MOMENTUM WORKS

cento

Southeast Asia & Latin America

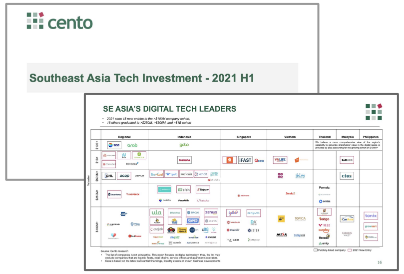
Learning the digital emerging markets playbooks

December 2021

This report is part of Momentum Works & Cento Ventures tech investment series

In this installation we explore investment trends and high level models in Southeast Asia and Latin America

Southeast Asia Tech investment H1 2021
Where does the money flow?



Southeast Asia investment opportunities
Four fresh perspectives for international investors about Southeast Asia.

Southeast Asia & Latin America:
Learning the digital emerging markets playbooks

Sept 2021

Oct

Fireside chat
Tech investment in Southeast Asia - Accelerating beyond the pandemic.

Nov

Dec

Q1 2022

Fireside chat
Southeast Asia vs. Latin America

We welcome conversation and discussions at hello@mworks.asia or media@cento.vc .

Introduction

Why this report?

Southeast Asia and Latin America - Story of two booming regions

Next digital frontier: ***> 1.1 B*** *combined population of Southeast Asia and Latin America*

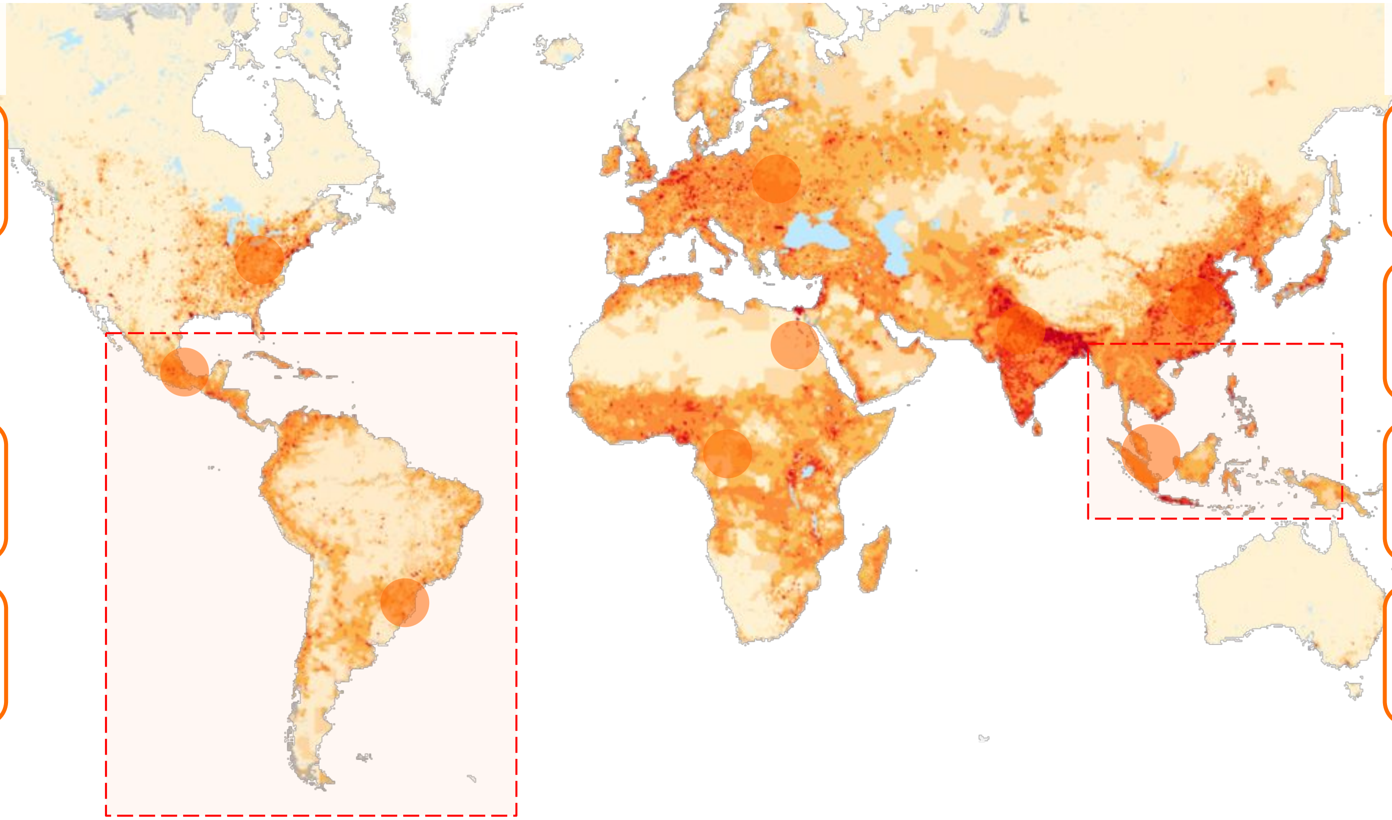
Latin America

mercado libre 1999

nubank 2013 | Loggi 2013

KAVAK 2016 | ?

$ 4.1 B
VC investment
2020



Southeast Asia

agoda 1998

sea 2009 | gojek 2009

Grab 2012

?

$ 8.5 B
VC investment
2020

Where does the money flow?

How do the development pathways differ?

What are the blueprints to build large companies in each continent?

Population density

Source: World Bank; Cento Ventures; Momentum Works & Cento Ventures insights

Highlights

- Global emerging markets are interesting - Southeast Asia and Latin America seem to have most parallels - and are the key of our analysis. We will subsequently conduct more analyses on India, Middle East, Africa and Europe.

- At the country level, we can draw a number of pairs based: **Brazil - Indonesia; Argentina - Malaysia; Mexico - Vietnam** etc. At the city level, both continents boost about **megacities** that represent significant % of the population.

- While key leading sectors are similar and including **financial services, retail and logistics**, the exact composition and especially the development pathways are very different across these two regions;

- For example, **multi-vertical players** (a.k.a. super apps) have been a feature in Southeast Asia for the last 5 years, thanks to greater availability of (especially growth stage) capital; in the meantime, leading tech companies in Latin America tend to be vertically-focused, with **financial services** ahead of other sectors;

- In the past two years especially, the **spillover of talent, capital and business ideas** from more competitive countries such as China and India start to cross pollinate. For example, Shopee and J&T, both started in Southeast Asia but with Chinese business models, are now expanding aggressively in Latin America;

- The historical lack of growth capital in Latin America is starting to change, allowing companies to grow bigger instead of selling early. Southeast Asia has been enjoying an **influx of growth capital** for a number of years, with **much more diverse provenances of capital (Chinese, Japanese and Korean)** compared to Latin America.

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Macro overview and investment flows

Southeast Asia and Latin America have great similarities (and differences)

Global investors should pay attention to how these two regions evolve

Indonesia Philippines Vietnam
Thailand Malaysia Singapore

Southeast Asia		Latin America
South of China	**Superpower neighbour**	South of the US
588 M	**Population (6 countries)**	490 M
$ 7.4 T	**Total GDP (6 countries)** *PPP (constant 2017 US$)*	$ 7.7 T
3.0%	**2015-2020 GDP growth** *CAGR, constant 2015 US$*	-0.7%
3 hrs	**Flight time between farthest capitals**	9 hrs
8.5	**VC investment in 2020 ($B)**	4.1

Brazil Chile Colombia
Mexico Argentina Peru

Source: World Bank; Momentum Works & Cento Ventures insights

On the country level, we can draw a number of parallels

The Indonesia - Brazil duo catch the most attention, but there is more

	Southeast Asia		Latin America	
Indonesia	274 M	**Largest population base** *Pop. size (million)*	213 M	Brazil
Indonesia	3.1 T	**Largest economy** *GDP, PPP[1] (constant 2017 US$)*	3.0 T	Brazil
Malaysia	32M	**Decent size, relatively advanced[1]** *Pop. size (million)*	45M	Argentina
Singapore	93.0 K	**Small and rich** *GDP per capita, PPP[2]*	23.3 K	Chile
Indonesia	54 %	**Where most VC funding go** *% of region's capital distribution[3]*	60 %	Brazil

Indonesia and Brazil, the two largest countries in their respective regions, are both rich in natural resources and strong in agricultural output.

Naturally, these countries attract most of the venture capital funding in their respective regions too. In both cases it is slightly more than 50%.

While Brazil's nominal GDP per capita in 2020 is 75%more than that of Indonesia, in purchase parity terms Indonesians are actually slightly better off.

