



Deal Advisory – Newsletter Vol. 4 Trends in ASEAN M&A

July 2020 to December 2020 edition



Introduction

In the first half of 2020, ASEAN saw a slowdown in the M&A market amid the pandemic caused by COVID-19, which broke out in early 2020, except for mega deals that had been under negotiation since 2019. In the second half of 2020, on the other hand, the regional M&A market regained momentum, as the regional countries resumed activities to attract foreign investors following the shift to the “living with COVID-19/new normal” phase as well as the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP) after years of negotiation. In these conditions, companies from the US, Europe and China are making great strides into the ASEAN market.

Local members of KPMG Deal Advisory will provide you with information on current events in the ASEAN M&A market, trends in each industry, and information on major deals in each country.

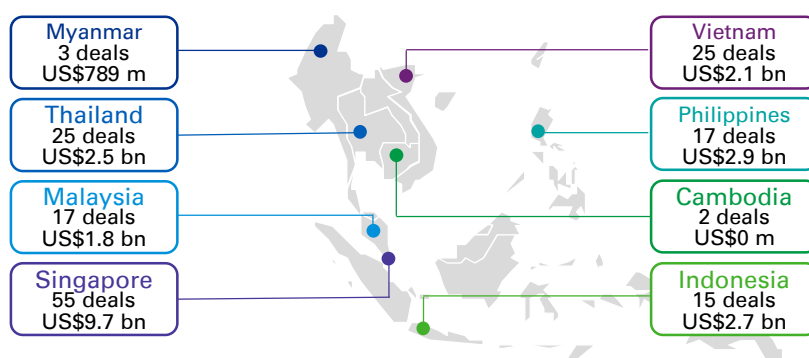
1. Overview of the ASEAN M&A market

In 1H2020, the COVID-19 pandemic compounded the uncertainty in the politics, economy, society, regulations and environment, resulting in a number of deals aborted or deferred. The larger deals get, the trend was more pronounced, reflecting companies’ sentiment.

From 2H2020, in contrast, the ASEAN countries resumed activities to attract foreign investors, which was triggered by the US-China trade tensions but suspended by the COVID-19 outbreak. In addition, they closely coordinated with other regions in the economic context, as represented by the RCEP, the largest free trade agreement in Asia, which failed to be signed in 2019 but finally executed amongst East Asian countries and Australia.

Such government-led economic development drove the ASEAN M&A market to regain momentum. During July to December 2020, 159 deals were announced amounting to approximately USD 22.5 billion. On a quarterly basis, Q2 saw a decrease to USD 2.8 billion (54 deals), while Q3 and Q4 saw an increase to USD 8.4 billion (70 deals) and USD 14.1 billion (89 deals), respectively.

M&A deal activity in ASEAN countries for 2H2020



Source : Mergermarket and KPMG analysis



Looking by country, Indonesia and Malaysia, which led the market in 1H2020, experienced a decrease in volume, while Singapore accounted for approximately 35% in volume with 55 deals. The result may reflect whether the countries succeed in controlling and containing the virus. The salient point in 2H2020 is acquirer countries, especially activities of the Western investors. The deals with buyers from the Western countries accounted for 41 out of 159 deals, significant increase from 21 deals. Among the Western acquirers, the US was ranked number one with 11 deals, followed by Germany and the UK with 5 deals each. Of the deals with buyers from the Western countries, 24 deals targeted Singapore companies primarily in the TMT, consumer markets, and real estate/infrastructures/construction industries with 5 deals each. Singapore, which controlled and contained the coronavirus with extremely strict handling and has an English-speaking business environment, succeeded in fueling the Western companies' appetite for M&A deals.

