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A rising phenomenon

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MALAYSIAN companies accounted for 20 of the Asia-Pacific region's 50 largest merger & acquisition (M&A) deals in 1996. This ranks them ahead of Hong Kong and Singaporean companies.

The M&A deals involving Malaysian companies totalled 817, and were worth US\$ 17.7 billion. This compares to the Asia-Pacific region, where the total value of international deals stood at US\$ 54.5 billion from 2,502 deals. M&A transactions around the world were valued at US\$ 1.04 trillion (RM2.6 trillion), representing a one-quarter jump above 1995.

The current tide of mergers happening for the first time in local corporate history is in tandem with government efforts to downsize the financial services and telecommunications sectors.

Prior to 1996, there were no bank mergers except for the merger of Bank of Commerce with United Asian Bank in 1991.

Then came the tide.

In telecommunications, Telekom Malaysia Bhd acquired the Emartel cellular network for RM640 million, and Time Engineering acquired 75 per cent of Sapura Digital and Uniphone for RM750 million and RM450 million, respectively.

In financial services, Rashid Hussain Bhd acquired Malayan Banking Bhd's 75 percent subsidiary Kwong Yik Bank Bhd (KYB) for RM2.16 billion. KYB then merged with DCB Bank Bhd, which resulted in a new banking entity being proposed - RHB Bank - said to be the second largest bank in terms of profit and third largest in terms of combined assets.

At a national conference on M&As organised by the Asian Strategy & Leadership Institute (ASLI) in Kuala Lumpur recently, ASLI president Mirzan Mahathir listed the three main factors that contributed to the growth of M&As in Malaysia:

First, a stable political and economic environment with strong government backing for its on-going privatisation programme - from the private sector's acquisition of government-controlled Malaysia Airlines to Hicom Holdings Bhd;

Second, regionalisation of the Malaysian corporate sector as companies invest abroad to sustain growth rates and to acquire leading-edge technologies for competitive advantages in the globalised environment; and Third, a reasonable level of interest rates and a stable capital market which have allowed companies to borrow funds to acquire other companies.

Dr Loh Eng Seng, senior economist at TA Securities Bhd attributed the rising stock market to greater M&A activity, particularly in the banking and telecommunications sectors.

There are 22 local banks and some quarters think there should only be nine major banks.

The telecommunications sector, meanwhile, features four fixed-line licensees and five cellular network operators in a population of 20 million people.

'A rising stock market is itself an incentive to further M&A activity because issuing equity will remain a cheap and ready source of cheap financial capital to fund such activity,' said Loh.

Managing director of Merrill Lynch Asia-Pacific Region and Australia Gary Stead made an interesting observation about Asian businessmen having differing corporate cultures. 'Due to a lower level of disclosure laws and the corporate culture which is averse to publicity, many M&A deals still

are agreed upon privately by the company's owners and sealed with a handshake. There is also a very high dependence on personal relationships and contacts, which makes it difficult for "outsiders" to do business,' he said

On the positive side, he added, there is the visible shift from the traditional family owned-and-controlled structures to professionally-managed companies. The size of businesses has grown considerably due to the boom in Asia-Pacific markets, and along with this boom has come the need for capital, forcing companies, very often, to go public. This has forced management to increase the level of responsibilities to shareholders and introduce a fair degree of professionalism in day-to-day operations and managements of such companies.

Another speaker at the conference, Sime Darby group general manager for corporate planning Dr Shafiq Sit Abdullah, said most people overlook the fact that shareholders determine the success of any M&A. 'The majority of the share capital in large companies is held by investors who look to maximise returns. Investor loyalty to the existing management plays a secondary role if the terms of the takeover are sufficiently attractive.' According to Shafiq, this is a bold reminder for the management of companies to show profit and growth year after year to justify continued interest in the company or risk a change of the status quo. 'The subtle threat of being taken over is an encouragement to managerial and economic efficiency,' he said.

However, in Malaysia, save for exceptional cases, an acquisition usually occurs as the result of a negotiated transaction. An example is KYB's transaction between Maybank and RHB/DCB, and Sime Darby's earlier acquisition of a 60.3 percent stake in UMBC. The acquisition was a result of an already concluded agreement evincing the transfer of control. It was not hostile.

The future? Generally, financial advisers agree that 1997 will be another golden year for mergers, friendly acquisitions, hostile takeovers and leveraged buyouts.

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