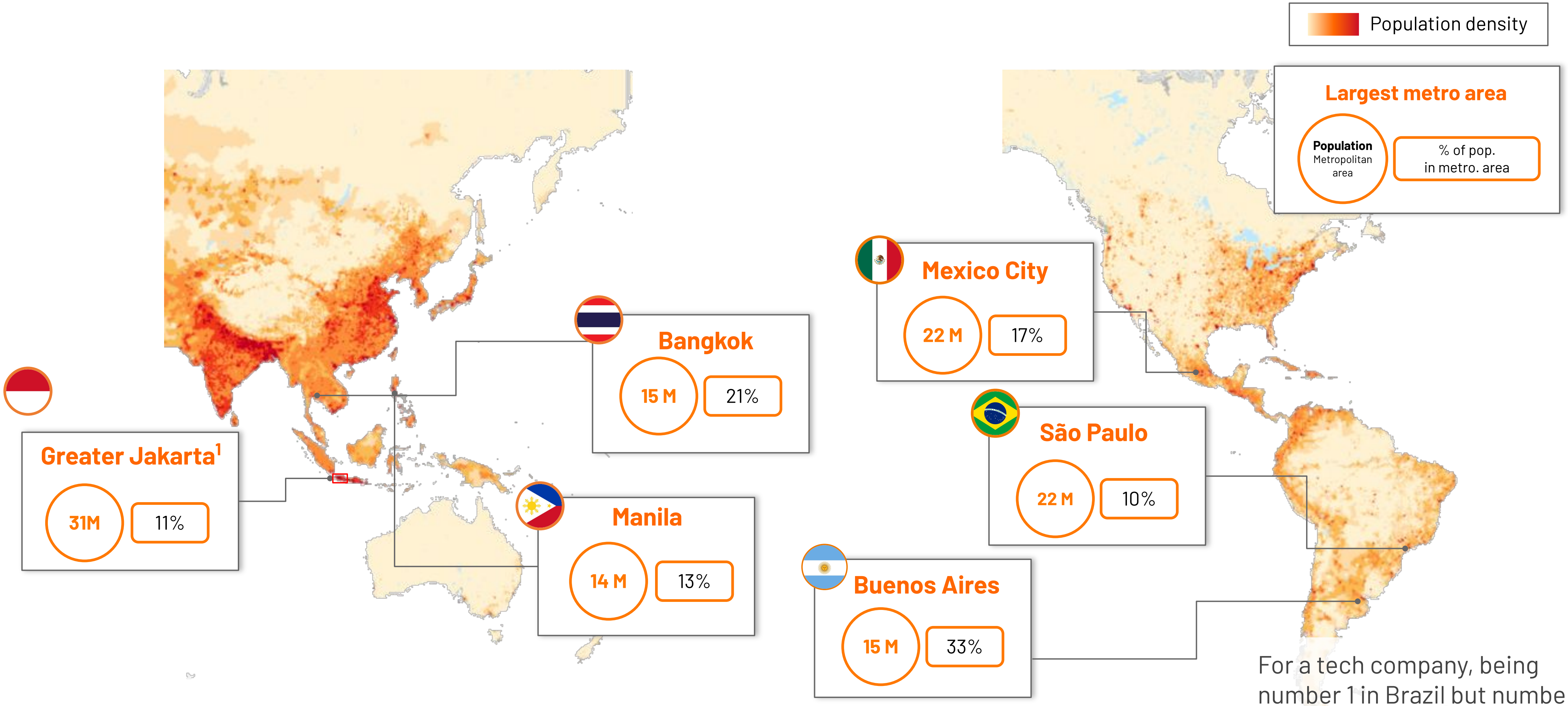
This **could mean better opportunities for disruption in Brazil**.

There are a few more interesting pairings, which we will explore in later reports.

Note: 2020, unless specifically stated 1. Sufficiently deep markets for initial sustainability early on while venture capital is still scarce; hub for early regional players in Web 1.0: In Southeast Asia: MOL, Jobstreet. Out of Argentina: MercadoLibre 2. Constant 2017 US$ 3. H1 2021, ex-regional companies Source: World Bank; Momentum Works & Cento Ventures insights

Both regions house some of the most populated megacities in the world

That dynamics make the opportunities in these regions different compared to US/China, where clusters of large cities exist



For a tech company, being number 1 in Brazil but number 2 in São Paulo is not a tenable position in the competition.

1. *Jabodetabek: Jakarta-Bogor-Depok-Tangerang-Bekasi*   *Source: World Bank; Bandar Pusat Statistik; Philippines Statistics Authority; Thailand NSO; Instituto Brasileiro de Geografia e Estatística; National Institute of Statistics, Geography and Informatics; Instituto Nacional de Estadística y Censos*

Southeast Asia has a clear regional hub, while Latin America has a few contenders

Key cities with influence over the region

Singapore

Singapore is undisputedly the **hub of Southeast Asia**, hosting headquarters of regional tech giants (including Grab and Sea), Chinese tech companies' global operations (e.g. Alibaba & ByteDance), as well as regional headquarters for large American tech companies (e.g. Amazon, Apple, Google).

São Paulo

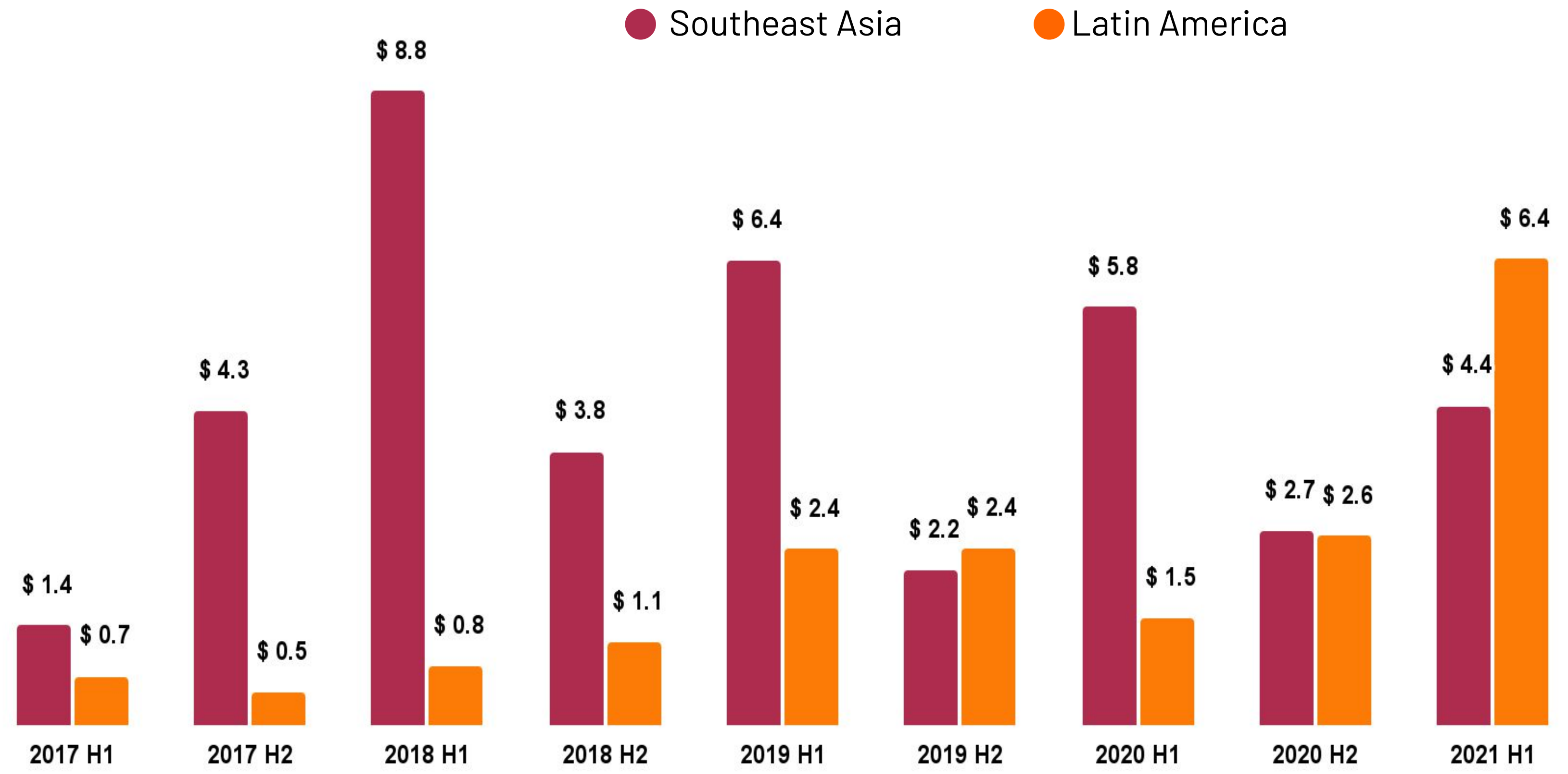
Compared to Southeast Asia, Latin America **does not really have a definite hub**. For many MNCs, **Miami** is the headquarters for their Latin American operations, while **São Paulo**, **Bogotá** and **México City** serve as hubs of the largest economies in the region, as well as headquarters of homegrown companies expanding regionally.

Source: Momentum Works & Cento Ventures insights

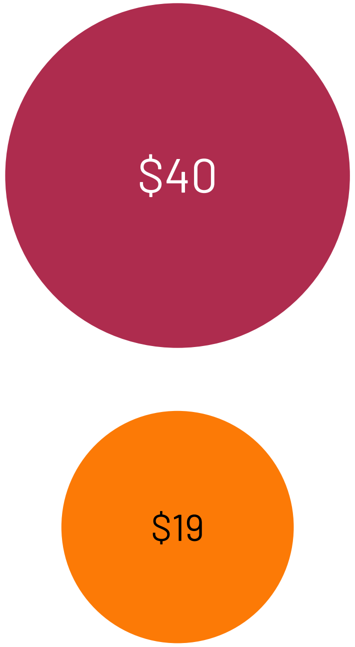
SEA received 2X investment amount of LATAM over the past 4 years

LATAM sees strong growth in 2021 H1 - overtaking SEA

Half-yearly capital invested, $ B (2017 H1 - 2021 H1)



Total capital invested, US$ B (2017 - 2021 H1)



For more information: Refer to Cento's Southeast Asia Tech Investment 2021 H1 Report

