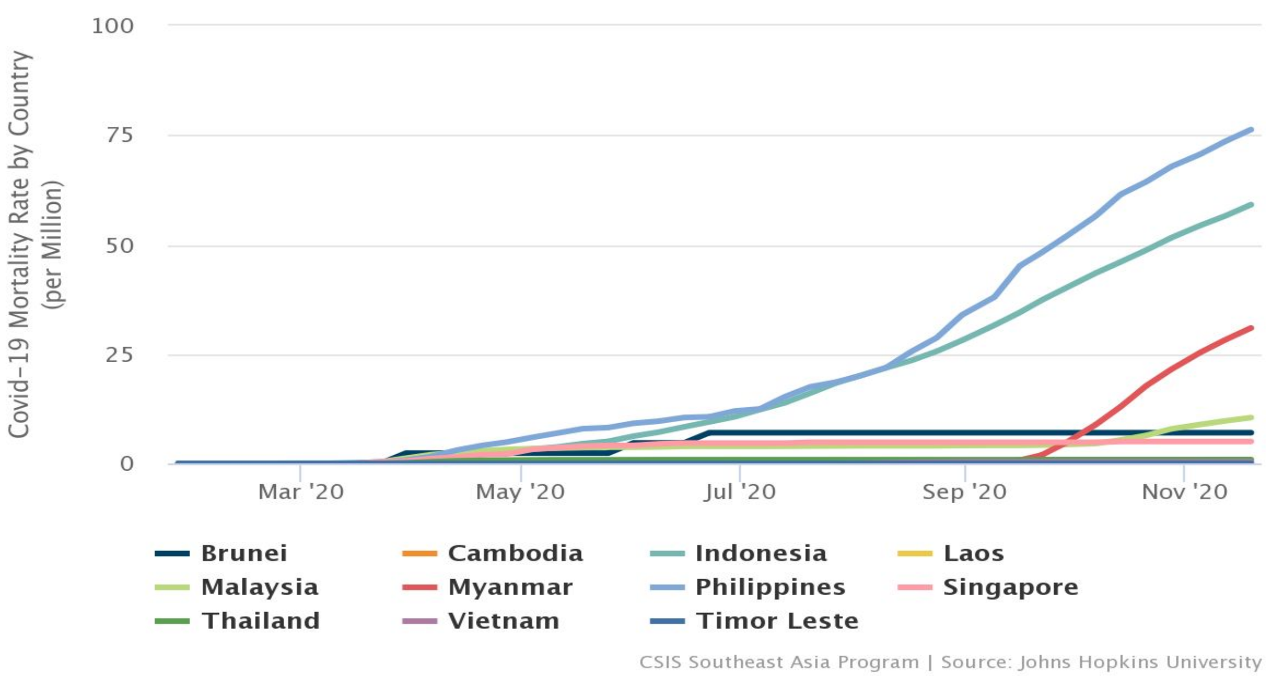
Clinical trials by drugmakers have produced promising results for potential commercial deployment next year. New York-based Pfizer and German firm BioNTech made history early this month when they announced that their coronavirus vaccine was more than 90 per cent effective. The news was followed by another announcement from Moderna, which claimed 94.5 per cent efficacy.

If all goes to plan, Indonesia will be among the first in the world to roll out mass COVID-19 vaccinations in December, starting with health workers, police officers and military personnel. China's Sinovac and Sinopharm are slated to provide 18 million vaccines to Indonesia, including

15 million that will be manufactured by Indonesia's state-owned company Bio Farma.

Other governments in Southeast Asia have largely adopted a more cautious approach. Vietnam, the first country in the region to close its borders to China to prevent the spread of the pandemic, said it will continue to focus on its containment strategy rather than rushing to secure a supply of vaccines. Malaysia, Singapore and Thailand have carried out clinical trials and are still considering rolling out vaccines next year.

