

The Singapore Mergers & Acquisitions Bulletin

M&A Activity in Singapore in 2002 and at Half Time in 2003

PricewaterhouseCoopers Corporate Finance Pte Ltd
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Prepared by the mergers and acquisitions team at PricewaterhouseCoopers Corporate Finance Pte Ltd, this bulletin aims to provide an overview of the M&A activity levels in Singapore. In this issue, we discuss the M&A activity levels in 2002 and in the first half of 2003. The findings show that while the value of deals done may have been significantly lower in 2002 as compared to 2001, the number of deals had actually increased. This demonstrates that the M&A market was still quite active in 2002. The data for the first half of 2003 shows that the activity levels so far are comparable to the first half of 2002.

2002 HIGHLIGHTS

Deal Origination - Cross-Border Deals Are A Key Driver

As can be seen from Figure 3, cross-border deals made up 57% of the number of M&A deals and accounted for 64% of deal value in 2002. (The comparative number of deals and deal value for 2001 were 58% and 66% respectively).

Figure 3: Breakdown of cross-border and local deals

Deals Breakdown	2002				2001			
	Inbound Acquisitions	Outbound Acquisitions	Total Cross-Border	Pure Domestic Deals	Inbound Acquisitions	Outbound Acquisitions	Total Cross-Border	Pure Domestic Deals
Number of Deals	85	124	209	157	68	125	193	141
Value (US\$ billion)	1.0	3.2	4.2	2.4	2.1	20.9	23.0	11.9

Inbound Acquisition: Where a foreign company acquires a domestic company

Outbound Acquisition: Where a domestic company acquires a foreign company

This does not come as a surprise as domestic companies have increasingly been paying attention to regionalization in order to overcome Singapore's limited market size and relatively high manufacturing cost base. Outbound cross-border deals involving acquisitions of foreign companies by local companies have been maintained at a nearly steady number of about 125 deals. The emerging trend of foreign companies acquiring Singapore companies is encouraging as it signals that foreign companies recognise the strategic value the local companies could provide. Given the valuations prevailing in 2002, foreign companies were also able to acquire them at fairly attractive rates.

It is interesting to note that both the number of cross-border deals and domestic deals grew by about 10% each in 2002. On the other hand, the total deal value has declined by a whopping 80% for both foreign and domestic deals. This was largely attributed to the absence of large deals such as those highlighted in Figure 2. It would seem that 2002 was also a year of consolidating positions after the significant acquisitions which took place in 2001.

Top deals

Figures 4 and 5 below highlight 2002's top five cross-border and pure domestic deals respectively. The foreign targets were mainly Indonesian companies, with only one listed on the SGX. These companies span a variety of industries, including telecommunications, transport and apparel manufacturing. Figure 4 also shows that Singapore Telecommunications' overseas expansion strategy continued to steam ahead strongly in 2002.

Figure 4: Top five cross-border deals

Target Company	Acquirer Company	Percentage Targeted (#)	Announced/ Completed Value (US\$ mil)
Indonesian Satellite Corp Tbk	Singapore Technologies Telemedia Pte Ltd	42	637.6
Telekomunikasi Selular PT	Singapore Telecommunications Ltd	13	429.0
Katexindo Citramandiri PT	Tal Apparel Pte Ltd	10	399.2
Global Crossing Ltd	Singapore Technologies Telemedia Pte Ltd	62	250.0
Cycle & Carriage Ltd	Jardine Strategic Holdings Ltd	21	138.2

Source: Bloomberg, PwC analysis
 (#): In addition to percentage held before the transaction

