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Merger mayhem?

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EVEN FIVE months after local banks signed a marriage pact in an industry-wide consolidation exercise, gossip of possible break-ups still abounds. This merely reaffirms the apprehension that is rarely spoken about in public: the wobbly business of bank mergers.

In March this year, Bank Negara Malaysia (BNM) gave the green light for the formation of 10 banking groups. This is an improvement from the original proposal which had planned to consolidate 54 financial institutions into six entities to be called anchor banks.

The original anchor banks named in July last year were Malayan Banking Bhd (Maybank), Public Bank Bhd, Bumiputra Commerce Bank Bhd (BCB), Perwira Affin Bank, Multi-Purpose Bank and Southern Bank. Four months down the road, BNM yielded to pressure and accorded anchor status to another four banks, namely, RHB Bank, Arab-Malaysian Bank, EON Bank and Hong Leong Bank. All the anchor banks are to complete the mergers by the end of December this year.

On the exterior, four groups out of the 10 anchor banks are progressing well in their merger exercise. The four are BCB, RHB Bank, Public Bank and Southern Bank. But closer scrutiny reveals that after BNM's move to consolidate, only Public Bank has so far heeded the authorities' demands.

Southern Bank had been in talks with Ban Hin Lee Bank for a long time, way before the merger mania started. The final push only came after the economic downturn. RHB Bank started its merger with Kwong Yik Bank in 1996 and Sime Bank at the end of 1998. Bank of Commerce's merger with Bank Bumiputra, which led to the formation of BCB, was driven by the government.

RHB Bank's recently signed agreements to acquire Delta Finance and Inter Finance for RM273.8 million and RM69.3 million respectively. Both these proposed acquisitions will not pose any problems for RHB Bank, which has shareholders' funds of more than RM6 billion and assets of RM64 billion.

Stripping out the mergers of RHB Bank, BCB, Southern Bank and Public Bank, the progress of the other merger pacts leave nothing much to shout about. Central to the problem are issues on control, pricing and mode of payment. 'This is the problem with market driven mergers,' says Pong Teng Siew, head of research at Jupiter Securities. 'Perhaps, BNM will be forced to take a more proactive role if things do not get cracking.'

In the case of mode of payment, all eyes are on Multi-Purpose Bank. Among others, the bank is to absorb Amanah Merchant Bank, Bumiputra Merchant Bank, International Bank Malaysia (IBM), Sabah Bank and MBf Finance. Sources say the merger process involving Multi-Purpose Bank is a little dicey. 'Things are more complicated with the emergence of new shareholders at the helm of the holding company, Multi-Purpose Holdings Bhd,' say sources.

Recently, Multi-Purpose Holdings' controlling shareholder, Dr Chan Chin Cheung, reduced his stake in his private holding company, Quantum Aspects Sdn Bhd. The new parties coming in are said to be linked to Datuk Lau Kim Khoo from MWE Bhd.

Under the original merger plan, all the merging entities are to be given Malaysian Plantation Bhd (M-Plant) shares in exchange for their financial institutions. Eventually, the board of Multi-Purpose Bank will comprise 20 to 30 directors, just like many international banks.

However, it is learnt that some of the financial institutions are asking

for outright cash instead of a share exchange. Sources say Amanah Merchant Bank and Bumiputra Merchant Bank favour a cash option instead of M-Plant shares. Analysts estimate both banks will cost M-Plant RM200 million and RM100 million, respectively. Besides this, M-Plant also has to contend with the acquisition of MBF Finance, the largest finance company in the country, which is valued at not less than RM800 million.

Multi-Purpose Bank does not have much cash in its kitty, raising concerns on how it will unwind the merger mangle.

The Arab-Malaysian Group's merger with Bank Utama Group has run into the thorny problem of 'control'. Both groups want control of the commercial bank. Bank Utama's contention is that the Arab-Malaysian Group should concentrate on the finance and merchant banking part of the operations, leaving it to concentrate on the commercial bank of the merged entity.