COVID-19 mortality rate by country in Southeast Asia

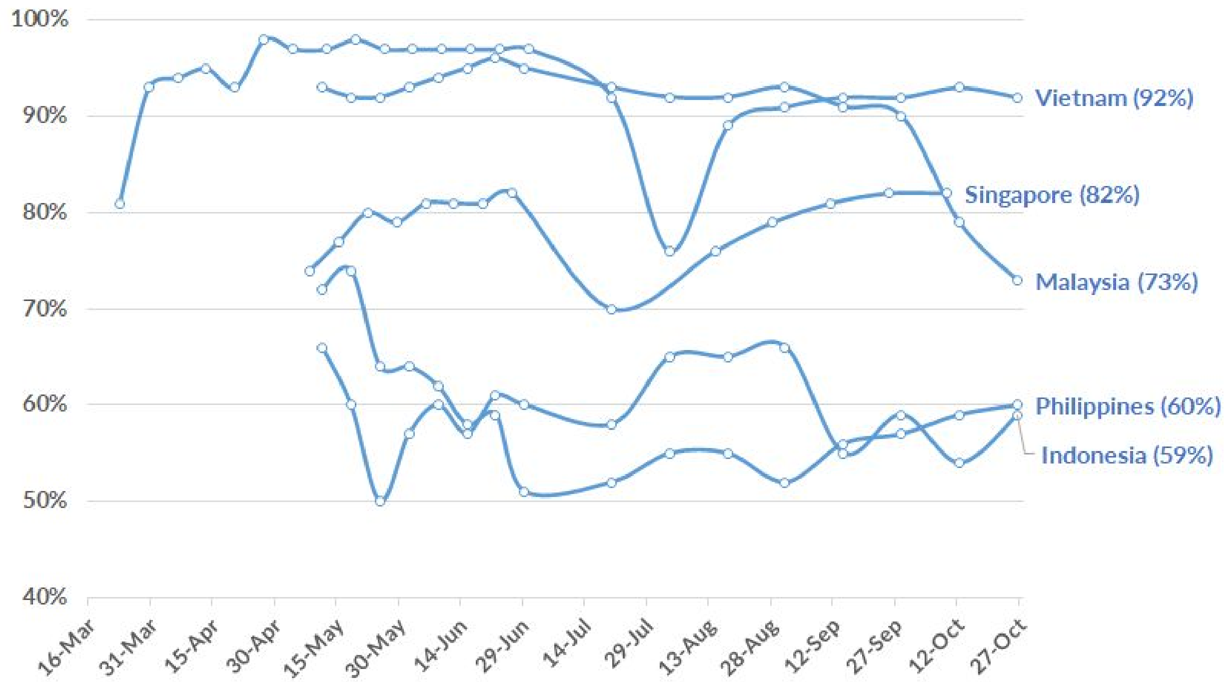


Experts have warned governments against giving emergency-use authorisation of vaccines without proof of safety and efficacy. Adverse side effects may, in turn, hurt public trust amid an already high suspicion over government tendency to prioritise the resumption of economic activities over public health.

Public trust in the government's handling of the pandemic ultimately matters for economic recovery. In this regard, Indonesia and the Philippines have the lowest positive public perception based on an ongoing survey carried out by YouGov since March.

Perception of government handling of COVID-19 pandemic

Percentage of people who think the government is handling the issue of coronavirus "very" or "somewhat" well



