COVER STORY

PHOTOS: YOMA STRATEGIC HOLDINGS

Yoma Strategic's chairman Serge Pun (left) and son and CEO Melvyn: "It is quite well known in Myanmar that we never pay any bribes, and that we try not to take shortcuts or get close to any politician."

Yoma's grand strategy

Yoma Strategic is establishing strong partnerships across different business sectors in its quest to become one of Myanmar's leading companies

BY **AMALA BALAKRISHNER**
amala.balakrishner@bizedge.com

When Serge Pun went back to Myanmar about three decades ago to build his own business after some years working in Hong Kong, China and Thailand, his ambitions were modest.

At that time, Pun had set up **First Myanmar Investments** (FMI) in 1992 to invest in real estate in Myanmar. A year later, he set up Yoma Bank to offer commercial banking services. Then in 2005, FMI made a foray into the healthcare sector with the establishment of the Pun Hlaing Siloam Hospital.

Pun tapped on his extensive networks — both in Myanmar and abroad — to give FMI over 8,000 shareholders. It eventually became the country's largest public company and was the first company to list on the Yangon Stock Exchange in 2016.

"We obviously had no idea we would end up with such a large range of businesses," says **Yoma Strategic Holdings**' (Yoma) CEO Melvyn Pun, son of Serge, reflecting on how the group had successfully identified and captured opportunities in a developing economy like Myanmar.

Around 2006, the Puns started looking for an international exchange to list Yoma. Singapore was a natural choice for its listing given the city-state's good corporate governance, transparency and anti-corruption practices — traits that are dear to the Puns.

They believed a listing here would add credibility to their businesses, and the group would then be seen as a partner of choice for investors or companies looking to venture into Myanmar. "It is quite well known in Myanmar that we never pay any bribes, and that we try not to take shortcuts or get close to any politician," Melvyn tells *The Edge Singapore* in an interview.

For strategic reasons, the Puns split the businesses into two entities: FMI and Yoma. Businesses with a stronger domestic focus, such as banking and healthcare, would remain in FMI, for ease of navigating through the local regulatory landscape.

Yoma on the other hand, focused more on real estate development, at that time. It holds land "bought a long time ago", that is "held at cost". And with land prices having surged 10-fold to US$70 psf ($98 psf) from five years ago, Melvyn says the real estate business can "still be profitable, even if we only sell a few houses a year," says Melvyn, a former Goldman Sachs banker who spent 12 years doing big corporate deals across the region before joining the family business in 2012.

The combination of FMI and Yoma taps on a familiar growth story seen across emerging economies, with business opportunities starting with infrastructure spending and real estate development followed by a more affluent population with higher spending power who demand better goods and services.

The Puns are betting Myanmar's US$66-billion economy will follow the same growth trajectory experienced by other more developed economies in Asean, such as Thailand and the Philippines, whose economies are around eight and five times larger respectively. "We want to become a market leader in different sectors so that when Myanmar's GDP is the size of Thailand or the Philippines, our individual businesses would be sizeable and generate significant cash flows for us," explains Melvyn.

Besides its original core business of real estate, Yoma has three other main pillars: F&B, motor vehicles, and more recently, financial services and investments. Although this is a diversified portfolio that will grow at different rates, taken as a whole, it will all help grow Yoma into a bigger entity.

Meanwhile, the group is also on the lookout for "attractive opportunities to invest in, with a view to exit". By doing so, it can constantly generate cash which can then be redeployed to areas where investment is needed.

Cash kept underneath mattresses

On June 24, Yoma set up a new company — Yoma MFS Holdings (or Wave HoldCo) to increase its stake in Digital Money Myanmar. The company — also known as Wave Money — is a leading mobile financial services provider in Myanmar that operates through 58,000 agents or "Wave Shops". Their services are available in both urban and rural areas, across 295 of the country's 330 townships.

Norwegian telecoms firm **Telenor Group** used to own 51% of Digital Money Myanmar. Through Wave HoldCo, Yoma will acquire the entirety of Telenor's stake for US$76.5 million, through funds raised by a consortium of its investors. Prior to the acquisition, Yoma had held a 34% stake in Wave Money under a joint venture with sister companies, FMI and Yoma Bank owning 10% and 5% respectively.

Upon completion of the acquisition, Yoma will invest up to an additional US$25 million in Wave Money and become its largest controlling shareholder. "The acquisition is part of our goal to build a strong financial technology ecosystem in Myanmar," says Melvyn. "In countries such as Singapore, consumers already have a wide range of options through credit cards, Pay Wave and e-payment wallets such as the one offered by Grab. So, an additional player will not make much of a difference in the city state. However, such a scene is just starting in Myanmar," he explains.