It is learnt that Tan Sri Azman Hashim, the executive chairman of the Arab-Malaysian Group, yielded after some intense lobbying by the Sarawak State Government on behalf of the Bank Utama Group. Speculation is rife that the structure that will eventually emerge will see the presently listed Bank Utama with a name change, running the commercial banking operations of the anchor bank. The ownership of the bank, say sources, will be divided equally between the two groups with Azman having the final say.

Mergers under such circumstances sometimes leave many wondering if the practice of allowing the best people to run the show is adhered to.

Maybank's merger with Phileo Allied Bank is bogged down by pricing. Maybank is valuing Phileo Allied Bank and its securities arm at RM1.2 billion. Avenue Assets Bhd, a 18.42 per cent shareholder of Phileo Allied Bhd, is opposing the deal because it wants a higher price. Effectively, Maybank values Phileo Allied shares at RM2.50 per share while Avenue Assets is asking for RM3.20 per share.

Avenue Assets, whose substantial shareholder is Mokhzani Mahathir, has one stockbroking firm, Kestral Securities, in Johor. Besides Kestral Securities, Avenue Assets is in the midst of buying Penang-based Soon Theam Securities and Kuala Lumpur-based MGI Securities. It only needs one more brokerage to gain universal broker status. The company has denied suggestions that it is eyeing Phileo Allied Securities in Ipoh.

Maybank, on its part, can live without Phileo Allied. Maybank is the biggest banking group in the country and does not need to undertake a merger. In short, there is nothing much that Phileo Allied can offer Maybank to enhance the latter. Moreover, Avenue Assets only owns 18.42 per cent of Phileo Allied, which begs the question: Has Avenue Assets enough clout to stop the merger?

This is left to be seen. But at the end of the day, the price will be somewhere between RM2.50 and RM3.20 per share, meaning Maybank is likely to issue shares worth between RM1.2 billion and RM1.5 billion.

Besides Phileo Allied Bank, Maybank also has Pacific Bank to contend with. No details are available on the progress of the Maybank-Pacific Bank merger. However, sources say Pacific Bank's most preferred option is to be left alone for the moment. This way, it keeps its options open. It can either team up with Maybank or Singapore-based Oversea Chinese Bank Corporation (OCBC), a major shareholder of Pacific Bank, when the financial services is liberalised in 2003. The progress on Phileo Allied Bank and the lack of progress on the Pacific Bank front basically leaves Maybank's merger plans in a state of flux.

EON Bank has proposed to acquire Oriental Bank and Malaysian International Merchant Bankers. This merger is facing some minor hiccups. It was reported that employees of Oriental Bank, who have shares in the bank, are not happy with the offer price. This, according to EON Bank

officials, will be taken care of.

According to sources, Malaysian Industrial Development Finance (MIDF), the 75-per cent owner of Oriental Bank, will part with its stake in the bank as long as EON Bank settles an inter-company loan amounting to about RM120 million.

The progress of other mergers involving Hong Leong Bank-Wah Tat Bank and Perwira Affin Bank-BSN Commercial Bank is said to be moving slowly. Hong Leong Bank has announced that it had signed a conditional agreement to acquire Credit Corporation (M) Bhd from Gadek Capital. Analysts feel that the valuation involving Wah Tat Bank will be difficult and time consuming as its asset quality is suspect. As for Perwira Affin Bank, the merger with BSN Commercial Bank is heading no where as at the time of writing.

The ultimate objective of the mergers? To create bigger and better managed banks with efficient delivery channels. This is to ensure that local banks do not fizzle out when the financial services sector opens up to the foreign challenge. But the pace of the mergers, in some cases, is not at the desired rate. Also, some of the exercises may result in mergers in face value only without any drastic reduction in cost to increase efficiency.

It is important that all merged entities have strong shareholders and efficient management teams. The events in the next few months will tell if the banking merger mania has brought about better banks or fewer banks with the same standard of delivery.

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