Source: YouGov

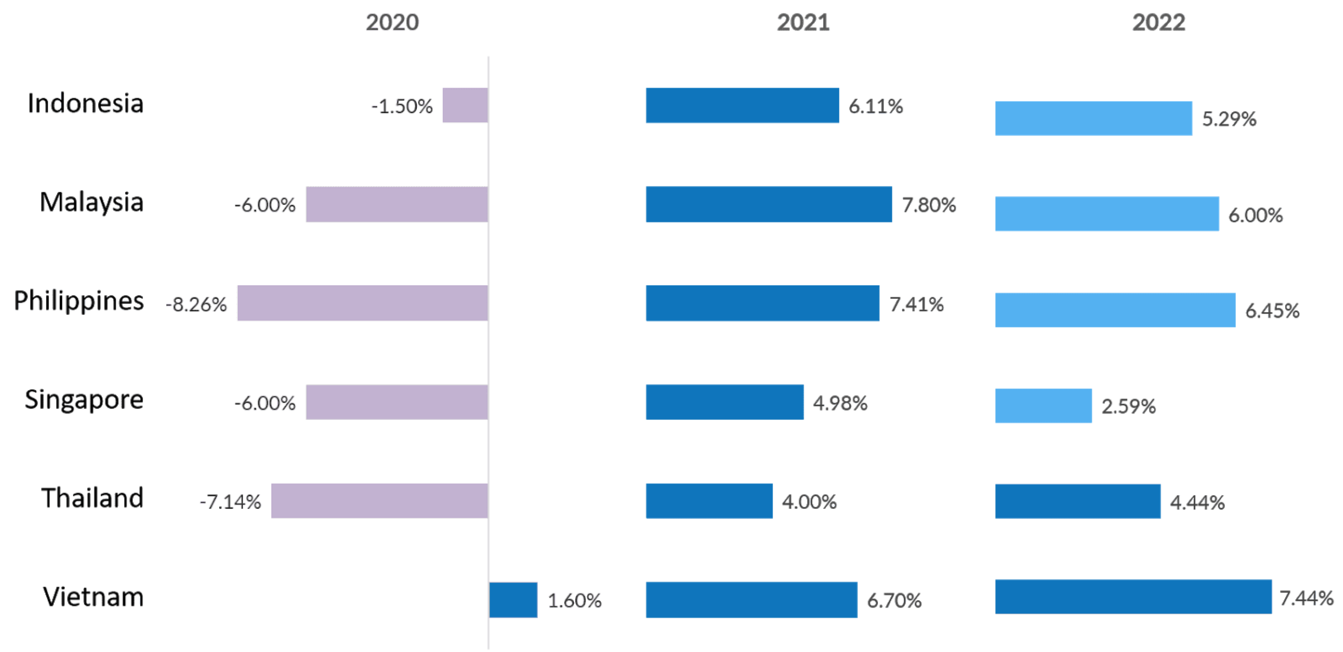
This survey data also corresponds to the number of new cases and fatalities, which has continued to worsen in both countries. Based on perception alone, the resumption of business activities in Indonesia and the Philippines is likely going to be slower than regional counterparts, particularly Singapore and Vietnam.

Although investors and entrepreneurs can breathe a sigh of relief over successful clinical trials and a potential mass roll-out of vaccines next year, experts believe that 60-70 per cent of the population must be immune to stop the deadly virus from spreading easily. This poses immense financial and logistical challenges to governments and their private partners, not to mention the need to have good communication strategies to convince voluntary immunisation. Given these realities, the threat of COVID-19 will continue to make headlines well beyond 2021.

Pandemic-proof bets

Statistical models have shown that all Southeast Asian economies will see a V-shape recovery in 2021, but this does not mean that a full recovery is around the corner. A V-shape recovery simply means economic growth will return after a period of deep slump, which is still occurring across Southeast Asia. It will take three to four years for most economies in the region to return to 2019 GDP levels, consensus shows. For a country like Indonesia, the current health and economic crisis could push back poverty eradication efforts by a decade.

