



Singapore

A mix of players and forces make for more broadly based and sustainable M&A activity

Current Environment

The Singaporean economy continued to expand at a healthy pace on the back of investment growth and a modest acceleration in exports of goods and services. Growth was led by the construction, manufacturing and services sectors.

With the commencement of the construction of the two integrated resorts, the business financial centre at Marina Bay and upgrading works on Orchard Road, the construction sector reported the highest growth in nine years in the first half of 2007. Tight office space supply, higher rental and selling prices at recent property launches and recent en-bloc sale frenzies have similarly led the property sector to its highest growth in nine years.

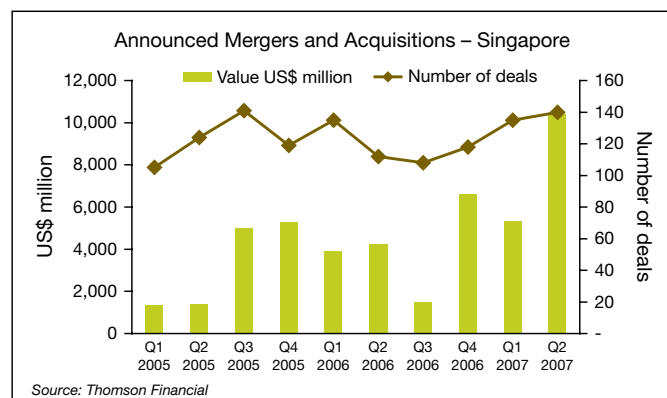
The healthy performance of the manufacturing sector was due to a strong growth in the biomedical sector and transport engineering cluster on account of increased pharmaceutical output and brisk shipyard and rig building activity, respectively.

The services sector's continued strong growth was led by financial services, particularly the capital and money markets. Both banks and fund management activities performed well, buoyed by sustained resilience in the Asian Dollar Market and steady increase in domestic lending activity.

Growth within Singapore's corporate banking sector has been in top gear, buoyed by roaring equity markets as the Republic becomes more entrenched as a key global financial centre. The sector has also been boosted over the past six months by a bumper crop of convertible offerings and private equity buyouts. There were 31 share issues during the first half of 2007 – ten initial public offerings by Singaporean companies, seven convertible bond offerings and 14 other share issues such as placement of new shares.

Currency policy saw little change in the first half of 2007, with the Monetary Authority of Singapore targeting a modest and gradual appreciation to the nominal effective exchange rate. This has seen the Singapore Dollar strengthen against the US Dollar to S\$1.532 at 30 June 2007 from S\$1.628 at the beginning of 2006. The Singapore Dollar has held steady against the Euro and the Sterling.

Deal Activity



The total announced deal value nearly doubled in the first half of 2007 to US\$15.7 billion compared with the same period in the prior year. This was in spite of a flat level in the total number of deals at 275.

Strong cash flow and liquidity, resulting from improving Asian economies, the growth of private equity players in the regional market place and investments by government-linked enterprises, are fuelling much of the deal momentum. There has been a trend of more deals happening in the public to private space, led primarily by private equity players.

It is not surprising then that private equity continued to soar, hitting a record US\$2.9 billion in the first six months of 2007 – a five-fold increase from US\$577 million in the whole of 2006 and representing 18.5 percent of total M&A deal value in the first half of 2007.

A few more private equity players have set-up their base in the country during the first half of 2007, such as CVC and Qatar-based Gulf Asia Pacific Equity Fund, indicating a growing interest in the country and the region. The private equity players' focus have been and continue to be towards a wide range of industries with solid and stable cash flows and solid growth fundamentals such as oil and gas, utilities, telecoms, technology, media, health care, consumers and retail, and business and financial services.

Significant public to private deals involving Singapore firms announced in the first half of 2007, some of which are still under the general offer time frame include:

- United Test & Assembly Centre Ltd's acquisition by a consortium of Affinity Equity Partners and TPG Capital in a deal valued at US\$1.7 billion
- MMI Holdings Ltd's acquisition by private equity firm KKR for US\$663 million
- Amtek Engineering Ltd's acquisition by a consortium of Standard Chartered Private Equity and CVC Capital Partners in a deal valued at US\$362 million

The bigger transactions were all public to private deals and this had been driven by a couple of trends:

- The technology and related manufacturing sector in Singapore, as well as across Asia, is seen as undervalued by the private equity firms. Hence it is attractive, given the potential for turn-around or consolidation
- The number of first generation entrepreneurs nearing their retirement age and not finding their successors ready to take on the baton of running the businesses. These entrepreneurs are looking to cash out of profitable businesses which are possibly undervalued by the market or have not explored their full potential

Singapore, with US\$2.9 billion private-equity deals in the first half of 2007, was the second most targeted country in Asia by private equity firms, after Australia. China was third on the list with private equity deals of nearly US\$2.3 billion. The attraction of Singapore lies in the liberal economy, transparency, openness to buyouts, good corporate



governance and attractive size in terms of market capitalisation. The growth in private equity led buy-outs is underpinned by the strong appetite of banks and other lenders to provide acquisition debt to leveraged special purpose vehicles in Singapore.

