

Listing board to energise SMEs

The proposal to set up an SME equity market for startups and smaller companies that don't qualify for ACE market will provide a cost-effective way to raise funds, reports **HO WAH FOON**.

BURSA Malaysia's proposed move to set up a new SME Board or SME Exchange — once implemented — will benefit startups, green energy, biotechnology and innovation-driven firms, according to industry captains and related players.

For SMEs that do not qualify for ACE market listing but have a track record in earnings, this should be exciting news.

Under Bursa's proposal, small and medium enterprises (SMEs) applying for listing will not be required to show profit and operating track record, or even annual reports. This means that the entry levels for listing are much lower than those for the ACE and Main boards.

"The Government wants to empower more SMEs towards being a core part of the country's economy as it is only a few years before we must attain the National SME Masterplan's target of 41% contribution to GDP by 2020," said Datuk Seri Dr Wee Ka Siong, Minister in the Prime Minister's Department.

According to the official SME Corporation, 97% of business establishments in Malaysia are SMEs. These businesses are responsible for nearly 36% of the country's GDP, 65% of the country's employment, and nearly 18% of Malaysia's exports.

"Introducing such a market for SMEs will be a move in the right direction to enable them to grow," added Wee, whose ministry is in charge of SME development.

Bursa Malaysia is allocating one month for public feedback on its consultation paper, released on Sept 2. Chief executive officer Datuk Seri Tajuddin Atan said in a statement: "Bursa aims to facilitate greater access to capital market financing for SMEs to support their developmental and lifecycle needs."

In Malaysia, SMEs are defined as firms with turnover of less than RM20mil for the services sector, and sales not exceeding RM50mil for the manufacturing sector.



Introducing such a market for SMEs is the right move to enable them to grow, says Wee.

"The new board will provide an additional, cheaper means for SMEs to raise funds," said Datuk Ter Leong Yap, president of Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM).

"Currently, many SMEs have difficulties in getting bank loans due to lack of track record and collateral... This will help to ensure a higher rate of business success and it will promote a more vibrant SME sector," he explained.

"With the new board, the eco-system of SMEs equity market fund-raising is set to flourish especially for those SMEs whose profit track record are not strong, yet make good money and have promising future," stated Datuk Leong Kin Mun, owner of accredited angel investor firm Primer Capital Sdn Bhd. "Bursa is creating a timely financing infrastructure for deserving SMEs."

As no restriction has been proposed on business activities, technology-based startups and service-based companies such



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as project management companies, small housing developers and manufacturing firms without notable tangible assets may also be among listing candidates for the new board.

Leong sees more angel investors participating at the early-stage funding of technology-based SMEs since the route to IPO (initial public offering) has been shortened, and this may enable angel investors to exit their investment within a shorter period.

Another listing requirement that has caught attention is that an issuer must have at least 10% of the total number of shares held by the public at the point of listing.

Ian Yoong Kah Yin, a former investment banker with a major establishment, says the proposed public spread of 10% is too small.

"If the purpose of listing the company is to raise funds, then public spread should be higher. It could be a stepped-up requirement. It could be 10% at the IPO stage and the balance of 15% (via private placements) over a month after listing."

Yoong expressed hope that a listed SME would be able to achieve a profit track record before the moratorium on promoters' shares was lifted. He proposed a cumulative two-year after-tax profit of 20% of the market capitalisation based on IPO price.

He cautioned that there could be risks to investors from lowering the bar. "It could be akin to allowing an experienced nurse rather than a surgeon to perform simple operations.

"Bursa should adopt a qualitative view. It should have a panel of experts to vet applications. I have been in the capital markets long enough to realise that there are individuals on the look-out to earn a quick buck," Yoong cautioned.

He proposed that the new market limits listings to firms involved in services, manufacturing and technology sectors.

Leong added that it was unwise to do away with publishing annual report, as such reports were needed in order for shareholders and potential investors to evaluate the performance of companies.

Datuk Wee also dropped a word of caution: "There must be stringent regulations to prevent frivolous actions by entities that could undermine the trust and confidence of investors in such a market."

Although Yoong estimated that total listing cost for SMEs heading to the new board may be lower, probably at RM1mil to RM1.5mil in total, some SMEs are voicing concern that unwarranted and unexpected hidden costs might kill a listing.

An SME owner with strong profit track record related this story: "My company could not get listed on the main board some years ago because there was a so-called runner demanding RM1mil. After I refused to entertain this demand, there were flying letters with lies on our financial health. Although we had already spent RM2mil on listing procedures, we knew the game was over."