GDP growth slowdown may follow V-shape recovery

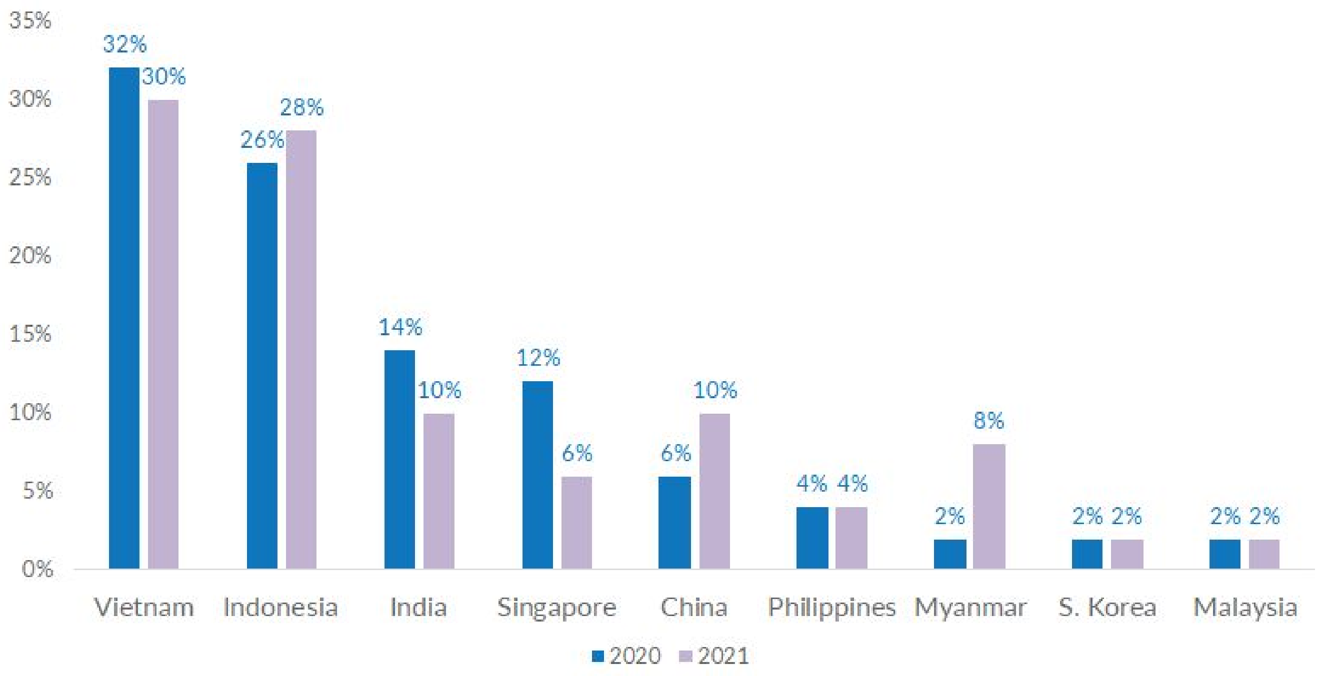


Source: International Monetary Fund Forecast

Benefitting from effective pandemic-response policies, Vietnam is expected to outperform other economies in Southeast Asia for the next two years, according to an International Monetary Fund forecast. This is in line with the view of private equity market investors who are active in Southeast Asia. Our investor survey ranks Vietnam as the top investment market for 2021, ahead of Indonesia and Singapore.

Investors most confident about Vietnam and Indonesia

Q: What are the top three markets you're most confident about investing in?

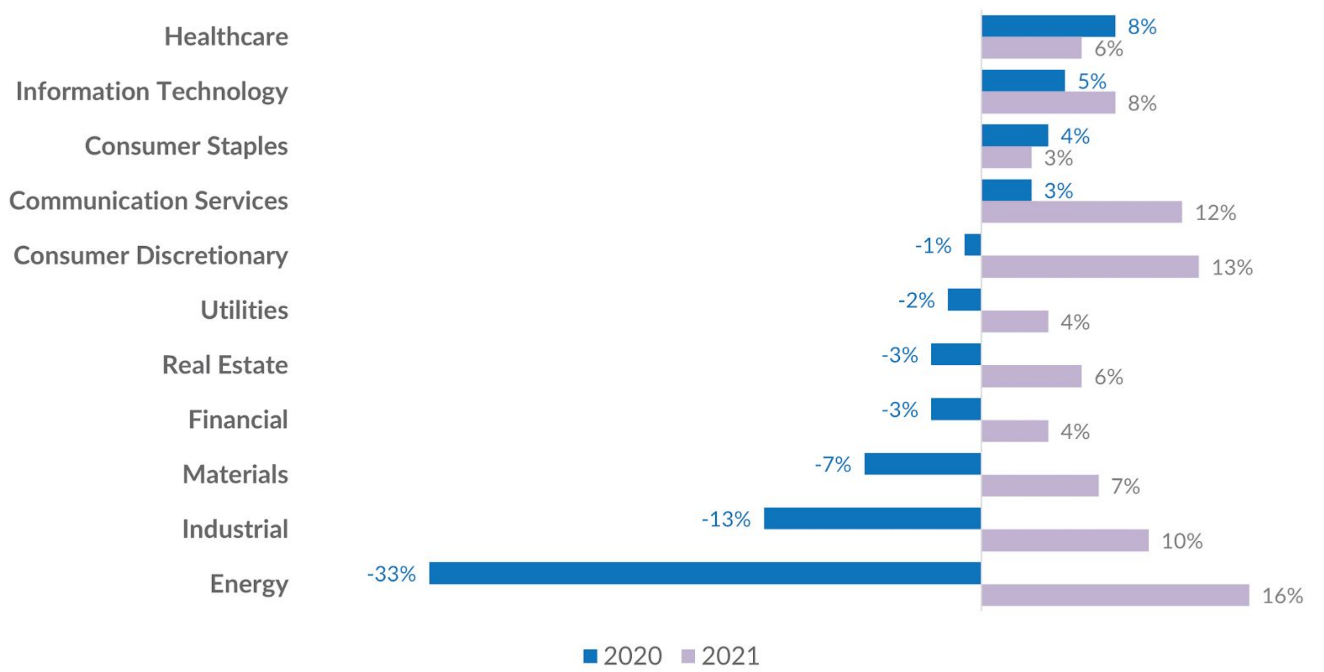


Source: DealStreetAsia - Research & Analytics

Investors rank information technology, healthcare, business services, education and financial services as the top sectors to invest next year. These are sectors that tend to perform better under pandemic pressure, as evident in our Southeast Asia startup deal review in the third quarter.

