



# Thailand

*Civil unrest and uncertainty dampened M&A activity in 2008; there is cautious optimism for 2009*



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## Current Environment

2008 was an uneasy year for the Thai economy. Despite a hopeful beginning, with an elected government replacing a military-installed interim administration in January, political divisions once again emerged to weaken an economy already battered by a worsening global recession.

The second half of 2008 saw continued street protests disrupting the ability to govern. In late August, protestors began a weeks-long siege at the Government House and, ultimately, the new Bangkok international airport, leaving hundreds of thousands of travellers stranded for days, and bringing the economy, heavily dependent on tourism, to a near standstill. Protestors retreated in early December, when the Constitutional Court ordered the governing party banned for election violations during the December 2007 elections. Estimates put the monetary impact of the airport seizure at approximately THB150 billion (US\$4.3 billion) – or 1.5% of GDP. Repercussions for the tourism industry as a whole are likely to be felt far into 2009, with hotel staff cutbacks being implemented to offset plunging occupancy rates and weakening room rentals during what is normally peak season.

Ebbing foreign demand saw Thailand's exports recording lower than expected growth of 5.2% year-on-year in October, the lowest in more than six years. While some estimates put overall export growth for 2008 at 19%,

attributed mainly to ASEAN and new markets, 2009 is likely to see exports fall as the global economy slows sharply.

The Stock Exchange of Thailand (SET) saw a steady decline in 2008, losing around 50% of its value during the course of the year. Although confidence was at a high at the beginning of the year, with the SET standing at just under 800 points, renewed political unrest, compounded by the global financial crisis, became a drag on the index, which plunged to below 400 points in November. Although the market recovered slightly following the formation of a new coalition government in mid-December, it is unlikely that any significant improvements will be seen until the second half of 2009. Meanwhile, the risk of further political protests is still present.

Foreign direct investment was sluggish in 2008. While Board of Investment (BOI) applications between January and November increased by 2.2% compared to 2007, in value terms they decreased by 38% to THB290 billion (US\$8.3 billion). Applications were concentrated in the industrial metals and transport equipment sectors, and mostly originated from Japan, Europe and ASEAN.

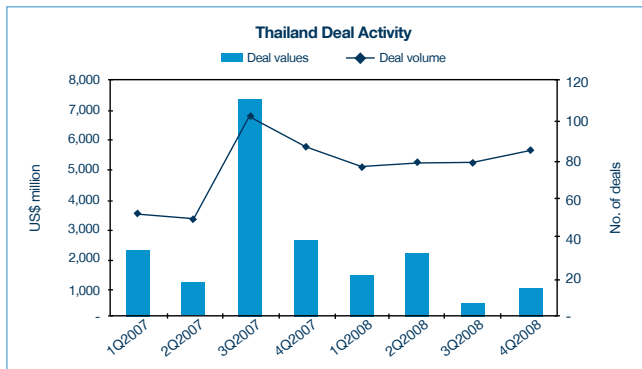
After appreciating strongly in 2007 and the first few months of 2008, the Thai baht began depreciating heavily against the US dollar later in 2008 – the result of a growing trade deficit and the outflow of foreign capital. However, the third week of December saw the Baht rise to the highest level since October, reflecting the optimism surrounding the new administration.

Core inflation surpassed the central bank's target rate in June, prompting the central bank to raise its policy interest rate in July and August by 25 basis points each time, to 3.75%. Headline inflation moderated to 2.2% p.a. in November, the lowest level in 14 months, in large part due to falling oil and raw material prices. Unemployment in 2008 remained steady at around 1.4%; however further layoffs are expected as the ramifications of the world recession and domestic political strife make themselves felt. Positively, however, net NPLs in the third quarter of 2008 stood at approximately 3.3%, considerably lower than 4.4% in the third quarter of 2007, although this may not be sustainable as the global economic recession bites.

\* The PwC South East Asia Peninsula Region (SEAPEN) comprises Malaysia, Thailand and the Indochina countries of Cambodia, Laos and Vietnam.



## Deal Activity



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

M&A activity in Thailand for 2008 declined in terms of deal value while the number of deals increased. The total number of deals was reported as 316 in 2008, up from 289 deals in 2007; the value of deals dropped to US\$4.8 billion as opposed to US\$13.2 billion in 2007. However, total deal value for 2007 was surprisingly high, and was achieved through a few large domestic transactions and strong activity in the financial services sector. For 2008, deals in the financial services sector continued to be strong with another solid contribution from the energy sector. Telecommunications companies appear to have stalled investment activities this year, stemming from unclear policies towards 3G licensing, looking instead to explore opportunities for partnerships or alliances, possibly resulting in future deals.

