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Mergers & Acquisitions

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Malaysia

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Overview

Despite the gloomy economic conditions worldwide, the Malaysian economy recorded a steady pace of growth at 5.1% in 2011 (albeit down from 7.2% in 2010). The gross domestic product figures for the second quarter of 2012 showed the economy grew by 5.4%. This was seen as due to government spending, lending to business by well-capitalised banks, and consumer spending boosted by civil servants' pay increments and cash handouts. Domestic demand registered a strong growth of 8.2% in 2011 (from 6.3% in 2010) driven by household and business spending and higher public sector consumption. A review of the real GDP showed that the services sector grew by 6.8% in 2011 amid firm domestic demand. The sector remained the largest contributor to growth, accounting for 3.9% of overall GDP growth.

Malaysia's stock market stole the limelight in 2012 with two major flotations. Khazanah Nasional Berhad's healthcare investment arm, IHH Healthcare Berhad, raised US$2.1bn in July 2012 in the world's third-largest initial public offering to date. IHH Healthcare Berhad is the world's second-biggest listed healthcare provider by market value. Subsequently, Malaysia's Felda Global Ventures Holdings (FELDA), a state-controlled palm-oil producer, raised US$3.1bn, which became the world's second-largest IPO to date after Facebook.

In the 2012 World Investment Report on cross-border merger and acquisition overview, the 2011 figures for net sales by Malaysia was US$4.5bn, and for net purchases by Malaysia was US$3.9bn. For comparison, the 2011 figures for Southeast Asia were net sales of US$20.1bn and net purchases of US$17.5bn. The total value in cross-border mergers and acquisitions worldwide was US$525bn.

However, the 2011-2012 data for mergers and acquisitions (whether cross-border or not) from Bloomberg Finance showed a total deal value where Malaysia was the target of US$35bn and where Malaysia was the acquirer of US$36bn. For the time period between 1 January 2012 to 20 November 2012, the total deal value where Malaysia was the target was US$9bn and where Malaysia was the acquirer was US$10bn. The statistics indicate a high number of merger and acquisition deals within the country.

According to the World Economic Forum data, the three-year average (2009-2011) of the dollar value of mergers and acquisitions occurring in Malaysia as a percent of the total global value is 0.54. From 2009-2011, Malaysia's share of the total number of M&A deals worldwide was 1.7%. For the same time period, the mergers and acquisitions transactions value as a percentage of the Gross Domestic Product in Malaysia was 5.76.

In a 2010 report published by Pickering Pacific, mergers and acquisitions in the ASEAN-6, comprising Indonesia, Malaysia, Singapore, Thailand, The Philippines and Vietnam, accounted for 6% of merger and acquisition deals worldwide and 24% of such deals in Asia. By comparison, China accounted for 9% and India for 3%. The number of merger and acquisition deals done in Malaysia in 2010 was 641. Out of these deals, 354 deals were announced with a total disclosed value of US$22.2bn. The breakdown by sector in volume is financials 20%, real estate 12%, materials 10%, consumer staples 9%, consumer products and services 8%, media and entertainment 6%, high technology 6% and others 12%. The financial sector accounted for 20% of the number of transactions with 88 deals. The breakdown by sector in value is 45% industrials, 14% materials, 12% real estate, 11% financials, 7% energy and power and 11% others.

Of the five top completed deals in Malaysia in 2010, only one acquirer was foreign, South Korea's Honam Petrochemical in the Material industry who acquired Titan Chemical for US$1.2bn. The other deals were in the Energy and Power industry where Tanjong Capital acquired Tanjong for US$1.4bn, in the Real Estate sector where UEM Land Holdings acquired Sunrise for US$981m, in the Telecommunications sector where Measat Global Network acquired MEASAT global for US$201m, and in the Materials industry where PGEO Group acquired Natural Oleochemicals for US$153m. Tanjong, Titan and Sunrise deals were also among the Top 5 completed deals in the ASEAN-6 countries.

One of the top deals on record in respect of mergers and acquisitions in Southeast Asia was Malaysia's PLUS Expressways Berhad which was acquired by Investor Group (Malaysia) for US$10.1bn in 2010.