Although investors are less confident about sectors such as traditional retail, energy & utilities, real estate, or transportation, global equity analysts forecast a significant rebound in revenue for sectors that underperformed in 2020.

Revenue growth forecast for S&P 500 sectors



Source: “Earnings Insights”, Factset, October 30, 2020

As pandemic-proof bets continue to attract investors in 2021, competition between tech giants in the region will intensify. Armed with at least $1.7 billion of capital commitments secured this year, Gojek is expected to double down on efforts to secure a dominant market share in Indonesia’s e-wallet market against OVO, the local payment arm of arch-rival Grab, as well as other competitors that are currently on the rise such as DANA, ShopeePay and LinkAja.

Our recent study of the investment by Google, Facebook, PayPal and Tencent in Gojek’s subsidiary, GoPay, finds that the e-wallet company has emerged as the most valuable fintech company in Indonesia with an estimated pre-money valuation of at least $4 billion.

Following the transaction, Gojek moved to consolidate all fintech services in its ecosystem and house them under GoPay. This was marked by GoPay's acquisition of full ownership of GoFin Karya Anak Bangsa, which is responsible for fintech partnerships with third parties. The deal marked the exit of GoFin's early backers, which include veteran banker Jerry Ng, Gojek president commissioner Garibaldi Thohir and Provident Capital co-founder Winato Kartono.

The consolidation was followed recently by a managerial reshuffle at the top. Gojek co-CEO Andre Soelistyo will be taking over the leadership at GoPay, replacing current CEO Aldi Haryopratomo, who will leave the company in January.

While Gojek is winning the confidence of American tech majors, Grab's largest investor SoftBank is pushing the company to broker a merger with Gojek. A merger could potentially reduce cash burn for both companies, while also improving SoftBank's fortunes, which not only suffers from the pandemic, but also WeWork's botched IPO last year and Ant Financial's delayed blockbuster stock market debut. The latter may put a hold on Grab's plan to secure a $3 billion investment from Ant's parent, Alibaba, at least for now.

While a merger remains unclear, Grab is pressing ahead with its fintech strategy in Indonesia. The company has led a $100 million investment in LinkAja in return for a minority stake. Grab's OVO is also poised to merge with DANA, pending regulatory approvals.

Fintech is not the only battleground for Grab and Gojek in 2021. These companies have a big stake in telemedicine startups, which have seen a big jump in user adoption during the pandemic. Halodoc, which is available as a tile on Gojek's app, is in talks to raise $200 million in a series C round. Grab's telemedicine partner, Ping An Good Doctor, has been recruiting hundreds of doctors in the region to meet growing demand this year.

The rise of Shopee, a unit of NYSE-listed Sea Ltd, as the most popular online marketplace in Indonesia (based on visitor count) was the biggest story of 2020 in the e-commerce space. Sea's nearly $90 billion market cap ensures a strong capital backing for Shopee to further propel its e-wallet and food delivery services, placing it in direct competition with Gojek and Grab. Sea's fintech play benefits not only from Shopee's strong footing in e-commerce but also from its other subsidiary, Garena, the largest game publisher in Southeast Asia.

In just five years since it branched out from Singapore, Shopee has emerged as a formidable player in multiple tech verticals in Southeast Asia. This reflects the company's effective strategy and deep understanding of the regional market. Backed by Sea's ability to raise capital, Shopee's activities will be among the most closely watched tech developments in 2021.

