

SELECT-TV TO FURTHER STRENGTHEN ITS FINANCIAL COFFERS WITH SUPPORT FROM MDV

Malaysia Debt Ventures Bhd (MDV), a wholly-owned subsidiary of the Minister of Finance Inc, gave the technology sector a reason to cheer when it launched a new RM1.5 billion fund last week. With the second fund, MDV will be able to provide more information and communications technology (ICT) and biotechnology customers an alternative to conventional financing. Banks are normally hesitant to fund technology companies because of their inherent risks and lack of hard collateral — the asset of most tech companies is their intellectual property. MDV was created to bridge the funding gap that these companies face.

Of the fresh RM1.5 billion fund, three-quarters have been earmarked for ICT and the rest for biotechnology. The fund was raised domestically via the issuance of Islamic medium-term notes, with the help of its lead arrangers. CIMB Investment Bank is the lead arranger and syariah adviser, while Bank Islam Malaysia and RHB Investment Bank are the joint lead managers.

MDV's first fund was a RM1.6 billion soft loan from the Japanese government via the Japan Bank for International Cooperation (JBIC). However, the second fund does not involve JBIC as the currency risk — JBIC loans are denominated in yen — was deemed too high.

Md Zubir Ansori Yahaya, the managing director and CEO of MDV, tells netv@lue2.0 the launch was a significant milestone for the company as it was an endorsement by the Ministry of Finance (MoF). He adds that the fund will be good for the ICT and biotech industries as it can be used to finance their projects. "We offer customers flexibility," says Zubir. "Banks normally require up to 30% of the loan in hard collateral, which many young technology companies are not able to provide. We, however, look at strength of the project and the team members. By doing this, we can bridge the gap between venture capital, which suits very young companies, and conventional bank financing, which suits mature companies."

MDV's profit rate for its Islamic-based products and interest rate for its conventional products range from 6% to 8%.

The second fund is a 15-year programme consisting of two issuances. The first issuance, which was completed on Sept 26, comprises RM500 million and is divided into two categories — RM300 million for a seven-year term and the balance of RM200 million for 10 years.

Zubir predicts that the funds from the first issuance would be fully utilised by August next year. He said the response to MDV's biotech loan products has been very encouraging and to date, MDV has approved loans amounting to RM86 million to three companies in biodiesel, biomass and contract manufacturing. Another 14 loan applications worth RM224 million are still being processed, he added.

Some RM700 million worth of loans for ICT companies are in the pipeline. From its first fund, MDV has approved RM3.5 billion and disbursed more than RM2 billion to more than 250 companies, rolling over repayments from early clients and revolving the fund. Some 60% of its clients are small and medium enterprises. MDV has to repay JBIC some RM200 million a year until 2014.

The Malaysia-centric ICT companies that have grown with MDV range from start-ups to regional

and global brands, including Alam Teknokrat Sdn Bhd (SKALI), Commerce Dot Com Sdn Bhd, Scan Associates Bhd, Masterplan Consulting Sdn Bhd, Itramas Technology Sdn Bhd and Select TV Sdn Bhd.

"Through MDV's financing, companies have been able to increase their scope of operations and revenue manifold," said Zubir last week.

MDV employs a loan-process model that has been made simple for borrowers, taking no more than 45 working days from the date of submission of completed documents to announce approval. For small-project financing, the process takes only 14 working days.

The company accepts soft collateral, such as director's guarantee, assignment of contract proceeds and debentures, instead of hard collateral. It also goes beyond providing customers with financial accessibility to offering them advisory services in their respective industries.

"The creation of the second fund was to offer our clients an additional source of funding that is Islamic in nature," said Zubir. "With more Malaysians becoming conscious of the difference between Islamic and conventional banking, we aim to give them more options from which to choose."

He added that the increasing awareness of the socio-economic benefits of Islamic financing in the market encouraged MDV to proceed with the launch of this Islamic fund.

"We know that this fund will be embraced by technopreneurs in the ICT and biotechnology sectors as an appropriate alternative to conventional financing. The second fund addresses a clear market need for syariah-based financing for these industries. Furthermore, the fund will be used to create new and suitable Islamic products and services to add variety and choice for our customers. It is expected to enhance MDV's revenue channels and flow, as well as support the government's move in moving Malaysia up the value chain," he said.

Malaysia has a small but growing biotech industry. There are now 73 Bio Nexus companies in the country, meaning they have met the criteria set by Malaysian Biotechnology Corporation (BiotechCorp) to qualify for financial and other incentives. BiotechCorp says 12 out of the 73 Bio Nexus companies performed well, with total unaudited net profit of RM28 million over two years. The industry is valued at RM1.3 billion and is expected to grow at 22% a year.

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