



Singapore

Singapore's exposure to the global economy has led to declines in both economic growth and M&A. Lower valuations and distressed companies could provide M&A opportunities in 2009



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Current Environment

The Singapore economy grew by 1.2% in 2008, down from 7.7% in 2007. Its heavy reliance on the export markets of the US and Europe meant that it was one of the first Asian economies to slide into a recession in the third quarter of 2008, following two consecutive quarters of economic contraction.

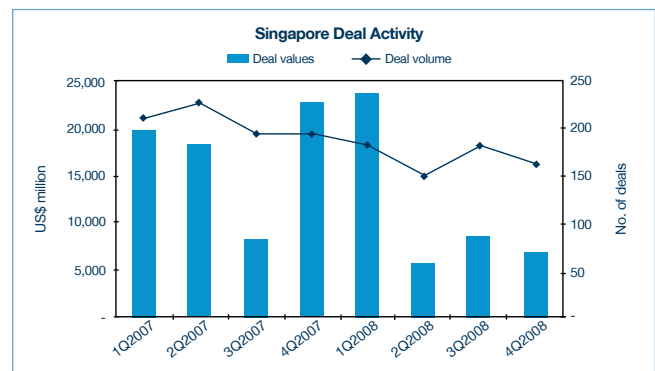
The manufacturing sector, which accounts for about 25% of Singapore's economy, experienced the largest decline with a 4.1% contraction. The service sector contracted in the second half of 2008, as financial services, transport and tourism experienced a slump. In line with the contraction of the manufacturing sector, non-oil exports plunged, particularly to the key markets of the US, Europe and China.

The CPI reached a historic high of 7.5% in the second quarter, as oil, rice and commodity prices skyrocketed. However by the third quarter, inflation was less of a concern as the economy slowed and global oil and commodity prices retreated. The CPI is expected to be around 6% – 7% for 2008, which is still high compared to 2007, but is expected to fall to 1% – 2% in 2009.

The appreciation of the Singapore dollar against the US dollar in the first half of 2008 was reversed in July, when the US dollar started to rise as a result of repatriation of funds back to US. The Singapore dollar reached its lowest level of S\$1.53 against the US dollar in November. Since then, the Singapore dollar recovered slightly to an average level of S\$1.48 against the US dollar in December. Given the easing of inflationary pressures, the Monetary Authority of Singapore ("MAS") shifted its foreign exchange rate policy from a modest and gradual appreciation of the Singapore dollar against a trade-weighted basket of foreign currencies to a zero percent appreciation, in order to maintain export competitiveness.

As stock markets around the world crashed in the aftermath of Lehman's collapse, the benchmark STI fell 1,600 points in October to its lowest level in more than five years. It has since improved slightly to 1,762 points by December.

Deal Activity



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

The M&A market still performed strongly in the first quarter of 2008, when the total deal value was 21% higher than that in the same period of 2007. M&A activity slowed down after the first quarter. The US credit crunch and the expectation of a global recession took their toll on M&A. Buyout and private deals in particular, virtually ceased as a result of the credit freeze and volatile stock market post Lehman's collapse. Total deal value in the last three quarters of 2008 fell by 57% from the same period in 2007.

Total value of deals in 2008 was US\$44.9 billion, representing a 35% drop from 2007. While the amount invested in Singapore by foreign investors has increased, there was a significant fall in the amount invested by Singapore investors in domestic and foreign companies. Deals announced in 2008 were fewer, and, on average, smaller than in 2007. The number of deals shrank from 826 in 2007 to 674 in 2008 and the average deal size decreased from US\$83 million in 2007 to US\$67 million in 2008. In 2008, the top 10 deals contributed to just over half of the total deal value, most notable of which was the purchase of a 4% stake in Citigroup for US\$6.9 billion by the Government of Singapore Investment Corporation (GIC) and Temasek Holdings' sale of its three power generating companies in Singapore.

Several big deals were also withdrawn this year, including F&N cancelling its sale of Times Publishing, its print and publishing business, SNF Corp Ltd's US\$366 million offer



for a reverse takeover of Healthway Medical Services, Albedo Ltd's offer of US\$152 million for HealthTrends Medical Investment, a Singapore-based owner of medical clinics, as well as Auston International Group's proposed acquisition of Singapore-based M2b World Asia Pacific for US\$107 million.

Inbound

Total inbound deal value of US\$18.1 billion represented an increase of 71% from 2007, although this was driven by Temasek Holdings' sale of its three power generating companies:

- Tuas Power Ltd, the first to be auctioned, was acquired by SinoSing Power Ltd, a wholly-owned unit of Chinese state-owned Huaneng Group for US\$3.1 billion
- Senoko Power Ltd, Singapore's biggest power generating company, was sold to Lion Power Holdings Ltd, a French/Japanese consortium led by Japanese trading house Marubeni for US\$2.8 billion.
- YHL Power International Bhd paid US\$2.4 billion for PowerSeraya Ltd, after the auction was cancelled due to poor market conditions

Separately, Mapletree Investments entered into a joint venture with Arcapita Bank to form a private real estate company which would hold the US\$1.3 billion portfolio of high-rise, ready-built industrial properties acquired from JTC Corporation, Singapore's largest developer of industrial properties.

