Regional banks see jump in merger and acquisition activities

By Thomas Chong | Posted 02 November 2012 20:14 PM

SINGAPORE : Southeast Asia saw a 50 percent jump in the value of merger and acquisition activities in the third quarter this year compared to a year ago.

The M&A deal tracker Mergermarket put the total value of merger and acquisition deals in Southeast Asia in the third quarter at US$30.2 billion against US$20.4 billion in Q3 2011.

Besides attractive valuations, industry watchers say the surge in activity is also due to banks being more open to corporate lending.

Singapore is a favourite destination for bidders on the lookout for attractive acquisitions in Southeast Asia.

According to Mergermarket, the city-state notched up US$24.6 billion in deals during the first 9 months of 2012.

Together, the battle for Singapore conglomerate Fraser and Neave (F&N) as well as Heineken’s takeover of Asia Pacific Breweries amounted to a whopping US$16 billion.

This amounts to 46 percent of the total value of such transactions in the region.

Observers say these mega deals open up opportunities for banks to lend.

Sumit Agarwal, Associate Professor of Finance, NUS Business School, said: “Banks actually do not see other opportunities for lending. Think about the consumer market, it’s depressed, consumers are not spending. They’re actually finding funding M&A activities as profitable. Other reasons could be their relationships - banks have relationships with certain firms, acquiring firms or they are looking for future business with these acquiring firms. So, they realised it is a potential for them to get into the space.”

Banks could charge a premium of 25 to 50 basis on such merger and acquisition loans over ordinary loans.

But industry watchers see such merger and acquisition loans usually lasting a short tenor of not more than one year.

Apart from bank loans, companies may also seek other sources of funding, .

Girish Sahajwalla, Executive Director - Advisory, PwC, said: “The F&N transaction - It’ll be quite interesting to see the outcome of that transaction. In this case, UOB and DBS of course have stepped forward to provide support to the offer itself but I expect some of that to be taken out by a bond offering at some stage in the future.”

Whether, the banks are providing a credit line, bridging loan or a term loan, experts say such deals open up other business opportunities like debt issues.

Harsha Basnayake, Managing Partner - Transaction Advisory, Ernst & Young, said: "When banks actually decide to lend to finance these transactions, what you would find happening is that their credit evaluation would actually be taken into consideration to see whether there is value in these businesses that give them the adequate coverage, so that they don’t over risk by funding these deals.”

Southeast Asia’s biggest lender, DBS says they typically look into the cash flow of the acquirer and the core business of the targeted acquisition before lending.

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