Figure 5: Top five pure domestic deals

Target Company	Acquirer Company	Percentage Targeted (#)	Announced/ Completed Value (US\$ mil)
Delgro Corp Ltd (*)	ComfortDelGro Corp Ltd	100	448.7
Comfort Group Ltd (*)	ComfortDelGro Corp Ltd	100	361.0
Natsteel Broadway Ltd	Flextronics International Ltd	100	347.4
Natsteel Ltd	98 Holdings Pte Ltd	51	336.5
Tiong Bahru Plaza Retail Mall	Gra Singapore Pte Ltd	100	105.7
Overseas Union Trust Ltd	United Overseas Bank Ltd	47	100.9

Source: Bloomberg, PwC analysis
 (*): Delgro Corp Ltd and Comfort Group Ltd merged to form ComfortDelGro Corp Ltd
 (#): In addition to percentage held before the transaction

The domestic deal scenario was dominated by the merger of Delgro Corp Ltd and Comfort Group Ltd, the sale of Natsteel Broadway Ltd and the much publicised takeover battle for Natsteel itself.

Target Industry

Figures 6a and 6b provide the breakdown of deals by broad industry groupings in percentages. The industrial sector formed the biggest sector, accounting for 24% of the deal value and 21% of the total volume.

Figure 6a: Breakdown of number of deals by target industry (in percentages)

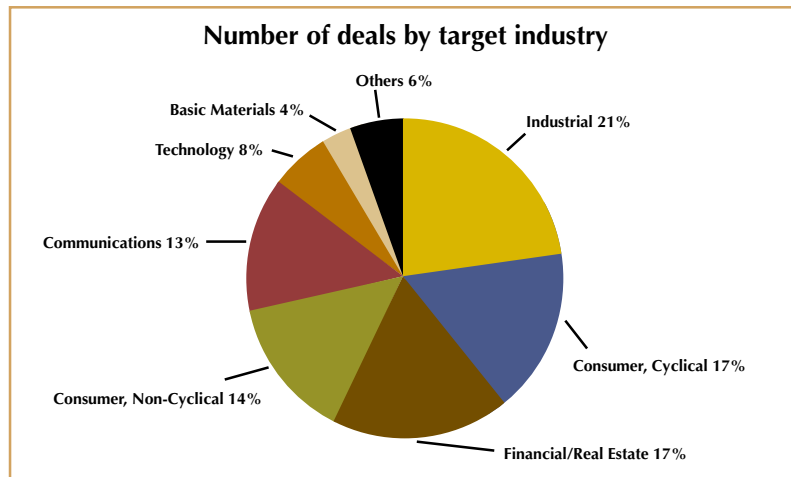
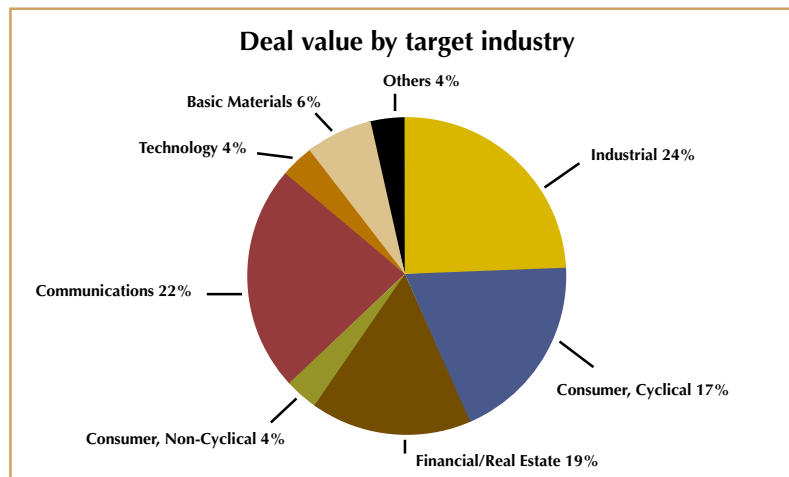


Figure 6b: Breakdown of deal value by target industry (in percentages)



A further analysis of the industry sectors revealed that 68% of the deals were in the consumer, cyclical, communications, industrial and financial/real estate sectors. These four sectors accounted for 82% of the total deal value in 2002. Figure 7 highlights the five major deals in each of these four sectors.