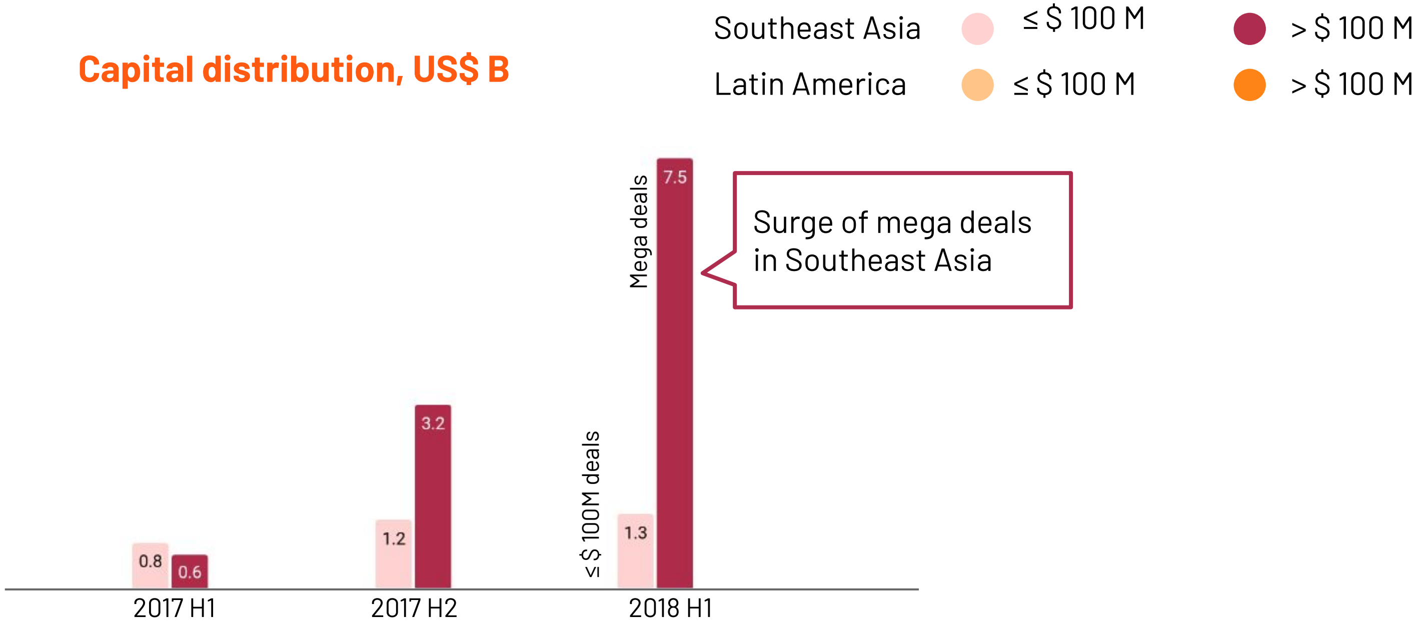
Source: Cento Ventures; LAVCA

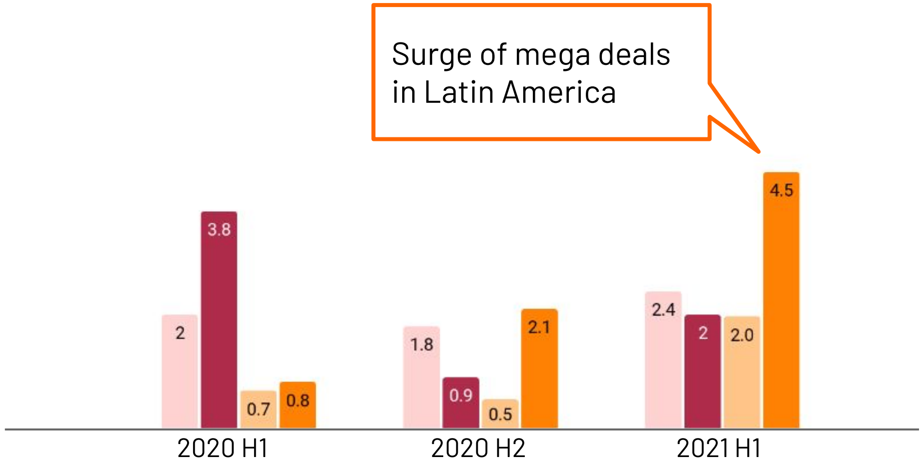
Surge of mega deals (>US$100M), seen in SEA in 2017/8, has arrived in LATAM

Sub-100m funding ecosystem in LATAM operated at ⅓ of SEA's capacity until recently

Historically in LATAM, a lack of growth capital meant **exits tended to be smaller**. While in SEA, where growth capital had been available, companies tended to **raise more money to grow to later stages** rather than seeking an exit early on.

Capital distribution, US$ B



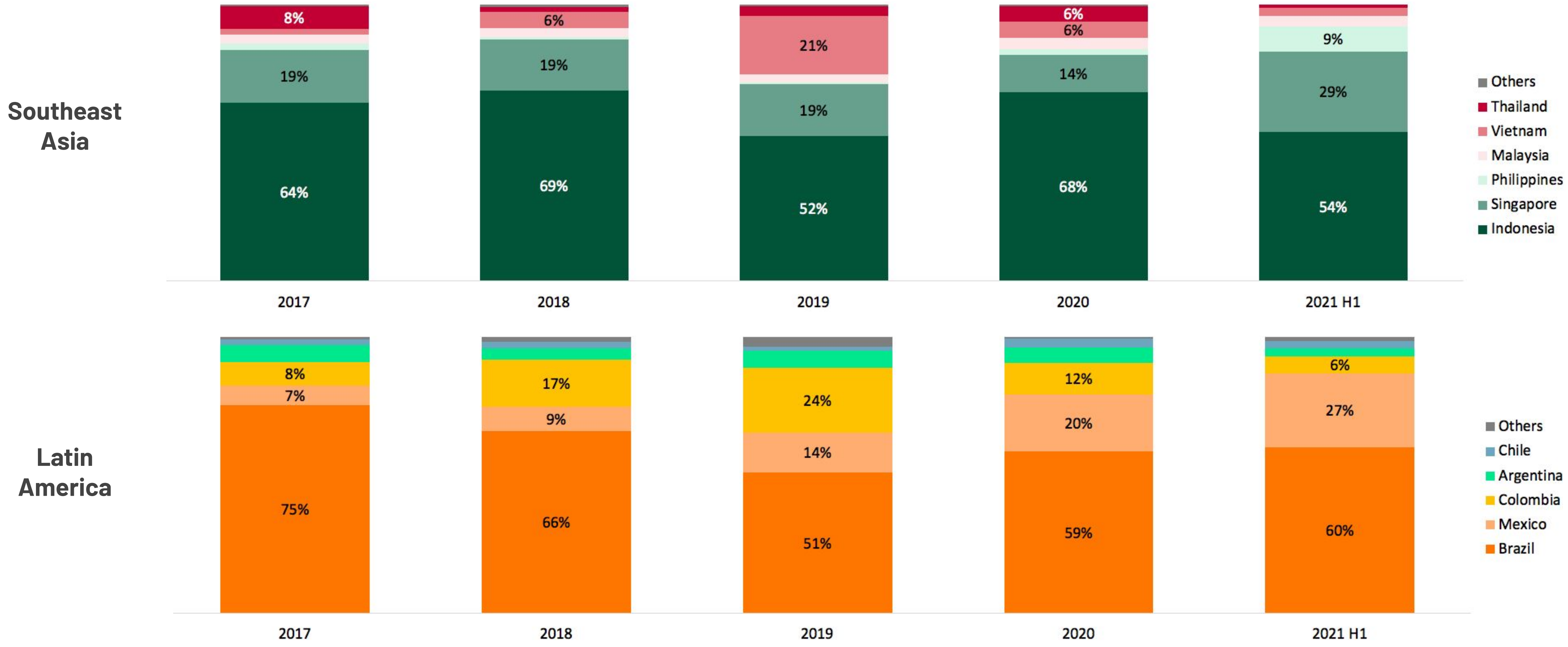


Source: Cento Ventures; LAVCA; Momentum Works & Cento Ventures insights

Indonesia and Brazil attract 50% of capital in their respective region

The biggest country in each region naturally attracts the most capital

Capital distribution by country, ex-regional companies, %



For more information: Refer to Cento's Southeast Asia Tech Investment 2021 H1 Report

