

Merger and Acquisition Trends in Malaysia.

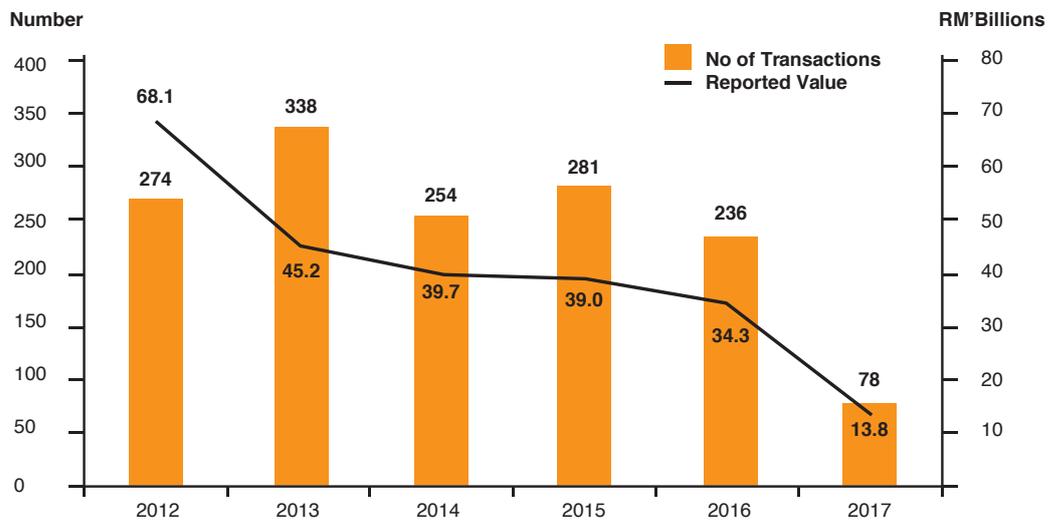
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Tracking Malaysia's M&A Scene

The past three years have been very challenging for the Malaysian economy. It started with the drop in oil prices coupled with the weakening of the Malaysian Ringgit against the US Dollar in Q4 of 2014, then came the effects of the implementation of the Goods and Services Tax in April 2015. In addition, the Malaysian economy also faced increased pressures from concerns over political uncertainty.

Mirroring the poor market sentiments, we saw a significant 25% drop in the number of completed mergers and acquisitions (M&A) in Malaysia to 254 in 2014 from a high of 338 in 2013. Although 2015 saw a slight uptick in M&As, the completed M&As in 2016 was the lowest over the past five years at 236 with a reported value of RM34.3 billion versus a reported value of RM68.1 billion at the peak in 2012.

Completed M&A in Malaysia



Source: Bloomberg

In 2012 and 2013, the consumer sector led the way in M&As.

However, the M&A market participants shifted their focus to the financial sector in 2014 and 2015. Although there was a decrease in M&A activity in 2016, 55% of the total transactions were in the consumer and financial sectors. Overall, the number of transacted M&As reported has been on the decline since 2012.

Number of completed M&A transactions in Malaysia By Sector

Number of Transactions	2012	2013	2014	2015	2016	2017	Total
Consumer	98	111	64	69	69	34	445
Financial	60	80	85	100	62	17	404
Industrial	46	53	39	42	43	11	234
Communications	17	28	17	29	23	6	120
Energy	16	12	10	14	6	2	60
Basic Materials	14	22	11	7	17	4	75
Technology	12	20	16	9	13	3	73
Diversified	7	6	8	10	1	-	32
Utilities	3	2	3	1	2	-	11
N.A.	1	4	1	-	-	1	7
Total	274	338	254	281	236	78	1,461

Source: Bloomberg

Note: ^ N.A – Information not available

2012 was the last robust year for the M&A scene in Malaysia with a few notable transactions including:

- The privatisation of our national carmaker, Proton Holdings Berhad (Proton) via a mandatory general offer by DRB-Hicom Berhad (DRB-Hicom)
- The disposal of ING Management Holdings (Malaysia) Sdn Bhd, the third largest insurer in Malaysia to AIA Group Ltd
- The creation of Malaysia's largest integrated oil and gas (O&G) service provider by assets SapuraKencana Petroleum Berhad as a result of the merger between Kencana Petroleum Bhd and SapuraCrest Petroleum Bhd
- The acquisition of Tanjong Energy Holdings Sdn Bhd by 1Malaysia Development Bhd

The combined transactional value of these four M&As was reported to be approximately RM28.5 billion or 41.8% of the total reported value in 2012.

