

Investment banks jockey for US\$100 million Samsung restructuring bonanza
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Investment bankers are jostling to win plum roles from the founding Lee family of Samsung Group, South Korea's top fee-payer, as it prepares to hand the baton to the next generation in a restructuring that could land more than US\$100 million (RM320 million) in advisory fees alone.

Foreign and Korean investment banks are bringing in their chief executives and top dealmakers to pitch for a glut of deals as the US\$407 billion Samsung Group untangles an empire that ranges from electronics to financial services.

Banks' top executives have long courted the Samsung Group as it's among Asia's top fee-payers. Citigroup's chief executive Mike Corbat flew to Korea last year to meet with Samsung management, according to a source with direct knowledge of the matter, while last month Asia-Pacific head Stephen Bird travelled to Seoul.

A spokesman for Citigroup declined to comment.

Now, as the group's restructuring accelerates, Korean and foreign investment banks are assembling large teams, sending their CEOs to pay their dues at Samsung HQ and boosting research coverage of the group to try and win lucrative work from the conglomerate.

"There are potentially hundreds of transactions that can be done to simplify the Samsung group structure," said Shaun Cochran, head of Korea at CLSA, an investment bank, which published a 178-page report on the group on June 16.

As well as untangling the group's complex web of businesses, the restructuring could also ease a potential US\$6 billion tax bill faced by the Samsung heirs.

Unlike large Western companies that often retain a 'house' bank, bankers say Samsung keeps them on their toes by fostering competition for each and every deal as it believes it gets better service that way.

Since 2010 the group has paid an estimated US\$167 million in fees, the most among Korean corporates and the tenth-highest in Asia outside Japan,

according to data from Freeman Consulting. So far this year, it has paid US\$21 million in fees, compared with \$13 million for all of 2013.

Bankers estimate Samsung could pay more than US\$100 million in fees over the next two years.

With revenues from trading and dealmaking dwindling, global banks in Asia have culled staff and focused on cross-selling to the region's few serial fee payers.

That makes a group like Samsung, whose Samsung Electronics Co Ltd is the world's biggest smartphone maker, a top target for banks. In return, Samsung is a demanding client even by investment banking standards.

"For a one hour meeting with them, we'll do thirty man-hours of preparation so we don't waste their time," said a senior executive at a foreign investment bank in Seoul.

The sprawling Samsung conglomerate, whose 2012 revenues accounted for more than a quarter of South Korea's nominal gross domestic product, appears to be accelerating a restructuring after patriarch Lee Kun-hee, 72, was hospitalised in May.

Last month, Samsung Everland Inc, a key holding company within the group, announced plans for an IPO, following a similar announcement in May by IT solutions unit Samsung SDS.

Other mandates include battery maker Samsung SDI Co's acquisition of electronics materials affiliate Cheil Industries Inc, and a potential renminbi-denominated bond for Samsung Electronics.

Banks are also pitching for at least three sell-side mandates from Samsung, as it prepares to divest non-core businesses, a person familiar with the process said.

The estimated US\$100 million payday for banks in the next two years excludes fees from ancillary business such as providing foreign exchange or hedging, which could push the total even higher.

"Samsung's business style is 'we won't skimp on the payment, let's make sure the work is right,'" said a Korean banker working on one of the listings.

A spokesman for Samsung said in an emailed statement that the group could not comment on fees or the details of its subsidiaries' process of selecting banks.

Banks pitching Samsung must impress panels headed by management of the group subsidiary doing a given deal, bankers said.

They must also woo Samsung heir apparent Jay Y Lee, who is overseeing the restructuring and taking a keen interest on major transactions such as the Everland IPO.

Banks working on the SDS IPO were not short-listed for the Everland deal, sources with direct knowledge of the matter said, as SDS officials did not want their bankers distracted.

Korean banks, unsurprisingly, have tended to win the lion's share of the work in the past four years, with Samsung's own securities arm earning 16% of all estimated fees.

Goldman Sachs has earned an estimated US\$19.1 million in fees, or 11% of the total paid by the group since 2010, the most among foreign banks, according to Freeman Consulting and Thomson Reuters data.

Other foreign banks on Samsung's books include Citigroup, which provides cash management and foreign exchange services for Samsung in some 67 countries, and JPMorgan Chase.

"Samsung are the epitome of Korea in how they handle banking relationships - not looking to favour any firm outright, spreading the wealth around, but laser-focused on quality of execution," said a Seoul-based executive at a foreign bank. – Reuters, July 2, 2014.

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