Penjana Kapital boosts private-sector participation in the VC space

BY **INTAN FARHANA ZAINUL**

In less than three years since its incorporation, Penjana Kapital Sdn Bhd has approved a total of RM527.6 million in venture capital (VC) investments in 53 start-ups in various sectors including technology, financial technology, materials and industrials, healthcare, real estate, communication service, media, energy and utilities, software as well as consumer, and invested together with VC companies, given the fund's matching mandate.

To date, it has raised RM1.3 billion, of which almost RM600 million is from the government and the remaining RM700 million is from local and foreign investors. Penjana Kapital has a balance of RM770 million in dry powder ready to be disbursed across the different stages of a start-up — seed, Series A and B, growth and venture debt.

Thirty-two of its 53 investee companies are based in Malaysia, 15 are from Singapore, three from Indonesia while the remaining are from the US, India and Thailand. Penjana Kapital claims its investments are yielding an average internal rate of return of 20%.

The investee companies include Senang Insurance (seed funding), RPG Commerce (Series A/B) and Care Concierge and Carsome (growth).

Set up by the Ministry of Finance at the height of the Covid-19 pandemic in July 2020 to boost investment in the private market, Penjana Kapital administers and facilitates the deployment of the Dana Penjana Nasional, a matching fund-of-fund programme where the government will match, on a 1:1 basis, funds raised by VC fund managers from foreign and local private investors.

Penjana Kapital CEO Taufiq Iskandar says that over the next two to three years, the firm will be focused on boosting investment in technologies and sectors that will support the development of the country's green ecosystem and digital economy in line with the Sustainable Finance Blueprint 2019-2025.

"Penjana Kapital's ticket size varies depending on the stage of investee companies' lifecycle. Investments in start-ups that are still searching [for] or validating their product-market fit (early stage) are typically sized at RM1 million to RM5 million, while those in companies looking to scale up (growth stage) could fetch a RM25 million investment," he tells *The Edge*.

Penjana Kapital has yet to exit any of its investee companies, but Taufiq says that like other VC funds, the firm has a holding period of between five and seven years. Nonetheless, it is already working on its exit strategies, which include trade sales and initial public offerings (IPOs).

"Although our investments have yet to mature, we are working closely with the Securities Commission Malaysia (SC) and Bursa Malaysia to ensure there will be an orderly IPO market for start-ups and our investments," he says.

In 2021, a target was announced to create five Malaysian unicorns by 2025. The goal is a relatively big ask given that the valuation of a unicorn has to be at least US$1 billion (RM4.5 billion), which has raised the importance of private investments and alternative fundraising for local companies.

Over the last 10 years, technology companies around the world have attracted significant investor interest. Tech start-ups have also been drawing in the big bucks from investors. Apart from unicorns, there are also decacorns — those with valuations surpassing US$10 billion. Globally, there are an estimated 700-plus unicorns, out of which about 30 are decacorns.

Taufiq: One of the major grievances of our ecosystem is the lack of venture funding and 'animal spirit'

The fact that there is not a single technology company among the constituents of the FBM KLCI — the main index of Bursa Malaysia — underscores the challenge ahead.

A Malaysian unicorn has yet to test the market. Carsome — a used car marketplace and reportedly the country's first unicorn — was expected to list in 2021 at a valuation of some US$2 billion, but it subsequently shelved its IPO owing to market conditions.

Market players often observe that "super-app" Grab Holdings Inc ought to have been the first unicorn but slipped through the cracks, although Grab would arguably have found Malaysia too small for its ambitions. Now Southeast Asia's first decacorn, Grab was listed in the US in a massive near-US$40 billion deal in late 2021, although its valuation has since slipped to US$12.26 billion.

That Grab moved its headquarters to Singapore in 2014, about two years after it was founded in Malaysia, has often been held out as an example of how much more needs to be done in the domestic capital market to nurture start-ups to reach their true potential.

"One of the major grievances of our ecosystem is the lack of venture funding and 'animal spirit'. Money is the lifeblood that drives entrepreneurship and allows the entrepreneurs and innovators to take the risks necessary to create potential disruptive businesses and inventions. Without a healthy amount flowing into the ecosystem, these companies will flounder and bright talents will relocate elsewhere," says Taufiq.

"A common similarity shared by thriving start-ups/innovation hubs is that their VC market is growing and supportive. These hubs leverage their venture money to attract promising start-ups to relocate and entice highly skilled talents to migrate."

He points out that in Malaysia, there is a funding gap VC investment in Malaysia that is mainly driven by government agencies and public funds, which make up about 75% of committed capital. For the VC market to be sustainable, the private sector has to take over the government's role, although why private investors baulk at the proposition probably needs to be addressed.

"Through matching investment commitments, Penjana Kapital attracts private capital from strategic international as well as private domestic investors, and ultimately diversifies the sources of VC funding in Malaysia.

"The matching commitment from Penjana Kapital helps to mitigate risk aversion and encourage private-sector participation. In addition, Penjana Kapital's role as a Limited Partner and fund-of-funds model seeks to strengthen capacity building of local venture players and VC funds, with the aim to develop a well-functioning intermediation in the market," Taufiq says.

Growth of local private equity industry

Against this backdrop, the Malaysian private equity (PE) industry has been charting encouraging growth, with RM10.71 billion of committed funds as at end-December 2022, along with another RM5.37 billion for VC (2021: RM9.65 billion and RM5.18 billion).

According to the SC, the total committed VC funds under management in Malaysia as at end-2022 was RM5.37 billion, slightly higher than 2021's RM5.18 billion. More than 75% of these investments came from government and government agencies.

VC investments in 2022 concentrated on the growth stage (48.18%), followed by the early stage (36.53%) and seed (10.54%) opportunities. In total, 34 VC deals were recorded last year.

Meanwhile, private equity investment stood at RM10.7 billion in 2022 compared with RM9.65 billion in 2021, of which 33.4% of PE financing was derived from corporates, followed by individuals and family offices, 17%, and financial institutions, 12.8%.

"We are not short of funds. There is an increased interest among foreign investors in Southeast Asia. Locally, we have liquidity available and some are in the form of cash and deposits. They are trapped in the balance sheets of corporations, family offices and others.

"These funds can be used for productive investments including in the VC space although they can be risky. Therefore, we need an intervention such as Penjana Kapital's co-investment model to crowd in private capital," Taufiq says. E