



Singapore

In line with the recovering global economic sentiments, M&A jump-started in late April, after two quarters of slump. Deal activity will continue to grow, albeit deal sizes for the rest of this year will be smaller, given the more cautious sentiment and muted credit environment.



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Current Environment

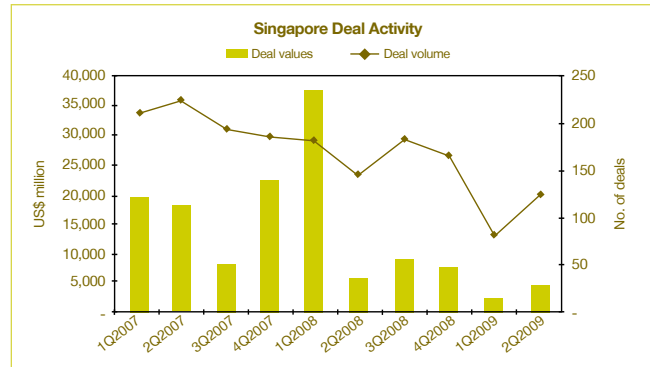
Singapore's heavy reliance on the export markets of the US and Europe made it one of the first Asian economies to slide into the recession in the third quarter of 2008. Year-on-year, Singapore's GDP fell by 9.5% and 3.5% in the first and second quarters of 2009 respectively. Quarter-on-quarter, GDP in the first quarter of 2009 contracted by 12.2%, the fourth consecutive quarter of decline, while a growth of 20.7% was reported in the second quarter.

While acknowledging that the worst of the recession is probably over, the Singapore government was quick to temper any optimism of a sharp V-shaped recovery. The improvement in GDP was largely driven by the manufacturing sector, which grew by 49.5% in the second quarter of 2009 (compared to an 18.5% contraction in the previous quarter) on the back of inventory replenishment and a spike in biomedical output. All sectors registered an improvement in the second quarter over the first, with the exception of the hotels and restaurants sector which experienced a slight decline.

On a seasonally adjusted basis, inflation in June 2009 was 0.2% while the CPI for the first six months of 2009 was 0.8% higher than the same period in the previous year. The Monetary Authority of Singapore forecasts that full-year inflation will be between -0.5% and 0.5%, which is higher than the previous forecast due to the recent hike in global oil prices.

The Singapore dollar declined steadily against the US dollar since July 2008 barring a short-lived recovery in November 2008. By March 2009, the Singapore dollar reached its lowest point of S\$1.55 against the US dollar. Since then, the Singapore dollar has appreciated gradually and has since stabilised at around S\$1.45 against the greenback in June.

Deal Activity



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

As with the other markets, M&A in Singapore was severely impacted by the global financial crisis. Total value of inbound, outbound and domestic deals for the first half of 2009 was US\$6.4 billion, representing a 61% decline from the second half of 2008 and an 85% drop from the same period last year. The number of deals announced shrank from 350 in the second half of 2008 to 248 in the first half of 2009. On average the deals in 2009 were smaller than those in 2008. In the first half of 2009, the top three deals contributed to over 60% of the total deal value, the most notable of which was PetroChina's acquisition of Singapore Petroleum Company.

There was a pick-up in M&A activities in the second quarter of 2009 which witnessed a 75% increase in deal value from the first quarter. Number of deals announced also increased by 5% in the second quarter to 127.

Domestic

Domestic M&A during this period totalled US\$2.6 billion, which was 20% lower than the second half of 2008. Out of a total of 100 deals, the largest deal contributed almost a third of the total deal value:

- Singapore Airline's plan to pay out as dividends to its shareholders its 81% interest in Singapore Airport Terminal Services (valued at US\$0.9 billion)



Inbound

Total inbound deal value was US\$3.3 billion in the first half of 2009 representing a decrease of 70% from the second half of 2008. A total of sixty deals were recorded and the major ones included:

- PetroChina's purchase of a 45% stake in Singapore Petroleum Co. Ltd for US\$1 billion, and its announced intention to purchase the remaining 54% of the company for US\$1.2 billion
- Chinese state-owned company Aluminium Corp of China's (CHINALCO's) acquisition of a 5% stake in Shining Prospect Pte. Ltd for US\$1 billion
- The acquisition of a 53% stake in Straits Asia Resource by Lint Ltd (a wholly-owned unit of Thailand's PTT International) for US\$309 million
- The acquisition of a 51% stake in Airfoil Technologies International Singapore Pte. Ltd by General Electric Aircraft Engines for US\$300 million

Outbound

The value of outbound deals was a mere US\$0.5 billion in the first half of 2009, down by 89% compared with the same period in 2008. The larger outbound deals out of a total of 88 were:

- The acquisition of ProLogis Park Misato II, a Japanese-based owner and operator of a warehouse facility, by GIC Real Estate Pte. Ltd for US\$140 million
- The acquisition by CapitaLand Ltd of an additional 60% interest in a real estate investment and development company in Vietnam, CapitaLand-Hoang Thanh Co. Ltd for US\$32.5 million
- The acquisition of a 25% interest in Sunny Energy Ltd in Hong Kong by Abterra Ltd for US\$27.6 million