Figure 7: Top five deals in the four major sectors

Name of Target Company	Name of Acquirer Company	Percentage Targeted (#)	Announced/ Completed Value (US\$ mil)
Consumer, cyclical			
Katexindo Citramandiri PT	Tal Apparel Pte Ltd	10	399.2
Cycle & Carriage Ltd	Jardine Strategic Holdings Ltd	21	138.2
Inchcape Motors Ltd	Inchcape Plc	37	88.8
Overseas Union Enterprise Ltd	Guoco Group Ltd	10	67.1
Pinetree Resort Pte Ltd	Group Eksklusiv Pte Ltd	100	56.6
Communications			
Indonesian Satellite Corp	Singapore Technologies Telemedia Pte Ltd	42	637.6
Telekomunikasi Selular PT	Singapore Telecommunications Ltd	13	429.0
Global Crossing Ltd	Singapore Technologies Telemedia Pte Ltd	62	250.0
Keppel Telecommunications & Transportation Ltd	Keppel Corp Ltd	14	47.6
Elisa Instalasia Ltd	Flextronics International Ltd	100	36.6
Industrial			
Delgro Corp Ltd (*)	ComfortDelGro Corp Ltd	100	448.7
Comfort Group Ltd (*)	ComfortDelGro Corp Ltd	100	361.0
Natsteel Broadway Ltd	Flextronics International Ltd	100	347.4
Shipyards Assets Of Halter Marine	Singapore Technologies Engineering Ltd	100	66.0
Univac Precision Engineering Pte Ltd	Venture Corp Ltd	67	48.3
SC Te Puna	Teamsphere Ltd	100	38.3
Financial/Real Estate			
Century Square Holding Pte Ltd	ARMF Mauritius Ltd	100	131.1
Tiong Bahru Plaza Retail Mall	Gra Singapore Pte Ltd	100	105.7
Overseas Union Trust Ltd	United Overseas Bank Ltd	47	100.9
DBS Group Holdings Hong Kong	DBS Group Holdings Ltd	13	118.1
Nexgen Financial Solutions	CDC IXIS	39	94.7

Source: Bloomberg, PwC analysis

(*): Delgro Corp Ltd and Comfort Group Ltd merged to form ComfortDelGro Corp Ltd

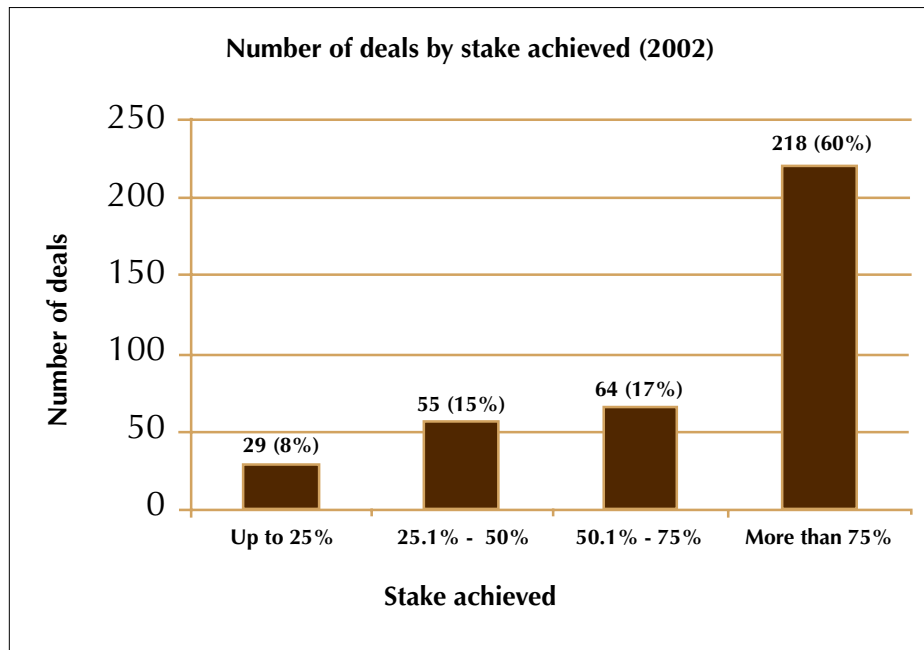
(#): In addition to percentage held before the transaction

