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Dato' Leong Kin Mun, Chief Executive of Primer Capital Sdn. Bhd., **specializing in multiple financing solutions for SMEs development and SMEs investment** welcomes Bursa Malaysia's latest initiative and shares his views on the matter as follows:

"I welcome the initiative of Bursa Malaysia to set up the proposed SME Market or SME Board, catered for lower entry listing requirements for growing SMEs compared to the ACE Market. Looking at the recent listing profiles and profit track records of SMEs listed on the ACE Market, most of these SMEs are indeed mid-tier SMEs who have reasonable business turnover with accumulated 3 years' profit after tax (PAT) within RM9 to RM20 million prior to their IPO.

Due to this track record precedence, it deprives the opportunities of many smaller SMEs to list in the ACE Market (despite SMEs without profit track record qualifying for listing in the ACE Market Listing Rules) compared to those days when technology-based SMEs had fast track listing access via MESDAQ.

I personally feel that SMEs earning within PAT RM1 to RM3 million per year i.e. with accumulated last 3 years PAT up to RM9 million before IPO, will be very excited to pursue their listing route via the proposed SME Board given its Advisor-

driven regime, lower listing fees structure and no restriction of business activities. Technology-based startups and service-based companies such as project management companies which do not have big tangible assets to enhance their valuation for equity fund raising will value the proposed SME Board given their difficulties to deal with conventional bank loans for financing due to absence of qualified collaterals. This is because IPO will combine valuation of both tangible and intangible assets inclusive of goodwill, intellectual property rights (IPR) etc. Inclusion of intangible assets will boost the valuation of the SMEs during the IPO and unlock its monetary value vis-à-vis conventional bank loans which do not recognise intangible assets as bankable collaterals.

The proposed SME Board will benefit various innovation based technology companies such as green technology, biotechnology, ICT as well as capital intensive SMEs such as those involved in manufacturing and smaller housing developers if they are allowed to list in the SME Board. Smaller capital intensive SMEs may have dried up their funding resources from banks due to insufficient collaterals. To avoid continuous high gearing phenomena for the company, listing in the SME Board will provide a good avenue for fund-raising in addition to brand building as a public listed company.

Nevertheless, the Consultation Paper proposes that the listed SMEs under the proposed New Market is not required to publish their Annual Reports (AR). I feel that the AR practice should be continuously enforced for all shareholders and potential investors to assess the quantitative and qualitative performance of these companies. This is part of the transparency initiative to improve the Corporate Governance of the listed SMEs and also for the SMEs' top management to transform their mindset as the accountable stewardship of their newly listed corporate entity. Such disclosures will provide greater comfort for shareholders and investors to invest in the newly listed entities, thus improving the perception of the SME Board. If such reporting regime is deemed burdensome to listed SMEs who should be concentrating on driving their business, the content of the AR can be reduced but it should be continuously published.

The Proposed SME Market also continuously promotes the enhanced role of private equity and venture capital companies as well as accredited angel investors as the equity fund-raising partner for SMEs. I feel this will stimulate more accredited angel investors to participate at the early-stage funding of technology-based SMEs since the route to IPO has been shortened and this will enable the angel investors to exit their investments within 2-3 years rather than 3-5 years due to more stringent requirements in the ACE Market or Main Board. More feasible Pre-IPO deals are anticipated to be structured between the promoters (SMEs), angel investors or even venture capital companies in view of the liberalised supportive framework under the Proposed SME Market. Minimum moratorium for PE, VC and accredited angel investors will also mean shorter turnaround time for their funds. This will allow these sophisticated investors to recycle their capital and replicate the successful IPO stories with other potential startups or growing SMEs. The SME Market is expected to leapfrog positive development to the above-mentioned sophisticated investors.



The proposed SME Market not only benefits startups in high-technology sector but also existing SMEs as the New Market is open to all Malaysian SMEs as there will be no minimum quantitative requirements in relation to profit or operating track record. According to a Report by Standard Chartered (which was published in The Star newspaper earlier this year) entitled "Entre-preneurship – A Growth Tonic", the report highlighted governments should place greater focus on existing entrepreneurs and SMEs rather than startups. This is mainly because existing SMEs have proven track record in terms of profit and competency profile.

Another highlight of the Report is to look beyond the high-technology sector and focus on industries in sectors that have already established a presence within the country and

develop an eco-system that suits the unique socio-economic conditions of the country such as plantation, biomass and housing development in Malaysia. These industries are capital intensive in nature, thus more innovative financing solutions such as the proposed SME Market will be a strategic platform for relevant SMEs to raise more working capital without being trapped into high geared risks.

One salient and attractive feature of the SME Market is that the profit track record or operating history (similar to SPAC) is not required for listing. In this case, the credibility of the key management team and the company's business plan may be questionable to investors. With such leniency in place, a strong corporate governance system which protects investors should be put in place in case the company fails to perform as specified in the prospectus.

The median IPO market cap for ACE Markets ranged from RM50 - RM110 million between year 2010 – 2015. It is foreseen that the market cap of the listed entities in the proposed SME Market will be below RM50 million. As a matter of fact, quite a number of existing small caps in the Main Market or ACE Market have market cap below RM50 million. Nonetheless, the SME Market creates a new paradigm shift for equity capital market fund raising in Malaysia, parallel to other SME financing solutions inclusive but not limited to bank loans, government grants, equity crowd funding, peers to peers (P2P) lending etc.

With the introduction of this proposed SME Market/Board, the eco-system of SMEs' equity capital market fund-raising is set to flourish in Malaysia especially for SMEs whose profit track record are not on par with ACE Market companies but yet capable of delivering decent profits and have interesting storylines to pool investors. Bursa Malaysia is moving in the right direction to create the timely financing infrastructure for deserving SMEs in Malaysia to strengthen their financial muscles." •