### Financial Services

- The Financial Institutions Development Fund (FIDF) entered into a Share Purchase Agreement with CIMB Group Sdn Bhd ("CIMB"), the 2nd largest Malaysian bank, to sell its 42.1% stake in Bank Thai ("BT"), the 9th largest Thai bank, for an estimated THB5.9 billion (US\$185 million). CIMB has also launched a tender offer for the remaining 57.8% stake of BT shares outstanding with the offer to expire on Jan 6. The transaction was subject to regulatory approvals.

- Bangkok Commercial Asset Management Co., Ltd ("BC") and Sukhumvit Asset Management Co., Ltd ("SA") acquired NPLs for an estimated THB3.9 billion (US\$122.4 million) from BT's Sathorn Asset Management Co., Ltd., an asset management service provider. The distressed asset sale was a condition of the CIMB investment in BT. BC and SA are 100% and 99.9% owned, respectively, by the FIDF.
- Siam Commercial Bank Plc sold a tranche of NPLs to Alpha Capital Asset Management and Morgan Stanley for an estimated THB8.0 billion (US\$253.7 million) as an attempt to reduce its NPL portfolio to under 5% this year.
- Amalgamation between Phatra Insurance Plc and Muang Thai Insurance Co. Ltd: The two non-life insurance companies partially held by Lamsam family have merged to compete in the insurance market. The merger has made the new company, Muang Thai Insurance Plc, the 7th largest company in the market, holding a 3% market share with paid-up capital of THB590 million. Its major shareholders include Muangthai Fortis Holding Co., Ltd. with a 25.2% stake, the Lamsam family with 15.4%, and Fortis Insurance International N.V. with 10.0% of the company's shares.

### Energy and Mining

- PTT Chemical PCL acquired a 50% interest in Cognis Oleochemicals (M) Sdn Bhd, a 50:50 joint venture between Cognis GmbH ("CG") and Golden Hope Plantations Bhd ("GH"), from CG, for 493.2 million Malaysian ringgits (US\$152.1 million). Originally, GH was a wholly-owned unit of Synergy Drive Sdn Bhd.
- BP Overseas Development Co Ltd ("BP"), a wholly-owned unit of Banpu PCL, acquired the remaining 78.4% interest which it did not already own, in Asian American Coal Inc ("ACCI"), a coal mining company, for a consideration of approximately US\$420 million in cash. BP previously owned 21.6% of ACCI, and has been a major shareholder in the company since 2003. The selling shareholders are reportedly mainly private equity funds and US investors.



- BC Ltd (“BC”), a wholly-owned unit of Asia Thai Mining Co Ltd, acquired all the outstanding common stock of Pan African Mining Corp (“PA,”) a mineral mining company, via a tender offer, for a total value of US\$132.4 million. The offer was conditioned upon at least 66.6% of PA’s shares being tendered. The transaction was effected via a scheme of arrangement, and was subject to regulatory and shareholder approvals, but has now been completed.

### Other Sectors

- Always Rich Holding Ltd. has acquired a 78.5% stake in Advance Agro Plc (“AA”), a paper mills owner and operator. The transaction size is estimated at over THB16.0 billion (US\$ 550 million). AA was subsequently de-listed from the SET.
- Cementhai Ceramics Co. Ltd. (“CC”), a majority-owned unit of Siam Cement PCL, has acquired 45.9% of Thai-German Ceramic Industry Plc. (“TG”). CC subsequently launched a tender offer to acquire the remaining interest in TG, a ceramic wall and tiles manufacturer and wholesaler.

## Outlook

There is a sense of hope that the recent appointment (16 December 2008) of a new coalition government will help to calm the political turmoil that has plagued the economy for the past three years. The new administration has recently announced a new cabinet line-up, and the economic team has broadly met with approval from the commercial sector.

Many express cautious optimism that the new prime minister will be able to implement the policies necessary to bring the economy back on track. However, the road ahead will not be easy. The economy is slowing, and new stimulus packages and measures will need to be implemented without delay in order to avoid a further slide into recession. In addition, the new prime minister will still need to win the support of the rural majority and demonstrate that he is a prime minister for all Thais, in order to detach himself from the controversial protestors – and thus maintain some semblance of political stability. Described by one political analyst as a “goldfish amongst sharks”, the prime minister will need to be prepared for further political wrangling.

By some estimates, growth in 2009 is forecast to average at around 3.1%, down from 4.5% in 2008. While a depressed market may open up M&A opportunities for cash-rich companies looking for strategic bargains, potential investors will still be wary of the fragile political situation.

In the context of M&A, the prime minister’s most urgent task will be to reassure foreign investors that Thailand is, once again, open for business. This means that the global business community will need to believe that the rule of law will be upheld, and that the prime minister will bear full responsibility for it. It is difficult to expect significant increases in activity or deal values until local politics settle. Until then, we continue to expect that deals in Thailand will be dominated by local activity, traditionally at low deal values. ■