When looking by sector, with the real estate/infrastructures/construction sector primarily in Singapore topping the number of deals, sectors except for the financial services sector, specifically, energy/natural resources, consumer markets, TMT and industrials/manufacturing sectors recorded high deal volume, more than 20 deals each. Twenty deals in the real estate/infrastructures/construction sector were made in Singapore and Vietnam, where the healthcare and logistics-related real estate deal activities became more robust. The COVID-19 outbreak put the spotlight again on renewable energy, boosting the M&A activities relating to wind, solar and biomass power generation primarily in Vietnam and Thailand. In Vietnam especially, deals relating to wind power generation accounted for 5 out of 11 deals in the energy/natural resources sector, partly thanks to the recent government's decision to increase the selling price of electricity from wind power.

We saw a new trend in the US among acquirer countries in the TMT sector. We witnessed an increased number of Special Purpose Acquisition Companies (SPACs) made initial public offerings (IPOs) on the NASDAQ Stock Market. SPAC is a company to acquire target companies with capital raised through IPOs and subsequently merge with the acquirees. This methodology enables companies to be listed more easily and faster than the traditional process, receiving attention in the NASDAQ Market, where many high-technology companies are listed, as a way to acquire startup companies dotted around the world. The wave of M&A activities driven by SPACs also had an impact on the ASEAN M&A market, resulting in USD 585 million acquisition of Triterras Fintech Pte., a Singapore fintech company, by the US-based Netfin Acquisition Corp. using the above methodology. Amid the accelerated digitization spurred by the pandemic, such as the shift to remote operations, automation and robotics, global companies are making more significant inroads into the ASEAN market targeting the regional startup companies.

2H 2020 M&A Transaction Volume

	Singapore	Thailand	Indonesia	Malaysia	Vietnam	Philippines	Myanmar	Cambodia	Total
Real Estate, Infra & Construction	11	4	4	4	9	3	-	-	35
Telco, Media & Technology	8	5	3	1	-	3	2	-	22
Energy & Natural Resources	5	7	1	1	11	2	-	-	27
Consumer Markets	8	4	1	6	1	3	-	-	23
Industrials & Manufacturing	8	2	2	3	4	1	1	-	21
Financial Services	4	1	2	-	-	-	-	-	7
Others	11	2	2	2	-	5	-	2	24
Total	55	25	15	17	25	17	3	2	159

Source : Mergermarket and KPMG analysis

In deal value, Singapore remained solid, approaching USD 10 billion. Although there was no mega deal worth over USD 8 billion, which were reported in 1H2020, almost all the sector in the table recorded over USD 2 billion in deal value.

The sectors with higher deal value were real estate/infrastructure/construction, energy/natural resources industries, and TMT industry with the growing investment mainly by the US investors.

The value per transaction has rebounded to USD 141 million from USD 58 million in 1H2020 (calculated excluding two mega deals worth over USD 8 billion), when the M&A market was quiet amid the COVID-19 pandemic.

2H 2020 M&A Transaction by Value (USD in million)

	Singapore	Thailand	Indonesia	Malaysia	Vietnam	Philippines	Myanmar	Cambodia	Total
Real Estate, Infra & Construction	2,770	805	179	276	766	49	-	-	4,844
Telco, Media & Technology	1,286	659	355	-	-	1,566	777	-	4,642
Energy & Natural Resources	1,312	684	394	11	330	1,051	-	-	3,782
Consumer Markets	771	118	1,200	89	862	89	-	-	3,129
Industrials & Manufacturing	891	82	29	170	147	6	13	-	1,338
Financial Services	2,052	37	256	-	-	-	-	-	2,345
Others	577	118	304	1,244	-	142	-	-	2,385
Total	9,658	2,503	2,716	1,790	2,105	2,902	789	-	22,464

Note: Deals whose values are not disclosed are included in the table of volume but not in that of value.

Source : Mergermarket and KPMG analysis

Trends of major acquirer countries

In 2H2020, the top acquirer countries targeting the ASEAN countries were the US (11 deals), China (10), Japan (6), Canada (5), Germany (5) and the UK (5). Other than the US, which made six deals in the TMT sector and four deals in the consumer markets sector, no sector concentration was observed for other countries.

