Grab's SPAC merger: the Southeast Asian superapp's record-breaking listing

Introduction

Grab Holdings Inc., Southeast Asia's leading app, announced on April 13th that it intends to go public in the US in partnership with Altimeter Growth Corp. in what is expected to be the largest-ever equity offering by a Southeast Asian company. The combined company expects its securities to be traded on NASDAQ under the symbol GRAB in the coming months following the deal's completion.

The Grab-Altimeter merger represents the biggest SPAC merger thus far, for a final company valuation of $39.6bn. Special purpose acquisition companies are shell companies set up to raise capital to acquire private companies. A SPAC listing bypasses Wall Street's traditional IPO process. Altimeter Growth's stock rose to $13.95 a share in premarket trading after the announcement, corresponding to an 8% increase from its previous close and well above the $10 IPO price.

As part of the deal, SoftBank-backed Grab will receive about $4.5bn in cash, which includes $4bn in a private investment in a public equity arrangement, managed by BlackRock, Fidelity, T. Rowe Price, Morgan Stanley's Counterpoint Global fund and Singapore's sovereign wealth fund Temasek. PIPEs are mechanisms for companies to raise capital from a select group of investors that make the final market debut possible through their financing.

About Grab

In 2011, Anthony Tan, then a Harvard Student, drew out an idea for an Uber-based taxi booking app after a classmate complained about the difficulties of hailing a taxi in Malaysia. Tan eventually drew up a booking service, which he pitched at the 2011 Harvard Business Plan Competition, placing second, which helped him to earn angel investors. The service launched in 2012 as MyTeksi, and quickly expanded as GrabTaxi, and then as Grab. Today, Grab operates in more than 400 cities in 8 countries throughout Malaysia, Philippines, India, Thailand, Singapore, Vietnam, Myanmar and Indonesia.

Often defined as the "Uber of Southeast Asia", Grab significantly differentiates itself from Uber for the way the two operate and charge their customers. Uber charges a base fare plus a fare based on distance travelled and time taken, whereas Grab charges a fixed-rate basis which does make it a cheaper option based on traffic. Another key distinction between Uber and Grab is that Grab doesn't implement the practice of surge pricing – you don't pay double the price during peak hours, which often coincide with work commenting time. Uber has been operating in Malaysia for a longer period of time than Grab. In order to compete on the same plain as Uber, Grab has dropped its prices significantly to make it one of the most affordable modes of transportation

Grab offers an on-demand ride-hailing and transportation platform built to resolve challenges associated with commutation and logistics. The company's platform offers a location-based application that matches passengers with the closest available driver, enabling users to benefit from a wide variety of convenient and comfortable personal commutation and delivery services.

However, Grab is not only a ride-hailing app and it has recently expanded to many other service fields which made it earn the nickname of "super-app". These services are grouped by the company itself in the following categories:

- GrabCar: On-demand ride-hailing service that allows passengers to book a chauffeured ride in exchange for a fee – it is an alternative to traditional modes of transport including trains, buses and private cars
- GrabExpress: On-demand delivery service that allows consumers to send items such as documents, parcels, and gifts to your business partners, family and friends
- GrabFood: On-demand delivery service that allows consumers to order food from local restaurants – it is an alternative to traditional dining options including home-cooked food and dine-in restaurants
- GrabMart: On-demand everyday goods delivery service with the same delivery process as GrabFood but delivering everyday goods from stores instead of delivering food from restaurants
- GrabPay: Collection of cashless payment methods that allows accessing various virtual payment methods, such as bank cards, PayPal, and others including GrabPay Card, from a single GrabPay Wallet
- GrabFinance: Offers two kinds of funding to SMEs in Southeast Asia – business loan (up to $100,000 over 12 months) and merchant credit line (ongoing access to short-term funding)
- GrabInsure: Allows drivers to purchase insurance, view your policies and make claims at their convenience
- GrabInvest: Brings accessible and transparent tech-led investment solutions for everyone via the Grab app
- GrabAds: New advertising platform that uses online-to-offline advertising and branding – companies can build greater brand awareness and reach out to a wider amount of customers on the go
- GrabRemittance: Send money to family and friends with a $0 transfer fee and competitive exchange rates
- PayLater: Payment method that allows you to order GrabCar, GrabFood, GrabExpress and purchase from selected online merchants and make a single consolidated payment for them at the end of the month

As a whole, Grab's marketplace hosts 1.9bn transactions for a total gross merchandise value of $12.5bn. It can also boast more than 25m monthly unique users, 5m registered driver partners and 2m merchant partners.

