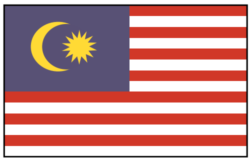


Malaysia

Overall domestic and inbound deal activity has declined, although outbound activity remains buoyant. Prospects for 2009 are cautiously optimistic

Paran Puvanesan
Corporate Finance Leader
Malaysia

Current Environment

After registering a strong rate of growth of 7.1% in the first half of 2008, Malaysia's economy is expected to have expanded at a slower rate in the second half, in light of the global financial crisis and a slowdown in the manufacturing, export and tourism sectors. Latest figures for third quarter growth were 4.7% p.a., while full year growth is estimated to have been 5.0%.

Despite the global financial crisis, domestic demand is projected to continue to grow, with contributions mainly from the services sector, private and public consumption and investment. The government's additional US$2.0 billion stimulus package is expected to boost consumer spending and drive economic activity in the construction and property sectors.

Malaysia recorded encouraging foreign direct investments, with approved foreign investments in the first three quarters of 2008 totalling US$11.3 billion, exceeding FDI for the whole of 2007 of US$9.7 billion. The basic metals, electrical and electronics, and chemicals sectors were among the top three investment categories during this period.

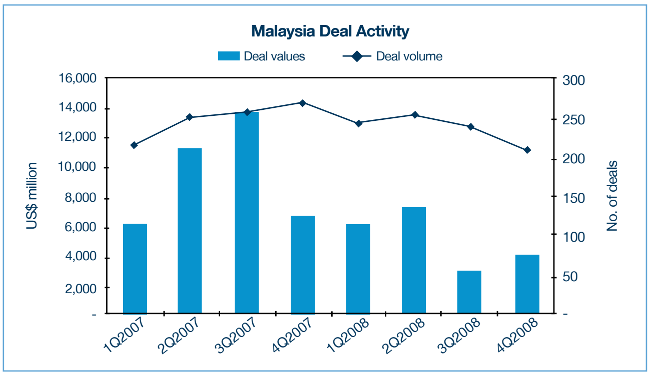
Inflation in 2008 reached a peak of 8.4% p.a. in August at the height of the oil and commodity prices boom. It is anticipated to slide to between 3.5% p.a. and 4.5% p.a. in the fourth quarter of the year, with petrol prices reverting back to US$0.51 per litre from a high of US$0.79 per litre.

Malaysia's stock market performance was weak mirroring the impact of the global financial crisis on international markets. The KLCI index reached a peak of 1,249 points in January but at the height of the crisis fell to a low of 829 points in October 2008. The market has subsequently recovered to trade between 850 to 890 points in December 2008.

The local currency, the Ringgit, also experienced high volatility. It hit a peak of RM3.13/US Dollar in April 2008 before reaching a low of RM3.62 in November due to lower investment confidence in Asian economies and currencies. The Ringgit is currently trading at 3.45 and is expected to weather the current financial turmoil with Malaysia's substantial foreign reserves amounting to US$93 billion as at 15 December, which is sufficient to finance 7.8 months of retained imports and 3.4 times current short term debt.

In politics, Malaysia's Deputy Prime Minster, Datuk Seri Najib Razak is expected to replace Datuk Seri Abdullah Badawi as the next Prime Minister in March 2009. The proposed timeline is intended to pave the way for a smooth transition of leaders.

Deal Activity



Source: *Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2008*

Compared to 2007, the value of deals in Malaysia halved in 2008 to US$20.4 billion, largely due to the absence of large deals greater than US$1 billion. Four such mega deals occurred in 2007 accounting for US$13.0 billion in deal value. However, the decline in deal volume in 2008 was less significant with only a 5% drop. The global financial crisis has lowered M&A deal expectations with corporates taking a cautious stance on both the market outlook and cash conservation. In this challenging environment several major deals were aborted, including:

- MISC, the national shipping company aborted its reverse takeover (US$907 million) of oil services firm Ramunia Holdings
- IOI Corporation, a leading plantation and oleochemical producer called off its offer to acquire a prime location office in Kuala Lumpur for US$166 million
- Mulpha International terminated its proposed acquisition of a Chinese coal company, Winfame International, for US$129 million

Despite the significant drop in M&A value in 2008, Malaysian companies are investing more overseas, with the value of outbound deals doubling in 2008 to US$13.7 billion and even surpassing the combined value of domestic and inbound (US$6.7 billion).