Japanese companies, which used to be active in the ASEAN M&A market, seemed to turn their eyes back to the domestic market due to travel restrictions. This was shed light on by KPMG Japan's CFO survey, which showed that 87% of the respondents said that their target country for research toward possible M&A (if any) is Japan. Meanwhile, they are still evaluating potential transactions in the ASEAN region, considering M&As one of the instruments to optimize existing assets with full use of technologies or put them together to expand the value chains.

Outlook for 2021

In the ASEAN countries, even in the face of the COVID-19 pandemic, the governments are actively driving initiatives and policies, such as the new Omnibus Law in Indonesia, the new law on public-private partnerships (PPP) in Vietnam and the Bayanihan 2 in the Philippines, attempting to develop economy and investments including attracting foreign investors. In 2H2020, the regional M&A market rapidly recovered despite the COVID-19 predicaments. Looking forward, we expect more robust M&A activities not only driven by local investors but also involving those from out-of-region countries, such as the US, China, Europe, Japan and South Korea, primarily in the real estate/infrastructures (including life science)/construction, TMT, consumer markets and advanced manufacturing industries.

Major M&A deals in ASEAN

The deal activity in 1H2020 lacked the deals worth over USD 1 billion except for mega deals worth over USD 8 billion that went into negotiation before the COVID-19 outbreak, but this changed in 2H2020 with the announcement of five deals worth over USD 1 billion.

The reported major mega deals include Singapore Life-led consortium's acquisition and merger with Aviva Ltd., a Singapore-based life insurance service provider, DITO CME Holdings Corporation's investment in Udenna Communications Media and Entertainment Holdings Corporation, a telecommunications player, investment in Equis Development Pte Ltd, a renewable energy and waste infrastructure developer, by UAE-based Abu Dhabi Investment Authority and Canada-based Ontario Teachers' Pension Plan, the US-based Kimberly-Clarks Corporation's acquisition of Softex Indonesia PT, a toiletry manufacturer, and Germany-based Gebrueder Knauf Verwaltungsgesellschaft KG's acquisition of stake in USG Boral Building Products Pte. from the JV partner.

Private equity (PE) funds' activity also started to pick up in 2H2020. Notable deals include TPG Capital Advisors LLC's participation in the consortium to acquire and merge Aviva Ltd., CVC Capital Partners Limited's acquisition of Irrawaddy Green Towers Ltd, a Myanmar-based tower company (see the table below), and acquisition by the Western PE funds including Kohlberg Kravis Roberts & Co. L.P., Warburg Pincus LLC and CVC Capital Partners Limited.

No	Announced Date	Target	Target Sector	Target Country	Acquirer	Acquirer Country	Deal Value (USD in million)
1	Sep-20	Aviva Ltd	Financial Services	Singapore	Consortium of investors led by Singapore Life Pte. Ltd.	Singapore	1,974
2	Nov-20	Udenna Communications Media and Entertainment Holdings Corporation	Telecommunications	Philippines	DITO CME Holdings Corporation	Philippines	1,400
3	Nov-20	Equis Development Pte Ltd	Energy	Singapore	Abu Dhabi Investment Authority; Ontario Teachers' Pension Plan	United Arab Emirates; Canada	1,250
4	Sep-20	Softex Indonesia, PT.	Consumer: Other	Indonesia	Kimberly-Clark Corporation	USA	1,200
5	Dec-20	FGV Holdings Bhd	Agriculture	Malaysia	Federal Land Development Authority	Malaysia	1,160
6	Oct-20	USG Boral Building Products Pte. Limited (50% Stake)	Construction	Singapore	Gebrueder Knauf Verwaltungsgesellschaft KG	Germany	1,015
7	Jul-20	The CrownX Corporation (12.6% Stake)	Consumer: Retail	Vietnam	Masan Group Corporation	Vietnam	862
8	Dec-20	Soilbuild Business Space REIT (69.7% Stake)	Real Estate	Singapore	Consortium for Soilbuild Business Space REIT	Singapore	741
9	Dec-20	Global Business Power Corporation (56% Stake)	Energy	Philippines	Meralco PowerGen Corporation	Philippines	717
10	Dec-20	Irrawaddy Green Towers Ltd	Telecommunications: Carriers	Myanmar	CVC Capital Partners Limited	United Kingdom	700

Source : Mergermarket and KPMG analysis

2. Insights from KPMG Deal Advisory leaders in ASEAN countries

Here are updates for firsthand insights on today's M&A markets in the major ASEAN countries from KPMG Deal Advisory leaders in those countries.

