DEAL #1: WAREHOUSE OPERATOR GLOBAL LOGISTICS PROPERTIES WAS SOLD TO CHINA VANKE AND A CHINESE PRIVATE EQUITY CONSORTIUM FOR $11.5B

DEAL #2: SINGAPORE-LISTED LOGISTICS COMPANY CWT WAS ACQUIRED BY CHINESE COMPANY HNA GROUP FOR $2.1B

Singapore taps into regional deal hunger

Despite the dealmaking momentum that looks set to accelerate,investment banks in the region still need to be wary of the rising costs and eroding customer trust that are hounding the industry as a whole.

Singapore-domiciled companies tapping the equity capital markets raised $6.9b so far as of mid-December 2017, a 44.0% rise in proceeds compared to 2016 and reaching four-year highs. Activity picked up during the second half of 2017, raising $5.8b compared to S$1.1b during the first half. IPOs by Singaporean companies in domestic and overseas stock market bolstered activity, raising $4.2b as of mid-December, up 52.7% from the year-ago proceeds, as the number of IPOs climbed by nearly half.

In 2017, Singapore also saw a lot of interest from Chinese companies seeking opportunities to align with their government's Belt and Road economic initiative, said **Jan Bellens**, global banking and capital markets deputy sector leader at EY. He said these included the sale of warehouse operator Global Logistics Properties to China Vanke and a Chinese private equity consortium for $11.5b, making it one of the biggest transactions in 2017. Other listed Singapore logistics companies sold to Chinese players last year include CWT, which was acquired by HNA Group for $2.1b.

Aside from GLP and CWT, other notable privatisation deals in Singapore in 2017 were the acquisitions of Poh Tiong Choon Logistics and Cogent Holdings, according to **Edmund Leong,** head of group investment banking at United Overseas Bank.

Bellens added that Japanese financial services players looking to expand in the region led to billion-dollar deals. Mitsui Sumitomo Insurance acquired Singapore insurer First Capital Insurance for $6.1b, whilst Temasek is selling its majority 73.8% stake in Indonesia Bank's Bank Danamon to Bank of Tokyo-Mitsubishi UFJ for an acquisition price that would reach $5.9b.

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2017 also saw one of the most active years in its bond market, with total issuance volume rising 30% year on year to about S$25b, Leong said, citing Bloomberg data. He added that institutional investors, in search for better absolute yield, have been favouring longer-term bonds instead of the medium-term issuances that used to be more popular. Meanwhile, private banking investors have been selective in mid-cap issuances.

"In their search for yield and as they continue to focus on high-grade bonds, both groups of investors have been generally open to subordinated debt in the form of corporate perpetual securities or bank capital issuances," said Leong. "Issuers are also expected to take advantage of the relatively flat yield curve to issue bonds with longer maturities when they tap the debt markets."

IPOs by Singapore and regional ASEAN companies look set to rise on annual basis in 2018, according to Bellens, with particularly strong opportunities in real estate, consumer industries and technology. "We envision Singapore remaining the hub for IPO activity by ASEAN companies, although Hong Kong will provide some stiff competition as an alternative listing hub," he said.

Singapore's investment banks will also benefit from the robust dealmaking confidence in the region. Bellens cited EY's Asia-Pacific Capital Confidence Barometer survey released in November 2017, which showed 57% of Asia-Pacific companies expect to actively pursue acquisitions in the next 12 months. Across the region, 56% of Asia-Pacific companies expect deal completions to rise year on year and 52% forecast that the local M&A market will see improvements in 2018.

Trends in investment banking

UOB's Leong said one major trend last year was the sale of businesses through trade sales, with a number of strategic buyers from China capitalising on the Belt and Road initiative, and private equity interest in Singapore-listed entities with strong management teams. "We believe this trend will continue given the abundant liquidity that private equity firms have raised for Asian investments and the strong interest in local companies with an established regional presence," said Leong.

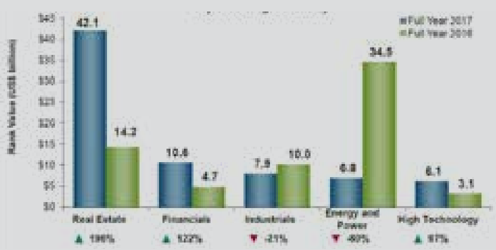
The positive macroeconomic outlook for 2018 will help spur stronger activity in the capital markets and in M&A as companies increase their investments, capital expenditure and acquisitions, said Leong.