Key sectors targeted for outbound M&A include oil and gas, telecommunications, banking, and power led by leading local companies such as Petronas, TM International, Maybank, CIMB and YTL Corporation

- Petronas, the national oil and gas company, is acquiring a LNG project in Australia and an oil and gas exploration project in India for a combined US$3.1 billion
- TM International, a division of the national telecommunication company, Telekom Malaysia, has acquired a 15% stake in India's Idea Cellular Ltd for US$1.7 billion and an additional 17% stake in Indonesia's PT Excelcomindo Pratama for US$440 million, raising its stake to 84%
- Maybank, Malaysia's largest bank, is spending a total of US$3.6 billion to acquire stakes in three banks: Bank Internasional Indonesia, Pakistan's MCB Bank Ltd, and Vietnam's An Binh Rural Joint-Stock Commercial Bank
- CIMB, the country's second largest bank, is acquiring BankThai and stakes in China's Bank of Yingkou Co Ltd for US$469 million
- YTL Corp through its subsidiary YTL Power International is purchasing Singapore's second biggest power producer, PowerSeraya Ltd, for US$2.6 billion. YTL Corp also took control of Singapore's Macquarie Prime REIT and its management company for US$195 million

Domestic M&A was relatively quiet in 2008, with the few major M&A deals mainly involving group restructurings and public to private initiatives to take advantage of low market valuations and the low cost of borrowing. The key deals included:

- TuneAir intends to take low cost carrier AirAsia private for US$1.6 billion
- A restructuring of UEM Group involving public to private deals for both UEM Builders, a construction company, and Cement Industry of Malaysia
- MMC Corp to acquire Senai Airport Terminal Services, an aviation service provider, from a company related to its shareholder, Tan Sri Syed Mokhtar Al-Bukhary for US$582 million

Property deals continued to remain significant with a number of foreign acquirers, although the bulk of them were announced in the first half of the year. Some of the key property deals were:

- Kuwait Finance House planning to acquire an office building in Kuala Lumpur (Menara YNH) for US$281 million
- Singapore-based CapitaLand acquired a major retail centre in Kuala Lumpur (Sungei Wang Plaza) for US$185 million
- Abu Dhabi-Kuwait-Malaysia Investment Corp buying a stake in UBG Bhd, a property holding company, for US$141 million

Besides property, other notable M&A sectors in 2008 included industrial products, healthcare, marine transportation, manufacturing, and building materials.

Outlook

As with the rest of the world, the volatile and uncertain financial environment globally will impact Malaysian M&A into the next few years. Economic growth in 2009 is likely to be weaker than 2008, with EIU forecasting growth of 3.1%. Weak equity market conditions should, however, see the continued trend of companies being taken private during 2009.

With difficult external conditions, we expect Government policy to focus on enhancing Malaysia's economic resilience, and improving the competitiveness of Malaysian industries, via fiscal reforms and stimulus across economic sectors including services, manufacturing, agriculture and utilities. This will present M&A opportunities.

Already, mobile carrier TM International Bhd (TMI) is reviewing all its assets, particularly non-mobile units, and intends to dispose of those that are not viable for the long term.

Meanwhile, with Asia's longer term growth trend intact, private equity funds like Navis, Actis, and Standard Chartered Private Equity continue to seek investment opportunities in the region. In fact, with lower valuations and favorable exchange rates, cash-rich Malaysian corporates are even seeking deals in Australia and to some extent, Europe.

Despite the global financial turmoil, Malaysia is viewed as not just having attractive valuations but strong and sustainable long-term growth prospects. In particular, we expect continued active interest by Middle Eastern and Japanese funds who are seeking long-term investment prospects in Malaysia. Overall therefore, the outlook for Malaysian M&A appears cautiously optimistic. ■