M&A activities in Singapore has recovered in 2H2020 to pre-COVID levels, recording a transaction volume of 55 (1H2020: 30, 2H2019: 54). Correspondingly, the transaction value in 2H2020 maintained at USD 9.7bn (1H2020: 11.1bn, 2H2019: 10.4bn). The largest deal in 2H2020 was Singapore Life's acquisition and merger with Aviva Singapore (USD 2bn). We also noted several deals in the real estate sector which continue to drive M&A momentum such as the acquisition of Soilbuild Business Space REIT by investor consortium (USD741m) and ESR-REIT's acquisition of Sabana Shari'ah Compliant Industrial REIT (USD542m). Other key trends in Singapore include a surge in domestic deals, mainly due to travel restrictions and rescue deals for companies under financial distress. Looking ahead, we expect the improvement in M&A momentum to have a spill over effect on larger companies alongside with SMEs. To-date we have seen larger companies such as SIA and Sembcorp Marine completing sizable capital market transactions, leading to equity fundraising hitting a 10-year high. On the other hand, we begin to see an increase in investment interest for SMEs as value continues to emerge in this space, especially SMEs which have previously suffered due to weak market demand resulting in depressed asset values. We expect these trends to continue in 2021.

In general, Malaysia's M&A scene remained slow in 2H2020 with the country entering its third-wave of the COVID-19 pandemic in 4Q2020. Consequentially, M&A transaction volume dropped to 15, lower than 1H2020. Total deal value, however, was higher at USD3.3 billion in 2H2020. There were three notable privatisation exercises; firstly, Felda Land Development Authority (FELDA)'s proposed takeover of FGV Holdings Berhad (valued at USD2.7 billion), one of the largest CPO producers in the world. The second exercise was Datuk Tony Tiah's mandatory takeover offer of TA Enterprise Berhad (valued at USD254.1 million), a financial services cum real estate player. The third exercise was Batu Kawan Berhad offering to acquire Chemical Company of Malaysia Berhad (chemical and pharmaceutical), valuing the deal at USD152.2 million. Despite a quiet year in the M&A space, deals are expected to rebound in 2021 with the roll-out of vaccines locally and globally. Investors, particularly PE funds, are upbeat with the strong fundamentals of the economy. Deal flows are expected to be seen in the telecommunications and healthcare sectors, which are poised as long-term investments.

Thailand enjoyed several months with only few COVID-19 cases, returning close to pre-pandemic M&A deal activity. However, most transactions were driven by local investors due to continued border restrictions. The largest deal announced was BDMS Group's disposal of a 22.7% stake in Bumrungrad Hospital PCL (BH) for USD 615 million to a private investor, following an earlier decision not to pursue a takeover of BH. Other notable deals were PPT Public Company Limited's additional share acquisition of Global Power Synergy Public Company, Thailand-based natural gas electric power generation services company, at USD 561 million and Central Retail Corporation Public Company Limited's acquisition of COL Public Company Limited, a Thailand-listed office supplies retailer, at USD 414 million through its wholly owned subsidiary of PBHD Co., Ltd. A landmark TMT deal was the merger and fund raising of Thai delivery app LINE MAN and restaurant review platform Wongnai, raising USD 110 million of fresh capital. Although optimism that 2021 would see increased consumption, mobility and economic recovery has been dampened by a new wave of COVID-19, we expect M&A activity to continue, and increase when borders hopefully open more freely.