He expects global equity markets to remain buoyant due to the lack of a hard landing in China, and robust consumer sentiment in the U.S. and China. Stable oil prices will also encourage oil majors to invest again following their deferment of capital expenditure in the last few years.

Singapore's equity market is expected to remain constructive for dividend plays, Leong said, with strong fundamentals and quality assets in industries with a consumer focus, including healthcare, education, food and beverage, technology and security. He explained that entrepreneurs looking to raise capital and private equity firms seeking exit opportunities will be drawn to the strong-performing equity market, with its corresponding higher valuation multiples.

For **Kim Kit Ow,** partner at Bird and Bird ATMD, with the equity markets already being so high, there may be more investor interest in the high-yield debt capital markets space. "The emerging markets in and around our region would certainly benefit from this and parties that wish to raise money may take the opportunity to issue extended tenor bonds," said Ow. "If there really aren't that many

Any singapore involvement announced M&A
Top five target industry



Source: Thomson Reuters

Jan Bellens

Edmund Leong

Ho Kok Yong

Kim Kit Ow

other places for people to invest, then there may be some who will definitely flock to this space."

Ow noted that in 2017, uneasiness caused by Brexit and the new U.S. Presidency made many sit out of the bigger investment banking deals, moving instead with a lot of caution. But some of the dealmaking apprehension last year should also ebb as concerns over geopolitical risks lessen in 2018.

The growth momentum at the tailend of last year should also be carried forward into 2018, said **Ho Kok Yong,** financial services industry leader at Deloitte Southeast Asia, noting that this will help equity transactions, particularly IPOs. The catch though is that amidst these growth opportunities, investment banks continue to face a barrage of challenges in costs, competition, and client value.

Simply put, those that fail to start transforming their business to the new reality will find it hard to press an advantage. "The speed of transformational change in financial services will not slow down especially with digital innovation being the buzz word around. Customer expectations will continue to rise and investment banks which create value for their customers will thrive in 2018," said Ho.

Cost management and digitisation

The client may be king, but cost management remains as a primary concern of investment banks. Bellens said investment banks have spent the recent years grappling with falling revenues whilst managing costs, which have risen due to a heightened need for regulatory compliance and legacy IT maintenance.

Cost pressures continue to build up, as reflected in EY's Investment Banking Quarterly report for the third quarter of 2017 which showed the average cost-to-income ratio for investment banks worsened year on year to 71.1% from 67.9%.

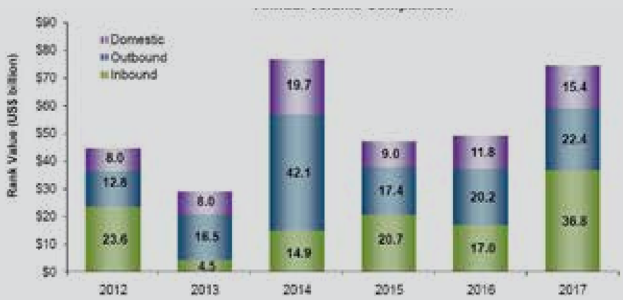
"Consequently, investment banks in Asia-Pacific are maintaining a strict focus on managing non-compensation costs – such as legal and restructuring expenses – whilst looking to develop new operating models to leverage information technology (IT), partnerships and industry utilities to improve service and increase efficiencies," said Bellens.

Part of this strategy to innovate their operating model must involve upskilling employees. Bellens said investment banks should become more aggressive in chasing after top talent in IT to help them with their digitalisation initiatives, as well as in attracting hires in key growth sectors such as technology, media and telecoms (TMT).

"Although investment banks and Singapore have been reducing headcount, there seems to have been a reversal of late as they selectively seek IT talent to help achieve their digitalisation objectives," said Bellens. "They are also looking towards hiring to bolster their transaction advisory teams in the TMT sectors, as they prepare for more such listings in 2018."

Fintech collaborations must also be accelerated in order to stay one step ahead of more nimble rivals.

