Deal #1: In 2016 the Qatar Investment Authority bought Asia Square Tower 1, a world-class commercial development located in Singapore's Marina Bay business and financial district, for S$3.4b. *Photo from real estate consultancy JLL.*

Deal #2: French shipping company CMA CGM assumed control of Singapore's Neptune Orient Lines Ltd last June 2016. The deal, worth S$3.38b, was the largest acquisition in CMA CGM's history. *Photo from CMA CGM.*

M&A will be about cautious deal-making

Mergers and acquisitions activities in Singapore staged a late rally last year after a slow moving 2015, but whilst the sector's outlook for 2017 remains generally positive, experts are telling cautionary tales.

The last twelve months saw a relative revitalisation of Singapore's mergers and acquisitions (M&A) activities as firms entered into multiple transactions in the last quarter of 2016 that saw the highest increase in the sector's activity since 2014. Figures over the past year have also increased on both deal value and volume.

With the rest of the Asia Pacific region poised to grow at a steady pace in 2017, deals involving Singaporean companies are expected not only to comprise the bulk of activities but also lead the way in dealing with fluctuations as policy changes loom. Analysts share that apart from big-ticket deals, there's room for opportunities for relatively smaller but more realistic transactions.

There will be continued interest in M&A deals but valuations may be lower as acquirers need to justify the acquisitions in a slowing worldwide economy.

Gaining momentum

Deal-making activity in Singapore gained momentum in 2016 when M&A transactions hit a record high worth US$93.4b, says **Elaine Tan**, senior analyst, deals intelligence, Thomson Reuters. She described 2016 as the "best annual period" of the sector in the last two years with the stream of deals that included sizeable increase in acquisitions involving sovereign wealth funds, amongst others. This is on top of the increase in outbound and domestic acquisitions.

Overall M&A activity in Singapore in 2016 grew 14% year-on-year (yoy) compared to 2015, reaching an overall value at US$71.3b, according to a Thomson Reuters report. This is on the back of the surge in deals closed in the fourth quarter of 2016 as the value of announced M&A involving Singaporean companies reached US$25b, a 38.8% sequential increase from Q3 2016 and 41.5% yoy increase from Q4 2015.

Preliminary findings from the report further stated that the average M&A deal size for disclosed deals in Singapore grew to US$126.2m, compared to the US$105.6m in 2015, as more transactions above US$1b were witnessed by Singaporean companies. "In the past year, Singapore companies and funds were active in outbound Singapore M&A as compared to previous years and this particularly dominated the market last year," says **Sheela Moorthy**, partner at Norton Rose Fulbright's Singapore office.

Total cross-border deal activity, meanwhile, amounted to US$34.5b in 2016, an 11.3% decline from the same period in 2015 (US$38.9b), according to the preliminary figures from Thomson Reuters. Singapore's inbound M&A activity slid 28.3% in deal value compared to 2015, although outbound M&A activity reached US$19.5b in 2016, up 8.8% in value from the preceding year. Domestic M&A activity grew to US$10.7b, up 18.3% in deal value from the comparable period last year.

Some of the most notable deals in 2016 that kept Singapore's M&A scene afloat included activities involving government-owned corporations, sovereign wealth funds, and private corporations. "Singapore's state investment fund Temasek Holdings (Private) Limited and sovereign wealth fund GIC Private Limited were the biggest M&A dealmakers in Singapore," says **Lisa Theng**, managing partner, Colin Ng & Partners LLP.

Following these deals, she notes, were some sizeable deals buoying up Singapore's M&A sector which include Temasek Holdings and DBS Bank Ltd's purchase of a minority stake (16.9%) in Postal Savings Bank of China for S$10b; and GIC's acquisition of Australian ports and rail giant Asciano Ltd for S$9.6b. "Notwithstanding so, a large proportion of M&A activity (30%) was attributed to deals in the real estate sector, which is not unusual for land-scarce Singapore," adds Theng.