To be sure, Myanmar is home to a little over a dozen FinTech companies. In comparison, there are around 500 in Singapore, according to data collated by *FinTech News Singapore*. This means plenty of growth potential for Yoma and not much competition. Only 25% of Myanmar's population have a bank account. Residents tend to hold their wealth in jewellery, ornaments and gold while cash is often stored at home, sometimes under mattresses, quips Melvyn. Citing data that consumers are four times more likely to own a smartphone than a bank account, he believes the country's FinTech and e-payment scene offers plenty of opportunities.

Evidently, the usage of Wave Money is gaining strong traction, with transfer volume having more than trebled to US$4.3 billion in 2019 — equivalent to around 6% of Myanmar's GDP — from 2018. During the same period, revenue and transaction numbers also trebled. Wave Money became Ebitda positive in September 2018, just two years after its launch and continues to maintain its profitability.

To further boost its FinTech ambitions, the company is also collaborating with a network of international heavyweights in this space. Most recently, Ant Financial Services Group — the operator of e-commerce giant **Alibaba**'s Alipay feature — announced it will invest US$73.5 million in Wave Money. Here, the company will leverage Ant Group's experience in building mobile payment platforms to enhance its digital competence, capabilities, user experience and service offerings, Yoma announced on May 18.

The partnership with Ant Financial followed Yoma's recent strategic investor **Ayala Corporation**, which controls Philippines' **Globe Telecom**, which has a tie-up with Ant Financial since 2017, explains Melvyn.

On November 13 last year, Ayala — one of the oldest conglomerates in the Philippines — acquired a 20% stake in Yoma and Yangon-listed FMI for US$237.5 million through the issue of Yoma shares at 45 cents each and FMI shares at MMK15,000 ($13.28) each.

In a sign of how upbeat Ayala is with its new partner in Myanmar, it was willing to pay a significant premium of more than a third over the last traded prices of both Yoma and FMI. "We have been overweight in our home market, we have now reached a stage where we have to build stronger ties in this Southeast Asian story. The Myanmar growth story is an extraordinary one," says Jaime Augusto Zobel de Ayala, chairman and CEO of Ayala Corp.

Given similarities in their corporate history and the businesses they are in, Ayala, now run by seventh-generation owners, was a company the Puns had their eyes on for some time.

Partnership to generate power

Besides FinTech services, Yoma and Ayala are partnering with each other in the utilities business and in a joint venture to build solar-hybrid plants in rural Myanmar through Yoma Micro Power (YMP). The pilot for these plants began in 2018, while actual construction kicked off in March 2019. Some 250 plants have been built thus far to power off-grid telecom towers which were previously fuelled by diesel. They will offset more than 5,000 tonnes of greenhouse gas emissions annually, which is equivalent to the planting of 75,000 trees, according to YMP.

This partnership was made possible with an additional US$40 million that Yoma had raised from shareholders in February to fund growth in the off-grid sector and expand its business into grid-connected solar systems. Previously, Yoma and AC Energy — the energy arm of Ayala — had invested at least US$30 million in YMP. Yoma owns a 35% stake in YMP, while the International Finance Corp and Norway's private equity firm Norfund each hold 30%. The remaining 5% is held by YMP's CEO Alakesh Chetia.

For now, mobile network operators and tower companies form its anchor clients, and buy electricity generated by the power plants at a cost lower than diesel-powered ones. The power is also being supplied to nearby communities which include households, schools, shops and businesses through mini-grid distribution networks. Rural households can pay for the electricity using cash or through Wave Money. This is an economical, cost-saving option for them, following a grid electricity tariff introduced by the Myanmar government last year which made solar power an economically and environmentally attractive source of electricity for large commercial and industrial customers in the country.

"With about 60% of Myanmar's people having no access to the grid, the lack of a reliable supply of electricity is one of the biggest bottlenecks for economic development in the country," says Melvyn. He adds that there are also immense opportunities and YMP can help "bridge Myanmar's rural electrification gap" and "spur sustainable and inclusive economic growth". There are plans to expand the number of power plants to over 2,000 sites by 2023. The company is also looking to develop around 200MW of additional renewable energy projects in Myanmar with AC Energy.