Singapore cross-border & domestic M&A



Source: Thomson Reuters

Bellens said fintechs are already encroaching on consumer banking and are expected to capture market share from investment banks, who need to push back by quickly finalising acquisitions of or collaborations with fintechs. Making better use of the financial ecosystem must be explored as well, which should become more manageable as investment banks strengthen the IT expertise amongst their ranks.

For Ho, keeping up with the multitude of changes in the world, especially in the digital technology space, is a must to keep investment banks from being made obsolete. "Investment banks need to innovate and make use of new technologies to ensure that they remain relevant and competitive."

Restoring client trust

Bellens reckoned that amongst the key areas of transformation "progressive" investment banks should focus on in the coming months, one of the most important ones is to put a concerted focus on clients' needs such as how value will be added and how they will be served. "This is particularly important as millennials are rising to positions of influence and have less tolerance for poor conduct, low value add and out-dated service. We expect to see greater competition for customer retention in the future, given their high propensity to switch service providers," he said.

Client trust has eroded due to recent bad press involving scandals, fines and legal settlements, so Bellens said rebuilding client confidence is a top priority, and this means becoming more client-centric instead of product-centric. "They need to demonstrate true value to clients and retain the ability to innovate, yet also ensure they uphold risk management best practices and regulatory adherence." Trying to be all things to all clients is also an outdated concept that should be shed for specialisation.

Leong said it is vital for an investment bank to differentiate its offering from other deal managers in the market so that clients can identify the bank's areas of expertise that meet the client's corporate and financial needs. "These areas of expertise could range from structuring or underwriting capabilities to access to key decision makers, from distribution reach to cornerstone or anchor investors," he said.

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HONG KONG VIEW

Hong Kong banks' push for reforms

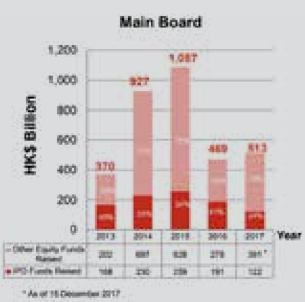
It was a "generally positive" year for the Hong Kong investment banking landscape in 2017, with Thomson Reuters data revealing announced M&A deals posted strong growth at 169% year on year to $113.6b on the back of larger average deal sizes and a modest rise of 6.7% in the number of deals. On the IPO front, EY research reveals that listings on the HK Exchange remained flat in 2017, at 72 IPOs for both 2016 and 2017. Proceeds fell to $14.8b, down 40% compared with 2016, which was largely due to the Postal Savings Bank of China's (PSBC) mammoth $7.4b IPO listing in Hong Kong in September 2016."Hong Kong continues to attract interest from overseas and was the second most active cross-border IPO destination globally, behind only the US," said Jan Bellens, global banking and capital markets deputy sector leader at EY. "In fact, it enjoyed its highest ever annual proportion of cross-border IPOs in 2017, with 21 out of its 24 cross-border IPOs coming from ASEAN companies."

Ho Kok Yong, financial services industry leader at Deloitte Southeast Asia added that almost all the top investment banks saw growth in fees for 2017, especially in the debt and equity space. Interest rate hikes in 2017 also led to an increase in debt financing deals. "Overall, 2017 was a good year for investment banking," he said.

Notable deals in 2017

Bellens said HKEx attracted a number of technology company IPOs in 2017, and has shown success in turning itself into a listing hub for technology and new economy players like Chinese online car retailer Yixin Group, which raised $867m, and Singaporean gaming company Razer Inc, which raised $529m. Other significant listings included China's online-only insurer ZhongAN Online P&C Insurance, one of the first major fintech listings in the Hong Kong market, at $1.5b, and e-book publisher China Literature, which raised $1.2b, according to Bellens. In terms of size, the largest deals in 2017 included the IPO of Guotai Junan Securities, which while smaller than the PSBC deal from 2016, managed to raise more than $2.1b and was the sixth largest IPO globally for the year, said Bellens. AIA Group's US$3b acquisition of CBA's life insurance business was the largest financial services deal of the year whilst the spin-off of Hong Kong-based Wharf Real Estate Investment, valued at US$23.3b, was the biggest transaction for 2017.

IPO vs Equity Funds raised



Sources: PWC