This is echoed by **S Sivanesan**, senior partner, Dentons Rodyk & Davidson LLP, explaining that these deals have been "generally good when compared to the rest of Asia – volumes and value were high, though most of the high-profile deals involved sovereign or government-linked funds and mainly in the real estate sector." Sivanesan cites CMA CGM's acquisition of container shipping and logistics company Neptune Orient Lines Ltd, and Qatar Investment Authority's acquisition of Asia Square Tower 1, a commercial and office building located along the luxurious Marina View at Marina Bay, as the notable deals of the past year.

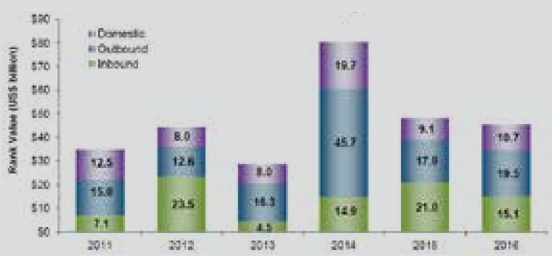
This is not to mention the sensational deal, in terms of value, of Alibaba's US$1b acquisition of a controlling stake in Singapore-based online selling platform Lazada as the Chinese online retail giant looks set to pivot and strengthen its presence and penetration in the largely untapped Southeast Asian market.

Cautiously optimistic 2017

Analysts are in agreement that the next twelve months will be promising for the M&A landscape in Singapore, although policy changes and fluctuations in the international markets also pose some challenges. "The outlook for the next 12 months is cautiously optimistic with an expected increase in capital markets activities from the lower levels of 2015," says Moorthy. "The impact of fluctuations in key international markets may well impact anticipated growth in M&A transactions from or in Singapore."

On the back of the wins in the last 12 months, 2017 will also ensure – at least for the time being – Singapore's status as the "region's leading dealmaker," according to Theng. But

Singapore cross-border & domestic M&A annual volume comparison



Source: Thomson Reuters

Overall M&A activity in Singapore in 2016 grew 14% year-on-year

Sheela Moorthy

S Sivanesan

Luke Pais

why are M&A transactions looking to be more attractive to firms and corporations currently?

Theng reckons that business owners are now starting to recognise that in the current business climate, a trade sale often results in greater financial returns than going public. In 2016, only 16 initial public offerings were issued, compared to the thriving M&A sector. "[This] sector not only provides more flexibility for investors to seek financing sources but also onerous reporting and compliance obligations imposed by the stock exchange are avoided," she explains.

In terms of expected deals in the pipeline, Global Logistics Properties is running at auction to sell itself, according to information from Dealogic. Enterprise value including net debt is US$9.5b (US$6.9b excluding debt) of the projected transaction.

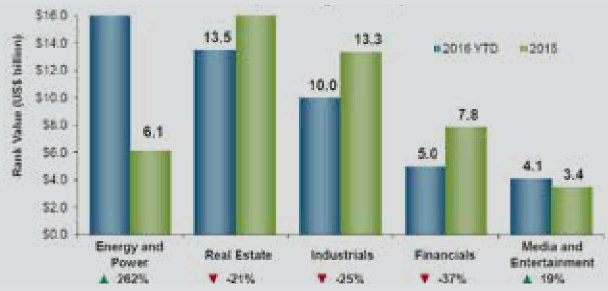
Meanwhile Intralinks Deal Flow Predictor forecasts a 6% increase in the total number of M&A deals to be announced globally in the first half of 2017 compared to the same period last year, setting a new record for annual first half global announced deal count. The Asia-Pacific region, the top performing region for early-stage M&A activity with a 44% yoy growth in the fourth quarter of 2016, is expected to contribute heavily to this year's projected growth on the back of strong performances from India, Southeast Asia, Australia, and Japan.

Challenges ahead

Despite the cautiously optimistic outlook for the next 12 months, experts are in agreement that there are a host of challenges remaining that can stifle the growth of M&A activity not just in Singapore and in the region, but globally. M&A activity in Singapore has broadly stumbled over the last three to four years for a number of reasons, according to **Luke Pais**, ASEAN M&A and private equity leader, Ernst & Young, including regional currency volatility, election cycles in various countries, Brexit, the US elections, and the more recently introduced curbs in China.

