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Success and survival: How Yoma Strategic is building its future

In this exclusive interview, JR Ching, CFO of Yoma Strategic Holdings, shares how the Myanmar conglomerate is navigating the ongoing domestic crisis and emerging with a stronger balance sheet.

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The last two to three years have been challenging for Myanmar. First, there was the Covid-19 pandemic which impacted society and disrupted livelihoods. Then in February 2021, the military organised a coup to overthrow the civilian government, reversing the country's democratic progress and causing a political, economic and humanitarian crisis.

According to the World Bank's latest Myanmar Economic Monitor, the market's economy will continue to experience significant uncertainty, with household incomes remaining inadequate and the country's potential for inclusive growth severely weakened by recent shocks.

In spite of these challenges, Myanmar's leading conglomerate, Yoma Strategic, has shown signs of resilience and strength, as is demonstrated in its latest half-year report.

During the period, the Singapore-headquartered and listed arm of Yoma Group recorded strong performance across its core businesses; real estate, food and beverage (F&B) and financial services. It achieved record sales across property and F&B, and its completion of the Wave Money acquisition from Norway's Telenor Group, contributed to a 126 % increase in year-on-year (YoY) revenue.

The company report detailed improved profitability with core earnings before interest, taxes, depreciation and amortisation (Ebitda) increasing to $12.5 million; and displayed a strong financial position with a reduction in its net gearing ratio, from 27.8% to 18.6%.

In this exclusive interview, CFO for Yoma Strategic Holdings, JR Ching, spoke to *FinanceAsia* about the company's latest earnings; the firm's strategic decision to adopt a "cautious growth mindset"; and its plans to navigate the market's uncertain regulatory environment.

Excerpts from the interview have been edited for clarity and brevity.

FA: Can you share highlights from your latest half-year performance?

First, it's important to underline how our top line has recovered, reflecting recuperation in the overall macro situation and renewed consumer demand.

In addition to the improved revenue, we've made a concerted effort to reduce our cost base over the last two years and this is reflected in our improved profitability across the board. Our balance sheet has also demonstrated this strength and stability with much lower levels of gearing. As a result, we're in a much stronger financial position, which leaves us with some dry powder to be able to take advantage of any market opportunities that we might see going forward.

FA: What's your outlook for the market?

One of the things that Myanmar experienced between 2013 to 2020 was a "growth at almost all costs" mentality. The narrative was that there was so much opportunity, that people should start building out and investing in capacity immediately. However, this meant that the market got ahead of itself in terms of its actual trajectory. What happened after 2021 was a consolidation of this mindset, where competition left Myanmar. It meant that everyone was forced into a position where they had to try to survive through a very challenging period.

In the last six to 12 months, we've adopted a fairly cautious growth mindset, one which is focussed on tactical opportunities, whether that be through investment or M&A. The Wave Money transaction in December 2022, through which we acquired Telenor's stake in Digital Money Myanmar – a digital payments and financial services provider, is an example of that. We picked it up at the right time and at an attractive valuation.

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FA: Where do you see most opportunity?

The digitalisation of financial services is where we see next-level growth opportunity, but the greatest challenge we're going to face is around financial inclusion. We're seeing a mindset shift by the central bank around know your customer (KYC) and transaction monitoring, which will bring additional challenges to this area, particularly in rural regions where a substantial number of individuals lack proper identification cards.

When it comes to real estate, the group has always prided itself not just on constructing property developments, but on creating communities. This is where we have focussed our efforts so far – within our two residential communities, offering amenities, services and security.

We've always said that these communities need to achieve a sufficient level of scale before we see an attractive return for both the corporate group and a particular facility's residents. I think the political changes and the pandemic really exemplified the appeal of these communities and the residential population – particularly within StarCity – has grown so much that it has started to reach a tipping point where it has become an attractive environment. We are now looking at additional product offerings as well as launches and events to sell more property.