Colonel Sanders and YKKO

Yoma is already in position to generate business from Myanmar's younger population too. Under its F&B operations, it has obtained the exclusive franchise rights from international food chain KFC to operate in Myanmar. The company now operates 45 outlets, which have seen good patronage by the younger crowd who are willing to spend more money and try new things.

To reach out to a wider group, it acquired a 65% stake in popular local eatery YKKO – a family-run business established in 1988. It went on to modernise the chain's 44 outlets to cater to a more diverse and wider inter-generational audience. While patronage at both KFC and YKKO has taken a hit from the safe management measures imposed to curb the spread of Covid-19 infection in the community, Melvyn says takeaway orders remain healthy. This is mainly through its exclusive agreement with food delivery service FoodPanda — which prevents the operator from accepting orders from competitors of KFC.

Aside from the chains, Yoma's F&B segment includes three Auntie Anne's kiosks and one Little Sheep Hot Pot restaurant. Collectively, this gives it a store count of 91, making it the largest restaurant operator in the country. The company's goal is to have six or more brands and upwards of 125 locations by FY2023, including expansion outside of Myanmar's major cities. "We will also focus on improving efficiencies, developing supply chains, and stepping up marketing and brand-building efforts," adds Melvyn.

The Star City development sits on massive 135-acre land and serves the middle-income market

Property development still core

Even as Yoma establishes new partnerships and areas of focus, Melvyn says real estate development will remain its core "bread and butter" business.

Currently, its real estate projects consist of three large-scale property developments comprising two residential projects — StarCity and Pun Hlaing Estate — and a mixed-used development — Yoma Central and The Peninsula Yangon. So far, 652 acres (2.6 sq ft) of Pun Hlaing Estate have been developed into what Melvyn calls an "oasis". "It is a very safe place, we have a 24-hour security, proper electricity and water supply, and even a golf course," he says of the estate that he is residing in.

According to Melvyn, there has been heightened buying interest for houses in the luxury Pun Hlaing Estate during the Covid-19 pandemic as people look for residences that are more exclusive and secluded. Units here retail for between US$600,000 - 5 million each.

Another real estate development, City Loft, is positioned as a mid-range housing for younger, first-time owners or professionals earning US$1,000–1,500 per month. "We realised that the housing market catered to either the very rich or the rural communities. So, we decided to reach out to the unserved middle tier of home-owners through City Loft," says Melvyn. Of the 800 units launched, the company has sold 80% at prices ranging between US$35,000 and US$110,000. These units sit within Yoma's StarCity land parcel.

StarCity sits on a massive 135-acre piece of land and is expected to boast 10,000 residential units, commercial and retail spaces. Apartments here will serve the middle-income market, with prices ranging between US$200,000–600,000 per unit.

For now, Melvyn is focused on developing the land at hand and is not looking to buy more plots. "We still have a landbank of more than 9 million sq ft which we can developed over the next 10 to 15 years, so there is a lot of opportunity for us. But of course, never say never," he says.

Losses posted but analysts stay bullish

On May 14, the company reported its financial results for 2H2020 ended March 31. The group sank into the red with a net loss of US$15.9 million — compared to earnings of US$20.6 million a year ago. The company incurred higher financing and administrative costs, but enjoyed a modest profit from its share of joint ventures and associate companies. Revenue in 2H2020 rose 4% y-o-y to US$52.2 million, from US$50.2 million a year ago. The company explains that the numbers were hurt by the slowdown in Myanmar's economy since January.

In addition, because of its change in its financial year-end from March 31 to Sept 30, fair value adjustments, typically made at the end of the FY, were not recorded for the most recently reported period. For the full FY2020, Yoma reported losses of US$55.7 million, versus earnings of US$10.2 million the previous year. The bulk of the losses were from the revaluation of a retail project in China. No dividend was declared for the period, similar to the previous year.

Melvyn is unfazed by the losses, given that was the results the group had expected. "Our cash flows have been affected by our moves into different businesses and each business plan will typically take an average of three years to be profitable," he explains. "Our businesses will be profitable in the future, but they will first involve investments so they won't be making money. In fact, they will be making a loss."

Analysts, too, are optimistic on Yoma, especially with its bigger exposure to financial services. In a June 24 note, DBS's Rachel Tan and Derek Tan maintained their "buy" call on Yoma with a target price of 50 cents. "While the next part of the journey may be rocky with increased competition, we believe Wave Money's dominant position in Myanmar and the synergistic opportunities that both Yoma and Ant Financial can provide will give Wave Money a firm platform as it expands into a super app," they write.