Source: Cento Ventures; LAVCA

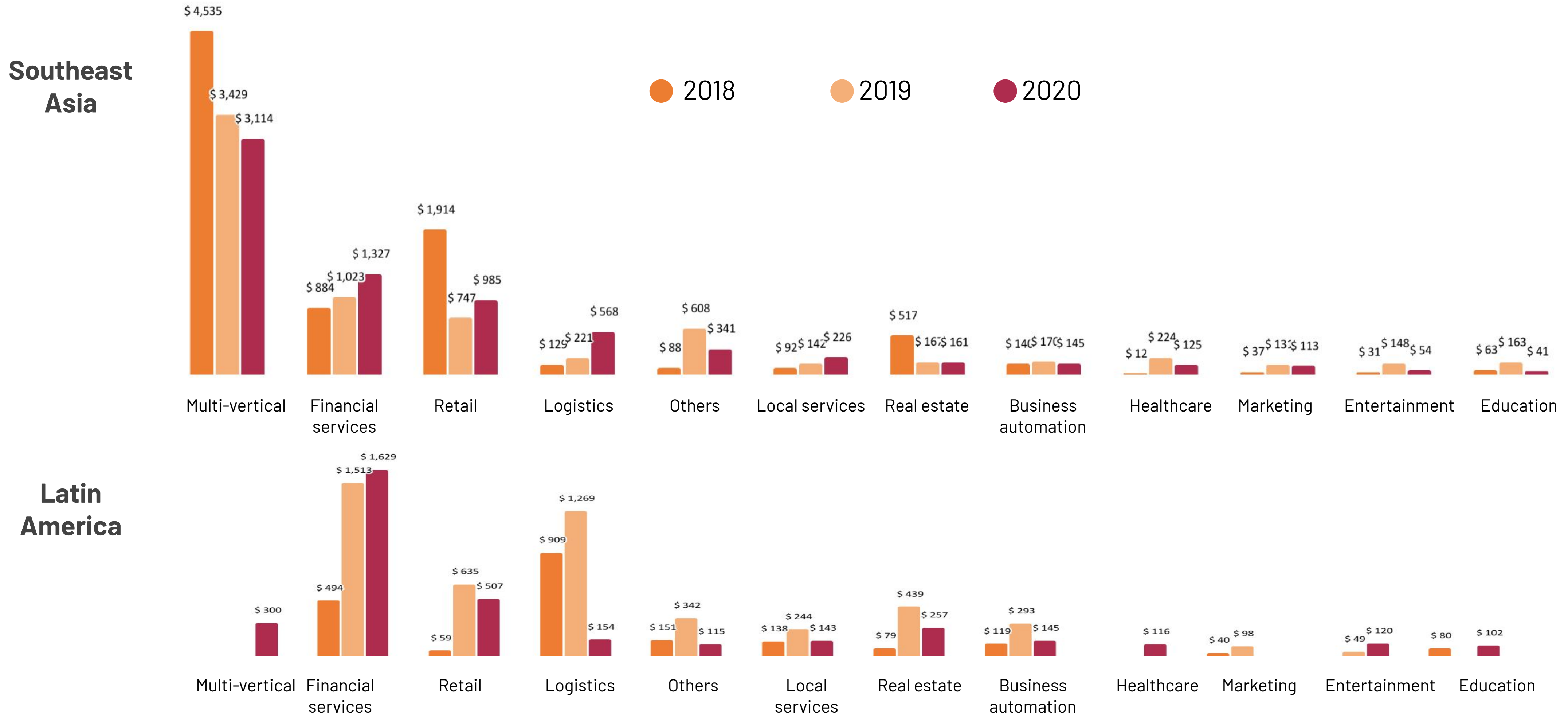
Development pathways

Same top four sectors in both regions, with very different development pathways

Multi-vertical leads in SEA, while financial services drive LATAM

The starkest difference is the funding that goes into multi-vertical players in SEA

Capital invested by sector, 2018 - 2020, $ M

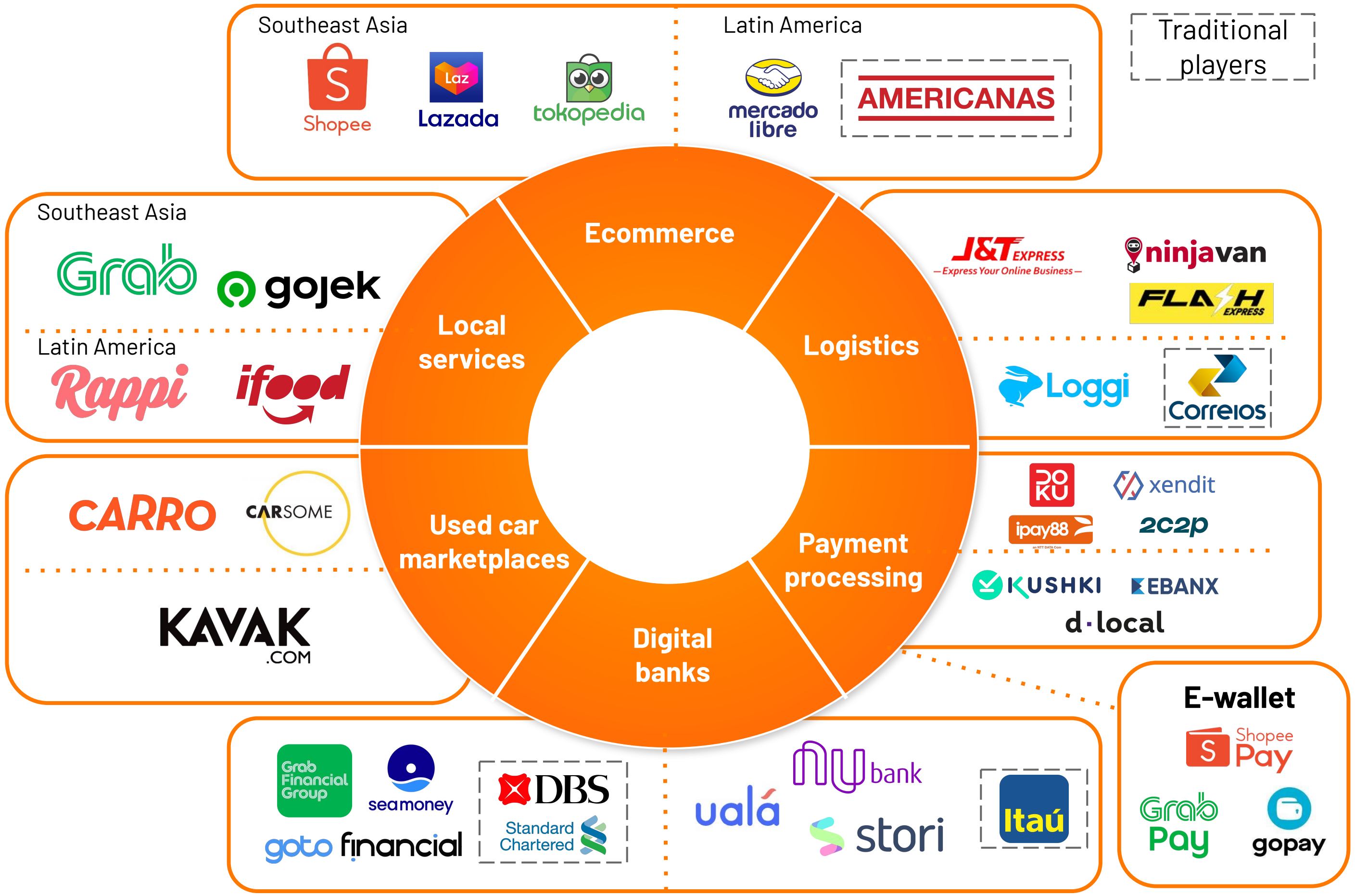


For more information: Refer to Cento's Southeast Asia Tech Investment 2021 H1 Report

Source: Cento Ventures; LAVCA

This section dissects fundamental differences beneath similar major sectors

The difference lies with development pathways in both regions for each sector



In each of the key sectors on the left (local services, ecommerce, logistics, payment processing, digital banks), we see **clearly distinct pathways of development** when we compare the two regions.

The following pages will shed more light on each of these sectors, as well as the much hyped e-wallet sector in Southeast Asia, which never managed to be built up in Latin America.

Other sectors

- **Digital entertainment** (gaming, streaming)
- **Travel and hospitality**

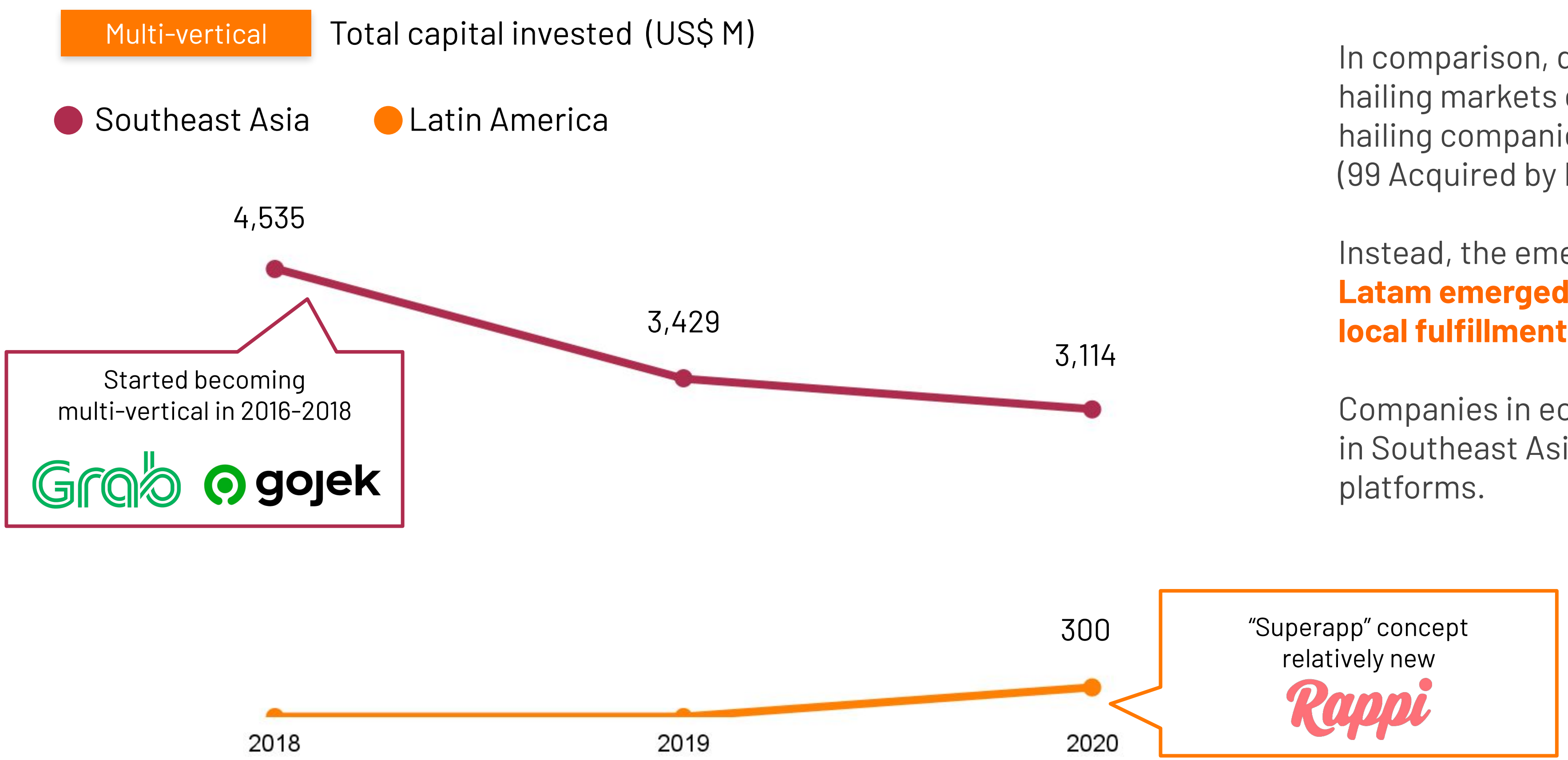
- **Other marketplace** categories (e.g. real estate, jobs, general classifieds)
- Other major **digital financial services** (e.g. insurance, wealth management)

Source: Momentum Works & Cento Ventures insights

SEA's most prominent differentiator - regional multi-vertical platforms (super apps)

Availability of late stage (US$ 100M+) capital at early as 2017 helped roll up of local services

In Southeast Asia, companies evolved into multi-vertical since before 2018
Whilst in Latin America it is a relatively new phenomenon



Southeast Asia's leading ride hailing companies Grab and Gojek had both become multi-vertical companies.

