

Taiwan

Turning a new page in the global financial crisis and repositioning global strategies likely to enhance deal activities in the second half of the year.



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Current Environment

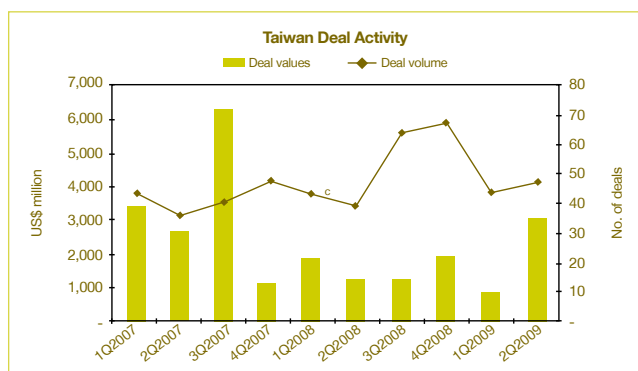
The global financial crisis has dealt a heavy blow to Taiwan's export-oriented economy. According to the Bureau of Statistics, Taiwan's GDP shrank by an unprecedented 10.24% in the first quarter of 2009, driven by a 32.3% year-on-year decline in exports. To boost consumer spending and pull its economy out of the recession, the Taiwanese government distributed US\$2.5 billion worth of consumer vouchers to its citizens. This programme is expected to boost GDP growth by 0.64% for 2009. Meanwhile, on the encouragement of the Chinese government, Chinese companies have been purchasing products from Taiwanese companies. These purchases totalled over US\$2.2 billion in June, which helped to mitigate losses caused by the decrease in exports.

Based on an estimate from the Council of Labor Affairs, the unemployment rate reached a historical high of 5.82% in May 2009, with 90,000 full-time jobs being eliminated during the first six months of this year. The unemployment rate is expected to climb to over 6% in the next few months due to the influx of newly graduated students.

The Consumer Price Index decreased for the fourth consecutive month in May 2009, but the deterioration in the index has been slowing.

The Taiwanese government made cuts in gift and inheritance tax rates, from 50% to 10%, and along with expectations of warming economic relations with China and relaxed investment regulations on China-based companies, this has led to a capital influx in the Taiwanese stock market, boosting the Taiwan Stock Exchange index (TAIEX) by more than 30% since January 2009.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2009

Compared to the first half of 2008, announced M&A transaction volume in the first half of 2009 fell from 84 to 75 deals, while deal value decreased from US\$3.3 billion to US\$2.8 billion. Although the overall M&A market appeared cautious, outbound deals showed an upward trend in the first half of 2009. Domestic manufacturing companies with relatively steady cash flows seeking to get out in front of an economic recovery have behaved more aggressively, by acquiring relatively cheap targets with advanced techniques or distribution channels.

Several representative deals for the first half of 2009 include:

Financial Services

KGI Securities paid NT\$28 billion in cash and NT\$1 billion in stocks to acquire Taishin Securities. This deal will help KGI increase its market share from 3.7% to 8.3%, making it the second largest participant in the market, and will also help improve Taishin's capital adequacy ratio from 113% to 150%.

To raise cash, Jih Sun FHC sold 1.387 billion new common shares to Capital Target Ltd, a subsidiary of Best Fortune Investments Ltd, at NT\$4 per share. After this deal, Capital Target owned 28% of the company and became the second largest foreign investor after Shinsei Bank, which took a controlling stake of 38%.

Following Aegon's strategic goal of optimising capital allocation, the Dutch insurer divested its Taiwanese life insurance business to a local consortium.



Telecommunications

Far Eastone Telecommunications and China Mobile entered into a share subscription agreement in April 2009. Pursuant to this agreement, China Mobile will acquire over 444 million shares in Far Eastone, with total value estimated at over US\$500 million. Upon the completion of this share subscription, China Mobile will hold 12% of the issued capital of Far Eastone. On the same day, both companies also entered into a strategic cooperation agreement to pursue long-term broad-based cooperation for their mobile telecommunications business.

Taiwan-based telecom equipment maker Microelectronics Technology acquired assets, the R&D team and patents for remote radio head products from TelASIC, a California-based company, to enhance its own R&D capability and fast track its entry into the 4G segment.

Technology

Unimicron Technology, a Taiwan-based maker of circuit boards, announced a plan to acquire its major competitor Phoenix Precision, a Taiwanese chip packaging substrate maker in an all-stock transaction.

Outlook

The global recession has provided opportunities for companies with core competitive manufacturing advantages to invest in expanding distribution channels or obtain technology skills and patents. On the other hand, financial investors, facing uncertainty in the market, are postponing investments due to the lack of funding and recovering valuation multiples.

The Taiwanese government intends to broaden strict investment conditions for Chinese companies interested in expanding into the Taiwanese market. Various economic plans and an Act listing 192 types of investments permitted by Chinese businesses have been introduced since July. In addition, the Memorandum of Understanding on financial supervisory cooperation and the Economic Cooperation Framework Agreement, scheduled to be signed in first half of 2010, are expected to induce reciprocal investment.

Financial Services

The Taiwanese government's tight regulatory initiatives on the Risk Based Capital ratio may squeeze local life insurers with weaker financial structures. Also, with the implementation of IFRS 4, European life insurers will face increasing capital requirements, prompting them to reassess global business strategies. Both developments may potentially provide more M&A opportunities in the market.

Following the signing of a financial cooperation agreement with China in April, Taiwanese authorities have turned their focus to inking a Memorandum of Understanding (MOU) to allow two-way collaboration with other nations for the supervision and regulation of the banking, securities, futures and insurance sectors. In June, Japan expressed a willingness to sign a financial MOU to open up their financial market through collaboration with local banks.

Non-financial Services

Outbound acquisition activities are expected to continue during the global downturn. Companies in both high-tech and traditional industries will continue to seek advanced technologies from developed countries as well as global channels to expand their market share.

The Taiwanese government has signed a series of business agreements with China over the past few months, mainly to open up tourism and transportation activities, expanding both the frequency of direct flights and quota of Chinese tourists per day. We foresee these agreements stimulating M&A activity in the near future, particularly in consumer sectors such as entertainment and hospitality, food and beverage, and healthcare. Closer business ties with China will also encourage experienced Taiwanese manufacturers in industries such as food and beverage, to expand market share through cooperation with Chinese companies.

Furthermore, with government support and the global environmental protection movement, we foresee an increase in demand for capital injection or vertical integration in the green energy sector, including such industries as solar power and LED. The Taiwanese government approved the Dawning Green Energy Industry Program in April to boost the overall production of the green energy industry from 1.2% of overall manufacturing value in 2008 to 6.6% by 2015, with a total investment of over US\$1.4 billion. ■