One of the top deals for 2012 in respect of announced mergers and acquisitions in Southeast Asia was Malaysia's PETRONAS' acquisition of Progress Energy Resources Corp of Canada. The value of the deal was US$5.8bn. This deal seems in line with Canada's vision to export natural gas to Asia whilst PETRONAS, Malaysia's state-owned oil and gas company, is looking abroad to expand its business. However, the government of Canada has recently blocked the deal and both the acquirer and the target companies are still attempting to address the concerns of the Canadian government.

According to the Pickering Pacific 2010 report, Malaysian domestic investors accounted for 85% of the deals in volume and 78% in value. This rate was the highest in the ASEAN-6 countries. Most Malaysian companies either consolidate within the country or they merge and acquire companies abroad. The increased competitiveness in this highly connected global economy has made mergers and acquisitions almost a necessity for companies seeking survival in major economic sectors. In the last few years, Malaysian companies have been active seeking growth and revenue by sizing up to withstand the competition coming into the country and to tap opportunities outside the country.

Key Developments

Key developments that affect the volume and value of mergers and acquisitions in Malaysia stem mainly from government initiatives that encourage economic growth in certain sectors.

Government initiatives

Amongst other initiatives, the Malaysian government targets economic growth through these two channels:

1. The **Economic Transformation Programme** (ETP) which is the catalyst for the transformation needed by Malaysia to achieve the status of a developed nation by 2020 as targeted under the Malaysian New Economic Model; and
2. The **Association of Southeast Asian Nations** (ASEAN) which enables the Southeast Asian region to synergize.

ETP

Under the ETP, the government is committed to introduce structural changes through six Strategic Reform Initiatives so as to create an environment which allows Malaysians to be competitive on the global stage.

Strategic Reform Initiatives	Action taken
Competition, Standards and Liberalisation	Introduction of Competition Law and liberalisation of services subsectors
Human Capital Development	Minimum wage and upgrading the workforce
Government's Role in Business	33 companies under 6 Government Linked Investment Companies were identified for divestment through listing, pare-down or sale

Strategic Reform Initiatives	Action taken
Public Finance Reform	Improving tax administration, rationalising corporate tax incentives, transparent procurement, controlling expenditure, accrual accounting and introducing a broad-based tax
Public Service Delivery	Business Licensing Electronic Support System (BLESS) aims to abolish 405 licences and simplify 271 and will be incorporated into an accessible single online portal
Narrowing Disparity	Programmes to enhance wealth creation for the *bumiputeras* (ethnic Malays)

Competition

The Competition Act 2010 (the "Act") was enacted by the Parliament of Malaysia in May 2010 and came into effect on 1 January 2012. The Malaysian Competition Commission was established under the Competition Commission Act 2010 to implement the Act. Previously Malaysia did not have a comprehensive law on competition except in the communications and multimedia sector (under the Communications and Multimedia Act 1998) and in the energy sector (under the Energy Commission Act 2001). The Act was intended to enhance consumer welfare, business practices and economic development. The Act covers all commercial activities both within and outside of Malaysia that have negative or anti-competitive effects in any market in Malaysia. The Act prohibits enterprises from engaging in two forms of conduct defined as "anti-competitive agreements" and "abuse of dominant position". Notably, competition law in most jurisdictions has a third limb which is to regulate anti-competitive mergers and acquisitions. The Malaysian Act does not refer to mergers and acquisitions but the government of Malaysia may introduce this in the future.

The most recent proposed merger where the issue of competition law was raised was in the Air-Asia and MAS deal. In August 2011, a Comprehensive Collaboration Framework was established to enable Malaysian Airline System ("MAS"), Air-Asia and Air-Asia X to explore opportunities to co-operate, so as to leverage their respective competencies and optimise efficiencies. Hence Khazanah and Tune Air entered into a share-swap agreement to align the interests of the primary shareholders of MAS and Air Asia. Khazanah Nasional Berhad, which is a Malaysian government-controlled investment company, has a 70% stake in MAS, Malaysia's national carrier. The deal would give Tune Air a 20.5% stake in MAS and Khazanah a 10% stake in Air Asia. The share swap would be the first step towards a merger between the two airlines. The deal brought about public debate on − amongst other issues − anti-competition issues, as one likely outcome of the deal would be reduced routes, as together the two airlines take 80% of the domestic market. In May 2012, the share-swap was called off through government intervention after complaints from unions and employee associations at MAS.