In comparison, despite being one of the largest ride hailing markets globally, Latin America's own ride hailing companies did not evolve to very late stage. (99 Acquired by Didi, Easy acquired by Cabify).

Instead, the emerging **multi-vertical companies in Latam emerged directly out of food delivery and local fulfillment**, bypassing ride hailing altogether.

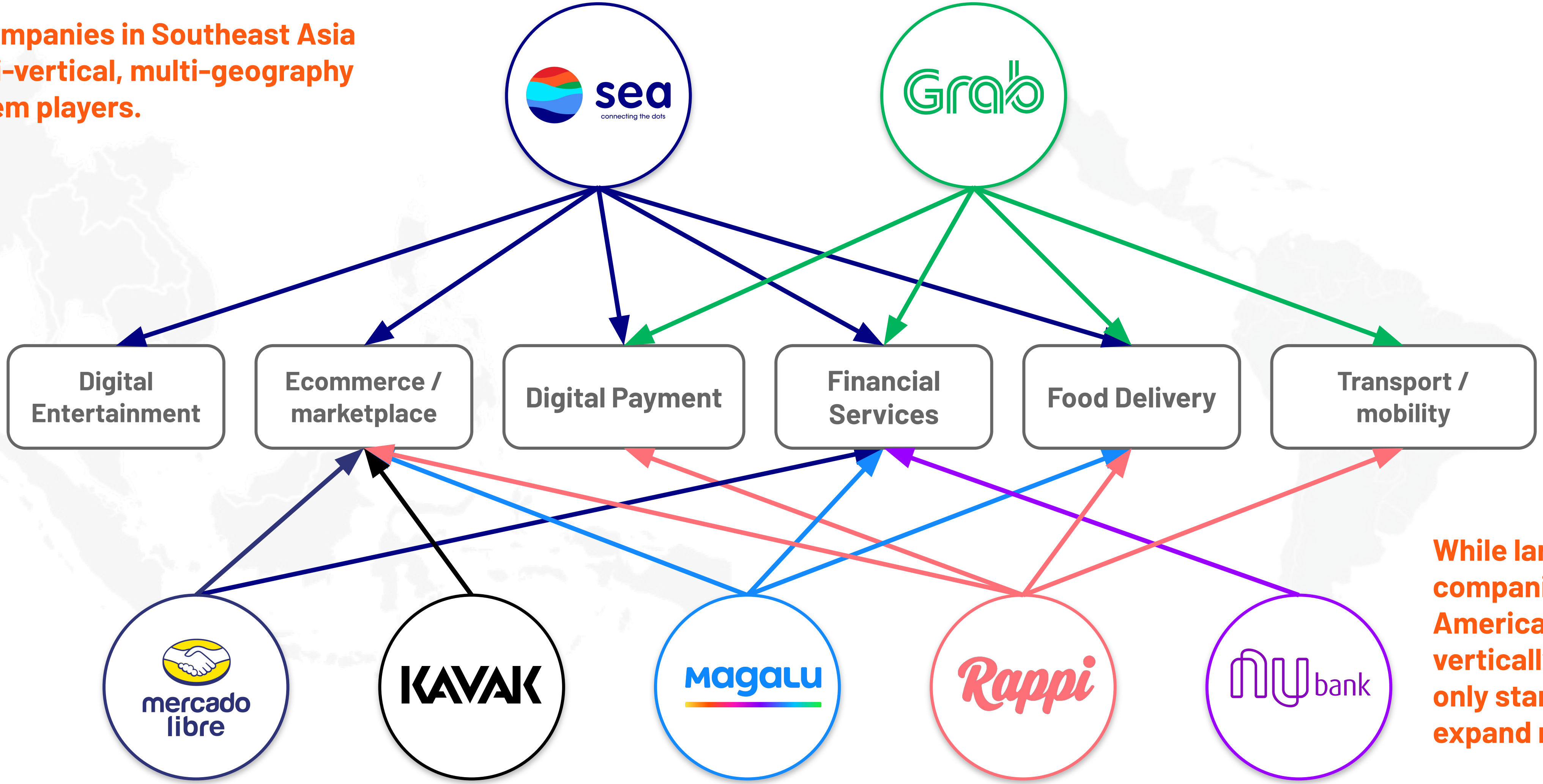
Companies in ecommerce, gaming and other sectors in Southeast Asia also evolved into multi-vertical platforms.

Source: Cento Ventures; LAVCA; Momentum Works & Cento Ventures insights

Both regions have different blueprint to build large companies

Examples of SEA's multi-vertical play versus LATAM's vertical focus

Large companies in Southeast Asia are multi-vertical, multi-geography ecosystem players.

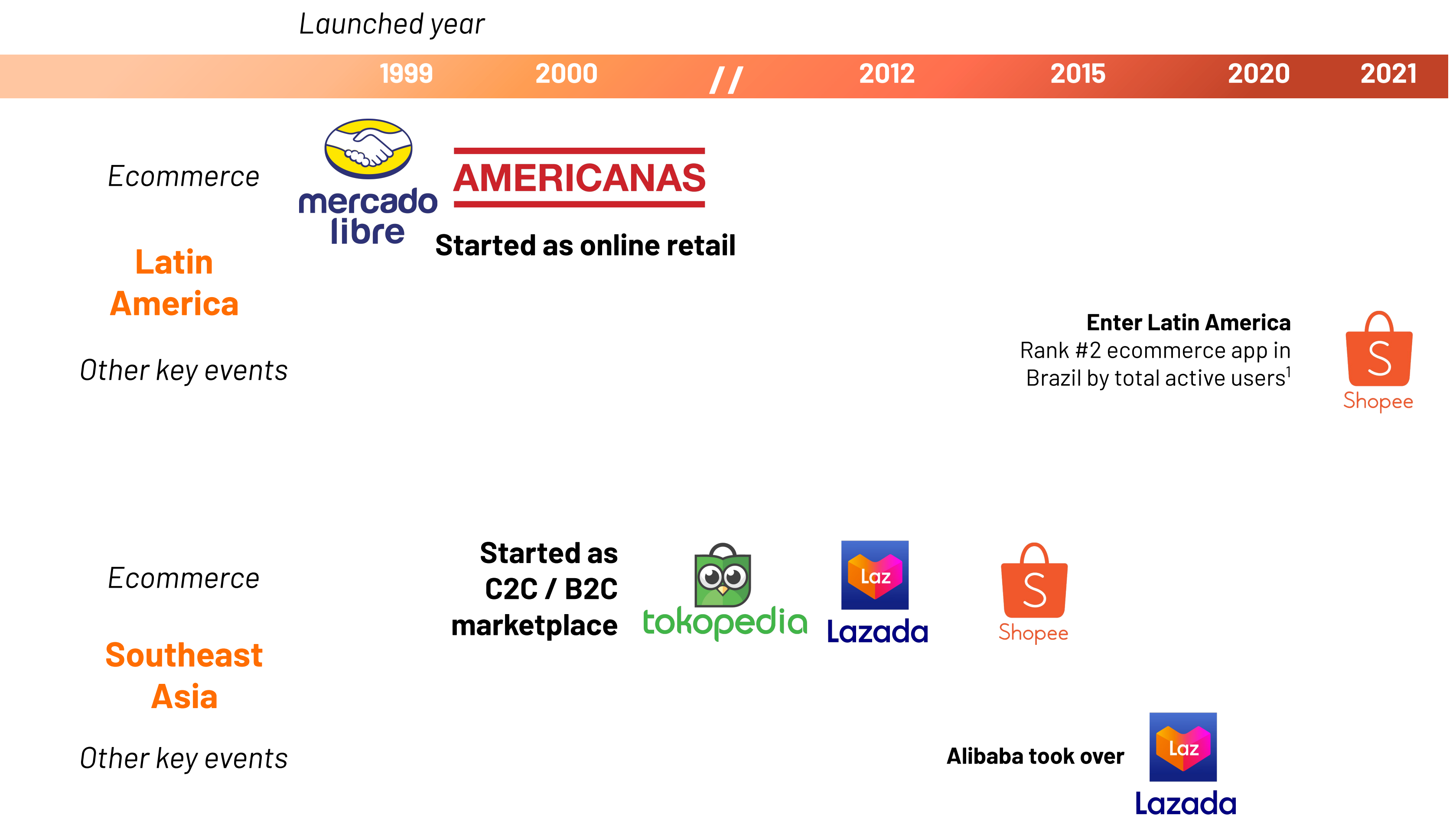


While largest companies in Latin America are more vertically focused, only starting to expand recently

Source: Momentum Works & Cento Ventures insights

Ecommerce: Early digital malls in LATAM vs. recent surge of marketplaces in SEA

Case of Shopee: Template from China, evolution (involution?) in SEA, export to LATAM



In Latin America, deeper concentrated pools of demand, lack of growth capital early on, and weaker offline retail led to **early success of digital malls**. The approach, for a long time, is serving the urban consumers with good consumption power and reached by existing payment and logistics infrastructure. As a result, we see slower development of ecommerce marketplaces.

