

# Malaysia

*A combination of privatisations and industry consolidation will lead to another stellar year for Malaysian M&A*

## Current Environment

The Malaysian economy ended 2006 on a strong footing with GDP expanding 5.9 percent, surpassing 2005 growth of 5.2 percent, underpinned by sustainable development in services and private expenditure as well as stronger performance in manufacturing, public spending and external trade.

In 2007, the economy started on a slower pace. First-quarter GDP grew 5.3 percent against 5.7 percent in the fourth quarter of 2006, due to weaker export and manufacturing numbers reflecting the global downturn in the electronics market.

The weak manufacturing growth, however, was offset by a robust services sector, which expanded at a faster pace of 9.6 percent, due largely to strong growth in the tourism sector, buoyed by the Visit Malaysia Year 2007 campaign and the festive celebrations in the first quarter.

The economy is expected to record stronger growth in the second half, with a forecast overall expansion of 6.0 percent in 2007. The services sector is expected to continue to cushion any weaknesses in the manufacturing sector.

Domestic demand is anticipated to remain healthy, supported by strong consumer sentiment and sustained business confidence. This is further reinforced by the implementation of Government development plans, such as the five-year Ninth Malaysia Plan and the Iskandar Development Region: a special economic zone, similar to Shenzhen, located in the southernmost tip of Peninsular Malaysia and adjacent to Singapore.

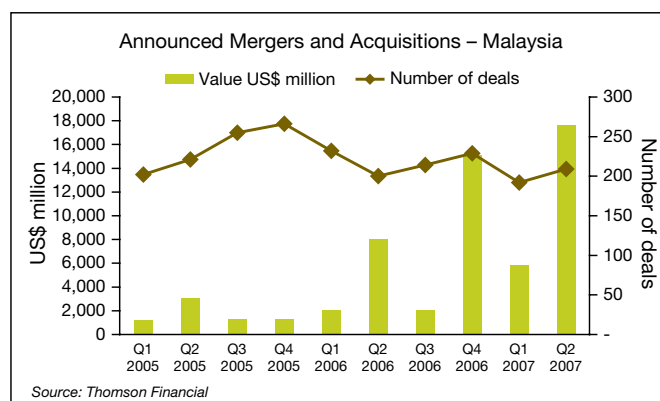
The Ringgit showed a steady strengthening against the US dollar over the first half of the year. However, this strengthening was not seen to be impacting exports overall. The Ringgit is expected to strengthen further in the second half of 2007, with sustained funds inflow underpinned by bullish performance of the local stock market, strong economic fundamentals, and continued trade surplus.

On the local bourse, Bursa Malaysia continued its bullish streak from 2006, surpassing other regional stock exchanges, except China. The leading Kuala Lumpur Composite stock index has surged 25 percent since the beginning of the year to an all time high of 1,392 points on 22 June, amidst strong economic performance, investor sentiment, foreign funds inflow and improved corporate earnings. The outlook for the local stock market remains positive on the back of strong global liquidity and supportive growth outlook in the US, Europe and China.

Despite increasing global competition for investments from China and India, Malaysia continues to attract foreign direct investments (FDI) inflows. FDI in approved manufacturing projects last year reached a record US\$5.5 billion against US\$4.7 billion in 2005, while the total investments approved for the sector (inclusive of local investments) reached a record US\$12.5 billion.

The FDI outlook for 2007 is similarly optimistic, with total direct investment (foreign and domestic) estimated to increase by 7.7 percent. In the first four months of the year alone, US\$3.6 billion worth of direct investments were approved, which included US\$2.3 billion in FDIs.

## Deal Activity



The first half of 2007 continued to be an active period for Malaysian M&As, with over US\$23 billion in deals. That figure is nearly equal to the US\$27.4 billion deal value recorded for the whole of 2006. This was in spite of an estimated 10 percent decline in underlying deal volume from the prior year.

M&A activity during the period was dominated by the telecommunication and financial services sectors. Other significant areas include industrial products, property, consumer products and media.

