

# Local banks need more mergers

SUN - 7 FEB 2002

**KUALA LUMPUR:** When merger talks between Utama Banking Group Bhd and another bank collapsed last month, Prime Minister Datuk Seri Dr Mahathir Mohamad lost patience. Make a deal by June or lose your licence, he told Utama.

That increased pressure on the country's smallest lender to complete the last in a series of government-orchestrated mergers, whittling the industry down to 10 banks, from 54 four years ago.

Investors say more mergers are needed if local banks are to compete with regional rivals such as HSBC Holdings Plc, DBS Group Holdings and Citibank NA.

At the same time, Malayan Banking Bhd, Commerce Asset-Holding Bhd and other lenders must deal with a slowing economy and more than US\$4 billion (RM15.2 billion) of overdue corporate loans.

"If Malaysia wants its banks to expand regionally, it needs to consolidate them further to boost their balance sheets, otherwise who can they buy?" said Ian Lui, chief investment officer of Allianz Asset Management Co, which manages US\$547 million (RM2.08 billion in stocks).

## More mergers

"Some banks in Thailand, Indonesia and the Philippines make good buys now."

Even 10 banks, say investors, are too many for the country's population of 23 million.

Australia's 'big four' banks serve 20 million people. Singapore started 2001 with five lenders and ended up with three, as the government opened the city of 4 million people to greater competition.

"We expect them to keep on merging, and becoming bigger," Mahathir said early this year.

Still, combining with domestic rivals won't provide the size lenders need to compete in an industry increasingly dominated by bigger regional lenders, say analysts.

## Maybank

Malayan Banking (Maybank) as the country's No. 1 lender, has assets worth RM141 billion. That's less than half the RM312 billion DBS, Southeast Asia's largest bank, can boast.

"It's tough for Malaysia as the banking industry is consolidating and Maybank doesn't have a strong regional presence," said Tan Yuh Harn, who helps manage about US\$2 billion (RM7.6 billion) of assets in Asia, excluding Japan, at SGY Asset Management Ltd in Singapore.

So far, Maybank - which has 336 commercial banking branches in Malaysia and 22 in Singapore where it won expanded licences from the island state's central bank in December - has been the most outgoing local lenders. It has a branch in Hongkong, China, Indonesia, the US, the UK and Vietnam, as well as 58 branches in the Philippines and three in Brunei.

"I don't see Maybank aggressively expanding in Singapore where the banking industry is already mature and dominated by the big three banks," said Gan Kim Khoo, research head at Arab-Malaysian Securities Sdn.

It makes more sense "to expand or acquire another bank in an emerging market with more growth potential."

At home, Maybank and its rivals - Commerce As-

set and RHB Capital Bhd - are also under pressure. Foreign banks control a quarter of the market, and Malaysia plans to open its banking industry by 2007.

Maybank saw its annual profit fall 38% in June 2001, while profit at RHB Capital, the No. 3 bank, fell by a third. With the economy also expected to slow, analysts predict falling demand for new credit and more bad loans.

## Layoffs

The government on Jan 1 cut its economic growth estimate to 3% this year, from an earlier 5%.

"Earnings won't be exciting this year," said Scott Lim, who helps manage US\$92 million (RM350 million) at CMS Dresdner Asset Management Sdn.

He sees growth in profit starting next year, which will spark more mergers.

Layoffs more than doubled in September 2001 from a year earlier, to their highest in about three years, as electronics exporters closed factories and shed jobs amid slumping demand.

"Maybank and Commerce Asset both said that bad loans from their retail

business are rising because of the weaker job market," said Mike Oyson, banking analyst at Deutsche Bank in Hongkong.

Investors' concern about the effects of the slower than expected economic growth hurt bank stocks. Maybank shed 7.8% last year, Commerce Asset, the No. 2 bank, slid 9.2% and RHB Capital declined 4.9%. The key KL Composite Index rose 2.4% in 2001. Bloomberg