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Malaysia deal activity in 2019 to be buoyed by robust market despite trade concerns

Kuala Lumpur, 20 December 2018 - After a year of political sea-change, Malaysia's deal climate will see some positive spillover effect from 2018 to 2019, buoyed by the robust markets, solid GDP growth, and a range of policy measures that promote deal-making, according to the fourth edition of the Global Transactions Forecast, issued by Wong & Partners, the Malaysian member firm of Baker McKenzie.

The report, based on forecast macro economic indicators from Oxford Economics along with insights from Baker McKenzie partners in 42 markets worldwide, projects that 2019 is likely to be a year of two halves. Several major transactions announced in 2018 are set to complete in the first half of 2019, while underlying economic conditions should remain strong throughout this period.

Despite slower world trade growth, globally emerging markets appear more resilient to rising Fed rates than in the past, meaning US monetary policy should have less of a drag on Asia-Pacific deal-making in 2019 than during previous cycles.

Ai Ai Wong, Global Transactions leader for Baker McKenzie says: "We are predicting a modest slow down next year but we think that global business, particularly in the emerging markets is in pretty good shape to deal with any economic upsets. The fundamentals for deal making remain strong."

Malaysia to maintain deal momentum into 2019

According to Oxford Economics: "M&A in Malaysia accelerated sharply in 2018, with two megadeals in excess of US\$1.5 billion and a further nine significant deals of between US\$200 million and US\$600 million. The number of deals concluded in 2018 underlines a robust market moving into 2019 and beyond. Positive deal drivers include GDP growth remaining solid at around 4-4.5%, only modest increases in interest rates, and a range of policy measures that promote deal-making, such as the recent cuts to SME corporation tax and the Industry 4.0 framework."



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The forecast predicts Malaysia's total M&A transactions to be at US\$12.2 billion in 2019, with an estimated 292 deals transacted - a slight dip from the US\$13.2 billion transaction this year for the 311 deals. On the IPO front, there is a sizeable bump for 2019 to US\$1.72 billion from this year's very soft IPO market of US\$100 million reflecting deals carried over from 2018 and pent-up demand for exits.

Commenting on the report, Munir Abdul Aziz, a partner from the Corporate, Commercial and Securities practice of Wong & Partners, said: "These numbers reflect the cautiously optimistic attitude of the market based on the new coalition government's policy of balancing the need to firmly address the country's fiscal deficit while ensuring market friendly initiatives that support growth. We expect activity in 2019 to take the form of divestments of certain strategic assets by the sovereign wealth fund, continued private equity investments and exits including those driven by foreign private equity sponsors, take private transactions that exploit attractive pricing in the aftermath of the emerging market turmoil in equity markets in late 2018 and the subdued ringgit and likely upside from re-alignment in the Asian supply chain arising from trade tensions between the US and China. There could also be greater deal-making activity driven by the new Government's intent to create a more competitive market environment for hitherto sheltered industry sectors like energy, media and telecoms. Expect also some degree of re-organisation of large conglomerates including potential spin-offs or de-mergers. "

And by sector

Consumer-facing sectors are likely again to have a strong year in 2019 as accelerating wage growth in advanced economies will boost household spending in 2019. Similarly tech and telecoms should have another good year with some key megadeals set for completion.

Pharma and health deal completions have disappointed in 2018. However, with a number of significant deals announced later this year we forecast a modest acceleration into 2019. Likewise, in the finance sector, where deal values cooled in 2018, scope remains for consolidation, and traditional banks' desire to access Fintech will also drive growth.



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Finally, a rebounding oil price has likely eased the need for further consolidation in the energy sector, and we expect this industry to continue to ebb as a deal driver. But the basic materials sector has been more active, and there is evidence that new metals and minerals (such as those used in electric vehicles) will be key resources driving dealmaking in the year ahead.

Ai Ai concludes: "Business has become more immune over time to global macro uncertainty and have learnt to live with volatility. Even with a cooling global economy and rising protectionism we remain confident that the environment and appetite for deal making remains strong among corporates wherever they are in the world."

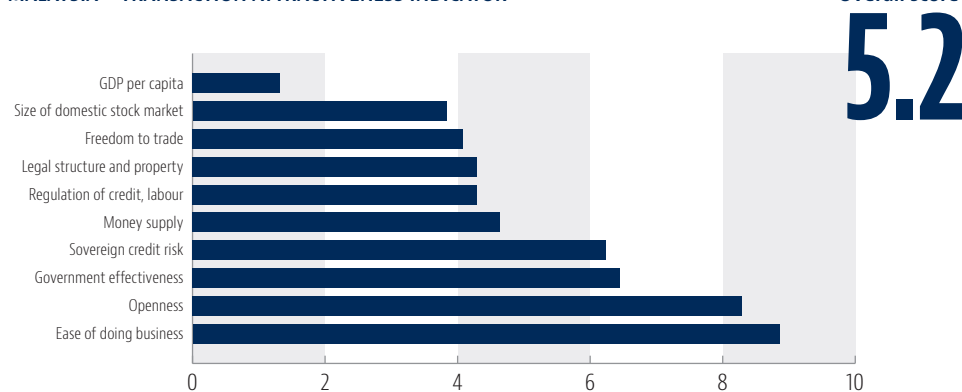
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M&A accelerated sharply in 2018, with two megadeals in excess of \$1.5bn and a further nine significant deals of between \$200m and \$600m. The number of deals concluded underlines a robust market moving into 2019 and beyond. Positive deal drivers include GDP growth remaining solid at around 4-4.5%, only modest increases in interest rates, and a range of policy measures that promote dealmaking, such as the recent cuts to SME corporation tax and the Industry 4.0 framework.