The merged ComfortDelGro Corp Ltd forms Singapore's largest land transport company and the world's third largest listed land transport company, behind Stagecoach Group Plc and Arriva Plc.

Control – A Key Element

As can be seen from Figure 8, more than three-quarters (77%) of the deals were undertaken with the intention of achieving a controlling stake in the companies acquired. In fact, 60% of the deals had the intention of obtaining a 75% or greater stake in the target company.

Figure 8: Breakdown of number of deals by stake achieved in 2002
(in percentages)



2003 HIGHLIGHTS (FIRST HALF)

The following is an analysis of the deals announced between January and June 2003.

Figure 9: Summary of deals in the first half of 2003 and 2002

Deals Announced	Jan - Jun 2003	Jan - Jun 2002
	Total	Total
Number of Deals	180	179
Value (US\$ billion)	2.2	2.8

In light of the current lacklustre economic performance and uncertainties, we would expect both the number of deals and deal values for 2003 to either remain on par with or be lower than what was observed in 2002. Based on the above figures for deals announced in the first half of this year, it appears that up to the halfway mark, 2003 has turned out to be more or less on par with 2002 in terms of number of deals but about 20% lower than 2002 in terms of deal value.

Figure 10: Breakdown of cross-border and local deals

Deals Breakdown	Jan - Jun 2003				Jan - Jun 2002			
	Inbound Acquisitions	Outbound Acquisitions	Total Cross-Border Deals	Pure Domestic Deals	Inbound Acquisitions	Outbound Acquisitions	Total Cross-Border Deals	Pure Domestic Deals
Number of Deals	24	63	87	93	56	44	100	79
Value (US\$ billion)	0.2	0.7	0.9	1.3	1.5	0.4	1.9	0.9

In the first half of 2003, the financial/real estate sector made up only 17% of the number of deals but accounted for 41% of the total deal value (as seen in Figures 11a and 11b below).

Figure 11a: Breakdown of the number of deals by target industry (in percentages)

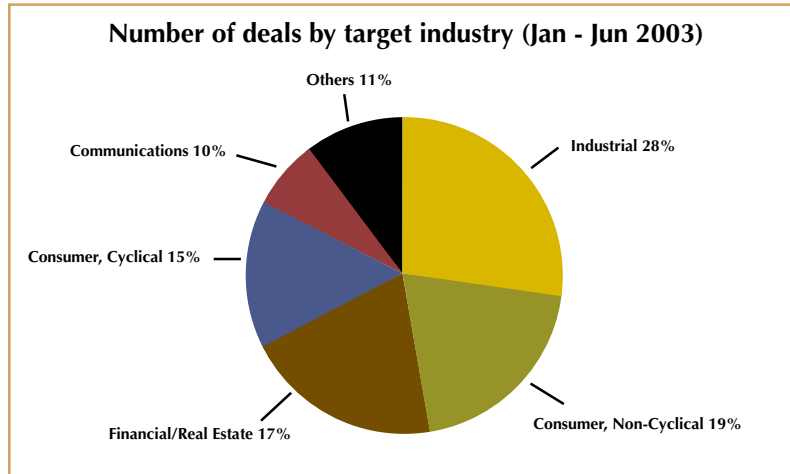
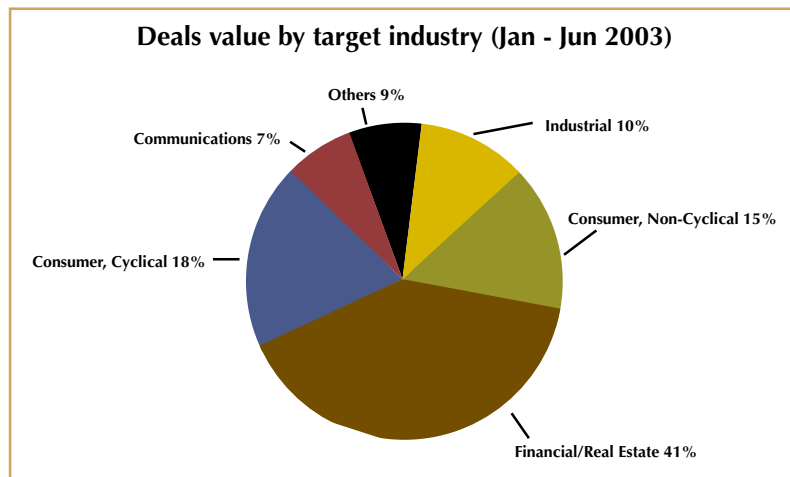