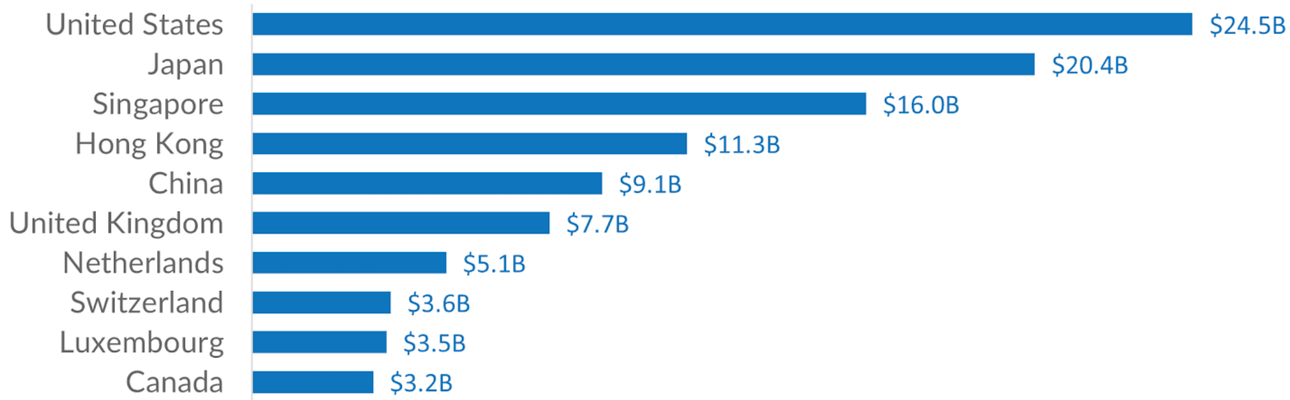
Multilateralism is not dead

US unilateralism under President Donald Trump, whether on the issue of climate change, Iran's nuclear programme or China's rise as a global power, has raised concerns over geopolitical and geoeconomic stability. With Trump no longer in power in 2021, President-elect Joe Biden is expected to restore US leadership in various global issues, including joining the Paris climate accord and renegotiating an entry into the Iran nuclear deal. The economic containment policy on China, however, is likely to remain largely in place as it has become a bipartisan issue in US domestic politics.

The US-China rivalry will continue to drive a wedge in international relations in 2021 as both global powers tussle to win influence in key regions, including Southeast Asia. Many pundits believe that China has the upper hand in Southeast Asia due to its role as the region's largest trading partner. As the first country to manufacture and export COVID-19 vaccines, China is also armed with a big leverage to further its trade relations with Southeast Asian economies.

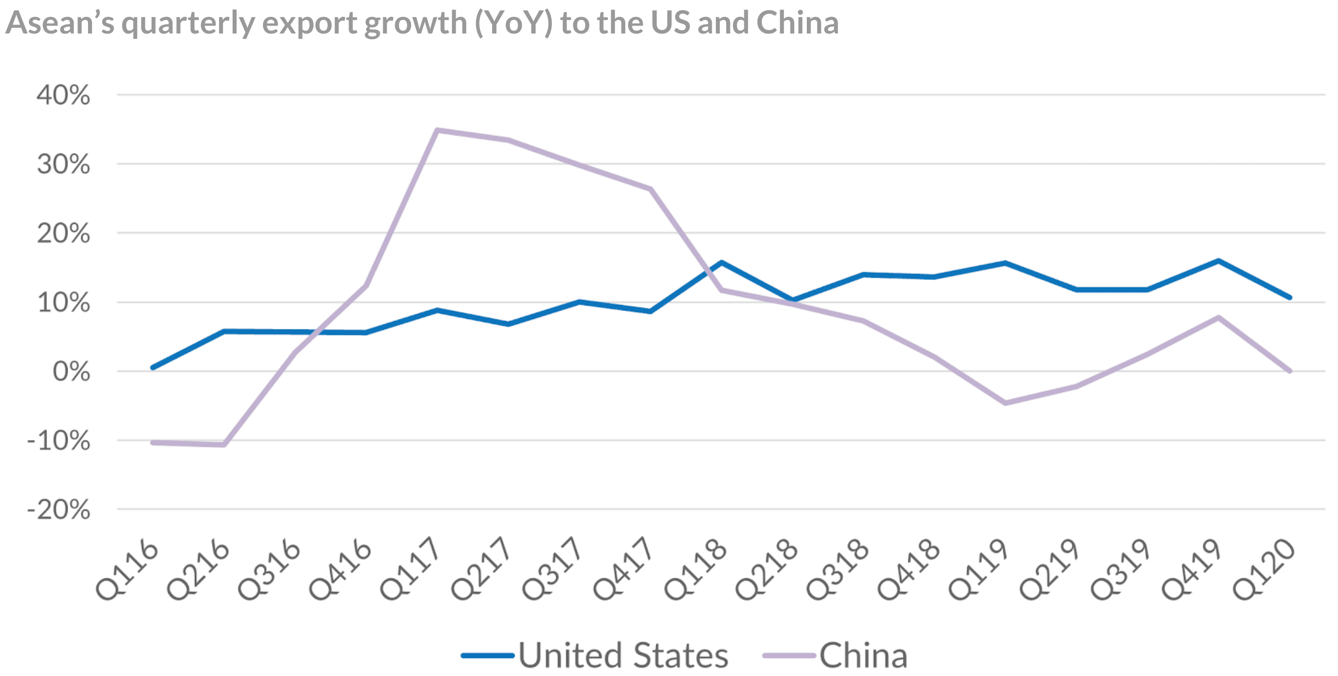
Trade, however, is not the only thing that matters. As the largest source of foreign investment for Southeast Asia, the US exerts a significant influence over the region's economy. The US was the largest source of FDI last year with $24.5 billion of net inflow, while China ranked fifth with $9.1 billion. Total net FDI in the past decade from both countries stood at $141.5 billion and $86.4 billion, respectively.