Industry Analysis

SEA food delivery

Currently operating at a gross merchandise volume of $11.9bn, the food delivery market in Southeast Asia is dominated by Grab, which leads with a 49% market share. The key determinants to growth within this food delivery industry include but are not limited to the COVID-19 pandemic, economic growth, urbanization, and an increase in smartphone penetration in various countries. Moreover, cloud kitchens have been slowly gathering the attention of these food delivery platforms, as these facilities are created only for cooking delivered meals and are much cheaper than actual restaurants. As of right now, Grab controls more than half of the market in specific countries in Southeast Asia, such as Malaysia, the Philippines, Thailand, and Indonesia.

SEA Ride hailing

The value of the online ride hailing market in Southeast Asia suffered a shock in 2020, losing approximately $2bn in value, dropping from $13bn to $11bn. However, valued at only $6bn in 2015 and, according to Statista, forecasted to reach a market value of $42bn in 2025, the ride hailing industry in Southeast Asia is poised for growth. Current trends that have been seen in this industry is the entrance of new competitors that are challenging the market positions of these well-established while these established firms attempt to expand their positions into other markets. In specific countries such as Vietnam, the industry is forecasted to grow at a CAGR of 16% between 2020 and 2025, as there has been an upsurge in new entrants, innovative products, and consumer demand. Other factors are also impacting the industry, such as internet access rates, current growth rates, in addition to the gradual shift to digital banking services, leading to cashless (simpler) transactions.

SEA Fintech

The fintech ecosystem in Southeast Asia covers a wide array of sub-industries, including payment services, asset management, crowdfunding, and insurance. The fintech market is led by Singapore and followed by Indonesia. These two dominate the market, with approximately 45% of SEA fintech firms operating there. Key factors that are leading to the proliferation of fintech products include a high proportion of adults not having a bank, local governments recognizing the potential of fintech, internet penetration rates increasing and a surge in forward looking technologies. According to "The Global Fintech Report 2020," Singapore, despite its small size, was ranked 4th in the world's fintech ecosystem, and is home to some very important fintech firms, including Grab, Silot, PolicyPal, and more.

Deal Structure

This transaction has led to a valuation of Grab at an initial pro-forma equity value of approximately $40bn at a private investment in public equity (PIPE) size of $4.0bn, led by some funds directly managed by Altimeter Capital Management LP, which committed approximately $750m. Moreover, it will provide Grab approximately $4.5bn in cash where the remaining $500m will be provided by Altimeter in a contingent investment to be equal to the aggregate dollar amount of redemptions from Altimeter Growth's shareholders. Following the transaction, Grab and Altimeter Growth will both become wholly owned subsidiaries of a newly established holding firm.

Anthony Tan, the Group CEO and Co-Founder of Grab, stated that the company has always believed in long-term partnerships to drive impact at scale and Altimeter, to honor their long-term commitment to Grab, has subjected its sponsor promote shares to a 3-year lock-up period. Altimeter has also donated 10% of its sponsor promote shares to the GrabForGood fund, specializing in social and environmental issues such as education.

As of right now, the transaction has been approved by the board of directors of both companies and the transaction is expected to close in the upcoming months, once shareholder approval has been given in addition to other customary closing conditions.

Public Listing Rationale

The agreement between Grab Holdings Inc. and Altimeter Capital Management LP recently made the news as the largest merger by Special Purpose Acquisition Company (SPAC) ever, valuing Grab at almost $40bn, more than twice its valuation 18 months prior, precisely in a moment when experts warn that the SPAC market is overheating.

