

Going for growth in Asia: Navigating the way

Financial Services M&A – Malaysia



Key figures

There were 38 deals in Malaysia's financial services sector last year, with a total value of US\$6.6bn. This is exactly double the volume of deals in 2006. The activity was heavily concentrated in banking, where the deals were worth US\$5.4bn. Every Malaysia-based firm surveyed has completed at least one deal in the last three years. The biggest deals last year were:

- Employees Provident Fund of Malaysia (EPF)/Kumpulan Wang Simpanan Pekerja's acquisition of 75% of RHB Capital for US\$2.3bn.
- RHB Capital's purchase of 30% of RHB Bank for US\$941m.
- AMMB Holdings' acquisition of a 49% stake in AmlInvestment Group for US\$694m.

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 tables in this report do not always tally due to rounding and/or multiple responses.

Future dealflow

A third of Malaysia-based financial services firms expect to launch a significant deal in the coming year. The figure rises to 67% over the duration of the next five years.

All the firms surveyed 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	33%	50%	17%
Our organisation will undergo significant M&A over the next five years	67%	25%	8%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	67%	25%	8%
Joint ventures and partnerships will be key to our expansion plans in Asia	100%	0%	0%
Our organisation will undergo a significant business disposal over the next five years	33%	42%	25%
Our organisation is already structured in the way we want	17%	67%	17%
Our organisation has a track record of success in M&A and restructuring	58%	17%	25%

Deal targets

Today, the main targets for financial buyers in Malaysia are asset managers, according to the survey. In five years, asset managers are still likely to be a significant focus for financial buyers but there will also be strong interest in securities companies, say respondents.

Drivers of deals

The main external deal driver is increasing competition from domestic players within Malaysia — cited by 50% of respondents. Improving economic conditions in Malaysia itself will also spur M&A. This suggests that Malaysia-based companies believe the economy is in robust shape.

In terms of the objectives of M&A, Malaysian companies' main goal is to enter new geographic markets — this is cited by 75% of respondents. Companies also seek to increase shareholder value and enter new product lines via M&A activity.

What will be the main goals of your organisation's M&A or restructuring activity over the next five years?

Entering new geographic markets	75%
Increasing shareholder value	58%
Entering new product markets	33%
Increasing market share	33%
Securing distribution	17%
Improving customer service	17%
Focusing on core businesses	17%
Improving capital efficiency	17%
Meeting evolving regulatory requirements	17%
Accessing new talent	8%
Reducing costs	0%
Managing the organisation's risk profile	0%
None of the above; we do not expect to undergo M&A restructuring	0%

Obstacles to M&A

In common with their counterparts elsewhere in Asia, Malaysia-based respondents see regulations and regulators' attitudes as the biggest impediments to deals. Cross-shareholdings put in place to protect ownership, and an unwillingness on the part of business owners to sell strategic stakes in their enterprises are also posing obstacles to further deal-making.

What are the main obstacles to increased M&A activity in the financial services sector in your country?

Regulations and regulators' attitudes	42%
Cross-shareholdings; friendly shareholders protect managers	33%
Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	33%
Familiarity; limited history of M&A in our chosen market	25%
Management goals; managers do not focus on increasing shareholder value	25%
Corporate culture; the potential for corporate culture clashes in merged organisations	25%
High pricing of M&A deals	25%
Tax issues	17%
Public sentiment; fear of the public reaction to M&A	17%
Capital/borrowing constraints	17%
Regulations requiring joint ventures	0%
Stakeholder opposition; protests from employees and business partners	0%
Other, please specify	0%

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