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Energy M&A outlook in Asia Pacific on the rise in 2013 despite subdued global market – PwC



Merger and acquisition activity in Asia Pacific's power and utilities sector is expected to increase in 2013, building on a 45% rise in the second half of last year as companies shift attention from Europe and the U.S. in a search for faster growth rates, according to a report by PwC, the global audit, tax, and advisory firm.

Transactions totalling USD17 billion were announced for Asia-Pacific power and renewables targets in the last six months of 2012, up 45% from USD11.7 billion total in the comparable period a year earlier. In contrast, power and utilities M&A deal activity in the rest of the world saw a sharp decline after staging a recovery in 2010 and 2011 from its post credit crunch low in 2009.

"Power and utilities deal flow in the Asia Pacific region is bucking the global trend with deal numbers and values in the past six months continuing to rise from their 2011

lows," said Somchai Jinnovart, Energy, Utilities and Mining Leader and Assurance Partner at PwC Thailand, citing the report.

"While the H2/12 value of dealmaking for Asia Pacific targets was up almost half, deal value in the rest of the globe was actually down 42% year-on-year over the same period. In fact, the global decline would have been even more significant if it wasn't for Asia Pacific buyers active in other parts of the world."

According to PwC's Asia Pacific Power & Renewables Deals 2013: M&A outlook and 2012 review, buyers from the Asia Pacific region were behind 37% or USD8.8 billion of the total USD23.8 billion of cross-border deals announced globally.

For the full year of 2012, Asia Pacific deals continued to make gains with a total target value of USD41.7 billion, a 117% increase from USD19.2 billion a year earlier.

The increase of USD15.6 billion came from the nationalisation of Japan's Tokyo Electric Power Co Inc. (TEPCO) and its divestment of its stake in Loy Yang A Power Station in Australia. Both deals were a direct response to the impact of the Fukushima earthquake, the report says.

On a global scale, last year's total deal value in the sector dropped 27% to USD154.1 billion compared with 2011 while the number of deals contracted by 15% to 1,014.

"As we enter 2013, the amount of power and renewable target and bidder value coming from the Asia Pacific region has trebled as a share of annual global sector M&A compared with the same period a year ago. So as you can see, the region truly is standing out as an M&A powerhouse in an otherwise subdued global market," Somchai said.

According to the report, Australia, Europe and South America were the most attractive targets for global power companies seeking growth.

Southeast Asia ambitions

Looking at sector merger deals in Southeast Asia, PwC's Somchai said that 2012 was also a year to be remembered, as the region managed to steal some limelight from top contenders like China and Japan, playing host to some of Asia's biggest mergers and acquisitions.

Energy, mining and utilities will be among the most active deal sectors in the coming year as already seen in 2012, Somchai added.

In Thailand, for instance, state-owned PTT Exploration & Production Pcl, made waves last year when it beat out Royal Dutch Shell Pcl to acquire London-listed, Mozambique-focused natural-gas explorer Cove Energy Pcl for USD1.9 billion.

"Southeast Asian companies, including Thailand, are speeding up their global ambitions buoyed by strong growth and robust balance sheets. We expect the trend to persist as more and more companies in this region will continue to compete for assets against multinationals or each other," he said, referring to ten economies in the Association of Southeast Asian Nations including Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Singapore, Brunei, Cambodia and Vietnam.

The European debt crisis has made many assets cheaper, prompting a change from the conventional strategy of expanding by grabbing more market share at home. As the region's economies mature, some industry-leading companies are running out of growth prospects both in their home countries and in the region, and some need to go farther afield, Somchai explained.

According to the report, although corporate buyer activity is likely to remain subdued in some markets like Japan and Australia, deals in the entire Asia Pacific region will still be driven by a number of factors including an expected IPO revival plan of Energy Australia, a wholly owned subsidiary of Hong Kong's China Light and Power (CLP), the planned privatisations of New South Wales generation assets, and Chinese state-owned power companies and Japanese trading houses alike maintain strong mandates for their 'go-abroad' strategies, among others.

Mr Somchai added that Southeast Asian companies, to a certain extent, also are playing catch-up on acquisitions after years of watching more-active nations, including China, Japan and India, go abroad.

"We are entering a different M&A world that is less US or euro-centric. Increasingly, Asia Pacific companies are going abroad to other growth markets or at each other. Some have reached a level of maturity where they're ready to export their capabilities and see this as the time to consolidate their position in other markets," Somchai said.

"While we expect Chinese and Japanese buyers to continue making acquisitions outside the Asia-Pacific region, we see signs that power companies from South Korea, Malaysia and Thailand are also boosting their own 'go abroad' ambitions," Somchai said. "This shift to look overseas is driven in part by the forthcoming launch of the Asean Economic Community," he concluded.