

Capital Fund Raising for SMEs: Realising Growth Potential

An Article by Lee Kok Wai



On 2 September 2016, Bursa Malaysia released a consultation paper on the proposal to establish a New Market on Bursa Malaysia positioned to provide small and medium sized companies (SMEs) greater access to the capital market.

Under the current capital market, Bursa Malaysia operates two markets for companies to access capital: Main Market for established companies with profit track records and/or sizeable operations; and ACE Market for smaller companies with growth potential.

Typically, smaller SMEs which may not qualify for the ACE Market have relied on traditional sources of funds, such as bank borrowings. There are also SMEs which seek out venture capitalists and angel investors, especially those without tangible assets to pledge as collaterals to banks. The recent approval by the Securities Commission for equity crowd funding has opened up another source of capital although this has yet to catch on with the investing public and businesses.

Recognising the challenges faced by SMEs, Bursa Malaysia has proposed to establish the New Market – an equity market set up to provide smaller SMEs a cost effective and efficient way to raise funds from qualified sophisticated investors. This is actually not completely new as similar markets have been established in other countries, such as South Korea's Korea New Exchange (KONEX) and China's Chinese National Equities Exchange and Quotations (NEEQ or Third Board). While both KONEX and NEEQ have enjoyed a measure of success providing start-ups access to capital in their respective markets, they have also encountered some challenges.

For example, the number of companies listed on China's NEEQ has surged to over 8,600 at the end of August 2016. In comparison, the Shanghai and Shenzhen stock exchanges only have approximately 3,000 listed companies.

Source: South China Morning Post, China's new third board booming, but IPO queue for the main market still backed up, 17 August 2016

But NEEQ is facing challenges from flagging turnover and weak liquidity, as well as corporate governance concerns as a result of less stringent listing requirements that could undermine the long-term growth of the market.

In the first few months after its launch in 2013, South Korea's KONEX struggled to attract companies to list on its exchange. While the exchange's performance has since improved with market capitalisation reaching 5 trillion won in June 2016, there is still a perception that smaller companies carry higher risks, keeping investors at bay. There have also been calls by investors for KONEX companies to submit their financial reports and enhance corporate governance to attract more investors.

The Malaysian New Market aims to provide an ecosystem which brings together SMEs, capital market intermediaries and qualified sophisticated investors onto a single platform to create a conducive marketplace to raise funds for SMEs.

Benefits of the New Market

SMEs

- Access to wider investor base for fund raising
- Cost effective and efficient access to capital market
- Increase public profile and visibility of companies
- Provide platform for gradual enhancement in corporate governance and disclosure compliance
- Facilitate future secondary fund raising

Sophisticated Investors

- Access to new potential investments
- Easy access to standard information and disclosure in respect of investments
- Investments in New Market would be more marketable
- Provide easier exit for angel and early stage investors
- Comparison to companies in similar industries in terms of returns, valuation and governance

Source: Bursa Malaysia Consultation Paper No.3/2016: Proposed Rules Governing The Listing, Trading and Depository Framework of Bursa Malaysia Securities Berhad's (New) Market, 8 November 2016.

Key Features of the New Market

Type of companies

Open to all Malaysian SMEs which are public companies

Type of investors

Sophisticated investors only as per Part 1 of Schedule 6 and 7 of CMSA and includes a Venture Capital Corporation, Venture Capital Management Corporation, Private Equity Corporation and Private Equity Management Corporation registered with the Securities Commission of Malaysia (SC)

Advisers

Proposed expansion of the existing pool of advisers to include qualified Corporate Financial Advisors (CFAs) licensed by the SC

Listing criteria guidelines

- i) No profit track record and operating history requirements
- ii) Admission via
 - With fundraising (placement or excluded issues); or
 - Without fundraising (introduction)
- iii) Listing of ordinary shares only
- iv) Submission of listing documents as required by the SC

Governance matters

- i) Some flexibility to be accorded to:
 - Requirement for independent directors;
 - Requirement for audit committee, nomination and remuneration committee
- ii) Auditors for companies listed on New Market have to be registered with the Audit Oversight Board

Amount raised

Unlimited

Public spread

$\geq 10\%$ at listing

Financial disclosures

- i) Annual audited financial statements
- ii) Periodic disclosure of financial results (semi-annual unaudited)
- iii) No requirement for annual report

This initiative is crucial to the economy of Malaysia as SMEs make up about 98.5% of companies in Malaysia and contribute more than 30% to the country's GDP. Under the Malaysian Government's SME Masterplan (2012-2020), the target is to boost SME contribution to GDP up to 41% by 2020.

The New Market will ultimately link SMEs which require funding to grow their businesses with the right set of qualified sophisticated investors who understand the risks of investing in such companies.

To find out how Bursa Malaysia's New Market may offer your SME a new avenue for capital fundraising, contact Crowe Horwath today.

Source: Bursa Malaysia Consultation Paper No.3/2016: Proposed Rules Governing The Listing, Trading and Depository Framework of Bursa Malaysia Securities Berhad's (New) Market, 8 November 2016.



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