

CHAPTER 4

A STRUCTURAL ANALYSIS OF THE MERCHANT BANKING INDUSTRY IN MALAYSIA

Introduction

In essence, this chapter will be a structural analysis on the competitive environment affecting the Malaysian merchant banking industry. It also contains a general scanning of the economic and regulatory environment. These will be used to identify and understand the salient structural features determining the nature of competition in the merchant banking industry. 'Competition' is taken to mean not just product or resource competition but is a broader notion of competition for profits. Porter (1980) argues that 'the intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather it is rooted in its underlying structure'. The task of the strategist is to understand the forces at work and make strategic decisions to gain competitive advantage for the organisation. The subsequent chapter will take a strategic look at the firm itself.

The Economic Environment

The Malaysian economy have enjoyed another year of robust growth in 1995 with real Gross Domestic Product of 9.6%. The strong economic environment was

mainly attributable to the ~~higher~~ growth in domestic demand with both the private and public sectors expenditures continuing to rise. On the supply side, the economic expansion continue to be ~~pillared~~ by the manufacturing, construction and services sectors.

The achievement ~~represents~~ the eight consecutive year that the economy has attained growth averaging ~~above~~ 8%. This growth is likely to be sustained in light of the Prime Minister's Vision 2020 which states among other things that Malaysia would attain industrialized ~~nation~~ status by year 2020. Vision 2020 has been given nationwide mandate in view of the recent ruling Barisan National's resounding victory. Under the 7th ~~Malaysia~~ Plan covering the period 1996-2000, it is estimated that a total of RM450 billion ~~of~~ new investments will be required up to year 2000, so as to sustain economic growth at an average rate of 7.5% per annum, the rate which will lead to the realization of ~~the~~ Vision 2020. The amount translates into a yearly average of funds requirement of RM75 billion of which infrastructure alone is estimated at about RM15 billion. As funds need to be raised to meet the nation's growing capital requirements, ~~the~~ merchant bank which can source and raise funds efficiently will be the forerunner in the industry.

Presently, the high ~~growth~~ strategy is based on the privatisation of state enterprises, rapid industrialization and numerous infrastructure projects. These include the RM15 billion ~~Bakun~~ hydroelectric project, a RM20 billion new administrative capital, a RM9 billion new airport, a new multibillion-ringgit bridge to Singapore, numerous facilities to host the 1998 Commonwealth Games and urban-

transit projects at all major cities. The dynamism of the manufacturing sector will be supported by the increasing level of foreign direct investments (FDIs), especially in the electronic and electrical industries. Proposed investment was RM11.1 billion as at 1994. Relocation of Singaporean low-tech industries seems inevitable in face of the rising cost of doing business in Singapore. A recent Japan External Trade Organization study suggests that the attractions of Malaysia's stable political and social environment to Japanese manufacturers are undiminished, despite cost-challenges elsewhere in the region. This survey also suggests that the stronger yen will lead to more local procurement, which in turn will encourage greater backward linkage to the rest of the economy. It must be noted that Japan ranks second after Taiwan in terms of total foreign direct investment in Malaysia; 1070 companies have Japanese investment which account for an average of 26% of total foreign direct investment in the country over the past five years. The buoyant manufacturing and construction activities supported by increased levels of domestic investment and consumption demand will fuel further expansion in the services sector. It can be seen that opportunities are abound and the opportunist merchant bank would be concerned with procuring foreign related business and actively involved with privatisation and infrastructure projects in all aspects of wholesale banking.

The role of the financial institutions will become more important as the pace of industrialization accelerates. There will be a dire need for new capital to be raised via the capital market and also through bank financing (Md. Isa, 1995). Both financing modes are expected to coexist and play complementary roles in the economic development of nation. Yakcop (1994) reported that there will be a

continuous shift of funds requirements away from the government sector to the private sector. This is true as the trend is towards private sector-led growth stimulus. Within the private sector itself, conventional bank borrowing will be replaced by capital market borrowing via debt instruments. This augurs well for merchant banks who recognise the new 'pecking order' for capital and are well positioned to exploit fee-earning opportunities such as issuance and underwriting of debt instruments.

Table 4.1 shows the changing world of the Malaysian capital market.

Table 4.1 : The changing face of the Malaysian Capital Market

<u>Funds raised</u>	<u>1976-80</u>	<u>1981-85</u>	<u>1986-90</u>	<u>1991-94</u>
Govt Securities	9.4(94)	19.8(77)	26.3(57)	7.5(16)
Equities	0.6(6)	5.5(21)	13.4(29)	25.0(54)
Private Debt Paper	-	0.6(2)	6.4(14)	14.1(30)
Total	10.0	25.9	46.1	46.6

Source : AsiaMoney (10 September 1995)

Note : In RM billion (% share)

From the Asia perspective, the Asian Development Bank estimates that from now to the year 2000, the Asia region will need US\$350 billion for power, US\$150 billion for telecommunications, US\$350 billion for transportation, and US\$100 billion for water and sanitation. To fund these projects, the region needs to acquire capital at an estimated rate of US\$130 billion a year by the year 2000. Therefore, the forward looking merchant bank which can mobilize resources domestically and regionally will be able to tap into the lucrative market of raising capital.

Looking ahead, prospects in Malaysia for continued growth remain bright albeit rising upper end labour costs, rising imports, a tight labour market, rising interest rates and a currency widely predicted to appreciate as the demand for Ringgit strengthens with keen investment by world players in our emerging economy. On the international front, newly revitalized economies of the industrialized nations will strengthen demand for Malaysian manufactured products. The tight labour market is now being addressed by the strategy shift towards higher capital intensive production as well as increasing efficiency through upgrading of technology. Productivity and upgrade of skills strategies are being intensified by the Government. On the demand side, both private consumption and non-oil private consumption are expected to continue to increase rapidly, boosted by the higher level of disposable income and positive business sentiment, lower corporate tax and reduced cost of doing business as provided for in the 1995 Budget. Given the rapid rate of expansion, the Government is seen to be taking prudent measures directed at combating inflationary pressures, strengthening the external current account deficit, increasing domestic savings, reducing pressures in the labour market as well as intensifying measures to increase productivity and competitiveness.