Singapore

Andrew Thompson



Malaysia

Chan Siew Mei



Thailand

Ian Thornhill



Insights from KPMG Deal Advisory leaders in ASEAN countries

The Philippines' M&A market saw a boost in deal value in 2H2020, specifically in the telecommunications, energy, and food and beverage sectors. Notable transactions include listed DITO CME Holdings' move to acquire Udenna CME Holdings through a share-swap deal valued at USD1.4 billion to take hold of the country's third telecommunications player. Meralco Powergen Corp. is in the process of fully acquiring Global Business Power Corporation with a total estimated consideration of USD717 million, to consolidate the group's power generating assets. In response to the pandemic-induced recession, policy development in the country is also expected to impact the M&A market. The Bayanihan 2 Act passed in 2020 exempts transactions with values below PHP50 billion (USD 1 billion) from compulsory notification to the Philippine Competition Commission (PCC) if entered within two years from effectivity of the law and also suspends PCC's motu proprio reviews of such transactions for one year. According to Oxford Business Group, the Bayanihan 2 effects, accompanied by the proposed lowering of corporate tax rates under the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, are expected to prompt heightened M&A activities. Euromonitor International also sees the Philippines as one of the 20 leading markets for M&A post-pandemic given the avoidance of economic disputes between China and USA.

General M&A activity increased in 2H2020 in terms of deal value compared to 1H2020, although it declined on deal volume. Notable deals in 2H2020 include Kimberley-Clark Corporation's USD 1.2 billion acquisition of PT Softex Indonesia, a manufacturer of sanitary products, from CVC Capital Partners Ltd; China Datang Corporation's USD 394 million acquisition of 3 power generation plants from PT Dian Swastatika Sentosa Tbk; and Traveloka's USD 250 million fundraising with Qatar Investment Authority, East Ventures and BRI Ventures. COVID-19 continues to adversely impact Indonesia's economy with -5.32% and -3.49% y-o-y growth posted in 2Q2020 and 3Q2020. In response, the Government has finally issued certain chapters of the new Omnibus Law in November 2020 to reduce regulatory risk and legal uncertainty, promote ease of doing business, attract new foreign investment and speed-up the economic recovery. Looking ahead to 2021, the level of Indonesian general M&A activity will largely depend on how quickly the economy can recover to pre-pandemic levels. This will be a function of the ability of the Government to manage COVID-19 which to date has been challenging, administer the logistics of delivery of a vaccine, as well as ensure smooth implementation of the Omnibus Law - implementing regulations still need to be rolled out here. Note that foreign front-end transaction cycle M&A activity is usually dependent on travel and physical introductions, something that has been severely inhibited by COVID-19.

The M&A activities has seen pick-up in value during 2H2020 thanks to the country success in containing the spread of COVID-19 and proving itself to be a resilient economy with positive GDP growth. Remarkable M&A deals in the period include an acquisition of 12.6% stake in the CrownX Corporation, the largest grocery retail joint venture in Vietnam, by Masan Group from Vingroup for US\$862 million; and a minority acquisition of Vinmec International General Hospital JSC, another subsidiary of Vingroup, by a consortium led by GIC for US\$204 million. Moving to 2021, Vietnam is expected to remain fundamentally attractive to investors despite global headwind, thanks to the unparalleled economic growth, political stability, an influx of advantages from the recently signed Free Trade Agreements (CPTPP & EU-Vietnam FTA) and the new law on public-private partnerships (PPP) effective in 2021 paving the way for increased inbound M&A activities. Sectors to receive strong inbound M&A interests in the coming year would be (i) internet-related businesses due to the shift in consumer dynamics; (ii) grocery retail following by homecare, healthcare products & pharmaceutical continue to see high consumption; and (iii) industrials real estate & logistics fuelled by the trend of global companies moving manufacturing facilities from China to Vietnam.

the Philippines

Michael Arcatomy H. Guarin



Indonesia

David East



Vietnam

Dinh The Anh



3. Monitoring foreign affiliates under new social norms following the COVID-19 outbreak

After the outbreak of Novel Coronavirus (“COVID-19”), companies are facing challenges in managing and controlling its foreign affiliates. The weakened monitoring controls could lead to increased risk of fraud. Therefore, companies are urged to adopt new methods of monitoring foreign affiliates. More specifically, such new methods include (1) identifying and managing data maintained by affiliates, (2) prioritizing audit subjects according to risk levels and conducting remote internal audit, and (3) establishing a system for monitoring foreign affiliates utilizing data analysis techniques.