SUMMARY OF KEY DRIVERS (AVERAGE 2018-2021)

	Malaysia	Global
GDP growth (% annual)	4.4	2.9
Stock market capitalisation (% of GDP)	98	97
Money supply (% of GDP)	127	111
Trade (% of GDP)	109	49
Ease of doing business (World Bank, DTF score, higher=better)	78	75
Legal structure (Fraser Institute)	4.3	6.6
Freedom to trade (Fraser Institute)	4.1	7.4

MALAYSIA – TRANSACTION ATTRACTIVENESS INDICATOR



The Transaction Attractiveness Indicator is an overall score calculated using a weighted average of the 10 factors included in the chart above. The score reflects the attractiveness of a country's current environment for M&A and IPO activity on a scale from 0 to 10. It's based on past transaction activity in that country and data on key economic, financial and regulatory factors that drive M&A and IPO activity, such as a country's sovereign credit risk, level of trade restrictions and ease of doing business rating by the World Bank. Because many of these factors change slowly over time, a country's current score is a strong indicator of whether it will have the right features to attract transactional activity in the future.

MALAYSIA – M&A AND IPO TRANSACTIONS

	2015	2016	2017	2018	2019	2020	2021
Total M&A transactions (US\$bn)	7.8	8.2	6.5	13.2	12.2	11.5	14.8
% of Global M&A transactions	0.2	0.2	0.2	0.4	0.4	0.5	0.5
Domestic (US\$bn)	4.6	3.3	3.4	8.1	7.5	7.8	9.9
Cross-border, inbound (US\$bn)	3.2	4.8	3.1	5.1	4.7	3.7	4.9
Total volume of M&A transactions (Number of deals)	393	314	259	311	292	276	357
Domestic (Number of deals)	304	226	171	200	188	194	248
Cross-border, inbound (Number of deals)	89	88	88	111	104	82	109
Total IPO transactions (US\$mn)	1,199.0	244.3	2,755.0	100.0	1,720.1	1,333.1	2,065.1
% Global IPO transactions	0.6	0.2	1.2	0.0	0.7	0.8	0.9
Domestic (US\$mn)	1,199.0	244.3	1,800.0	100.0	1,720.1	1,333.1	2,065.1
Cross-border (US\$mn)	0.0	0.0	955.0	0.0	0.0	0.0	0.0

MALAYSIA – FORECAST FOR THE ECONOMY

	2015	2016	2017	2018	2019	2020	2021
Macroeconomic drivers							
Real GDP growth (% yoy)	5.1	4.2	5.9	4.8	4.5	4.2	4.1
CPI (% yoy)	2.1	2.1	3.8	1.0	2.5	2.8	2.5
Merchandise trade (% of GDP)	111%	106%	112%	110%	109%	108%	108%
Financial drivers							
10-year government bond yield (%)	4.1	3.8	4.0	4.1	4.4	4.6	4.7
Equity prices (LCU, end of year % change)	30.1	-4.0	8.0	-12.1	10.4	-9.0	8.3
Stock market capitalisation (US\$bn)	383.0	359.8	396.7	371.9	397.2	373.9	419.7

Source: Oxford Economics



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Notes to editors

Global Transactions Forecast


Oxford Economics have used statistical techniques to estimate the historic relationship between M&A and IPO activity and key drivers, such as GDP growth, equity prices, trade flows, money supply, legal structure and property rights and freedom to trade.

Based on their forecasts for GDP growth along with anticipated changes to the other criteria in each of the 42 markets has allowed OE to project the future value of M&A and IPO transactions. These predictions have also benefitted from Baker McKenzie partners around the world giving their views on the latest trends in their market and the likely evolution of transactions in their country.

In estimating global transactional activity, the forecast uses data on completed deals rather than announced deal values. From an analytical modeling perspective, it makes more sense to use completed deals for forecasting as it reflects actual outcomes. When calculating estimations, Oxford Economics grouped countries according to standard IMF classifications.

About Wong & Partners

Wong & Partners, a member firm of Baker & McKenzie International, is a Malaysian law firm dedicated to providing solution-oriented legal services to its clients. The Firm uniquely combines its rich local knowledge with broad global capabilities. Since its establishment in 1998, Wong & Partners has grown steadily for 20 years and now consists of 19 partners and more than 50 associates. The Firm's lawyers are able to deliver comprehensive and integrated advice to clients, and are trusted by respected domestic and multinational corporations for their needs in Malaysia and throughout Asia. The Firm's lawyers are committed to helping clients apply industry-specific, innovative and practical solutions. (www.wongpartners.com)

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About Baker McKenzie

Baker McKenzie helps clients overcome the challenges of competing in the global economy. We solve complex legal problems across borders and practice areas. Our unique culture, developed over 65 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instil confidence in our clients. (www.bakermckenzie.com)

Baker McKenzie is one of the leading firms for cross-border transactions, providing strategic advice on deals involving the world's leading financial institutions and multinational companies. From deal inception to business integration, we help clients bridge the gap between aspiration and achievement.

We close three deals a day

We are a transactional powerhouse providing commercially-focussed, end to end legal advice to maximise deal certainty and secure the intended value of transactions. Our 2,500 lawyers combine money market sophistication with local market excellence. We lead on major transactions with expertise spanning banking and finance, capital markets, corporate finance, funds, M&A, private equity and projects. The combination of deep sector expertise, and our ability to work seamlessly across each of the countries where we operate, means we add unique value in shaping, negotiating and closing the deal.

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About Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, with regional centres in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC. We employ over 130 full-time people, including more than 120 professional economists, industry experts and business editors—one of the largest teams of macroeconomists and thought leadership specialists.