To try and quantify this heat let's point out that up to this point of 2021 the U.S. SPAC IPO market already raised a record of about $100bn funds through 308 IPOs, compared to the 249 made through all of 2020 and $83.4bn raised, breaking ceilings year on year despite the pandemic (SPAC Research, 2021). In fact, current worries are led by the argument that sources of capital needed to support mergers are depleting, and the market weight this new listing trend is carrying has attracted increasingly more scrutiny by U.S. regulators.

Sources close to Grab's journey refer that Grab also considered an IPO but after talking with Altimeter it concluded the SPAC was the solution that best fitted Grab which was in search for long-term investors. The latter wish has in fact been met as Altimeter committed to a 3-year lock-up for its sponsor promote shares and the investors of the Private Investment in Public Equity (PIPE) part of the deal include names which usually opt for longer-terms commitments. In addition, the loss-making Grab benefitted from choosing this listing method as it allowed Grab to publish projections of its future profitability. Although this might encourage investors at the present day, it will put more pressure on Grab to deliver at a later moment. Lastly, note that Grab hasn't excluded the possibility of a secondary listing in the Asian exchanges at a later date.

Anthony Tan, Grab's CEO and co-founder, said that the listing is a testament to the global investment community's belief in the long-term value proposition of Grab's superapp strategy and the exciting growth potential of Southeast Asia. Grab's main focuses once received the cash are to make its "superapp" business model more and more profitable, to reach more of the 670m people of the 8 countries in South East Asia in which Grab already operates, and to support its recently born charity GrabForGood.

The superapp ecosystem is profitable only for a part of the services it provides, but Grab's superapp strategy is in fact to achieve the Flywheel Effect, for which the correct combination of these complementary businesses within the same app will create significant momentum and a self-regenerating virtuous cycle that will support its profitability. For example, as consumer spending on Grab grows, income opportunity for merchants and drivers on Grab increases, and as the latter join the ecosystem there is higher quality and more diverse product selection as well as faster deliveries. However, rating agency Moody's doesn't expect Grab to make profit before 2024. At the same time, Southeast Asia's digital economy is one of the fastest growing in the world and has a population about twice the size of the U.S., providing enormous potential for horizontal expansion. However, the online services penetration rate is still low. In 2020 Grab accounted for 72% of regional ride-hailing gross merchandise value (GMV), 50% of regional online food retail GMV, and 23% of regional digital wallet total payment value (TPV). Furthermore, Grab's growth potential is highlighted as it expects its addressable markets' size to grow from $52bn in 2020 to $180bn by 2025. Lastly, Anthony Tan marked the company's commitment to the community through their charity GrabForGood founded in the last month because, in his words, if Southeast Asia succeeds, Grab succeeds. As a result of the listing, Altimeter is donating 10% of its sponsor promote shares to support the GrabForGood fund which aims at providing education opportunities, financial support, as well as contributing to tackling environmental issues in the region.

Market Reaction

In early April, Altimeter stock (NASDAQ:AGC) began appreciating in value by 35% following initial rumors on Grab, reaching its peak on the 13th of April, date of the official press release, after which it tumbled back by 18%. The reason for a post-release depreciation might be the late uncertainties in the SPAC fashion which is quickly depleting sources of funding.

Advisors

Grab Holdings Inc. lead financial advisor was Evercore, sided by J.P. Morgan and Morgan Stanley Asia (Singapore), while its legal advisors were Skadden, Arps, Slate, Meagher & Flom LLP and Hughes Hubbard & Reed LLP.

Altimeter was advised financially by J.P. Morgan and Morgan Stanley & Co. LLC as lead placement agents, sided by Evercore and UBS as co-placement agents, and legally by Ropes & Gray LLP and Wilmer Cutler Pickering Hale and Dorr LLP. While Cooley LLP acted as legal advisor to the placement agents.

TAGS: Asia, grab, JP Morgan, Tech, Ride Hailing, SPAC, Food Delivery, Fintech