Liberalisation

Since 2009, 100% foreign equity has been allowed in 27 services subsectors including health and social services, tourism, transport, business services and computer and related services. By the end of 2012, a further 17 services subsectors will be liberalised. 100% foreign equity is now allowed for the 15 subsectors including Telecommunications (Application Service Provider licence), Technical and Vocational schools, Technical and Vocational schools for students with special needs, Private Hospitals, Department and Specialty stores, Incineration services, Accounting (including audit) and Taxation, Skills training centres, Courier services, International Schools, Telecommunications (Network Service Provider and Network Facilities Provider licences), Private Universities, Medical Specialists Clinics, Dental Specialists Clinics and Legal services. The remaining two subsectors which are still pending implementation are Architectural services and Engineering services.

For financial services, foreign equity limits were increased from 49% to 70% for investment banks, insurance companies and *takaful* (Islamic Insurance) operators. A higher foreign equity limit beyond 70% is considered on a case-by-case basis for insurance companies. More operational flexibilities are given if these entities are locally incorporated. Foreign equity limits were also raised from 49% to

70% for stock-broking firms and unit trust management companies, and from 70% to 100% for fund management companies providing wholesale services.

National Key Economic Areas (NKEAs)

Under the ETP, the government identified 12 NKEAs which cover 11 industries and one geographical territory. They are: Oil, gas and energy; Palm oil; Financial services; Tourism; Business services; Electronics and Electrical; Wholesale and retail; Healthcare; Communications content and infrastructure; Agriculture and the Greater Kuala Lumpur / Klang Valley. There are 131 Entry Point Projects and 60 Business Opportunities offered under the plan.

Regional Economic Corridors

The Government has further identified five key regions to be developed in Malaysia, namely:
- Iskandar Malaysia in Southern Johor (IRDA);
- Northern Corridor Economic Region (NCER);
- East Coast Economic Region (ECER);
- Sabah Development Corridor (SDC); and
- Sarawak Corridor of Renewable Energy (SCORE).

One of the fast growing economic corridors in Malaysia is the Iskandar economic region in the state of Johor. It has attracted RM99.79bn worth of investments through manufacturing (RM33.36bn), property (RM32.94bn), government (RM7.31bn), utilities (RM9.52bn), tourism (RM2.03bn) and related sectors (RM14.63bn). Up to June 2012, it was reported that domestic investments constitute about 62% of the total cumulative committed investments, while the remaining 38% are foreign investments. As at December 2011, Singapore is the largest foreign investor in Iskandar Malaysia with RM4.5bn investments. Johor's close proximity to Singapore added advantages.

The region targets six key service-based sectors which are as follows:
- creative;
- education;
- financial advisory and consulting;
- healthcare;
- logistics; and
- tourism.

Companies undertaking qualifying activities within the above sectors in the approved node within Iskandar will be eligible to apply for IDR-status. Tax incentives for IDR-status companies include exemption from corporate income tax for a period of 10 years in respect of statutory income derived from qualifying activity carried out within the approved node, and exemption from compliance with the withholding tax provisions, on payment of royalty and services fee to non-residents for a period of 10 years from commencement of operations.

With the incentives and its strategic location, Iskandar Malaysia continues to attract a steady flow of both domestic and foreign investments despite global economic uncertainty. There are a fast-growing number of foreigners' purchases of land and properties in Iskandar, as well as development joint ventures. Particularly, sectors such as education and healthcare have attracted a lot of foreign interests. EduCity in Iskandar Malaysia is home to Marlborough College Malaysia and Newcastle University Medicine Malaysia. EduCity will also be home to several more notable foreign universities such as University of Southampton Malaysia Campus, University of Reading Malaysia, Netherlands Maritime Institute of Technology, Raffles University Iskandar and Singapore Management Development Institute, which are said to be opening in the next year or two. On health tourism, Medini Integrated Wellness Capital (IWC) in Iskandar Malaysia, Johor is scheduled to launch early next year. It is a RM3bn township developed as a joint venture between Malaysia and Singapore's sovereign wealth funds. For leisure, LegoLand Theme Park has commenced operation recently. We expect to see a growing number of M&A activities in the Iskandar region in the near future.

ASEAN

The regional grouping of ASEAN created the ASEAN Economic Community (AEC) in the hope of achieving economic integration within the region. The main objectives of the AEC are to create a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy.