In Southeast Asia, leading players were startups emerging in the 2010s, and that **marketplace model** is more common than online retail. Failure of early digital malls and availability of growth capital from 2015 on led to the early launch of marketplaces, which are heavily funded, economically ineffective and rapidly innovating. The tactic is familiar to China and India, but not common in Latin America.

Recently, Southeast Asia is **exporting the marketplace model to Latin America.**

1. As of H1 2021

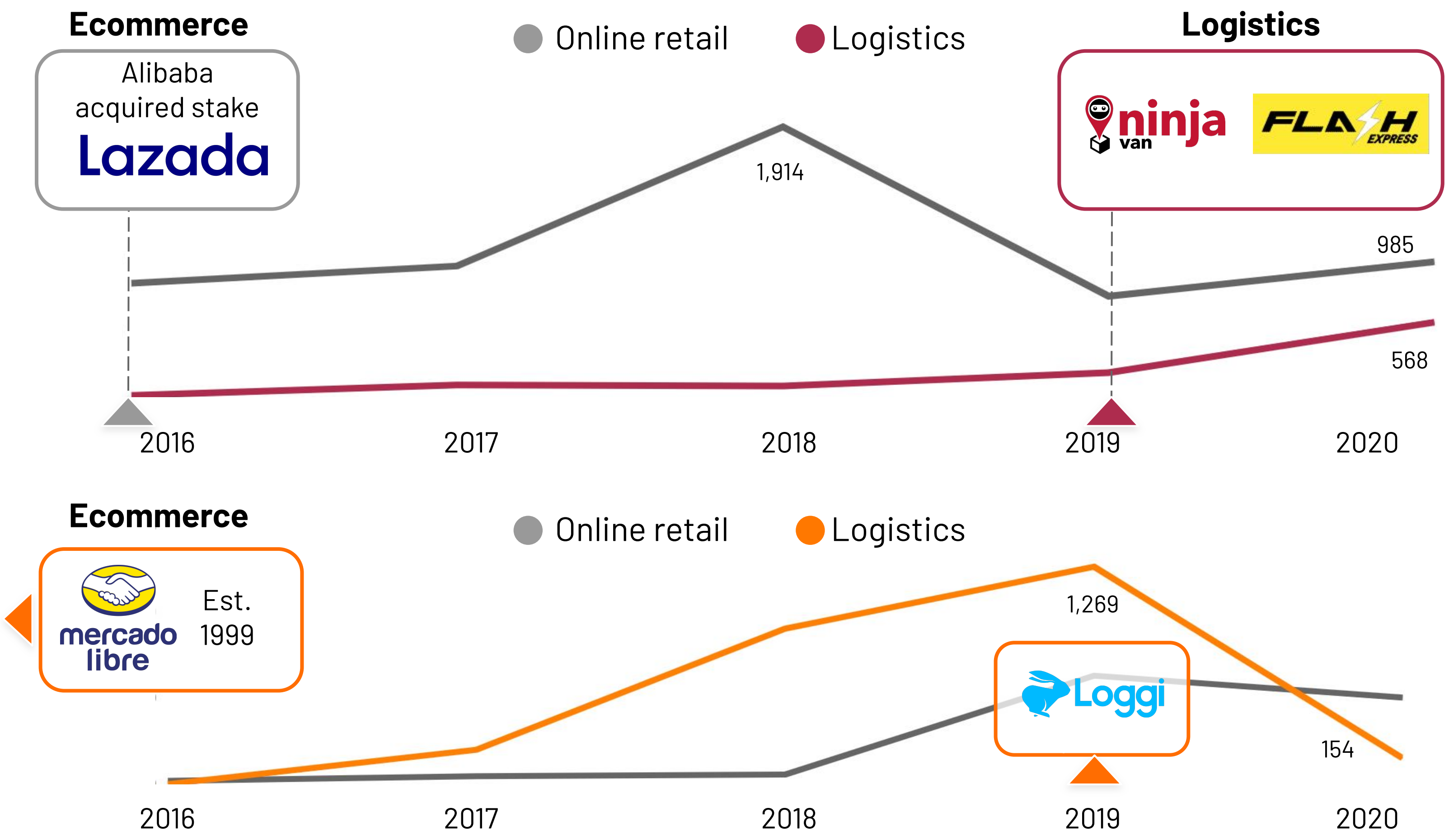
Source: App Annie; Momentum Works & Cento Ventures insights

Logistics: Surge in LATAM after years of "good enough" vs. slow, steady upgrade in SEA

SEA logistics space subsidised by multi-vertical players and major marketplaces

Ecommerce in Southeast Asia accelerated logistics development

Total capital invested (US$ M)



Southeast Asia's logistics players, from Ninja Van to J&T & Flash Express, **followed closely the development & dominance of ecommerce marketplaces**. Regional ecommerce platforms, including Shopee and Lazada, have been subsidizing heavily the development of logistics in the region.

In Latin America, venture investment in logistics only took off in the last two years. Traditionally the concentration of demand, with successful digital mall with in-house logistics, led to slower development of logistics industry.

A recent surge of **demand for rapid delivery** is changing the landscape.

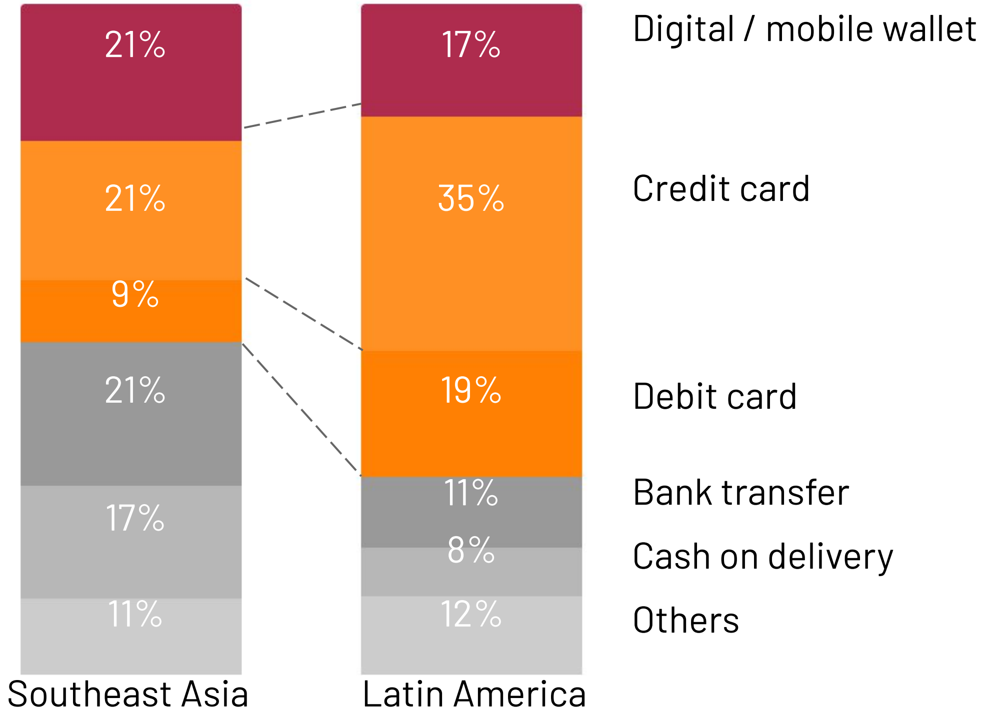
Source: Cento Ventures; LAVCA; Momentum Works & Cento Ventures insights

Payment: Regions converging on the same market structure due to similar regulation

SEA took a scenic route though wallet-building mania

**By ecommerce payment method,
Latin America is clearly more credit / debit card-focused**

% split by ecommerce payment method[1] (2020)



Southeast Asia started with lower credit card penetration and much more diverse collection of "**alternative payment methods**" - while in Latin America, Visa/Mastercard acceptance networks were built early on, establishing stronger credit card concept. Similar action by the regulators (driving adoption of local payment schemes) and similar demands by key digital sectors (ecommerce, travel, entertainment) led to emergence of **similar market structure with multi-channel acceptance platforms** like d.Local and 2C2P serving regional and single-country use cases.

In Southeast Asia for a time, reference template of Alipay - Wepay dominated the thinking, leading to surge of "digital wallet" building. Origin of Alipay - Wepay **duopoly (regulation-driven digital banking capability early on, captive walled gardens of use cases) in China could not be replicated in Southeast Asia's much more fragmented market** - with 800+ wallets adding to the landscape of alternative payment methods as a result.

1. Based on average of 6 largest economies in both region
Source: FIS Global Payments report 2020

Payment: Local payment schemes continue to shift market balance

Multi-channel processors gain, to the chagrin of alternative payment channels without captive use cases

Thailand

Singapore

Brazil

Mexico

India

China

Local payment schemes like PIX in Brazil, CoDi in Mexico, PayNow in Singapore, PromptPay in Thailand continue to shift market balance, shifting the power of alternative payment channels without captive use cases to multi-channel processors and **setting off a wave of digital financial services innovation** (especially in lending space, e.g. BNPL) as a result.

Such payment schemes are heavily inspired by India's **Unified Payment Interface (UPI)**, a real-time payment system developed by National Payments Corporation of India in 2016.

A little known scheme called Netsunion was created in China, however much after the WeChat / Alipay duopoly had already formed.