Completed M&A Transactions in Malaysia in Value Terms – By Sector							
RM'million	2012	2013	2014	2015	2016	2017	Total
Consumer	11,204	23,440	11,215	11,880	9,803	7,409	74,953
Financial	19,921	10,115	9,544	15,860	4,904	3,610	63,953
Industrial	6,437	4,627	6,112	2,993	16,527	509	37,204
Communications	304	2,099	2,609	602	191	2,178	7,983
Energy	13,755	1,203	7,851	6,770	1,993	-	31,572
Basic Materials	3,401	1,659	799	209	317	17	6,402
Technology	984	563	600	129	54	60	2,389
Diversified	2,780	1,297	669	461	24	-	5,230
Utilities	9,330	215	336	47	465	-	10,394
N.A.	-	3	-	-	-	-	3
Total	68,115	45,220	39,734	38,952	34,279	13,783	240,083

Source: Bloomberg

Note: ^ N.A – Information not available

The consumer sector also led M&A scene in 2013 with the highest number of transactions at 111 as well as the highest reported value of RM23.4 billion compared to the other sectors. Major M&As in 2013 included the privatisation of Tradewinds (M) Bhd for RM4.8 billion and the completion of the acquisition of KFC Holdings (Malaysia) Bhd by QST Brands (M) Holdings Sdn Bhd for RM3.3 billion. Despite a slight drop in the number of M&A transactions in the consumer sector in 2014 to 64, the sector still reported the highest value of M&As at RM11.2 billion representing 28.2% of the total reported value.

Number of Transactions in the Financial Sub-Sector

Number of Transactions	2012	2013	2014	2015	2016	2017	Total
Financial Sector sub-sectors							
Real estate/property	34	53	58	70	33	9	257
Banking	3	5	-	1	-	-	9
Finance	6	5	7	4	8		30
Insurance	4	4	3	4	2	1	18
Investment Companies	9	12	15	21	18	7	82
N.A.	4	1	2	-	1	-	8
Total	60	80	85	100	62	17	404

Source: Bloomberg

Note: ^ N.A – Information not available

With poor market sentiments in 2015, the M&A market participants shifted their focus to the financial sector that year. The financial sector M&As transacted were mostly related to real estate such as acquisitions and disposals of properties, property development/REIT companies, insurance companies, commercial and investment banks, as well as other investment holdings companies.

The number of transactions in real estate and property peaked in 2015 with 70 as compared to 58 in the previous year. The reported transacted value in real estate M&As was RM14 billion representing 88% of the total transacted value in the financial sector in 2015.

In 2016, the consumer and financial sectors led the way in M&A activities. However, the major transaction of the year was the acquisition of Edra Global Energy Berhad (Edra) by China General Nuclear Power Corporation for a reported consideration of RM9.8 billion. Edra is one of Malaysia's largest independent power producers, which is categorised under the industrial sector.

Meanwhile, there are two notable transactions that are headlining 2017's M&A scene. The first is the potential demerger of Sime Darby Berhad's (Sime) plantation business while merging Sime's property division with Permodalan Nasional Berhad's asset portfolio in a bid to create better value for existing shareholders. Sime's plantation business may be worth as much as RM50.9 billion based on the average market value of recently transacted deals.

The other is the completion of DRB-Hicom Berhad's search for a foreign strategic partner for Proton Holdings Berhad. After a period of uncertainty, it was announced on 24 May 2017 that China-based Zhejiang Geely Holding Group Co Ltd had agreed to buy a 49.9% stake in Proton. The deal is expected to be completed in July 2017.

The deal will enable Proton to tap into Geely Holding's vast range of platforms and powertrains, and will also enable Proton to have access to existing markets of the Chinese carmaker, as well as right-hand drive markets in Southeast Asia.

As part of the deal, Proton would also sell a 51% stake in wholly-owned British car maker Lotus to Geely Holdings.

So it will be interesting to see how the M&A trend plays out in Malaysia this year.

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