This particular focus on the development in mainland China – including restriction of capital outflow – is

Any Singaporean involvement announced M&A top 5 target sector



Source: Thomson Reuters

echoed by **Jolie Giouw**, counsel, Bird & Bird ATMD. "The Chinese outbound story remains with deal flow generated by Chinese buyers in Singapore. Another trend is the rise in warranties insurance deals on both the buy and sell sides," she says.

"In the forthcoming months, it is anticipated that stricter regulatory requirements and political uncertainty brewing in London and New York will result in slightly passive and restricted market as investors become more cautious," notes Theng. Norton Rose Fulbright's Moorthy adds that whilst there is a potential for growth from a value and volume perspective for M&A in or emanating from Singapore, "a key challenge would be the impact and resilience against the almost inevitable impact of fluctuations and policy changes in international markets."

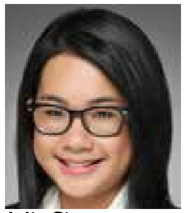
Some of the sectors that are expected to take an upswing in M&A activity include the technology and healthcare industry as Singapore brands and sets itself as a technology and innovation hub for the region. Shipping, banking, real estate, and e-commerce are also sectors or industries that could benefit from the increased transactions apart from the usual ones including energy and power.

Opportunities

Given the challenges hounding M&As, experts are suggesting that there are also opportunities to be discovered. "This rejigging of status quo also creates the catalyst for new activity. For example, we see privatisations accelerating as the dichotomy between short-term and long-term valuations becomes more apparent or restructuring needs to occur," explains Ernst & Young's Pais. "Each sector demonstrates a set of catalysts that will drive activity, and some of these drivers will result in the need for M&A. We are also seeing the emergence of partnerships particularly as companies look to access the opportunities created by technology. Rather than building capability in-house, companies may prefer to partner with tech companies that bring specific skillsets and solutions to the table that can be rapidly deployed for value."

Meanwhile, there is also an emerging trend for smaller companies which look at smaller M&A deals and transactions as a form of business development and operations expansion. "There will be continued interest in M&A deals but valuations may be lower as acquirers need to justify the acquisitions in a slowing worldwide economy," says Sivanesan of Dentons Rodyk & Davidson.

Elaine Tan



Jolie Giouw

Lisa Theng

HONG KONG VIEW

M&A to pick up pace in 2017

Hong Kong's centrality and position as a financial and corporate hub for Asia and the Pacific played a huge role in the consistent sustainable showing of the territory's M&A activities in 2016. Primary reason for this remains the rising transactions of mainland Chinese companies increasing their stakes and deals in putting their interest in the Special Administrative Region.

With the rest of the region maintaining a cautiously positive outlook towards growth in deals, Hong Kong is expected to remain as one of APAC's bastion for transactions. This is despite several factors including the looming increases in policy rates internationally, policy reforms in major markets like mainland China, and the rise in protectionism that's currently creeping in international financial and trade markets. 2016 was good for Hong Kong's M&A, but experts are saying 2017 may well be better if the right precautions are taken as various uncertainties abound.

Positive momentum

The last twelve months was a relatively positive year for M&A activities in Hong Kong despite a decline in actual growth rate compared to figures in 2015. According to Elaine Tan, senior analyst, deals intelligence. Asia-Pacific, Thomson Reuters, overall announced M&A activity involving Hong Kong-based companies totalled US$152.4b in 2016, down 44.2% after coming from a record high in 2015 at US$272.9b. But the 2016 figures, according to Tan, remains a positive and elevated one when compared to historical M&A activity in Hong Kong.

In terms of average M&A deal size for disclosed deals, Tan shares that numbers also declined year-on-year to US$99.7m compared to the US$218.8m recorded in 2015 as less transactions above US$1b were witnessed involving Hong Kong-listed companies over the last 12 months. In absolute terms, the Special Administrative Region only saw 24 deals above the billion-dollar mark with only two breaching upwards the US$5b threshold compared to 2015's stellar figures with 33 deals announced above the billion-dollar mark, three of which were "jumbo deals" above US$10b, according to Tan. She adds that the M&A deal flurry in 2015 continued its positive momentum last year.

China outbound M&A full year comparison

Source: Dealogic