The launch of the ASEAN banking integration framework forces local banks to consolidate, as liberalisation of the banking industry increases competition from foreign banks. In her keynote address at the 19th ASEAN Banking Conference 2012, Malaysia's Central Bank Governor, Tan Sri Zeti Akhtar Aziz, said that the regional central banks were in the final stages of preparation of launching the ASEAN banking integration framework. She further said that the framework will enable well-managed ASEAN banks with the capacity to serve as regional standard bearers. The framework will also enable the banks to expand within the region with ease.

Significant Deals and Highlights

The most significant merger and acquisition deals over the last twelve months would be in the *financial services* sector.

The latest deal by CIMBG, a wholly-owned subsidiary of CIMB Group Holdings Berhad, completed the acquisition of selected cash equities business in Australia, China, Hong Kong, India and Taiwan, and equity capital markets business and M&A corporate finance business in Australia, China (excluding any activities carried on by Hua Ying Securities Co Ltd), Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan and Thailand from the Royal Bank of Scotland in the Asia Pacific. The deal was worth US$ 142m. CIMB is Malaysia's second-largest bank by assets and market value. As Southeast Asia's top-ranked investment bank over the past three years, CIMB had plans to extend its reach ex-ASEAN. The deal enables the bank to get the scale it needs to build its presence in Asia Pacific with a market capitalisation target of US$31bn in 2015. Since 2006, CIMB has spent US$2.32bn on 19 acquisitions including a recent acquisition of a 60% stake in the Philippines' Bank of Commerce for US$287m.

The largest deal in the financial sector would be Maybank's acquisition of Kim Eng. Maybank is a trade name for Malayan Banking Berhad which is the largest bank and financial group in Malaysia. In 2008, Maybank completed the acquisition of 15% in An Binh Bank (Vietnam), 20% of Muslim Commercial Bank of Pakistan and 97.5% of Bank Internasional Indonesia (BII). In July 2011, Maybank acquired 44.6% of Kim Eng Holdings (Singapore) for a total cost of SGD1.79bn. Through its majority ownership of Kim Eng, Maybank has a 55.75% stake in Kim Eng Securities (Thailand) Public Company Limited, through direct and indirect shareholdings. As at 5 May 2011, Kim Eng holds approximately 42.4% of AATR Kim Eng Financial Corporate, which is a company listed on the Philippine Stock Exchange. The merger with the Singapore stockbroking firm will extend Maybank's investment banking and stockbroking arm into Singapore, Thailand, Indonesia, the Philippines and Vietnam. Kim Eng also has market presence in Hong Kong, New York and London.

Another significant deal last year in the Oil and Gas sector was the Sapura-Kencana Petroleum (SKP) merger with a market capitalisation worth RM11.85bn. A Special Purpose Vehicle, Integral Key Sdn Bhd, made the offer to acquire both companies and essentially merge both businesses. SapuraCrest Petroleum Bhd (SapuraCrest) was in the business of installing pipes and facilities whilst Kencana Petroleum Berhad (Kencana) was in fabrication. Under a cash and share-swap deal, Integral Key bought all the assets and liabilities of SapuraCrest for RM5.87bn and Kencana for RM5.98bn. Upon the merger, SapuraCrest's shareholders would collectively hold approximately 49.94% while Kencana shareholders would own 50.06% in Integral Key.

SKP is now one of the world's largest fully-fledged integrated service providers, involved in: the installation of pipelines and facilities; offshore drilling services; engineering, procurement, construction, installation and commissioning; marine services; operations and maintenance; and development and production of petroleum resources. With a bigger asset base, SKP hopes to secure bigger and more complex turnkey projects domestically and internationally. The deal has made SKP the largest oil service provider by assets in the country.

The merger of Sime Darby, Guthrie and Golden Hope in 2007 is highlighted here as it remains significant to the Malaysian economy. Synergy Drive Berhad was set up as a Special Purpose Vehicle to merge all the assets and liabilities of Sime Darby Group, Kumpulan Guthrie Berhad, Golden Hope

Plantations Berhad and six of its listed subsidiaries. This merger was to take advantage of economies of scale, synergies and greater productivity and efficiency. Sime Darby Berhad is now one of the largest plantation companies in the world and the world's largest listed oil palm plantation player. It has a land bank of over 633,000 hectares, including 300,000 hectares in Indonesia. In 2009, about 70% of the conglomerate profits came from plantation.

Industry Sector Focus

In the Malaysian context, the three industries that have attracted sizeable mergers and acquisitions, and are likely to continue to do so, are in financial services, oil and gas and in plantations.

