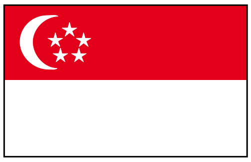

South and Southeast Asia
Singapore

A dramatic rebound in the Singapore M&A market in the second half of 2009 was driven by the recovery in the broader economy. M&A activity is likely to rise in 2010 should markets stay robust

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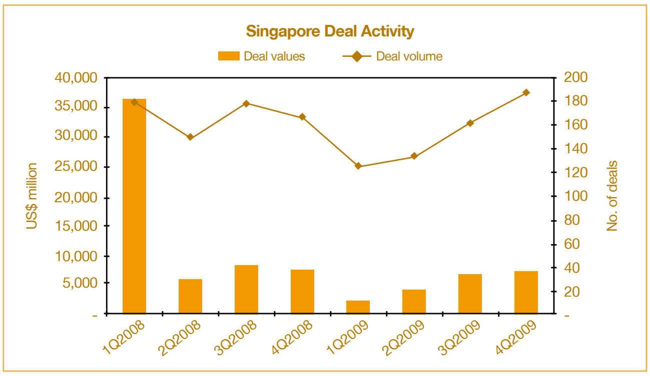
Deal Activity



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

Current Environment

Experiencing its worst recession since independence in 1965, the Singapore economy contracted by 2% in 2009, down from an expansion of 1.1% in 2008. After a difficult first quarter, Singapore recovered strongly with two consecutive quarters of double-digit growth on a seasonally adjusted quarter-on-quarter annualised ("QoQ") basis. Several sectors of the economy registered growth, resulting from the restocking of inventory and stabilisation of the global financial landscape. However, the pace of recovery diminished in the fourth quarter of 2009 as Singapore's GDP contracted 2.8% QoQ. The manufacturing sector's 29% QoQ contraction in the fourth quarter, a reversal of the double-digit expansion in the earlier quarters, was driven by reversion of output in the biomedical manufacturing and transport engineering clusters. For the services sector, growth eased to 6.6% QoQ in the fourth quarter, compared to 8.2% in the previous quarter. The construction sector continued to grow strongly in the fourth quarter, expanding by 16.4% QoQ on the back of 3.8% QoQ growth in the third quarter.

Consumer prices picked up again from July 2009 following two consecutive quarters of decline, driven in part by the recovery in global oil prices. In the meantime, domestic cost pressures such as rentals and wages declined in response to the economic downturn. Overall for 2009, consumer price inflation was 0.5%.

Against this mixed economic backdrop, the M&A market in Singapore slumped in the first half of 2009 due to the impact of the global financial crisis, but deal activity gradually picked up in the second half of the year. The total value of inbound, outbound and domestic deals for the second half of 2009 was US$14.1 billion, representing a 117% increase from the first half of 2009. The number of deals announced rose sharply from 258 in the first half of 2009 to 350 in the second half. The recovery started with a pick-up in M&A activities in the third quarter of 2009 which witnessed a 61% increase in deal value from the second quarter, from US$4.2 billion to US$6.7 billion. The number of deals announced also increased by 22% from 133 in the second quarter to 162 in the third quarter, and by another 16% in the fourth quarter to 188.

The total value of announced M&A deals in 2009 dropped by 65% to US$20.7 billion from US$58.6 billion in 2008, with performance being dragged down by the significantly lower deal value, especially in the first half of the year. The number of deals announced decreased by 10% from 673 in 2008 to 608 in 2009.

Inbound

The total inbound deal value of US$5.1 billion in the second half of 2009 represented an increase of 25% over the first half. A total of 76 deals were recorded in the second half of 2009 and the major ones included:

- UAE state-owned Advanced Technology Investment Co LLC's acquisition of the entire share capital of Chartered Semiconductor Manufacturing Ltd from Temasek Holdings Pte Ltd and other undisclosed sellers, for S$5.6 billion (US$3.9 billion), including the assumption of an estimated S$3.1 billion (US$2.2 billion) in liabilities.
- US-based First Reserve Corp's acquisition of a 99% interest in KrisEnergy Holdings Ltd, a Singapore-based oil and gas exploration and production company, for S$711.6 million (US$500 million), in a leveraged buyout transaction.
- China International Marine Containers Group Co Ltd's ("CIMC") acquisition, through its wholly-owned subsidiary Bright Day Ltd, of a further 36.91% stake in Yantai Raffles Shipyard Ltd, an owner and operator of shipyards, for S$197.2 million (US$142.5 million) to bring its equity interest to 55.21%. Concurrently, CIMC Group planned to launch a tender offer for the remaining 44.79% stake for S$239 million (US$172.8 million).
- KS Energy Services, the maker of drilling equipment for explorers, teamed up with Actis Capital LLP in a S$320 million (US$230 million) cash and stock purchase of five related companies, with KS Energy consolidating its units Global Tech, KS Projects Division, KS Flow Control and Aqua-Terra Supply Co and a related venture SSH Corp into a new joint venture, KS Distribution. Actis would pay $142 million (US$102 million) in cash for a 44.38% stake in KS Distribution.