Private Equity and Sovereign Wealth Funds

The value of private equity (PE) and Sovereign Wealth Fund (SWF) deals in the first six months of 2009 amounted to US\$0.5 billion, with a total of eight deals recorded in the period. PE investment activity nosedived since October 2008 as a result of the credit freeze, but showed signs of picking up in the second quarter of 2009 especially in smaller growth-capital deals. PE investors are now more cautious with industries such as IT and Business Process Outsourcing, and are instead looking increasingly at

defensive sectors such as healthcare and pharmaceutical, education, professional services and renewable energy. In addition to fewer deals being completed and smaller average deal size, fund-raising activity slowed down throughout the world, with the total amount raised at its lowest since 2004.

The most significant PE and SWF transaction came in June, with the announcement of Temasek Holdings' offer to acquire a 13.8% stake in Singapore-based agricultural and food ingredients supply-chain management company, Olam International, for US\$303 million. In addition, Temasek Holdings reinvested US\$671 million¹ into one of its existing portfolio companies, Neptune Orient Lines, and also raised its stake from 6% to 6.5% in China Construction Bank through an investment of US\$600 million¹.

Besides the US\$140m ProLogis Park Misato II deal by GIC Real Estate, GIC Special Investments acquired a 7.7% stake in UK-based PE firm, Apax Partners, along with Australia's Future Fund and Management Agency, for an undisclosed sum.

Outlook

Based on the better-than-expected performance of the economy in the first half of 2009, the Ministry of Trade and Industry revised its estimates for the contraction of the Singapore economy to 4.0% - 6.0%, an improvement from its original estimated contraction of 6.0% - 9.0% made in April 2009.

Since the beginning of the year, the private residential market has picked up noticeably with improved sentiments and the stock market rally that started in March. Analysis has shown that prices of mass-market homes, or low-end private properties, are now at peak October 2007 levels. Property developers sold more than 7,000 private homes in the first half of this year, double what they sold in the same period last year, and on an annualised basis, only 2% less than the record 14,811 homes sold in the 2007 boom year. The Singapore government has since indicated its intentions to monitor the property market situation closely amid concerns that signs of speculation are re-emerging.

No companies were listed on the SGX mainboard in the first half of this year while there were only three IPOs on the secondary Catalist board with total proceeds of US\$12.5 million. Although there was a dearth of IPOs, many companies raised capital through rights issues to improve their balance sheets in anticipation of a long

Notes

1. Source: These two deals are not included by Thomson Financials in the value of announced deals.



recession or to build up their war chest for acquisitions. In the first half of 2009, Singapore companies raised a total of US\$6.3 billion through rights issues, significantly more than the US\$2.4 billion raised in the whole of 2008, and accounted for 65% of total proceeds raised in Asia. Companies that raised capital in the first half of 2009 included DBS Group Holdings, CapitaLand Limited and Neptune Orient Lines.

In January 2009, the Singapore government announced a S\$20.5 billion economic stimulus package, of which S\$4.5 billion was devoted to the Job Credit Scheme. By giving employers a 12% cash grant on the first S\$2,500 of each employee's wages, the Jobs Credit Scheme was intended to cut the cost of employment and save jobs - this was deemed to be more effective at cushioning the impact of the economic recession than any fiscal pump-priming measures due to the open nature of Singapore's economy. Preliminary estimates in July showed that the overall unemployment rate stabilised at a seasonally adjusted 3.3% in June 2009, unchanged from March 2009 but higher than the 2.2% in June 2008. Moving forward, unemployment is expected to level off as no large retrenchment exercise is expected in the third quarter of the year and there are signs that companies are starting to hire in small numbers again.

Given the recent signs of recovery, the Singapore government indicated that there is thus far no need for additional stimulus measures, but will review its position at the end of the year. Furthermore, Singapore's economic recovery is expected to be aided by the opening of the two Integrated Resorts in early 2010, which will lead to the creation of new jobs and is expected to stimulate both onshore consumption and inbound tourist spending.

The Economic Strategies Committee, made up of both public and private sector representatives, was set up in May 2009 to study the long-term economic transformation of Singapore. Specifically, the Committee will review sector-specific strategies, look at possible overseas growth for local companies and continue to attract more global companies, including the tier below the Fortune 500 companies. The Committee will make their recommendations in time for the next Budget.

The M&A environment for the rest of 2009 is expected to continue to improve as the economy recovers and confidence in the global banking system is gradually restored. We expect investors to remain cautious while they continue to hunt for bargains. Deal sizes are likely to remain substantially smaller than in the past two years and cash-rich Singapore corporations, who have been outbid by PE firms in many deals previously, will find the conditions more favourable given the subdued credit and valuation levels. We also expect PE M&A activity to pick up for the rest of the year. ■