Figure 11b: Breakdown of deal value by target industry (in percentages)



The top five deals for the first half of 2003 are highlighted in Figure 12 below. The financial/real estate sector dominated the top spot with two of the top five deals. The other three deals arose from the utilities, consumer, non-cyclical and the consumer, cyclical sectors. Three of the deals relate to foreign targets based in the United Kingdom while the other two are domestic targets.

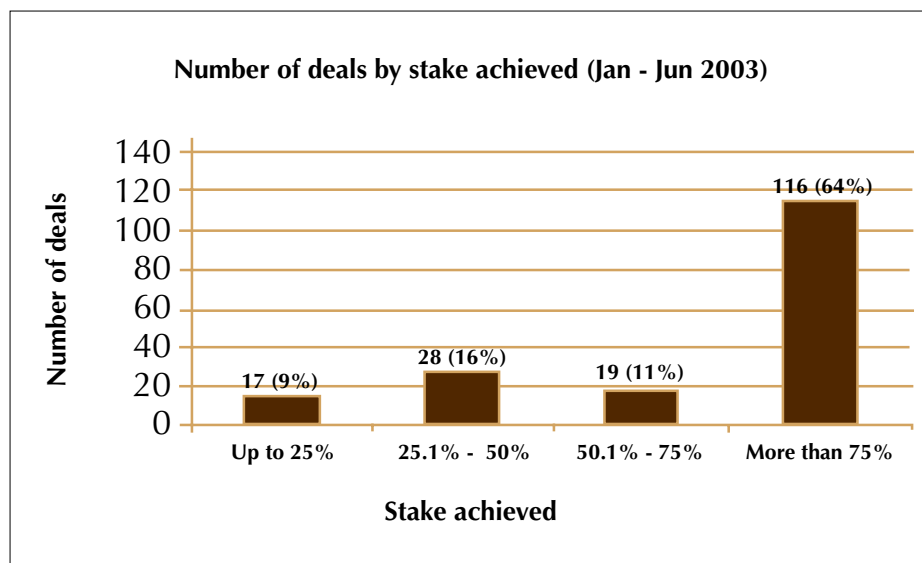
Figure 12: Top five deals in the first half of 2003

Name of Target Company	Name of Acquirer Company	Percentage Targeted (#)	Announced/ Completed Value (US\$ mil)
Clover Properties Pte Ltd	CapitalLand Ltd	100	495.6
Thistle Hotels Plc	BIL International Ltd	54	369.1
IMM Building	CapitalMall Trust	100	152.5
Assets & Business of ETOL	SembCorp Industries Ltd	100	137.0
Prima Ltd	Tai Ek Investment Holding Co Pte Ltd	100	135.2

Source: Bloomberg, PwC analysis
 (#): In addition to percentage held before the transaction

The final chart below (Figure 13) analyses total stakes achieved in M&A transactions during the first half of 2003. To-date, the trend to achieve a controlling stake in the companies acquired continued to be prevalent in 2003, with 75% of the total number of deals aiming for a shareholding level of more than 50%.