<u>Financial services</u>

Banking

Since the 1997 financial crisis, the banking sector in Malaysia has been forced to consolidate. Hence, by the end of 2001, 54 financial institutions had merged to form 10 anchor banks. This sprung from the vision and objectives under the Central Bank of Malaysia's Financial Sector Master Plan. Local banks are encouraged to be better capitalised and well positioned as Malaysia liberalises its market to foreign banks and as the country grows and transforms economically. Since then, the number of anchor banks has shrunk further. Last year, Hong Leong Bank Berhad completed the acquisition of EON Banking Group (which comprised EON Bank Berhad, EONCAP Islamic Bank Berhad and MIMB Investment Bank Berhad). Mergers and acquisitions in the banking sector remain very active and ongoing to date and are expected to continue in the next few years in Malaysia.

At the present date there are eight local commercial banks in Malaysia. They are Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, Hong Leong Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. There are 19 licensed foreign commercial banks, making a total of 27 commercial banks in Malaysia.

Islamic banking

The Central Bank of Malaysia's Financial Sector Blueprint 2011-2020 specifically outlined Islamic banking as an area of potential growth. Islamic banking is an important feature in the financial services sector not only in Malaysia but also in the region. Recently Affin Holdings Berhad is in negotiations with DRB-Hicom Berhad and Khazanah Nasional Berhad for a possible acquisition of equity interests in Bank Muamalat Malaysia Berhad (Islamic Banking). Affin had announced that the negotiations were to be completed on or before 31st December 2012. Affin Holdings and DRB-Hicom would be required to obtain prior approval of the Finance Ministry, with the Central Bank of Malaysia's recommendation pursuant to the Islamic Banking Act 1983.

Investment banking

Another feature of the financial sector that has garnered a lot of attention is investment banking. Investment banking appears to be controlled by the big players globally. Hence the statement by CIMB's CEO, Nazir Razak, that now CIMB can compete with the likes of Goldman Sachs Group Inc. and JP Morgan Chase & Co for Asia-Pacific deals (when the investment bank acquired the Royal Bank of Scotland's operations in Asia). CIMB had begun its expansion when it acquired GK Goh Stockbrokers Pte Ltd (Singapore) in 2005. CIMB is now the 5th largest bank in Southeast Asia by assets. Malaysia's biggest bank, Malayan Bank Berhad, after its acquisition of Kim Eng Holdings Ltd in 2011, had also significantly extended its reach throughout the region. According to Dealogic data, CIMB and Maybank Investment Bank Berhad were the only two Malaysian-based groups that made it to the TOP 10 league table of Southeast Asia investment banks by revenue as of the end of 2011. CIMB topped the list while MIBB was ranked fifth after Credit Suisse, Morgan Stanley and DBS.

In May 2012, RHB Capital Berhad announced it had signed an agreement to buy OSK Holdings, Berhad's investment-banking unit for RM1.95bn in cash and stock. The deal will create Malaysia's largest stock brokerage and investment bank by assets and the country's fourth largest bank by assets. The deal marks RHB's entrance into Indonesia, Hong Kong and Cambodia and will strengthen its positions in Singapore and Thailand.

In the meantime, Southeast Asia's biggest bank, DBS Group Holdings Ltd (Singapore), has offered to buy PT Bank Danamon Indonesia (BDMN) for about US$7.2bn. The deal would be the biggest takeover by a Southeast Asian lender. DBS had paid US$5.4bn for Dao Heng Bank Group Ltd (Hong Kong) in 2001. DBS is also seeking to enter the Malaysian market through its recent offer to buy a stake in Alliance Financial Group (AFG). Two of Singapore's banks, United Overseas Bank (UOB) and Overseas Chinese Banking Corp (OCBC), are already among the largest foreign banks operating in Malaysia. It was reported by Malaysian business journal The Edge that the government of Malaysia and Singapore may be discussing the possible entry of DBS into Malaysia for a *quid pro quo* settlement. Maybank is at present the only Malaysian bank in Singapore with a QFB (qualifying full bank) licence. CIMB is reported to have applied for the QFB licence and has yet to receive approval.

Insurance

The insurance industry in Malaysia has seen some mergers and acquisitions in the past few years. There had been a few deals between local targets and foreign acquirers. Central Bank of Malaysia's liberalisation plan to raise the foreign equity participation limit to 70% effective 2010 has propelled M&A activities.