Risk of fraud in foreign affiliates are increasing under the COVID-19 pandemic

Currently the entire world is in an emergency. When looking at foreign affiliates, employees have been urged to work remotely for an extended period. The secondees have difficulties exercising the management control because they cannot see what is actually conducted by each local employee working remotely. The conventional on-site internal audit cannot be performed. Hence, its monitoring function cannot be entirely effective. In such environment, where internal controls are somehow compromised, risk of fraud increases dramatically. Worse yet, these situations do not appear to settle down soon. Therefore, waiting to return to pre-COVID-19 condition is not an option.

Establishing a function to monitor foreign affiliates under new social norms

In order to address the issue above, companies are urged to establish new methods of managing and controlling foreign affiliates under the new social norms. Specifically, such new methods include monitoring activities of foreign affiliates remotely as broadly described in the steps below.

Step 1: Identifying and managing data maintained by each affiliate

In order to monitor foreign affiliates remotely, companies first need to understand what kind of data is required to monitor their activities and how such data is maintained. In order to analyze such data at the head office, companies will likely require more detailed data than what it was acquired previously (e.g. original database rather than summarized data). Also supporting documents such as receipts and vouchers may have been scattered during the extended period of remote working. Data required for analysis such as general ledgers should be acquired from affiliates periodically. Other books and records should be organized and maintained in one place so that they can be retrieved quickly when the head office requires them.

Step2; Prioritizing audit subjects according to risk levels and conducting remote internal audit

Generally, remote internal audit would take more time than conventional audit. Therefore, when conducting remote audit, companies should consider narrowing down the subjects of the audit (e.g. which entities to audit, which processes to audit, which accounts to audit) compared to conventional internal audit. It would be helpful to prioritize the audit subjects to work on based on factors such as country, management and fraud risks. In addition, it is recommended that companies utilize web-based meeting tools such as Zoom and MS Teams. Such tools not only enable sharing documents during the meeting but also improve communication with face-to-face interaction as compared to conventional conference calls. If companies need to dispatch staff on-site, engaging accounting firms with local professional may be an effective alternative.

Step 3: Establish a system for monitoring foreign affiliates utilizing data analysis techniques

Continuous audit through the use of data analysis techniques is a method that existed even before the COVID-19 outbreak. The method may be considered highly effective particularly under remote conditions amid the COVID-19 pandemic. With the development of sophisticated data analytics tools, companies can now visualize and analyze a large amount of data more easily than ever before. Intensive analyses for identifying anomalies e.g., trend analysis and benchmarking to other companies, will help companies to quickly respond to signs of fraud. Companies may want to consider bringing in professionals with specialized knowledge in order to efficiently establish centralized monitoring system as well as setting parameters for analysis.

The most effective deterrent to fraud is to develop a perception that “inappropriate behaviors will be detected.” Monitoring foreign affiliates remotely is not only a method that enables companies to detect and deter fraud but is also considered a new way of managing and controlling foreign affiliates under the new social norms.

Illustrative example of monitoring affiliates using data analysis techniques



Useful information

The opportunity in the new reality

<https://home.kpmg/xx/en/home/insights/2020/07/the-opportunity-in-the-new-reality.html>

KPMG FAS industry groups

<https://home.kpmg/jp/ja/home/about/fas/industry.html>

KPMG FAS News Letter “Driver”

<https://home.kpmg/jp/ja/home/insights/2020/02/fas-driver-06.html>

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