Singapore M&A deal activity stutters as Chinese inbound interest wanes

Consolidation plays and domestic firms' global acquisition spree lent some support to dealmaking activity.

M&A deal activity in Singapore hit a snag: the value of total deals as of September 2018 were down by roughly one-fifth from the same period in 2017. Overall Singapore M&A activity stood at $54.3b, down 18.5% from 2017, although still "elevated" compared to historical levels, Thomson Reuters said. The average M&A deal size for disclosed deals declined to $113.4m from $129.1m during the same period.

State entities GIC and Temasek led Singapore's outbound M&A activities, Clifford Chance partner **Satbir Walia** told *Singapore Business Review.* Notable deals include GIC and Temasek jointly backing Ant Financial as they acquired an undisclosed stake for its subsidiary in a funding round that hit about $19.14b (US$14b). Temasek also subscribed for an approximately 3.6% interest in Bayer AG for about $5.06b.

The decline in overall Singapore M&A activity was driven by a 41% drop in total cross-border deal activity to $27.6b in the first nine months, from $46.8b. Singapore's inbound M&A activity was substantially weaker in 2018, falling 68.1% in deal value to $9.9b, marking the lowest first nine months since 2014 when deal value for foreign acquisitions targeting Singapore-based firms reached $9.5b, Thomson Reuters data showed.

Private firms also made their presence known with Grab buying 27.5% stake in its competitor, Uber, emerging as the talk of town, and even drawing a penalty from Singapore's competition watchdog months later. Grab has also raised more than US$2b from the likes of Toyota, OppernheimerFunds, Microsoft, and Ping An, noted Walia, in addition to forging a collaboration with various global and regional players across different sectors to helped achieve its superapp ambitions.

Historically, a considerable number of noteworthy Singaporean outbound M&A transactions have involved either GIC or Temasek. However, in 2018 we have seen domestic firms driving the Singapore M&A market.

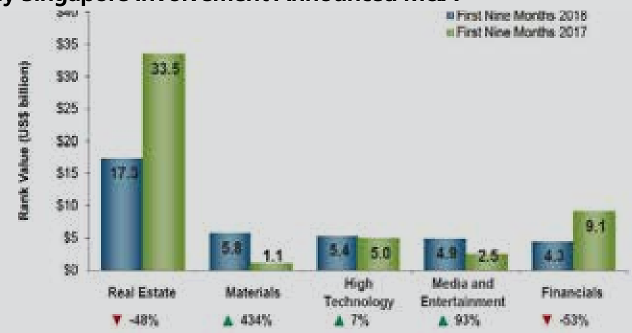
On the property market, CapitaLand's US buying spree worth $1.14b (US$835m) was amongst the biggest deals, Walia observed. The transaction earmarked the firm's foray into the multifamily asset class in the US which is seeing a growing demand for long term rental housing. Meanwhile, also worth noting in the M&A scene is Golden Spring Group selling 75% of its stake in one of Asia's major pure-play animal feed manufacturer, Gold Coin, to Pilmico International which is a subsidiary of Philippine conglomerate Aboitiz group for $683.83m (US$550m).

For **Matthew Gorman**, partner, at Reed Smith LLP, the steady surge in M&A activities come as no surprise given the inherently limited domestic market in Singapore. "The rationale could be that firms in Singapore are aiming to widen their company profile to a global scale – Singapore remains a relatively small market in global

DEAL #1: LAZADA'S WAREHOUSE. ALIBABA INCREASED ITS STAKE IN SINGAPORE-BASED ECOMMERCE PLATFORM LAZADA FOR $4B

DEAL #2: AFTER GRAB'S MUCH TALKED ABOUT ACQUISITION OF UBER, IT HAS RAISED MORE THAN $2B IN FUNDING FROM TOYOTA, MICROSOFT AND PING AN.

Any Singapore Involvement Announced M&A



Source: Thomson Reuters

terms," he explained. The year also witnessed a lot of consolidation plays, observed UOB group investment banking head of mergers and acquisitions **Tan Chee Yang**. Such transactions include the privatisation of Wheelock Properties as well as the pre-conditional general offer by Keppel and Singapore Press Holdings (SPH) for M1.