Outbound

The value of outbound investments was US\$17.2 billion in 2008, down by 63% from a year ago. This was largely driven by GIC whose total deal value amounted to US\$11.5 billion, or 67% of the total outbound investments. Some of GIC's major transactions were:

- The acquisition of preferred shares convertible into an estimated 4% stake in Citigroup for US\$6.9 billion
- A planned acquisition of a 14% stake in infrastructure holding company, Sintonia, for US\$1.5 billion
- The acquisition of ProLogis' property fund interests in Japan and as well as its China operations for US\$1.3 billion

Other notable transactions include Showy International Ltd's US\$485 million reverse takeover of Fortune Court Holdings Ltd, owner of a real estate development company in Chongqing, China, and UOB's purchase of a further stake in Bank UOB Buana for US\$450 million.

Domestic

The domestic M&A scene generated a total deal value of US\$9.6 billion, which is 21% lower than in 2007. The property sector contributed to the bulk of the total deal value, with significant deals including:

- Tecity Group's acquisition of a further 67% interest in Straits Trading, a Singapore-based tin metal and tin-based products manufacturer with hotel and property operations, for a total of US\$1.0 billion, thereby raising its interest to 89%
- CapitaCommercial Trust exercised its option to acquire the 1 George Street Building, an office building owner and operator, from George Street Pte Ltd, a wholly-owned unit of CapitaLand Ltd for US\$845 million
- CapitaLand increased its stake in Ascott Group Ltd, the world's largest serviced apartment operator outside of the US, from 67% to 98% for US\$623 million. CapitaLand took Ascott Group private after the transaction was completed
- Singapore Airport Terminal Services (SATS) announced the acquisition of Singapore Food Industries (SFI), valuing the company at US\$323 million

Private Equity

The value of private equity-linked deals in 2008 amounted to US\$1.2 billion, a significant fall from the total investment of US\$5.3 billion in 2007. As credit became increasingly difficult to obtain to finance buyout transactions, and a valuation gap developed as the global economic outlook deteriorated, private equity deals slowed and came to a standstill as credit froze and stock markets nosedived in the fourth quarter. The exit environment also deteriorated significantly as Singapore witnessed a dearth of private equity-backed IPOs.

Some of the notable PE deals in 2008 included:

- Kohlberg Kravis Roberts' ("KKR") general offer for Unisteel Technology, a Singapore-listed engineering solutions company, for US\$575 million.



- MBK Partners' offer of US\$253 million to purchase Asiapharm Group Ltd, a Singapore-listed pharmaceutical group
- 98 Holdings, whose major shareholders include General Enterprise Management Services Limited ("GEMS") and Standard Chartered Private Equity, made an offer to increase its stake in NatSteel Ltd from 51% to 81% for US\$119 million

Outlook

The IMF has forecast that advanced economies will register negative growth in 2009. As Singapore's economy is closely intertwined with the global economy, a prolonged global recession is expected to delay the recovery of the economy. The Ministry of Trade and Industry projects that Singapore's economy will grow between -5 and -2% in 2009.

The Singapore government took decisive steps to cushion the impact of the recession by dipping into its sizable reserves to the tune of S\$4.9 billion in its 2009 budget, designed largely to preserve jobs and keep businesses afloat. At 8% of GDP, Singapore's package is significant compared to other countries such as the US, Germany and Taiwan which have announced fiscal packages or stimulus plans. The budget includes a Resilience Package of S\$20.5 billion, of which S\$4.5 billion finances the Jobs Credit Scheme, which gives employers a 12% cash grant on the first S\$2,500 of wages for employees, thus reducing business costs. Another notable measure is the Special Risk-Sharing Initiative through which the government will set aside S\$5.8 billion to stimulate bank lending to businesses. Other measures include easing business cash flow by reducing the tax burden, supporting families and communities and expanding infrastructure spending, particularly on healthcare and education.

In addition, this year's Singapore budget sees further liberalisation of incentives for both foreign and approved Singapore-resident funds, and more favourable rules for use of tax losses on acquisition:

- Funds constituted as limited partnerships (LPs) will be entitled to tax exemption under Singapore's tax incentive regime without the need to restructure their operations into a 'corporate' or a 'trust'. This should encourage relocation of senior decision-making staff to Singapore.
- Approved Singapore-resident funds have been given partial relief on the GST incurred on 'prescribed expenses'. This should encourage funds to use Singapore platforms for their investments, and avail themselves to Singapore's wide treaty network.
- Certain restrictions will be lifted to allow Singapore companies to invest in funds managed by Singapore based fund managers without being penalised. This widens the pool of money that Singapore based fund managers can tap on.
- A new framework will be released to provide greater clarity and minimise tax consequences of amalgamating companies with tax losses. This would have positive valuation impact on some distressed assets.

The Singapore M&A sector is still expected to be slow in the first half of 2009 as the stock markets and bank credit will take some months to stabilise. From the second quarter onwards, we expect an increasing number of stressed and distressed companies putting up assets for sale. We also expect Temasek, GIC and cash-rich Singapore corporates to make overseas forays in the second half, as they did in past regional recessions. ■