1. Based on average of 6 largest economies in both region
Source: FIS Global Payments report 2020

Digital banking: Twin engines of transactional banking and interest rate spreads propelled the sector forward in LATAM

SEA leverages large footprint platforms to lower cost of digital bank construction

In Latin America, 45% of capital invested in tech goes into financial services

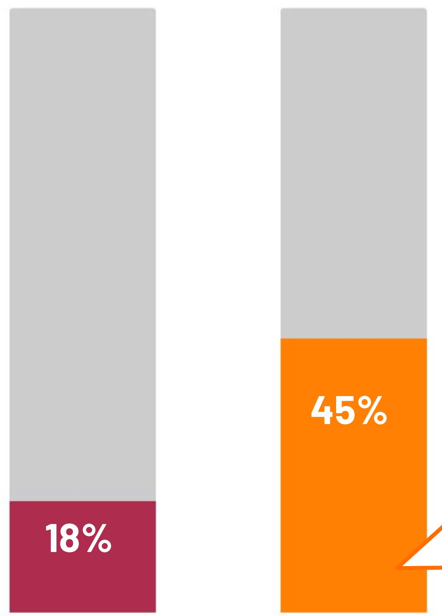
Investment of financial services
% of total capital invested (%), 2020

Example -
digital financial services arm of major tech ecosystem

sea → seamoney

Grab → Grab Financial Group

goto → goto financial



Southeast Asia   Latin America

Example

nu bank

ualá   stori

In Latin America, neobanks with **credit and debit card issuance** are the main play of fintech investment, tapping into:

- High credit card penetration (653 cards / 1000 adults[1]) compared to Southeast Asia (408 cards[1] or 225 cards on average excluding Singapore) and merchant acceptance
- High spread between interest charged to consumers and cost of capital[2]
- The ability to command high fees to merchants (MDR)

In Southeast Asia **major tech ecosystems** with customer base are all adding fintech and digital banking to their portfolio.

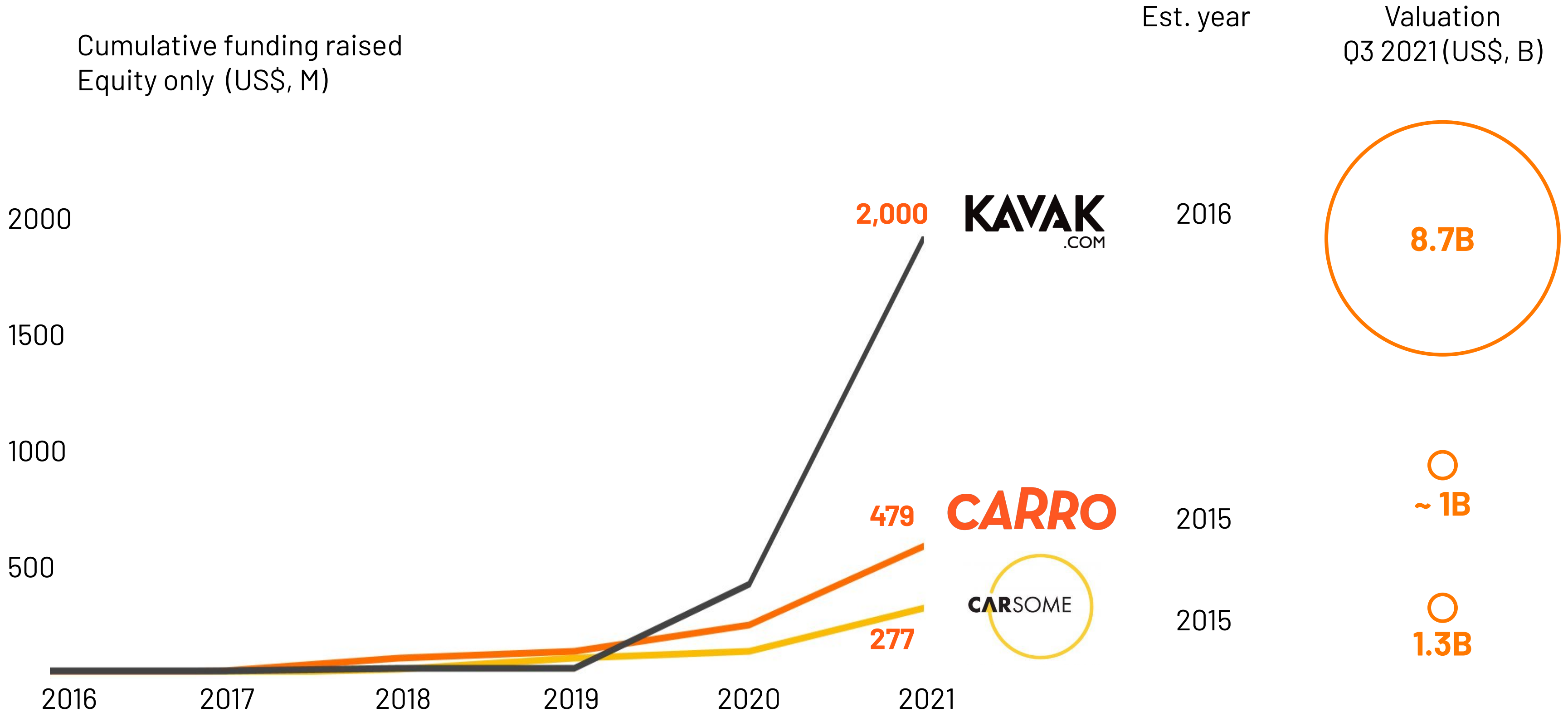
1. Based on average of 6 largest economies in Southeast Asia and Latin America   2. Brazil's consumer credit cards interest rates is around 145%, compared to US ~ 14%

Source: IMF; Cento Ventures; LAVCA; Momentum Works & Cento Ventures insights

Car marketplaces: LATAM appears to create larger outcome

Both regions have fragmented used car market

Kavak's valuation has experienced meteoric rise since 2020, overtaking Carro and Carsome in Southeast Asia drastically



Kavak's model is more **financing and traffic purchase** focused, different from Carro and Carsome.

Sea Capital, under Shopee's parent Sea Group, is a major investor in the latest funding round of Kavak. There does not seem to be any operational synergy between the two businesses.

For more details, make reference to Momentum Works Used Car Platforms in Southeast Asia Report.

Source: Crunchbase; VCI; Momentum Works & Cento Ventures insights

Expansion: SEA companies are exporting Chinese models to LATAM

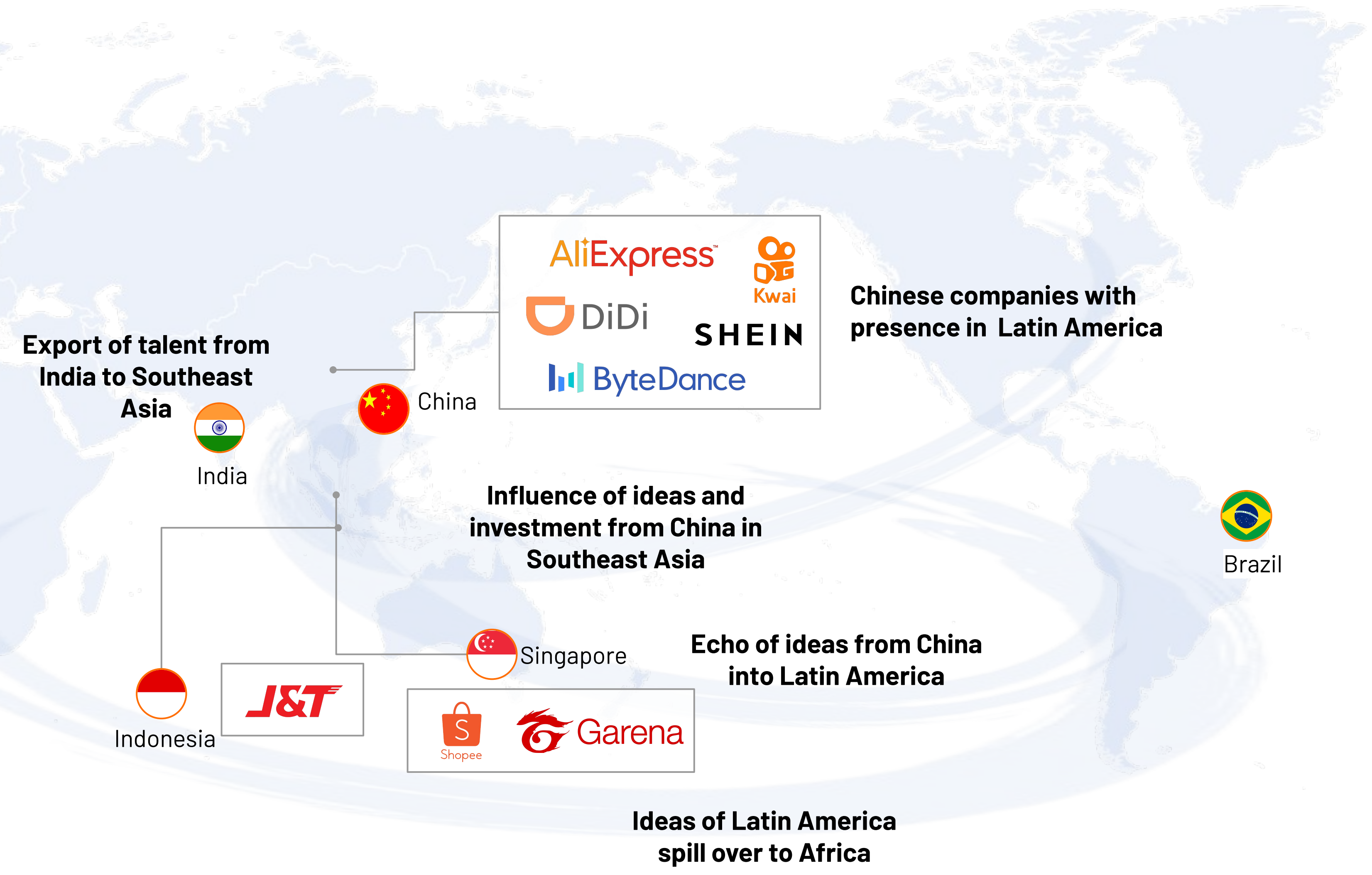
Part of broader scheme of Asian tech entering LATAM

Southeast Asia companies (e.g.: Shopee, J&T) have **massive influence of ideas and investment from China** (and in recent years, **founders from India**).