Across our F&B business, which comprises ownership of the KFC franchise in Myanmar and a controlling stake in Yankin Kyay Oh (YKKO) – best known for its family style vermicelli dishes; we are pushing for growth through marketing and the targeted expansion of new stores. It's a real positive that capacity to spend on marketing and brand campaigns has been building over the past six months to a year.

FA: How have you managed the impact of a depreciating kyat?

The performance of the domestic currency is something that we can't control and so we've had to become very effective at managing its fluctuations with speed and efficiency.

At the end of the day, the kyat is what we use to support our cost base. So, looking at things positively, the depreciating kyat has enabled us to focus on the localisation of our supply chain and the cultivation of our domestic talent base over the last couple of years. For these endeavours, the depreciating currency helps.

FA: Can you elaborate on localisation? It seems to be a big part of your plans.

With so much disruption over the last couple of years, we've lost a lot of international employees and we've effectively had to replace these expatriates – almost exclusively – with the local talent pool.

This localisation of our talent pool has always been a key objective for our chairman, Serge Pun, but it's only recently, that we have been pushed to further advance this up-and-coming talent base. Going forwards, we're going to be much more focussed on driving the continued growth, training and expansion of our local staff.

FA: How are you dealing with escalating inflation?

The impact of inflation is hurting us a lot more compared to other markets. At the bi-annual KFC Franchise Convention in February, everyone griped about the inflation in their home markets which continues to fluctuate between 8 to 10%. Myanmar on the other hand, has been facing a much higher inflation rate, in part due to the sharp depreciation of the Myanmar kyat. The challenge for our economy is much greater than elsewhere and is another issue that we're having to navigate.

Our real estate portfolio sees us manage two large residential estates where we ensure the provision of uninterrupted services, including 24-hour access to electricity, water and internet, to residents. Whether its F&B or real estate, we've had to manage price increases very carefully across all areas of our businesses because at the end of the day, you can only push prices so much for end customers.

We've implemented very stringent cost controls for the businesses to cope with these rising costs.

FA: What is the biggest challenge you're facing?

I think regulatory developments pose a big challenge. We're already seeing this play out in the financial system.

For instance, take the KYC requirements for financial services businesses such as Wave Money. The original objective of mobile money was to promote financial inclusion, but instead, due to some recent regulatory requirements, we need to give significant priority to customer KYC and transaction monitoring.

had a knock-on effect across the economy and have not been terribly helpful for a business like ours which has an international listing in Singapore and is supported by international partners who provide financing. We have been actively managing our US dollar-denominated position and exposure, and will continue to do so across the next 12 to 24 months.

FA: How do you navigate such uncertainty?

It requires a level of engagement, explaining our strategy to stakeholders and making plans to ensure that people understand the implications for our businesses.

We're also continuing to cultivate the partnerships that we have – those with our strategic partners, investors and lenders – who have been extremely supportive throughout this whole process. They understand that there are challenges in the current environment. We have established long-term relationships with other businesses and financial institutions that have operations in Myanmar, and we are working collaboratively with them.

FA: What has Yoma Strategic done to reduce its debt?

Generating cash flow has been our top priority. We want to make sure that our businesses can sustain themselves and distribute additional funds successfully back to the group.

To reduce our debt, we've disposed of several assets. One example includes the conversion of the Dulwich International School – which is located at one of our estates – into an office building. After Dulwich suspended its operations in Myanmar, the school was underutilised and did not generate a lot of revenue and so it made sense to convert it into offices which were rented out. Subsequently, we sold it to the tenant.

Another example is our portfolio of 150 service apartment units. With a more subdued rental market, we have rebalanced our investment portfolio and decided to sell them to individual buyers.

Although we've laid off these assets, it's important to note that the competitive environment has worked in our favour and as a result, we're in a much better position financially. The proceeds from the disposal of these assets were mainly used for the repayment of our borrowings.

Retooling our operations and figuring out how to operate within this environment has been the key to being able to survive. Going forwards, we will continue to work to strengthen our balance sheet and overall financial position. In line with current guidance, we will work to reduce debt by an additional $15 to $25 million over the course of the next 12 months, which will help our corporate gearing level and reduce our finance costs.

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