Going for growth in Asia: Navigating the way

Financial Services M&A – Indonesia

Key figures

There were nine deals involving financial services companies in Indonesia last year, with a total value of US$431m. This is a significant increase on the US$258m worth of deals in 2006. Over half (57%) of the Indonesia-based survey respondents had completed at least one deal during the past three years. The biggest deals last year were:

- Northstar Pacific and TPG Capital's purchase of 72% of PT Bank Tabungan Pensiunan Nasional for US$200m.
- Avenue Capital Group/Avenue Asia Capital Management, Dubai Ventures, and Harmony Capital Partners' acquisition of a 34.6% stake in PT Bank Mayapada Internasional for US$60m.
- PT Dian Intan Perkasa's acquisition of 51% of Bank Finconesia for US$60m.

Summary of 2007 financial services M&A transactions*

Country	Number of deals	Banking	Securities and capital markets	Mutual funds and asset management	Insurance	Value (US$m)
Japan	61	10,615	23,546	1,872	144	36,177
China	94	7,264	6,123	2,604	212	16,203
South Korea	24	10,059	784	1,095	1,069	13,006
Australia	69	1,990	1,497	2,828	725	7,040
India	100	1,486	4,345	974	101	6,905
Malaysia	38	5,373	794	70	324	6,561
Hong Kong	67	1,896	2,015	1,226	1,312	6,450
Taiwan	14	4,522	9	390	145	5,066
Thailand	16	2,239	10	35	6	2,290
Kazakhstan	1	2,175	-	-	-	2,175
Vietnam	13	605	101	217	329	1,252
Pakistan	4	498	504	-	-	1,002
Macau	3	619	-	-	-	619
Indonesia	**9**	**325**	**93**	**13**	**-**	**431**
Singapore	13	-	329	67	6	402
Philippines	9	27	120	14	6	167
New Zealand	7	8	59	21	8	95
Laos	3	19	-	-	-	19
Sri Lanka	1	-	2	-	-	2
Total**	**546**	**49,720**	**40,330**	**11,426**	**4,386**	**105,862**

Source: PricewaterhouseCoopers based on data from M&A Asia.
* Based on deals disclosed.
** Please note that the totals within the table in this report do not always add up to 100 because of rounding.

Future dealflow

There is currently a strong impetus for deal-making: 39% of Indonesia's financial services' firms say they will conduct significant M&A in the coming year, while 43% expect deals over the next five years. The main reasons are to increase market share and maximise shareholder value.

Nearly all Indonesia-based financial services firms (91%) say joint ventures and partnerships will be key to their expansion plans.

Do you agree or disagree with the following statements?	Agree	Disagree	Don't know
Our organisation will undergo significant M&A in the next year	39%	33%	28%
Our organisation will undergo significant M&A over the next five years	43%	13%	43%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	65%	13%	22%
Joint ventures and partnerships will be key to our expansion plans in Asia	91%	9%	0%
Our organisation will undergo a significant business disposal over the next five years	48%	35%	17%
Our organisation is already structured in the way we want	43%	48%	9%
Our organisation has a track record of success in M&A and restructuring	61%	26%	13%

Deal targets

Today, the main targets for financial buyers are retail banks, followed by securities firms and Islamic finance companies. In five years' time, retail banks will still be the main focus, but asset managers will also be sought after as household wealth rises and savings products are in demand.

The greatest focus for Indonesian firms will be on domestic deals over the coming five years, but M&A in China, Malaysia and Singapore will increasingly be targeted.

Drivers of deals

Indonesia is one of the few countries in the region where survey respondents (65%) cited competition from foreign players as a major external driver of M&A. This is perhaps not surprising since Indonesia has a regime that allows relatively high levels of foreign investment and branch expansion. Still, domestic competition is viewed as the bigger threat, cited by 78% of respondents.

What will be the main external drivers of your organisation's M&A or restructuring activity over the next five years?	
Increasing competition from domestic players (eg non-financial service market entrants, horizontal expansion of existing financial service players, price-cuts, threats to market share)	78 %
Increasing competition from foreign players (eg new market entrants)	65 %
Increasing customer demands (eg, desire for higher yielding investments, branded product, open-architecture products)	35 %
Slow growth in developed markets in comparison with emerging markets	26 %
Regulatory pressure to restructure or merge	26 %
Regulatory liberalisation (eg relaxation of ownership restrictions, convergence opportunities, new competitors)	13 %
Access to leading-edge operating practices (eg better governance, technologies)	13 %
Economic conditions in home market	9 %
Increasing shareholder demands (eg demand for transparent reporting and risk profile)	9 %
Higher costs (eg, staff costs, cost of capital, property costs, IT costs)	9 %
Taking advantage of potential currency movements (eg Renminbi revaluation, US dollar weakness)	0 %
None of the above; we do not expect to undergo M&A restructuring	0 %

Obstacles to M&A

The main obstacle to M&A in Indonesia, cited by 48% of respondents, is the potential for corporate culture clashes. Regulators and regulators' attitudes are also an issue. Notably, tax issues were cited by 39% of respondents – far more than elsewhere in Asia and indicative of a tax regime in need of some reform.

What are the main obstacles to increased M&A activity in the financial services sector in your country?	
Corporate culture; the potential for corporate culture clashes in merged organisations	48 %
Regulations and regulators' attitudes	43 %
Tax issues	39 %
Management goals; managers do not focus on increasing shareholder value	35 %
Familiarity; limited history of M&A in our chosen market	30 %
Cross-shareholdings; friendly shareholders protect managers	22 %
High pricing of M&A deals	17 %
Stakeholder opposition; protests from employees and business partners	13 %
Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	9 %
Regulations requiring joint ventures	9 %
Capital/borrowing constraints	9 %
Public sentiment; fear of the public reaction to M&A	4 %
Other, please specify	0 %

Contact us

Cliff Rees
PricewaterhouseCoopers (Indonesia)
62 21 5289 0550
cliff.rees@id.pwc.com

Mirza Diran
PricewaterhouseCoopers (Indonesia)
62 21 5289 0950
mirza.diran@id.pwc.com

Stuart Scoular
PricewaterhouseCoopers (Indonesia)
62 21 5289 1213
stuart.a.scoular@id.pwc.com

pwc.com

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