Overcompetition in both China and India in different aspects is a direct driver of this spillover, and Southeast Asia's geographical and cultural proximity to both countries make it at the recipient.

In recent years we have seen **Southeast Asian** companies with Chinese models: Sea Group (including Garena and Shopee), J&T etc. expanding aggressively into Latin America.

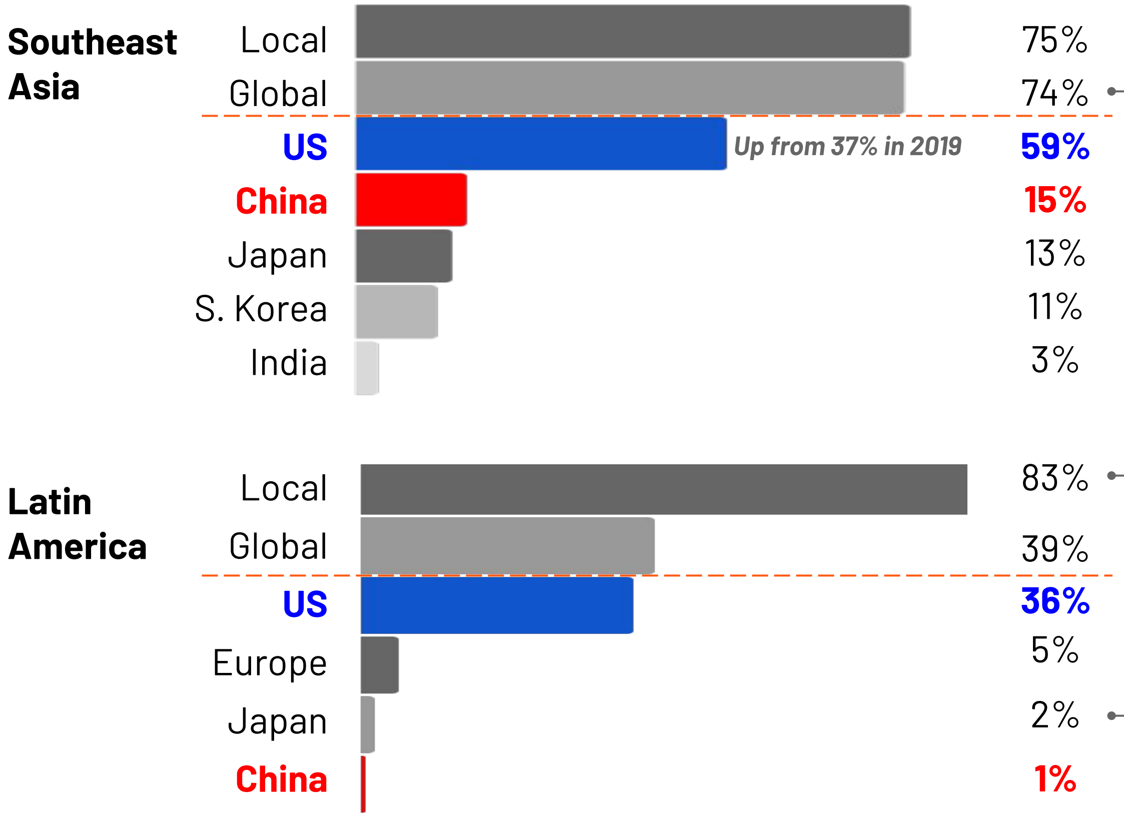
We have yet to see a reverse trend to this - aside from Nubank Founder David Velez's personal investment in a few Indonesian fintech companies.



Source: Cento Ventures; LAVCA; Momentum Works & Cento Ventures insights

SEA has enjoyed more diversity of funding origins compared to LATAM

2020 Investor participation by VC deals (%)
** Double counting when it involves collaborative investing*



Increased attention from **global investors** with the advent of large regional players (e.g.: Sea Group, Grab)

Collaborative investing between local and global fund managers accelerated in 2020

Largely from Softbank Latin America Fund

Majority of the tech investment capital into Latin America are coming from **local, US and global** investors.

In comparison, Southeast Asia has enjoyed a greater variety of funding sources. While **local, US and global** investors are in majority of the investment deals, **Chinese, Japanese and South Korean** investors are added to the mix.

When Baidu and Didi rolled into Latin America in mid-2010s, there was much anticipation that Chinese capital would flow into Latin America. That did not happen until recently, with Tencent but also some early starting capital starting to be **more active in deals in the region**. We think this trend will continue.

Source: EMPEA; Momentum Works & Cento Ventures insights

Conclusions and perspectives

Our working theory (to be further refined in 2022)

Based on initial review of how selected sectors of LATAM and SEA digital economy shaped up, it seems to us that quite a lot of variation we observe can be explained by just four starting factors:

1. **Availability of capital across time, geography and investment stage** (especially in markets seen as key to the region, i.e. Indonesia and Brazil);
2. Key reference templates (especially in the minds of **late stage investors setting the tone for the ecosystem**);
3. **Concentration and volume of demand for digitisation of key value chains** (i.e. MSME in FMCG distribution in Indonesia or number of consumers facing large interest spread in major cities in Brazil);
4. **Starting state and speed of response to digitisation challenges by incumbents** in key value chains (e.g. do banks respond to digital disruption the way Itaú Unibanco did in Brazil, or Siam Commercial Bank did in Thailand).

Upcoming trends

Competition & convergence

Historically Latin America and Southeast Asia are separated by great distances and influences of their respective northern neighbours. This is also evident in the differences of tech development pathways.

The recent interactions between the two regions, however, will bring some interesting possible changes:

1. **Shopee will become a direct competitor of Nubank**, sooner or later;
2. Latin America's **upcoming fintech giants will have global ambitions**, with Southeast Asia as a part;
3. More **involuted Southeast Asia-based companies will export** Chinese business models & Indian talents into Latin America;
4. **Chinese, Korean, and Japanese capital** will be part of that process, following the lead of Tencent, Softbank, and investors of Stori;
5. Will **crossover funds** be an ally, a catalyst, or a destroyer of this process?

Cross pollination and Naspers 2.0

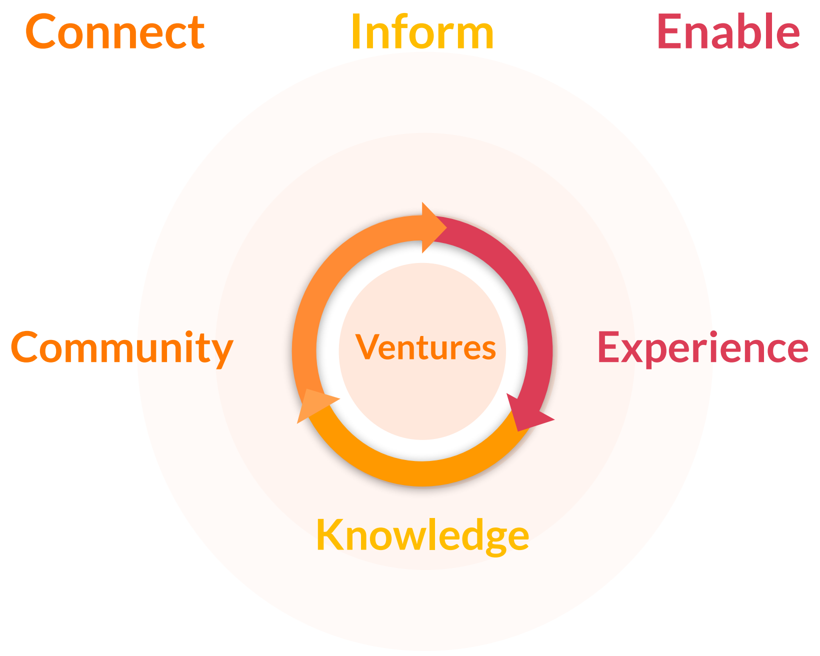
In the past two decades, South Africa's Naspers (now Dutch-listed Prosus) has been the emerging market investor with deepest understanding and broadest regional/country coverage.

The new age of cross pollination, competition and convergence will bring **more investors into the evolution (involution)**. Late stage and crossover investors have an inherent advantage in moving cross regions, while earlier stage investors will need **cross regional expertise to tap into this**. Expect more Chinese investors/entrepreneurs in São Paulo, and more Brazilians in Singapore.

About Momentum Works

A Singapore-headquartered venture outfit, Momentum Works builds, scales and manages tech ventures across the emerging world.

We also leverage our **knowledge**, **community** and **experience** to **inform**, **connect** and **enable** the tech/new economy ecosystem.



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ABOUT CENTO VENTURES

Cento Ventures is a venture capital firm focused on technology startups building products and services emerging from the digital transformation of promising growth markets, particularly Southeast Asia.

We are based in Singapore and backed by a team well experienced in internet business. We operate three funds that invest across industries through a disciplined, well-researched approach to locate technology investment opportunities originating from the Southeast Asian region.

Three main principles guide our investments:

- Sectors ready for digital transformation

There is an excellent opportunity for technology to solve some of the inefficiencies present in emerging markets. However, technology alone does not digitalise industries. Most of our investments apply innovative business models to large industry sectors that are set in their ways, using technology as an enabler.

- Tech startups at an early stage, but with proof points

Our investments are usually at Series A, where we lead the round. This helps us establish a solid relationship with the founder, and to influence company strategy. We only invest once a company can show that a market exists for its product and that it is ready to use extra capital to scale.

- Founders with great ambition

We look for founders who want to build large digital companies that are leaders in their category. In a fragmented region, such as Southeast Asia, operating across multiple countries often essential. Our preference is for business models that are light on physical assets and where the founders have ambitious plans to scale internationally.

Cento Ventures is convinced that the opportunity exists for Southeast Asian founders to build transformational digital companies, and we look forward to working with more startup teams to create new success stories.

Learn more about us at cento.vc or our Facebook or Linkedin pages.

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