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RHB: From the merger trail to rescue mission

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WHAT started off as a merger binge by Rashid Hussain Bhd (RHB), in its continuing quest to become Malaysia's premier financial house, has turned into an acquisition by circumstances.

Rashid Hussain has been on the expansion trail ever since Rashid Hussain Futures Sdn Bhd was changed into Rashid Hussain Sdn Bhd in 1988. From an investment holding, consultancy and provider of financial and management services, it expanded into banking in the early 1990's.

Its biggest and most recent banking coup was the purchase of a 75 per cent stake in Kwong Yik Bank Bhd in 1996 for RM2.1 billion. It was reputed to have been one of Asia's biggest mergers and acquisitions for that year.

Kwong Yik was then merged with Rashid Hussain's DCB Bank to become RHB Bank, making it the third largest local banking group after Malayan Banking and Bank Bumiputra.

RHB bank would have been catapulted to the number two position had its merger talks with Commerce Asset Holding Berhad for the purchase of Bank of Commerce (BOC) reached fruition.

But the talks barely lasted a month and during that rather brief period some harsh words were publicly uttered by both sides in their statements to the Kuala Lumpur Stock Exchange.

The merger negotiations are now as good as over. Although the parties involved may not be inclined to say anything more of the experience or may even want to forget it altogether, a new chapter has been written into the annals of the country's corporate mergers and takeovers history.

Questions will be asked about why the negotiations failed? Why a supposedly friendly merger exercise turned hostile? Why a merger negotiation sounded more like a hostile takeover bid? And what role the regulatory authorities played in the exercise?

While supporting the policy of encouraging banks and other financial institutions to merge in order to create larger and more competitive entities, I commented in this column, on February 9, that in the rush to hasten the process, several key considerations must not be ignored.

Firstly, there is the question of compatibility and freedom to negotiate. I commented that no financial institution should be forced, pressured or coerced into merging with another except in cases of a rescue.

This means that beyond giving approvals and, where applicable, political blessing, the authorities should not intervene and interfere in the negotiations.

Secondly, these financial institutions should be given the freedom to decide who they want to merge with, so long as they do not contravene such conditions as Bumiputera ownership and the criteria in the Banks and Financial Institutions Act as well as the Code of Takeovers and Mergers.

And thirdly, it has to be recognised that while mergers among strong banks may be good for their shareholders, they may not help in ensuring that least damage is done to the banking industry as a whole.

The idea of creating four or five large local banking groups is a fine one. However, allowing smaller banks to go bankrupt or be pushed out of the market may not be economically or politically tenable.

I contended that it is better for the larger and stronger banks to merge with several smaller ones rather than to merge among themselves. Banks like RHB Bank and BOC can then be treated as "motherships" where smaller

or weaker banks may dock.

This concept may just become a reality in the not too distant future. No sooner had the talks between Rashid Hussain and CAHB been suspended, than Bank Negara announced that four financial institutions were in need of capital injections.

In the March 3 announcement, Bank Negara said that Sime Bank Berhad was in need of RM1.2 billion in new capital, Bank Bumiputra RM750 million, Cempaka Finance RM25 million and Abrar Finance RM7 million.

Last Thursday, Prime Minister Datuk Seri Dr Mahathir Mohamad hinted that the Government would, if necessary, inject fresh capital into the state-owned Bank Bumiputra.

Last Saturday, Sime Darby Bhd, when announcing a net loss of RM676.2 million for the half-year ended December 31, said it was putting its entire stake in Sime Bank up for sale.

On the same day, Rashid Hussain issued a brief statement saying that it had offered to buy Sime Darby's 60.35 per cent state in Sime Bank.

From an attempt for a merger with the cash-rich and strong BOC, RHB Bank has now moved to take over the troubled Sime Bank.

Although this is not what I had envisaged when I made the suggestion that RHB Bank should be the mothership to smaller banks, the change in circumstances has modified its role from that of a would-be protector to rescuer.

It is a challenging task to say the least. While Rashid Hussain is not likely to face a major problem in reaching an agreement with Sime Darby - since the latter had openly expressed its intention to get out of banking - the suitor has to convince the other Sime Bank shareholder, KUB Berhad.

For the country, an amicable solution to the Sime Bank problem is a matter of grave concern. How the problem is solved and how the acquisition is to be funded will have a direct bearing upon the confidence placed in the country's economic management.

As for Sime Darby, the bad experience with Sime Bank may not end with the sale. Its internal investigations may reveal many unpleasant details about why the bank was so speedily and deeply trapped in the downturn.

The public too may want to know more about who, in the bank and outside it, had been responsible for its downfall.

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