Outbound

The value of outbound deals was US$5.5 billion in the second half of 2009, a 10-fold increase over a very quiet first half. The larger outbound deals out of a total of 142 in the second half of 2009 were:

- Government of Singapore Investment Corporation's acquisition of units of Fondo Omicron Plus Immobiliare, an Italy-based real estate fund, from Fondi Immobiliari Italiani SGR SpA, for US$351.2 million.
- An investor group's (comprising Ningbo Electric Power Development Co Ltd, Oversea-Chinese Banking Corp Ltd, Youngor Group Co Ltd, Fubang Holdings Ltd, and Anhui Huamao Group Co Ltd) acquisition of a 15.25% stake in Bank of Ningbo Co Ltd, for US$766.7 million, in a privately negotiated transaction.
- Singapore Telecommunications Ltd's acquisition, through its wholly-owned subsidiary Pastel Limited, of an additional 3.35% stake in Bharti Telecom Ltd, a New Delhi-based provider of telecommunication services, for an estimated US$641.5 million in cash to bring its equity interest to 36.16%.
- Glencore International AG's acquisition, through its wholly-owned subsidiary Singfuel Investment Pte Ltd, of a 50.81% interest in Chemoil Energy Ltd, a wholesaler of marine fuel, from Chandran Family Trust, for US$233.3 million. The Glencore unit will make a mandatory unconditional cash offer for all the remaining shares at US$0.3552, valuing Chemoil at US$459 million.

Domestic

The domestic M&A scene generated a total deal value of US$3.6 billion, which is 80% higher than the first half. Out of a total of 132 deals in the second half of 2009, the largest deal contributed more than 40% of the total deal value:

- Oversea-Chinese Banking Corp Ltd's acquisition of ING Asia Private Bank Ltd from ING for S$2 billion (US$1.5 billion) in cash. Launched as Bank of Singapore, the entity is positioned as the leading Asian private bank with more than 7,000 customers and total private client assets of approximately US$23 billion.

Private Equity

The total value of private equity ("PE") deals in 2009 was adversely affected by the global financial crisis and credit freeze. Twelve PE deals were recorded for Singapore in 2009 amounting to US$927.2 million, compared to a total of 10 deals worth US$1.9 billion last year. Significant deals in 2009 included First Reserve Corp's US$500 million acquisition of KrisEnergy Holdings Ltd, AIF Capital III Shipping & Logistics' US$45.4 million acquisition of preference shares convertible into an 11.4% stake in Tat Hong Holdings Ltd, and Templeton Strategic Emerging Markets Fund III's US$13.5 million acquisition of a 19.2% stake in HALCYON Energy Corp.

Outlook

Major economies around the world are emerging from the downturn following the stabilisation of financial markets. The risk of a double-dip recession has abated. The recovery in the first half of 2010 is expected to be stronger than the second half due to restocking of inventory. Poised for a strong rebound, Asia is expected to lead the global recovery in 2010. However, the weak private final demand in the G3 economies cannot be replaced by domestic consumption of emerging economies. The gap, while partly mitigated by government spending, will remain. Other potential risks include sovereign debt (e.g. Greece) and asset price inflation in Asia. Taking these factors into account, Singapore expects its economic growth in 2010 to be between 4.5% and 6.5%.

Consumer price inflation in 2010 will continue to be driven by external factors, especially higher oil and food commodity prices in world markets. On the other hand, domestic sources of inflationary pressures will be restrained, reflecting muted factor costs caused by the recessionary slack in the labour market and upcoming supply of commercial space. However, these costs are expected to pick up in the latter half of 2010 as the economic recovery gains momentum. Underlying consumer price inflation is expected to rise to 1% to 2% in 2010, excluding the cost of accommodation and private road transport.

Singapore's M&A outlook for 2010 will be closely linked to regional and global economic and credit conditions. Capital idling on the sidelines during 2009 has started to return to the market. M&A activity is likely to rise in 2010, with an increasing number of buyout transactions. This is likely to be encouraged by various upcoming government initiatives to support business restructuring through M&A, including a tax allowance to defray M&A transaction costs and the waiver of stamp duty on the transfer of unlisted shares, as announced in the 2010 Singapore Budget in February.

The Budget also endorsed the key recommendations of the Economic Strategies Committee (ESC). The ESC was set up in May 2009 with high-level representatives from both the public and private sectors and was tasked to study the long-term economic transformation of Singapore. In particular, the recommendations of the ESC to grow a larger pool of globally-competitive local companies capable of expanding into international markets will create the impetus for companies to grow via M&A. This development will have a significant effect in catalysing the M&A and IPO markets in the medium to long term. ■