

## **Eurozone Crisis May Affect M&A Activity In M'sia**

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**By Dalila Abu Bakar**

KUALA LUMPUR, Dec 20 (Bernama) -- 2012 promises to be a year of uncertainty if the economic crisis in the eurozone is anything to go by.

Economists and fund managers say due to the current economic situation in Europe and also in the United States, there will be a moderate flow of foreign investments.

Malaysian Rating Corporation Bhd (MARC) Chief Economist Nor Zahidi Alias said this would likely affect cross-border merger and acquisition (M&A) activities globally.

"Similarly in Malaysia, M&A activities are expected to be affected by the negative sentiment in the European countries as risk aversion remains relatively elevated," he said.

Nevertheless, Affin Investment Bank Vice President and Head of Retail Research Dr Nazri Khan believes things could be better in the second half of the year after a challenging first half.

Nor Zahidi said that in 2012, investors would continue to focus on the possible repercussion of the eurozone debt crisis in the banking sector particularly on lending activities not only in the euro region but also in other parts of the world.

Hence, liquidity condition would be closely watched as access to credits and the amount of liquidity were crucial for M&A activities, he said.

"In Malaysia, liquidity is expected to remain ample as the exposure to European claims is relatively low, about 40 per cent of total foreign claims.

"The exposure to claims by troubled countries -- Portugal, Italy, Ireland, Greece and Spain (PIIGS) -- is also minuscule at 0.1 per cent of total foreign claims," he said.

Notwithstanding this, the MARC economist said Asia's M&A activities would likely moderate less than other regions as growth prospects here remained relatively strong.

In addition, Asia's fundamentals were stronger with many countries registering high foreign exchange reserves and having stable banking sector.

As such, liquidity conditions in Asia were more conducive for M&A activities, he added.

For construction companies in Malaysia, Nor Zahidi said, M&A activities would normally be driven by the need to increase their scale of operations in order to compete for jobs abroad.

Such activities, however, might moderate in the near term due to the slowdown in the global economy which would reduce construction activities, he said.

For plantation companies, he said, the size of landbank would be one of the primary factors

that would induce a company to undergo an M&A.

"For this sector, the expected lower commodity prices in 2012 such as crude palm oil prices will be a positive factor for more M&A activities," he said.

Meanwhile, Nazri foresees a consolidation in the property sector next year.

"The property and property-related stocks are undervalued. There is a lot of potential for several property companies to be merged in 2012," he said.

He said 2011 had already seen several M&A activities that had unlocked the value of the firms involved. "The M&A activities have unlocked the value of property firms SP Setia and E&O," he added.

Meanwhile, the Employees Provident Fund (EPF) and UEM Group have concluded the negotiation with the government on the proposed acquisition of assets and liabilities of PLUS Expressways and Penang Bridge.

They expect to complete the proposed acquisition and payment to shareholders of PLUS Expressways this month.

In the oil and gas industry, the RM11.85 billion merger between SapuraCrest Petroleum and Kencana Petroleum will create the largest oil and gas service provider by assets in the country.

Once completed, the SapuraCrest-Kencana group will be the world's fifth largest oil and gas service provider.

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