

# South and Southeast Asia Malaysia

*M&A activity continues to rise with improving economic sentiment*



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## Current Environment

Despite challenging global economic conditions, Malaysia's economic performance is showing signs of recovery with the economy projected to turn around in the fourth quarter of 2009, with 1.5% growth after contracting 3.9% in the second quarter and 1.2% in the third quarter. This upturn is supported by the gradual recovery in the global economy, stronger rebound in emerging markets and strengthening domestic demand, spurred by expansion in private consumption and the government's stimulus package, which will benefit the services and construction sectors.

Overall, the economy is estimated to contract by 3.0% in 2009, with an expected growth of 2% to 3% for 2010, supported by stronger external and domestic demand.

Domestic inflation continued to ease due to the effects of a cumulative downward adjustment of retail fuel prices, slower food price increases as well as a moderate increase in demand. The Consumer Price Index is expected to increase by just 1.3% for the year.

This has allowed the central bank, Bank Negara Malaysia (BNM), to continue to maintain its Overnight Policy Rate unchanged at 2% and monetary policy easing to provide support for economic growth over the medium term.

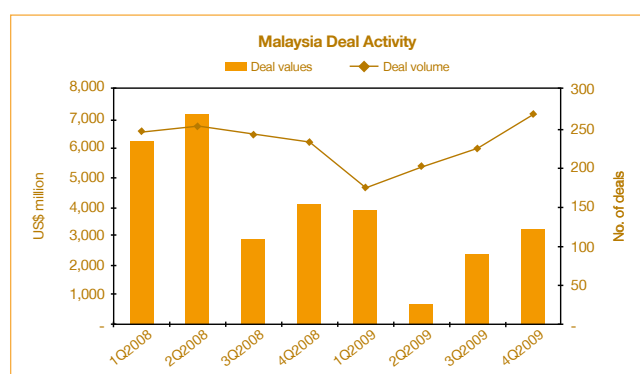
Investors in general were cautious to make new investments in 2009 with the uncertain economic and financial climate. In the first three quarters of 2009, approved foreign investments dropped to US\$3.6 billion, one-third of the amount invested during the same period in 2008 (US\$11.3 billion). Apart from risk averse investors, Malaysia also faces intense competition for foreign direct investment from other emerging economies such as China, India, Indonesia and Vietnam.

The local stock market, Bursa Malaysia, started weak in early 2009 due to the global impact of the financial crisis. The key KLCI Index closed at a low of 838 points in March 2009, before recovering and rallying to the pre-crisis levels; reaching a peak of 1,280 points in November 2009, mirroring the restoration of investor confidence across global markets.

In 2009, Malaysia had a total of 13 new IPOs and most of them were concluded in the fourth quarter of 2009. Among the new issues, was the relisting of Maxis Bhd in November 2009, raising over US\$3.3 billion in the IPO. It was the largest IPO in Southeast Asia in 2009.

In the first half of 2009, the Malaysian ringgit depreciated against major and regional currencies on account of its export contraction and capital outflow, slipping 8% against the US dollar to a low of RM3.73. However, towards year-end, the local currency recovered from its early losses as further signs of global and regional economic recovery contributed to favourable investor sentiment. The ringgit at 2009 year-end closed at RM3.44 against the US dollar, a similar rate to a year ago.

## Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

Malaysia's M&A market is showing signs of improvement, driven by the improving consumer sentiment and investor confidence, after slipping to a low of US\$633 million in deal value in the second quarter of 2009.

M&A transactions have slightly recovered in the second half of 2009 with deals worth US\$5.6 billion being announced, compared to US\$4.5 billion in the first half.



However, this is still significantly below pre-crisis levels in 2008. For the whole of 2009, total value of announced M&A deals halved with a 56% year-on-year decline to US\$10.1 billion.

Sectors that featured heavily in the second half of 2009 were the telecommunications, petrochemicals, power, financial services and property-related sectors. M&A in these sectors were spread across both domestic and outbound deals.

The bulk of the decrease in M&A in 2009 is attributed to the sharp decline in cross-border deals. Outbound M&A plunged 88% to US\$1.7 billion from US\$13.8 billion in 2008 as companies turned cautious and waited for the global economy to stabilise.

Despite the global economic downturn, domestic M&A activities increased by 41% year-on-year in 2009, and accounted for 74% of total M&A value.

