Publication: The Business Times, pg 01, 03
Date: 24 February 2020
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BT EXCLUSIVE

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Singapore

HONG Kong-listed supply chain financing company Sheng Ye Capital might be an unknown name here, but its chairman and founder Jeff Tung intends to change that with its digital bank ambitions in Singapore.

Earlier in January, the Temasek-backed company surprised the market with its plan to lead a consortium to gun for one of the coveted wholesale digital bank licences here, together with finance house PhillipCapital and fintech Advance.AI.

The move has piqued interest in a profitable firm with a S$1 billion market capitalisation, with Sheng Ye backed by investors including Temasek unit Pavilion Capital, US investment firm Olympus Capital and state-owned insurer China Taiping.

For controlling shareholder Mr Tung, who is a Singaporean currently based in Hong Kong, his digital bank bid is a homecoming of sorts.

"There are many reasons – the first is more sentimental, I want to be back home. I want to bring back my entrepreneurial experience, what I learnt and achieved in China, to alleviate the SME financing problem here," he told *The Business Times* in an interview.

"The second is diversification: We still see a huge opportunity in China, but I think regionalisation is the way to go. As entrepreneurs, we go where the opportunity is – South-east Asia is definitely the next battlefield."

China is known for its complex and ultra-competitive environment. Still, in a span of just five years, Sheng Ye has originated more than US$6 billion loans there, serving thousands of small and medium-sized enterprises (SMEs) in China with a focus on the energy, infrastructure and healthcare segments.

Its business is in accounts receivable financing, which is where it provides credit to its customers based on a percentage of the value of invoices. Sheng Ye then charges an interest on the cash advance. Most of its revenue comes from interest income from factoring service – that is, the financing of accounts receivables – but also includes gains from the sale of factoring assets to certain unnamed financial institutions in China, its financial statements show.

The company's strategy is to collaborate with the state-owned enterprises – or the "big boys", as Mr Tung calls them – usually through data-sharing agreements to gain access to information of their supply chains.

Sheng Ye would then evaluate the businesses based on its own criteria and reach out to them if they are deemed credit-worthy.

This process, said Mr Tung, is driven by the firm's own proprietary risk-assessment technology that can collect and analyse multiple sources of real-time data. It is this combination of industry know-how and relationships, together with its data capabilities, that helped the company to take off in China, he added.

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Mr Tung is a naturalised Singaporean and is keen to return home, where he studied and did his NS. BT PHOTO: YEN MENG JIIN

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To date, there have been no defaults for its loans, which have tenures that range between six and 12 months, according to the company.

In its latest interim report in August last year, Sheng Ye's net profit stood at 118.76 million yuan (S$23 million) for the six months ended June 30, 2019, up 60 per cent from 74.38 million yuan for the same period a year ago.

In a breakdown of its revenue by segments, infrastructure financing accounts for about 60 per cent, energy makes up 30 per cent, and health care the remaining 10 per cent.

Business from the energy segment used to make up more than half of the revenue, reflecting the influence from Mr Tung's family business background. He is the eldest son of Tony Tung, chairman of oil trader Winson Group.

But instead of joining the family business, he wanted to make a name for himself ("I didn't want to be known as Tony Tung's son forever," he quipped) and went on to carve a niche for himself in China.

He leveraged on the family network of contacts and expertise to start Sheng Ye after spending some time to do market research in China, which was when he identified the supply chain financing gap in the energy industry.

Even as the energy business is an area that Mr Tung was comfortable in, he still saw the need to diversify to manage risks.

"After extensive research, we realised that infrastructure and health care are non-cyclical – in good or bad times, we still need them. We decided on these two sectors due to their potential and how stable they are," he said.

If its digital bank licence bid in Singapore is successful, the new entity would likely tap on Sheng Ye's experience in lending to these segments, even as Mr Tung maintained that the company wants to be able to work across different industries in the long term.

The licence is also a signal of commitment to the Singapore market, he added. Mr Tung, a naturalised Singaporean originally from China, is keen to return home, where he studied since his secondary school days and did his National Service.

An alumni of Singapore Management University, Mr Tung sees one of his top priorities – if he manages to secure a digital bank licence – as focusing on grooming tech talent by working with local universities.

"The tech talent building is very important for us because it's a digital bank – we foresee that our core team will be our 'backend'," he said.

But landing a coveted licence and running a sustainable digital bank will not be a walk in the park.

Competition is stiff, with 14 applicants vying for the three digital wholesale bank licences up for grabs. As foreign entities are allowed to take a majority stake, many foreign players – especially the Chinese – have tossed their hats into the ring.

There also remains scepticism by industry watchers that digital banks are unlikely to gain ground in Singapore as the Republic is considered well-banked. But Mr Tung is unfazed.

"I faced the same kind of criticism when I first entered China with the idea to reshape supply chain finance using a tech angle," he said. "The road less travelled usually goes further."

The results for the digital bank licences are expected to be out in the middle of this year.