Chinese takeaway

Whilst acquisitions by Chinese companies in Singapore continued to dominate in 2018, the trend has slowed compared with recent years, possibly due to an overall decline in outbound investments by China enterprises, said Tan. Analysts traced the decrease in outbound investments from Chinese firms to the tighter regulatory regime surrounding such deals. Foreign acquisitions, remittances, money exchanges and other outbound transactions of more than $5m became subject to mandatory pre-screening by regulators which started November of 2016. "China's capital controls are taking a visible toll on its companies' investment activity abroad and discouraging foreign multinationals from pumping money into the world's second-largest economy," said Gorman.

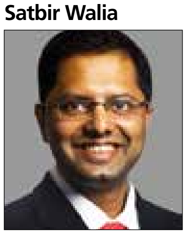
"We understand that regulators have also indicated that real estate, hotel, entertainment, film, sports club and other 'irrational' overseas investments would be tightly monitored making acquisitions in fields other than high-tech manufacturing difficult. This would have an effect on Singapore," Gorman added, citing Jones Lang LaSalle's China Outbound Cities Connectivity Index, where Singapore topped the rankings in 2018 as the city that is most connected and impacted by China's internationalisation.

The JLL report noted that a new wave of Chinese corporates led by technology firms such as Huawei, ZTE, Alibaba and Tencent making inroads in global markets via acquisitions and venture capital investments. China's Alibaba Group Holding planned to raise its interest in Singapore-based online retailer Lazada for $4b, in a privately negotiated transaction. This pushed China to become the most active acquirer country in Singapore in terms of deal value, clinching 40.7% of Singapore's inbound activity. The U.S., by comparison, accounted for 22.9%, whilst Japan captured a 13.3% market share and also saw the most number of inbound acquisitions in Singapore.


Tan Chee Yang


Matthew Gorman


Satbir Walia


Luke Pais

Chinese companies have also been shedding assets to bolster their balance sheets, Walia reckoned, an opportunity that Singapore firms have eagerly jumped on. UOB's Tan reckoned Singapore companies continue to be keen to expand overseas, including into China, to break into larger markets or to lower their manufacturing costs.

Geographic diversification

Gorman noted that whilst GIC and Temasek participated in one of the most notable transactions in 2018, there was a wider variety of firms at the dealmaking table. "Historically, a considerable number of noteworthy Singaporean outbound M&A transactions have involved either GIC or Temasek. However, in 2018 we have seen domestic firms driving the Singapore M&A market in pursuit of geographic diversification with Singapore Technologies Engineering, CapitaLand and Keppel Land all getting in on the action," he said.

In addition, Gorman reckoned Singaporean firms saw improvements in deal origination, owing to global experience and talent that they are increasingly able to leverage.

Overall deal values in 2018 were lower than 2017, and corporates and boards will likely "act with caution" in 2019 amid prevailing global trade and geopolitical uncertainties, said **Luke Pais**, Asean M&A and private equity leader at EY. "However, there is still an active appetite to invest and we find that deal pipelines and corporate balance sheets are quite strong."

Pais added that Singapore corporates, who spent 2018 balancing growth and profitability in a more volatile economic environment, will likely focus on continuing to actively review and realign their portfolios. He expects firms to focus on core business growth and expansion, improving profitability and reducing complexity, whilst also looking for exits in non-core business segments.

Technology sector

Amongst sectors, dealmaking was "buoyant" in the renewable energy and technology sectors, noted Gorman, citing transactions such as Global Infrastructure Partners' acquisition of independent power producer Equis Energy for $5b; Temasek's €3b injection to help Bayer AG finance its planned takeover of U.S. rival Monsanto Co.; and Alibaba Group raising its control by investing another $2b in Lazada Group SA. In renewables, Gorman said one of the largest transactions by his firm involved advising AT Capital on its sale of Indian wind and solar player Orange Renewables to Greenko.

Deals in the high technology sector accounted for 25.5% of Singapore's inbound M&A activity, totaling $2.5b, in the first nine months of 2018, Thomson Reuters data showed.

"Technology sector has been leading the way in M&A activity and funding raising," said Walia, citing Grab's acquisition of Uber's Southeast Asian operations. Grab has raised more than $2b in funding from likes of Toyota, OppenheimerFunds, Microsoft and Ping An. The company has also been inking collaboration agreements with leading global and regional players across different sectors.