US is the top investor in Southeast Asia



Source: Asean Secretariat

A prolonged US-China trade war should remain a catalyst for factory relocations to Southeast Asia as manufacturers seek to avoid US tariffs. In the last two years, Vietnam and Malaysia have been the main destinations for relocation. These developments have further helped accelerate Asean's export growth to the US.



Source: CEIC, processed by DealStreetAsia

Indonesia is set to emerge as an alternative destination for relocation, partly thanks to infrastructure and regulatory reforms under President Joko Widodo and the country's rich natural resources, which include highly sought-after minerals for lithium-ion batteries.

Tesla is currently in talks with the Indonesia government to set up a battery plant in the country. China's Contemporary Amperex Technology – the EV-battery supplier of BMW, Hyundai, Honda, Tesla, Toyota, Volkswagen, and Volvo – signed an agreement with the Indonesian government in November to invest $5.1 billion in the country.

Although the US maintains its course to reduce trade deficit with China via tariffs, US President-elect Biden has signalled that the US will not abandon multilateralism. In response to the signing of Regional Comprehensive Economic Partnership on Nov. 15, Biden said America should align with the other democracies so that it could take part in setting the rules of multilateral trade agreements, instead of having China and others dictating outcomes.

More importantly, the signing of RCEP by 15 major Asia-Pacific nations is proof that the US-China trade war is not the only game in town and that most economies still see multilateral trade deals as an effective way to create a level playing field between economies of different sizes and characteristics in negotiating shared standards on tariff and non-tariff barriers, as well as those on other important trade elements such as market subsidies, labour protection and intellectual property rights.

A long ride home

There are reasons to believe that 2021 will evade the worst-case scenario when it comes to the top three risks haunting private capital investors.

Multiple research into COVID-19 vaccines have shown promising results for potential mass deployment before the end of 2021. Although the process will be challenging and slow, vaccine discoveries, coupled by effective policies to curb the pandemic, will strengthen business confidence throughout 2021.

With the imminent change of leadership in the US, the country is likely to adopt a more amicable approach in engaging with the rest of the world. Although protectionist policies will remain in place, an escalation is unlikely. The signing of the RCEP also shows that most Asian governments are committed to pursuing deeper integration of global economies as opposed to championing deglobalisation.

The wave of deglobalisation, unfortunately, will persist in 2021, but it will have less to do with the US-China trade war than the impact of COVID-19. Export activities could remain muted next year on the back of sluggish global demand, while businesses will look to reassess their supply chain strategy to make it less prone to future shocks. At home, travel restrictions and fear of contagion will continue to haunt household consumption, the largest economic driver for most Southeast Asian economies. It will take some time before economies can get back to where they were.

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Contact Us

Subscriptions
Melvin Chew | melvin@dealstreetasia.com

Sponsorships & Partnerships
Sara Velezmoro | sara@dealstreetasia.com

Advertising & Branded Content
Ravi Balakrishnan | ravi@dealstreetasia.com

Events & Communications
Maya Sofhiana | mayasofhiana@dealstreetasia.com