Leading domestic deals in the second half of the year include:

- Petrolia Nasional Bhd's (Petronas) acquisition of Dow Chemical Co.'s joint venture stake in Optimal Group of companies, a Malaysia-based petrochemical products manufacturer, for US\$600 million.
- The Sarawak state government via Delegates Sdn Bhd offered to take Sarawak Energy Bhd, an electricity company, private in a deal worth US\$407 million to restructure its capital structure to fund future capital expenditure of around US\$4.4 billion over the next 10 years.
- TIME dotCom Bhd continues to pare down its stake in local mobile phone operator DiGi.Com Bhd for US\$176 million to fund its debt and working capital requirements, the company also disposed DiGi shares worth US\$135 million earlier this year.
- Hap Seng Consolidated Bhd purchased a 50% stake in Menara Citibank in Kuala Lumpur for about US\$90 million.
- Multi-Purpose Holdings Bhd took a put option on a 42% stake in local mobile operator, U Mobile Sdn Bhd, for US\$81 million.

Despite the drop in outbound deals during the year, there were a couple of major overseas acquisitions in the second half of 2009, including:

- Local tycoon, Tan Sri Syed Mokhtar Al-Bukhary and India-based Vavasi Group are buying a majority stake in Zain, Kuwait's biggest telecommunication company in a deal worth around US\$13.7 billion.
- RHB Capital Bhd is to buy 80% of PT Bank Mestika Dharma, a mid-sized Indonesian lender, for US\$349 million following the footsteps of CIMB and Maybank's entry into Southeast Asia's most sought after banking market.
- TA Enterprise Bhd plans to acquire a 31% stake in Singapore-based Quayside Gem Ltd, which owns a four-star hotel, Swissotel Merchant Court, for US\$185 million.
- Khazanah Nasional Bhd purchased a 25% stake in the Dubai-based Islamic investment firm for US\$150 million, with the aim of developing cross-linkages between Malaysia and key Muslim markets in the Gulf region.
- Carlsberg Brewery Malaysia Bhd acquired the entire stake in Carlsberg Singapore Pte Ltd for US\$108 million.

Apart from acquisitions, there were a couple of large restructuring deals involving major companies like Genting, YTL, Berjaya and Media Prima in an effort to streamline their operations. They include:

- Berjaya Corporation Bhd's subsidiaries, Cosway Corporation Bhd and Biofield Sdn Bhd, to sell their combined stake in Cosway (M) Sdn Bhd, a direct-marketing company, to Berjaya Holdings (HK) Ltd, a company listed in Hong Kong for US\$262 million.
- Starhill Global Real Estate Investment Trust (REIT) Singapore which is controlled by YTL Corp Bhd is to acquire a shopping centre in Kuala Lumpur from Malaysia-based, Starhill REIT for US\$187 million.
- Media Prima Bhd's privatisation of listed unit, The New Straits Times Press (M) Bhd, worth more than US\$70 million.
- Genting Bhd to sell the 25-storey Wisma Genting and two parcels of land in Kuala Lumpur to its 48.7% owned unit, Genting Malaysia Bhd, for US\$67 million.



## Outlook

Malaysia's M&A market is expected to be more active in 2010 supported by improving fundamentals such as a recovering economy and financial markets, bringing much needed confidence to the investment community.

In addition, the government has taken several measures that may stimulate the M&A market in 2010, including:

- Embarking on a second wave of privatisation. The government has identified 17 companies owned by the Finance Ministry Inc. to be listed on Bursa Malaysia or privatised with the aim of increasing liquidity and velocity in the local stock market;
- Encouraging mergers between domestic companies to stir foreign investor interest in Malaysia's capital market, by providing a larger capital base for them to invest in;
- Liberalising of the financial sector to foreign players through issuance of new banking and insurance licences and increasing foreign investment limits, which will move local players to expand abroad or consolidate in the face of stiffer domestic competition.

Among possible banking transactions on the horizon is the merger of Hong Leong Bank and EON Bank. If the deal is completed, it will create Malaysia's fourth-largest domestic bank with a combined market value of around US\$5 billion.

Apart from financial services, other potential sectors for M&A include plantation and property, which are expected to benefit from the economic upturn.

The outbound M&A segment may start to gain momentum in the short to medium-term arising from greater economic integration among the Association of South East Asian Nations (Asean) in preparation for setting-up of an Asean free-trade zone (Asean Economic Community) by 2015. This could encourage companies to expand to attractive markets such as Indonesia, Thailand and Vietnam, which is what leading local banks are currently doing.

Overall, Malaysia's M&A market in 2010 is expected to be challenging as there are still uncertainties over the strength of the global economic recovery. Nonetheless, there are signs that the pick-up in M&A deals in the second half of 2009 will carry into 2010 with companies reporting better results, better business conditions and better consumer sentiment as well as having ample liquidity in the credit market. ■