Singapore government-linked M&A activities

The Government of Singapore Investment Corporation (GIC), Temasek and other government-linked companies continued to be active in M&A during the first half of 2007. The top five Singapore government-linked deals in the first half of 2007 were:

- Temasek's 47.29 percent acquisition of STATS ChipPAC Ltd. for US\$1.1 billion
- GIC's 100 percent acquisition of Hawks Town Corp. of Japan for US\$862 million
- Qtel's acquisition of a 25 percent share of Asia Mobile Holdings Ltd. valued at US\$635 million
- GIC Real Estate Pte Ltd's acquisition of a 50 percent share of Westfield Parramatta in Australia for US\$596 million
- Temasek Holdings Pte Ltd's acquisition of a 12 percent share of ABC Learning Centres Ltd in Australia valued at US\$329 million

Temasek, GIC and other government-linked companies are continuing to seek acquisitions overseas in order to realign their investment portfolio. It is also expected that the second half of 2007 will see Temasek finally disposing of at least one of its three power generation companies by year-end. We believe that the Middle-East will continue to see heightened interest from the government linked companies.

Other M&A activities

In the first half of 2007, corporate and other investment agencies have also been active in the M&A market. The top five deals in the first half of 2007 by corporates / agencies were:

- Flextronics International Ltd's acquisition of Selectron Corp for US\$3.6 billion
- Rowsley Ltd's acquisition of Perfect Field Investment Inc. for US\$1.8 billion
- Dubai Drydocks World LLC acquisition of Pan-United Marine Ltd. for US\$877 million
- Vantage Corp Ltd acquisition of Healthway Medical Services Pte Ltd. for US\$767 million
- Eng Wah Organisation acquisition of Transcu Pte Ltd. for US\$428 million

Outlook

The emergence of Singapore as a strong global financial centre and the continued growth of private equity players will further intensify Singapore's M&A market. Singapore's M&A market in particular has a relatively high level of maturity in terms of acquisition financing alternatives which should bolster the trend of private equity-led buyouts of Singapore Stock Exchange listed companies. Asset securitisation transactions are expected to increase via the use of the new business trust structure for monetising assets with stable cash flows.

The short-term future economic outlook is generally positive but some downside risks remain, including a sharp slowdown in the US economy, vulnerability of oil prices to supply stocks and world-events.

The outlook for deals in the financial services sector remains strong as global players seek to catch up with market leaders and regional players begin to emerge. Deal activity will broaden as sectors, such as insurance and trust companies, begin to open up. China and India are likely to remain as the top two investment destinations in the sector due to underlying economic growth conditions. However, Taiwan, Pakistan and Vietnam are also fast emerging as growing markets for investments, particularly in the financial services sector. Singapore continues to gain ground in the outsourcing space for the financial services sector.

Singapore is the regional headquarters for a number of multinational oil and gas companies and the third largest oil-trading hub after New York and London. The energy industry is experiencing a boom due to strong demand, higher oil prices and constrained supplies of conventional resources. These factors, coupled with a surge in the exploration of unconventional sources and increasingly complex geopolitics, are driving the M&A activity across all the streams in the sector. We expect to see a flow-on effect of the buoyant sector, resulting in positive cash-flows for its players and providing investment and consolidation opportunities.

There is growing interest between Singapore and the Middle-East, as both economies are expanding and have high liquidity. The Singapore government and Gulf Emirates of Abu Dhabi have recently signed a memorandum of understanding aimed at bringing the relationship to a strategic level that would involve both private and public sectors. There is expected to be increasing investment flows, both from Singapore to the Middle-East, and from the Middle-East into South East Asia, including Singapore. The interest in investing in South East Asia by the Middle-East investors is driven by the drive to diversify assets out of the USA, and likely to boost the investment and M&A activity in Singapore.

In a nutshell, there are now a mix of players, and forces, at work implying that the market for deal activity is now more broadly based and will continue to be active over the coming period.