Aside from technology, real estate and consumer were two of the other most active sectors in 2018 in terms of dealmaking activity, Walia said. Thomson Reuters data showed the real estate industry has been the most targeted sector for Singapore outbound M&A in the first nine months of 2018, capturing 35.2% or $6.2b worth of deals, although this is 14.2% lower than the prior-year period. Germany was the most targeted nation for Singaporean overseas deals during the period, accounting for a 23.2% market share, driven by Temasek's $3.7b additional stake acquisition in Bayer AG.

Gorman reckoned the Temasek deal was noteworthy not only because of the scale of the transaction, but also because it highlighted two themes that will shape the outbound M&A market. "Firstly, Temasek continues to seek opportunities abroad and lead the way for the rest of the Singapore market," he said. "Secondly, and perhaps more importantly, overseas domestic regulators appear to be more receptive to interest from Singaporean investment in sectors that have historically been subject to notable regulatory intervention in relation to foreign investment."

Crush of consolidation plays

Consolidation figured prominently in Singapore M&A deals in 2018, analysts noted. "This year, Grab certainly dominated the headlines with its acquisition of Uber's Southeast Asia operations, as well as fundraising rounds and other tuck-in acquisitions," said Pais, citing other marquee deal announcements such as Salim-Medco Group's investment

Competition authorities in Asia are also paying closer attention to transactions.

in Hyflux and ESR REIT's acquisition of Viva Industrial Trust. "All of these deals are focused around the theme of consolidation and optimisation."

Tan reckoned consolidation plays were popular in 2018 as controlling shareholders were keen to increase their shareholdings in subsidiaries and associated companies wanted greater management control and flexibility to execute business plans, as seen in the privatisation of Wheelock Properties and the pre-conditional general offer by Keppel and SPH for M1.

Tan noted how acquirers were keen to buy firms in the same business, as seen in BRC Asia's takeover of Lee Metals for $200m, which further consolidated the metals sector in Singapore.

Challenges on the horizon

"Competition authorities in Asia are also paying closer attention to transactions" and could have an impact on M&A activity, Walia added, noting the recent penalties imposed by the Competition and Consumer Commission of Singapore on Grab and Uber.

Singapore's role as a hub for Southeast Asia could also turn into a mixed bag, as some countries in the region grapple with currency devaluations, which may lead to uncertainty and volatility. Even as interest rates are rising, Tan said they are still considered relatively low on a historical basis and any future increases will likely be gradual. He expects the M&A market in 2019 to stay active as Singapore's open and business-friendly economy continues to draw foreign investor interest in potential transactions.

HONG KONG VIEW

Nervousness is translating into fewer strategic M&A deals in Hong Kong

M&A activity in Hong Kong suffered both in volume and value as geopolitical and regulatory headwinds weighed on dealmaking interest. Mergers and acquisitions where Hong Kong financial firms were targets fell to 1,050 transactions with a combined value of US$87.93b in the first eight months of 2018, from 1,252 transactions with a combined value of US$108.28b in 2017, according to Thomson Reuters data.

However, analysts have ruled out a steeper decline in 2019 and instead forecast a mostly steady performance as private equity interest, amongst other factors, look to provide a substantial lift in the coming year. The megadeals in the telecoms sector that bolstered dealmaking value in 2017 may have dissipated, but China's technology giants have gone on an acquisition spree and sectors such as real estate have seen greater activity which has mitigated the slowdown as firms and investors adopted a more careful approach.

"In the private sector, as boardrooms contemplate sky high multiples and a possible correction in the global markets, nervousness is translating into fewer strategic deals. Deal volumes have slightly declined this year as compared to 2017," said **Bryan Koo**, partner at Clifford Chance. "That said, this year we saw a more stable flow of M&A activities across the year and, from the third quarter of 2018 onwards, we are seeing more activity in the Hong Kong public M&A space," he added, citing GuoLine Overseas Limited's proposed privatisation of Hong Kong-listed Gupco Group Ltd and Swire Pacific's $9.4b privatisation of HAECO, Swire Pacific's subsidiary.

Hong Kong-based Gaw Capital Partners acquired 17 Hong Kong shopping centres for $23b from Link REIT.

Goldman Sachs, Sequoia Capital and Boyu Capital that acquired travel booking services provider Klook Travel Technology