Malaysia, like the rest of the world, has been swept by the privatisation trend. In the first half of the year alone, around US\$13.4 billion of market value has been wiped out from the Malaysian stock market with at least 17 firms taken private. Unlike the US, privatisation in Malaysia has been driven mainly by owners and major shareholders instead of private equity firms. The present low interest rate and high liquidity in the credit market has encouraged owners to take their undervalued stocks private despite the fact that prices are now more expensive than two years ago. Other key factors driving this phenomenon include corporate long-term strategic considerations and an increase in confidence in the present economic outlook.

Some of the major privatisation deals announced since the first half of 2007 include:

- Maxis Communications Bhd, Malaysia's leading mobile operator, by Binariang GSM Sdn Bhd for US\$4.8 billion
- AmInvestment Group Bhd, the country's second largest investment bank, by AMMB Holdings Bhd for US\$698 million



- Property and plantation companies, Island & Peninsular Bhd and Petaling Garden Bhd by state fund manager Permodalan Nasional Bhd for US\$339 million

In addition, there were acquisition-led privatisation deals like:

- Employee Provision Fund acquiring and taking private Malaysia's fourth largest banking group, Rashid Hussain Bhd and its subsidiaries, for US\$4.5 billion
- Germany's industrial gas producer Linde AG acquiring and taking private Malaysian Oxygen Bhd for US\$424 million

Besides the Linde AG acquisition of Malaysian Oxygen, there were a notable number of cross-border deals, mainly involving foreign acquisitions of Malaysia assets, covering sectors such as telecommunication, financial services, industrial products, property and media and publishing.

Some of the prominent cross border deals include:

- Saudi Telecom Co taking a 25 percent stake in Binariang, the parent company of Maxis, worth US\$3 billion
- Bank of Tokyo-Mitsubishi acquiring a stake in Malaysia's second largest banking group, Bumiputra-Commerce Holdings Bhd, for US\$382 million
- Singapore's State investment arm Temasek Holdings selling its stake in Telekom Malaysia Bhd for as much as US\$360 million
- Sale of three upmarket shopping malls in Penang for over US\$290 million to a US insurance group
- Local timber-cum-Chinese press tycoon Tan Sri Tiong Hiew King merging its Hong Kong and Malaysia media arm, with Ming Pao Enterprise Corp Ltd of Hong Kong acquiring Sin Chew Media Corp Bhd and Nanyang Press Holdings Bhd of Malaysia for US\$269 million

## Outlook

There are still a number of companies that have ideal underlying ingredients for going private, such as good quality assets, strong free cash flow and robust earnings potential relative to their market value. Thus the recent privatisation trend is expected to continue as more players become aware of its potential value creation in addition to taking advantage of the current low funding cost environment.

Going forward, among the sectors to attract M&A transactions are financial services and property. Deals in financial services are expected to be driven by cross border and industry consolidation factors. Malayan Banking Bhd, Malaysia largest bank, for example, is on the hunt for banks

within the region while two local banking groups, RHB Capital Bhd and EON Capital Bhd are seeking foreign strategic partners, with plans to sell 10 to 35 percent stakes. There is also the possibility of further consolidation within the local banking industry.

Meanwhile in property, the attractiveness of undervalued Malaysian property investment relative to regional markets is anticipated to come from overseas investors' interest with some focus on the Iskandar Development Region.

Several large groups like Synergy Drive, born from the merger of three plantation groups, Sime Darby, Golden Hope and Kumpulan Guthrie, together with Lion Group (a diversified industrial and retail group) and Genting Group (involved in gaming and leisure among others), are rationalising their portfolio strategy, which could draw further divestment and acquisition deals. There is also the restructuring of government-linked companies like Proton Holdings Bhd, Malaysia Airport Holdings Bhd and Silterra Malaysia Bhd that will feature strongly in the M&A scene.

Other areas that are expected to be active in M&A include the industrial, telecommunication and plantation sectors. M&A transactions in these sectors are driven by industry consolidation, market expansion, corporate restructuring and privatisation initiatives.

This combination of privatisations and industry consolidation will lead to another stellar year for Malaysian M&A.

