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Long way to go for merger, acquisition market

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IN 1996, merger and acquisition transactions around the world were valued at \$1.04 trillion (\$1 = RM2.46), an increase of 25per cent compared with the previous year. A total of 22,000 merger activities were transacted mainly in the pharmaceuticals, chemical and financial services sectors.

Financial advisers feel 1997 could also be another year where companies will be involved in a convulsion of mergers, friendly acquisitions, hostile takeovers and leverage buyouts.

Regionally, these activities have also increased in Asia due to rapid economic growth, industrial modernisation, huge infrastructural projects as well as encouraging foreign investment policies.

Asian Strategy and Leadership Institute president Mirzan Mahathir believes that regulatory changes and the threat of increased global competition will encourage telecommunications companies, broadcasters, utilities and financial services companies to merge in order to reduce costs and boost revenue.

According to Merrill Lynch International Bank Ltd's mergers and acquisitions department, Malaysia was the leading Asia-Pacific acquirer and target nation for mergers and acquisitions in 1996.

Malaysia was involved in a total of 817 acquirer nation deals worth \$20.1bn and 788 target nation deals worth \$17.7bn in 1996. After Malaysia came Hong Kong and then Singapore.

"These are countries with a relatively higher degree of maturity in the capital markets, well laid-out takeover codes and a friendly attitude towards foreign investment and acquisitions," said Merrill Lynch's Gary Stead.

Indeed, Malaysia has seen its share of increasing number of mergers and acquisitions in various industries and sectors, participants of the National Conference on Mergers and Acquisitions in Kuala Lumpur were told.

When opening the conference on Tuesday, International Trade and Industry Minister Datuk Seri Rafidah Aziz said in 1996 a total of 32 acquisitions involving RM4.242bn, were approved.

The largest number was in the manufacturing sector with 13 acquisitions, followed by mining, financial, property and plantation sectors.

Among the acquisitions and mergers still fresh in our minds were Telekom Malaysia Bhd's acquisition of Emartel for RM640m, Rashid Hussain Bhd's acquisition of Malayan Banking Bhd's 75per cent subsidiary Kwong Yik Bank and Tan Sri Yahaya Ahmad's acquisition of Lotus Group.

What drives the merger and acquisition activities in Malaysia? Mirzan said one factor is the stable political and economic environment and the Government's strong backing and encouragement through the privatization programme.

Another factor is the regionalisation of the Malaysian corporate sector where companies are investing abroad to sustain growth rates and to acquire leading edge technologies to gain competitive advantages in the globalised environment.

"Last but not least, reasonable interest rates and a stable capital market have allowed companies to borrow funds to acquire other companies," Mirzan said.

He encouraged Malaysian companies to expand into new international markets based on the merger and acquisition concept if they hope to become world class players in the competitive global market. Conditions in the

Asia-Pacific region, in particular, are ripe for merger and acquisition activities.

For instance, Thailand is currently relaxing restrictions on foreign investments since the Government intends to promote Bangkok as a regional financial centre.

In Indonesia, the Government recently introduced a deregulation package which has led to increased foreign investments, in particular from Hong Kong, UK, the US, and Singapore.

Vietnam is also opening up its country to foreign investors, while in India, rapid infrastructure development, privatization and the rising number of India's cash-rich middle class could make India a country of interest to investors.

South Africa, meanwhile, after a decade of sanctions and a long spell of political and economic isolation, is a nation that is busy rebuilding and hungry for investments. Malaysian companies have already invested in the leisure and banking industries there.

The Asian merger and acquisition markets continue to grow. The volume of completed deals in the Asia-Pacific has grown at a compounded annual growth rate of 15.4per cent between 1990 and 1996, compared with 8.1per cent increase in global mergers and acquisitions.

Asia-Pacific's share in the global merger and acquisition pie has steadily increased from 2.4per cent in 1990 to 3.6per cent in 1996 in terms of volume transacted and from 2.7per cent in 1990 to 7.3per cent in terms of number of deals completed.

According to Merrill Lynch, a high level of merger and acquisition activity was witnessed in the lower range of the spectrum, with 2,439 out of 2,502 deals being announced below \$200m.

The financial and services sectors were the most active, contributing to nearly 65per cent of all volume transacted.

But there is still a long way to go in terms of volume, number of deals and maturity of the Malaysian merger and acquisition market.

At the moment, accounting standards and practices vary from country to country and careful adjustments to reported numbers need to be made to ensure they are comparable across countries.

Another key area is the lack of financial information, which is mainly driven by less stringent reporting requirements. This makes it difficult to evaluate and analyse potentials, hinder in-depth analysis and takes longer time to conduct the transaction.

Certain countries in Asia also do not have established, well-tested tender offer rules. In Indonesia, the tender offer rules are not clearly defined and because of a lack of precedents, it is more difficult to conduct such offers.

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