

Going for growth in Asia: Navigating the way

Financial Services M&A – Taiwan



Key figures

There were 14 deals in the financial services sector in Taiwan last year, worth a total of US\$5.1bn. This is a slight fall from the 2006 figure of US\$5.9bn. Half of the Taiwanese respondents to our survey say they have been involved in M&A in the past three years, below the average for Asia as a whole. The biggest deals last year were:

- HSBC Holdings' purchase of The Chinese Bank for US\$1.5bn.
- The LongReach Group Limited (Japan)'s acquisition of a 51% stake in EnTie Commercial Bank for US\$696m.
- Carlyle Asia and Corsair Capital's purchase of 37% of Ta Chong Bank for US\$655m.

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 financial services firms in Taiwan say they will undergo significant M&A in the next year. This rises to 78% over the next five years – higher than the average for Asia – suggesting optimism over the climate for deals.

Nearly three-quarters (72%) say joint ventures and partnerships will be key to 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	78%	11%	11%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	72%	22%	6%
Joint ventures and partnerships will be key to our expansion plans in Asia	72%	28%	0%
Our organisation will undergo a significant business disposal over the next five years	28%	56%	17%
Our organisation is already structured in the way we want	56%	44%	0%
Our organisation has a track record of success in M&A and restructuring	61%	28%	11%

Deal targets

Financial buyers today are most likely to target retail and private banks. This trend is set to continue over the next five years. This contrasts with Asia as a whole, where niche financial providers, such as asset managers and REITs, are predicted to be the focus of financial buyers.

Domestic companies will be the main M&A focus of Taiwanese financial services firms over the next five years, with firms in China, Vietnam and Hong Kong the next most sought-after targets.

Drivers of deals

Taiwanese banks are likely to look at Hong Kong as a way of servicing Taiwanese trading companies doing business in China until full links are established. The possibility of more direct investment has also been held out in the wake of March's elections in Taiwan. Hu Jintao, China's president, met Vincent Siew, Taiwan's vice-president-elect, in early April and the two agreed a new round of dialogue and economic co-operation.

Financial services firms considering M&A mainly want to enter new geographical markets, but also wish to increase market share and enter new product markets.

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

Entering new geographic markets	67%
Increasing market share	56%
Entering new product markets	39%
Increasing shareholder value	33%
Improving customer service	22%
Securing distribution	17%
Focusing on core businesses	11%
Reducing costs	6%
Managing the organisation's risk profile	6%
Accessing new talent	6%
Improving capital efficiency	0%
Meeting evolving regulatory requirements	0%
None of the above; we do not expect to undergo M&A restructuring	6%

Obstacles to M&A

The main obstacles to deals – in equal measure – are regulations and regulators' attitudes and public sentiment towards M&A, each cited by 44% of respondents. High pricing is cited by a third of respondents as an impediment.

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

Regulations and regulators' attitudes	44%
Public sentiment; fear of the public reaction to M&A	44%
High pricing of M&A deals	33%
Stakeholder opposition; protests from employees and business partners	28%
Corporate culture; the potential for corporate culture clashes in merged organisations	22%
Familiarity; limited history of M&A in our chosen market	17%
Cross-shareholdings; friendly shareholders protect managers	17%
Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	17%
Management goals; managers do not focus on increasing shareholder value	11%
Capital/borrowing constraints	11%
Regulations requiring joint ventures	6%
Tax issues	0%
Other, please specify	6%

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