M&As *to stay* buoyant

The aftermath of Covid-19 acts as a reset button for businesses, compelling them to adapt, merge or acquire to remain relevant

CORPORATE

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PETALING JAYA: The prospects for more merger and acquisition (M&A) deals in Malaysia are expected to persist going into 2024, despite the global economic headwinds, geopolitical conflicts and high interest-rate environment, say industry experts.

This year alone saw several healthy M&A transactions ranging from strategic collaborations to substantial acquisitions as many corporations actively seek to unlock further synergies, they added.

Prominent M&A deals throughout 2023 include the potential merger of two automotive giants following the proposal by Sime Darby Bhd to acquire Permodalan Nasional Bhd's (PNB) 61.2% stake in UMW Holdings Bhd for an estimated RM5.84bil.

Malaysia Building Society Bhd, meanwhile, has concluded the acquisition of the entire equity interest in Malaysian Industrial Development Finance Bhd from PNB for RM1.01bil.

Gamuda Bhd, on the other hand, expanded into the Vietnamese real estate market with its subsidiary Gamuda Land securing a 100% equity interest in Tam Luc Real Estate Corp for US$315.8mil.

Another ongoing deal is the proposed sale of a 33% stake in Boustead Plantations Bhd by the Armed Forces Fund Board, after Kuala Lumpur Kepong Bhd failed in its bid for the proposed stake sale.

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Devanesan Evanson

According to Minority Shareholders Watchdog Group chief executive officer Devanesan Evanson, there will be more M&A activities to come.

He attributed this trend to the controlling shareholders seeking to unlock value and achieve synergies.

"Cash-rich companies will be on the prowl for acquisitions and if done equitably, will benefit both the involved shareholders and stakeholders," he told *StarBiz*.

Moving into 2024, Devanesan believes that more government-linked investment companies (GLICs) may also rationalise their shareholdings in their respective investee companies, while considering to further merge similar business activities.

"This perspective is evident in the proposed acquisition of UMW Holding by Sime Darby from PNB, which is also a major shareholder of the latter," he added.

He also believes GLICs will be prepared to give up their control of non-core business holdings.

"It will, however, be good if there are opportunities to unlock value through new initial public offering (IPO) listings," Devanesan pointed out.

Asked on the valuation of deals throughout this year, he said: "This is a subjective matter, as different shareholders have different entry points and different expectations."

Regarding the difficulties companies typically encounter in past mergers, Devanason said they centre around merging distinct corporate cultures and managing internal dynamics.

Furthermore, equitable solutions for excess staff resulting from mergers must be implemented thoughtfully.

"It is all in the implementation and execution and this must be done rightly to create the right synergies.

"The endgame should be about increasing shareholder and stakeholder values," he added.

Meanwhile, UCSI University Malaysia assistant professor in finance Liew Chee Yoong said the M&A landscape in Malaysia has shown a mix of optimism and caution.

"While the global M&A market has experienced a decline, Malaysia's M&A activity has been relatively resilient, with expectations of healthy M&A activities continuing until the end of the year.

"This suggests a cautiously optimistic M&A environment," said Liew, who is also a research fellow at the Centre for Market Education.

Looking ahead, he believes M&A activities in Malaysia are set to grow, despite ongoing global economic headwinds, with factors such as the rise of green technology, materials and software sectors likely to drive these activities.

Former banker Stanley Khoo anticipates an increase in M&A activities in Malaysia next year in line with the country's projected gross domestic product growth of between 4% and 5%.

He said the weakening ringgit would also make Malaysia an attractive destination for M&A activities.

Khoo believes the country's business landscape is undergoing significant transformation post-Covid, as most businesses have learned crucial lessons from the pandemic, having been ill-prepared to face uncertainties of such magnitude.

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Companies see M&As as a strategy to enhance growth

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"Companies are currently reassessing their portfolios, and in pursuit of enhance growth and expedited recovery, one of the more efficient strategies is through M&As.

"These activities began to increase from the end of 2021," he said.

Khoo also expects M&A activities for 2023 to remain buoyant, citing the notable transactions, including Sime Darby's acquisition of UMW Holdings and the privatisation of Boustead Plantation Bhd and Boustead Holdings Bhd.

On another note, Khoo highlighted that an undesired spike in the budgets for M&A activities can be attributed to an unanticipated hike in interest rates, posing a significant challenge to financing, especially in M&A transactions involving high-capital industries.

Additionally, the rapid change in foreign currency exchange rates compounds this challenge, he added.

To date, the movement of interest rates has acted as a short-term dampener for M&A activities this year.

Despite the challenging economic outlook, Khoo believes that companies are actively addressing these challenges in proposed acquisition activities amid a rising interest-rate environment.

He pointed out that there is a growing trend of turning to fixed-rate financing to hedge against potential increases in financing costs.

Similarly, to mitigate the impact of foreign currency movements in foreign investments, Khoo said there is an increasing emphasis on a higher degree of hedging.

"More importantly, the political involvement in Malaysia's M&A activities, especially those involving GLCs, also serve as a challenging factor in deal completion," he added.

Meanwhile, Vad Capital Sdn Bhd managing director Vivek Sasheendran pointed out a decline in M&A activity in South-East Asia since its peak in 2021.

He noted that outbound M&A from China and Japan has supported the region, positioning Singapore as the primary deal-making hub.

Reflecting on Malaysia, Sasheendran highlighted the resilience of deal volumes in 2022.

He attributed this robust performance to various factors, including companies diversifying their production base outside China to South-East Asia, Malaysia maintaining its appeal as an investment hub, and local companies strategically using deals for rapid business expansion.

However, he acknowledged the slowing global growth in 2023 may have put a damper on economic momentum in Malaysia.

He sees promising prospects for more M&As in 2024, with new government policies cutting monopolies and indirectly fostering more competition.

He is also optimistic of a recovery next year, contingent on easing inflation, stable interest rates and global economic stability.

Sasheendran said the prevailing high interest-rate environment has sparked a distinct trend in M&A for 2024, placing heightened importance on smaller-scale deals.

"Acquirers are opting for more modest transactions, partly due to the interest rate situation. These smaller deals present reduced financial risk and are more in line with a cautious approach to risk management," he noted.

Sasheendran also emphasised that the aftermath of Covid-19 acted as a reset button for businesses, compelling them to adapt, merge or acquire to remain relevant.