The most recent deal was the acquisition of ING Groep NV (INGA)'s insurance business in Malaysia by AIA Group Limited, the third-largest Asia-based insurer for €1.3bn. The acquisition will combine ING's operations, the third-largest in Malaysia, and AIA's existing business (the fourth-largest) to create the top life insurer in the country. The acquisition includes ING's life-insurance and employee benefits businesses in Malaysia, as well as a 60% stake in ING Public Takaful Ehsan Berhad.

Another recent deal is AMMB Holdings Berhad's acquisition of Kurnia Insurans (M) Berhad for RM1.627bn. The purchase was jointly made by AMMB and IAG, which is an international general insurance group operating in Australia, New Zealand, United Kingdom and Asia. Kurnia is now a unit of AMMB's 51% subsidiary AmG Insurance Berhad. The combined business will underwrite about RM1.7bn of insurance premiums each year. As at the end of 2011, Kurnia possessed 8% of the local general insurance sector and 14% of the motor insurance sector (largest in the country).

These deals were preceded by the Hong Leong Financial Group's disposal of its 30% stake in Hong Leong Assurance to Mitsui Sumitomo Insurance for RM913.2m, and Jerneh Asia Berhad's disposal of 80% of its stake in Jerneh Insurance Berhad to US insurer ACE INA International Holdings Ltd for RM523.2m in 2010. In 2011, Berjaya Corp Berhad sold its 40% stake in Berjaya Sompo Insurance Bhd to its Japanese shareholder, Sompo Japan Insurance Incorporated.

More mergers and acquisition activities in insurance in Malaysia are expected. The takaful sector is expected to be more active, as the domestic takaful market remains to be tapped. The takaful market is expected to grow between 25% and 30% annually.

<u>Oil and gas</u>

One of the National Key Economic Areas (NKEAs) under the ETP is in oil, gas and energy. Oil and gas contributes approximately 20% to the Malaysian GDP. As the oil fields mature, oil and gas production is expected to decline and hence Malaysia is taking active measures to address this. The ETP aims to:

1. Sustain oil and gas production by capturing value from mature fields through enhanced oil recovery, using innovative solutions to develop small oil fields and intensifying exploration activities.
2. Enhance growth in the downstream by increasing international flows of crude oil and refined products. Hence the plan to build a regional storage hub and to develop a regasification terminal for imported liquefied natural gas.
3. Make Malaysia the leading Asian Hub for oil field services by consolidating domestic fabricators to increase their likelihood of winning major contracts, and partner with world-class companies to establish a presence in the construction and installation portion of the value chain.
4. Build a sustainable energy platform for growth by exploring alternative sources of energy such as nuclear, solar and hydroelectricity while undertaking energy efficiency measures.

So far, the two major announced mergers and acquisitions reflect the government's initiatives. The PETRONAS announced deal to acquire Progress Energy Resources of Canada shows a genuine attempt by a Malaysian state-owned enterprise to expand its reach abroad. The deal was rejected in October 2012 by Industry Canada. Canada's industry minister had rejected the acquisition under the nation's foreign takeover law on grounds that it wasn't deemed to be to the country's benefit.

As for consolidation of domestic fabricators, the deal between Sapura Crest and Kencana Petroleum in 2011 is an obvious example. Since its merger, Sapura Kencana Petroleum Berhad won contracts for the fabrication of process equipment modules for Wheatstone LNG plant facility worth RM1bn and a RM4.2bn contract awarded by Petrobas to construct, charter and operate three units of pipe-laying support vessels (PLSVs). Exposure to the Australian LNG sector and the Brazilian O&G market will give the Malaysian company international stature and presence. In November 2012, SapuraKencana announced its plans to take over Norwegian offshore drilling firm Seadrill's Singapore-based tender rig business for US$2.9bn. Seadrill may receive up to US$1.4bn in cash and US$350m worth of new shares in Sapura Kencana. After the transaction Seadrill's stake in Sapura Kencana will rise to about 13%. The deal is expected to close by January 31 2013.