Figure 13: Breakdown of number of deals by stake achieved in the first half of 2003 (in percentages)



GOING FORWARD

M&A activity is expected to increase as companies refocus their strategies to meet new challenges posed by shifts in global economics and from pressures for further industry consolidation and restructuring. These pressures are exerted by the need to improve competitiveness, reach new markets and enhance shareholder value. These needs and the MAS regulations requiring local banks to divest or pare down their interests in non-core assets and in cross-shareholdings should fuel a healthy level of M&A activity.

Divestments of Temasek-linked corporations (TLCs) through the much talked about management buyouts (MBOs) have yet to bear fruit. The MBO route is still a credible alternative in situations where management's greater appreciation of the business and continuity should provide for better realisation.

The positive impact of the landmark US-Singapore Free Trade Agreement (FTA) should be felt over the next few years both in Singapore and in the region. The USA's first FTA with an Asian country covers a wide range of areas apart from trade. The agreement also touches on the easing of regulations in the financial and legal sectors, enhancement of intellectual property rights, liberalizing of e-commerce and the protection of workers' rights. Easing of restrictions will provide US firms with greater access to expand their presence in various industries - with a specific emphasis on services - in the Singapore market. This could propel M&A activity in the services sector in Singapore. Companies from the ASEAN region may begin to consider acquiring companies in Singapore to take advantage of the US-Singapore FTA.

The Severe Acute Respiratory Syndrome (Sars) may only have a short-term impact on most manufacturing-led businesses as companies postponed travel plans and customer visits. However, the severe economic fallout in other sectors (such as the tourism and transport related industries) due to Sars may result in consolidation in these industries and could spell upcoming M&A opportunities.

Overall, 2003 remains a year filled with uncertainties with regard to global economic, political and security outlook. However, signs of optimism are evident from the promising upward movements of key market indices and heightened business activities over the past few months. Whether these are leading indicators of economic recovery or merely short-term optimism will be revealed by the emerging economic data in the next two quarters.

In our experience, M&A is a compelling growth strategy for progressive companies seeking to reach new markets, consolidate their operations and achieve greater cost competitiveness. Large or small, M&A when properly deployed, can be an effective strategy for companies of all sizes to seriously consider. However, such strategies must be developed based on a well thought out, quantifiable business case and not based purely on responding to opportunities. Our experience suggests that clear and achievable targets should be set for the deal and the results should be monitored closely after the deal is completed.

In our next issue, we will review market developments in 2003 and hopefully have a clearer view of the economic scenario that we can expect for 2004.

NOTES :

1. Sources: Bloomberg, Factiva, Reuters, PwC analysis.
2. This M&A report uses data on deals reported on Bloomberg for the relevant periods with deal status as either pending or completed.
3. Transactions include all equity related deals (e.g. takeovers, tender offers, private equity buyouts, management buyouts, privatisations, joint ventures) and transactions relating to specific types of purchases (e.g. operations, business units, hotels, dealership businesses, services, management, commercial buildings and shopping malls) which have data reported on Bloomberg for the specified period.
4. Share buy-backs, and asset purchases (e.g. property/land, machinery/equipment, plant/factory and vessels) are excluded.
5. A deal is still counted in the number of deals even if no values are disclosed for it.
6. The value of transactions reported on Bloomberg includes the most current Net Debt figure listed for the target company. This value is sourced from annual and quarterly reports. Net Debt will only be included when 100% of the target is being acquired or when a majority is reached. Net Debt is not pro-rated.
7. Research conducted: April - June 2003.

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