They see Wave Money key to cross business collaboration with Yoma's other businesses, such as fleet leasing, consumer (digital payments) and real estate services. "In addition, we believe there could be future synergistic opportunities as Ant Financial builds its e-commerce platform in Myanmar," they add.

Phillip Capital analyst Tan Jie Hui shares similar sentiments. Particularly, she stressed that the company's acquisition of Wave Money was at an attractive price — a 20% discount to the research house's projected valuation for the financial services firm.

In her initiation report on June 22, Tan gave a "buy" call with a target price of 46 cents. "We increased the valuation of Yoma's stake in Wave Money, offset by a 15% devaluation in Pun Hlaing Estate's land bank due to the expectation of a weaker outlook in the premium property space. Property and financial services will constitute 68% and 19% of the valuation respectively," she stressed.

At the close on July 8, shares in Yoma dropped 0.5 cent or 1.59% to close at 31 cents. This gives it a market value of $691.7 million. But as the group couples itself more closely with Myanmar's rising frontier economy, its market value may well rise further as the Puns have probably envisaged. E

Myanmar sidesteps Covid but November polls stays a wildcard

While most countries plunged into recession caused by Covid-19, Myanmar, with its relatively insulated economy, will still experience growth this year. However, the projected growth rates will be the lowest since the military junta handed over powers to U Thein Sein's quasi-civilian government in 2011 and a subsequent economic boom took place.

According to the International Monetary Fund, Myanmar is projected to grow 6.4% this year, although it will be down 1.8 percentage points from 2019. The Asean+3 Macroeconomic Research Office (AMRO) offers a more conservative forecast of 2.5%. Interestingly, these projections come despite its shuttered borders, worsening conflict in its Rakhine State, a collapse in tourism and dimmer prospects of foreign direct investments.

Between March 24 and May 20, Myanmar implemented a lockdown in a bid to curb the spread of Covid-19. Unsurprisingly, unemployment increased as many factories stayed shut. On April 27, the country's Ministry of Planning, Finance and Industry launched a Covid-19 Economic Relief Plan (CERP), where it introduced strategies such as the injection of monetary stimulus, allowing improvements to investment trade and the back sector, easing impact of the pandemic on employees and households, promoting innovative products and strengthening healthcare systems.

Pre-Covid growth

Prior to the outbreak of the Covid-19 pandemic, market watchers expected 2020 to be a year of high growth following the pick-up in its economy in FY18/19. AMRO's economists alluded to the Myanmar Sustainable Development Plan as a positive indication of the nation's vision for long-term development between 2018 and 2030. Its focus areas include sustainability, job creation and economic growth as well as peace, national reconciliation, security and good governance.

A step in this direction was seen when it hiked tariffs on electricity. AMRO's economists Jae Young Lee, Paolo Hernando and associate Nyaung Tai say the move benefited the business community through a more stable power supply with less outages, while it may have put households at a dichotomy with the higher prices. Citing data showing an increase in the nation's growth by 7% in the seven years since 2012 when it embarked on economic reform and market-opening, they noted that electricity consumption correspondingly increased some 15% of average between 2012 and 2018.

"Poor energy infrastructure and the lack of stable power supply are cited as reasons holding back foreign and domestic investments in Myanmar," they note, adding that the improvement is slated to bring a brighter future. "Mandating higher public utility prices is a difficult policy decision and many governments hesitate to move forward with policies that are unpopular among the people. In this sense, it is very commendable that the government of Myanmar has pushed ahead with the hike in electricity tariffs," they add.

For now, whether these policies will continue is left to be seen, as Myanmar is scheduled to head to the polls later this year. This marks its third general election in six decades, and is a landmark development for its democratic transition. For now, market watchers say the country's ruling National League for Democracy (NLD) faces several challenges that could curtail the trajectory towards freedom. Led by Aung San Suu Kyi, the party won a landslide victory in the country's free national elections.

"Nearly five years on, while Aung and the NLD have undertaken reforms in some areas, they have not lived up to the high expectations that existed when they took office," observes Prashanth Parameswaran, a fellow at the US-based Wilson Center's Asia Program. Domestically, he says Aung's relationship with the local ethnic groups has worsened over the years, dimming hopes for national reconciliation. Abroad, her reputation suffered somewhat as well because of the same issue.

To this end, Parameswaran says the outcome can go either way. "It is also important to keep in mind that the focus on Covid-19 can cut both ways: It can exacerbate the NLD's governance challenges, but it can also reinforce the case for continuity and political stability and take the focus away from the party's own problems, thereby cementing its expected return to power," he says. E