Given the Malaysian government's emphasis on this sector, there are likely to be more mergers and acquisitions to come, whether with local or foreign operators. There are smaller oil and gas operators such as Perdana Petroleum Berhad, Dayang Enterprise Holdings Berhad, Petra Energy Berhad, Alam Maritim Resources Berhad, Uzma, Tanjung Offshore, Ramunia Holdings and Coastal Contracts Berhad. PETRONAS's spending programme of RM300bn over the next five years includes developing 27 marginal fields, enhanced oil recovery and further development of deepwater projects, and there is a need to consolidate the smaller companies as well as to seek interests from more parties, foreign or otherwise. PETRONAS is also moving towards the award of full service contracts instead of multiple packages domestically (in line with the practice in other regional markets). Hence, in order to tender for a bigger contract, companies need to be of a certain size by assets and expertise.

<u>Plantations</u>

The potential for mergers and acquisitions in the agriculture and plantation sector is caused by an increasing global demand for land banks in Malaysia and Indonesia. Due to competition and cost sensitivity, the smaller or less competitive companies will either merge, be bought over or be edged out by the market.

It is reported that since its listing, FELDA is targeting more mergers and acquisitions in the ASEAN region, especially in the upstream operation, partly to counter its dated oil palm profile in Malaysia. The group's CEO had said that the expansion would involve acquisitions of prospective small and mid-tiered plantation companies in Malaysia, as well as green and brown fields for oil palm in Indonesia and sugar plantations in Myanmar. The group's vision is to emerge as the leader in the global oil palm industry with a total landbank (regionally) of one million hectares by 2020.

<u>Steel industry</u>

A sector that may see more mergers and acquisitions is in steel. The local steel industry is negatively affected by the influx of cheaper imported steel as an outcome of the more open market. The industry wants the government to impose temporary anti-dumping measures on under-specified and under-priced imported steel goods while investigations on certain products are in progress. For survival and improvement in competitiveness, the Malaysian Iron and Steel Industry Foundation has proposed that local steel players pursue merger and acquisitions among themselves, as the current industry is too fragmented. Total usage of steel in ASEAN in 2011 was 50 million tonnes but the ASEAN countries produced only 26 million tonnes. According to the South East Asian Iron and Steel Institute chairman, Chow Chong Long, there is no entity in the region to tap this strong demand. He said that hence Japanese and Chinese players are coming to form strategic alliances in this region. MISIF President, Datuk Soh Thian Lai suggested that consolidation among local steel players could be horizontal like upstream and downstream companies, vertical among downstream companies, or mergers between local and foreign companies. He believes that it will be beneficial for local players to get foreign companies with technical expertise. Steel industry mergers have become inevitable worldwide. The need has arisen mainly due to the accumulation of excess capacity.

The Year Ahead

The Malaysian economy is forecast to grow between 4.5 and 5.5% in 2013, underpinned by domestic demand. Growth in 2013 is expected to be broad-based, supported by expansion in all sectors of the economy. The services and manufacturing sector is expected to contribute 4.2 percentage points to the GDP growth. The services sector is expected to grow 5.6% in 2013 from 5.5% in 2012 under the major initiatives of the National Key Results Areas. Manufacturing is expected to expand at 4.9% from 4.2% the year before in anticipation of higher exports. The mining and quarrying sector is expected to nearly double in growth from 1.5% in 2012 to 2.7% in 2013. The production of crude oil is projected to increase 3.6% to 600,000 barrels per day in 2013 from 1.6%, or 579,000 barrels per day in 2012. Several new oil fields are expected to start production in 2013.

Malaysia ranked third for Foreign Direct Investments inflows in ASEAN for 2011 in the sum of US$11,966m. The breakdown by sector showed US$40m into Agriculture, Forestry and Fishing, US$2,403m into Mining and Quarrying, US$5,334m into Manufacturing and US$4,189m into Services. The government continues to encourage FDI by relaxing foreign investment restriction in services.

In the World Bank's *Doing Business 2013* report, Malaysia leaped to 12th position in global competitiveness. The report, which surveyed 185 economies, ranked Malaysia 1st in 'Ease of Getting Credit' and 4th in 'Protecting Investors'. Hence Malaysia remains among the world's most business-friendly countries as Malaysia continues to seek ways to reduce the costs of doing business.

The New Economic Model, launched in 2010, envisions economic growth that is primarily driven by the private sector and which moves the Malaysian economy into higher value-added activities in both industry and services. To do so, Malaysia will need better skills, more competition, a leaner public sector, a better knowledge base, smarter cities and greater efforts to ensure environmental sustainability. In conclusion, given the government initiatives, the year ahead should see more mergers and acquisitions in those sectors of industry outlined above, as well as in those sectors further liberalised.

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