The merchant banking industry enjoyed another year of admirable performance in 1995 consistent with the sustained growth. As a whole, the industry reported a larger asset base with increased profitability. This is due to the higher non-interest income from fee-based activities. Most of the higher income stemmed from trading operations, corporate advisory services and consortium loans. In the event that the robust scenario would continue, it would seem that opportunistic merchant banks

who can overcome competition will reap the just rewards. One manager commented that should a consolidation or downturn phase in the economy arise, banks who do not practice prudent credit risk management will no doubt suffer from a bad loans scenario. Further, there will be fee-generating opportunities for restructuring, mergers and acquisition, and other related activities.

The Regulatory Environment

Recent developments include the extension of the two-tiered system to merchant banks after the central bank implemented it for commercial banks in 1995. This is to establish a core of merchant banks who can compete and secure a fair share of the domestic market on a sustained basis. Tier-1 status will enable a merchant bank more flexibility in running their business. Once given a Tier-1, the merchant bank is allowed to undertake foreign exchange activities for their own accounts as well as for their customers in their fee-based capacity. This will include entering into spot and forward transactions. However, it will be precluded from using their forex capabilities for trade financing purposes i.e. issuance of Letters of Credit. Further, it will be able to trade in derivatives i.e. futures and options and accept deposits from individuals with a minimum amount of RM1 Million. It would have a wider scope of investments as it could invest in all non-trustee shares listed in the Kuala Lumpur Stock Exchange and shares listed in the stock exchanges of Asean countries. Bank Negara's guidelines stipulate that investments in non-trustee shares and ASEAN shares in aggregate should not be more than 12.5% of the investees' paid-up capital or the merchant bank's paid-up capital and published reserves, whichever is lower. The bank could

also issue negotiable instruments of deposit up to five times of capital funds. Finally, it will be allowed to expand its operations domestically and also regionally through the establishment of a branch, a subsidiary company or a joint venture.

Such a move is expected to propel merchant banks to upgrade their operations by increasing the shareholder's funds, as part of the requirement. To qualify for Tier-1 status, they must have minimum shareholders' funds of RM250 million by the end of 1995, with an undertaking to increase its shareholders' funds to RM500 million by end 1998, and its paid-up capital to RM500 million by the end of 2000. Further, they must also continuously satisfy the rating requirements based on CAMEL (capital, assets, management, earnings and liquidity) rating framework and they must participate actively in fee-based activities. A Tier-1 status is not permanent and it will be reviewed by BNM annually. As at October 4, 1995 (The New Straits Times), at least 6 merchant banks have announced their plans to secure Tier-1 status. They are Arab-Malaysian Merchant Bank Bhd, Amanah Merchant Bank Bhd, DCB Sakura Merchant Bankers Bhd, Permata Merchant Bank Bhd, Malaysia International Merchant Bankers Bhd and Aseambankers Merchant Bank Bhd. As of 22 January, 1996 Arab-Malaysian Merchant Bank Bhd has been accorded Tier-1 status. The author was informed that Aseambankers Merchant Bank Bhd and CIMB will attain Tier-1 by 1996 and this is supported by newspaper reports (The Star, 22 January, 1996) Most managers interviewed are like-minded that having Tier-1 status is necessary to counter any foreign threat that might exist after liberalisation of financial services sector in Malaysia. And the fact remains that either the merchant banks shape

up or ship out in Bank Negara Malaysia's quest to turn domestic institutions into international players.

The current liberalisation of the services sector also extend to the rules in employing foreign workers in the banking institutions. Realizing the need to employ more foreign experts to address the shortage of skilled manpower in the industry, financial institutions are allowed to employ three more expatriates from the current two without waiting for approval from the central bank. The additional personnel is expected to be in the areas of trade finance, information technology, treasury products and corporate finance as these were considered "critical areas" in the merchant banking industry. However, it is surprising to note that not many merchant banks are taking up on this offer as they prefer to have strategic alliances with foreign banks with the required expertise e.g. innovation skills or risk management.

The common thread running along the new regulations is the aim to liberalize the banking system and remove current barriers among different classes of institutions. This in turn will add to greater competition and the promotion of efficiency, productivity and innovation. Such is the objective of the central bank.

A new development that will affect the fee-earning capabilities of merchant banks is the new Securities Commission (SC) guidelines on initial public offerings (IPOs) which took effect on 1 January 1996. As a move towards disclosure-based from merit-based regulations, the task of ascertaining the price of securities in IPOs is given to merchant banks although SC still reserves the right to review the pricing of

securities submitted. Previously, the pricing of securities was determined by the SC at a discount using the price earnings (PE) ranges of companies to be listed.

From a merchant banker's standpoint, the above has competitive implications. Firstly, companies to be listed will normally want a higher price to get the full benefit of the IPO which suggest that they might 'shop around' for the best price from various merchant banks. This will spur more competitive rivalry between the banks. Secondly, higher prices that may prevail will mean that merchant banks who are less risk averse will be more willing to underwrite the shares issue. Therefore, the merchant bank who has the underwriting capability will be able to reap even higher commissions because of the higher pricing structure. From a strategic viewpoint, capability may be in the form of the bank's own financial strength or having strategic alliances with other financial institutions willing to co-underwrite a higher price issue. These could lead to a proliferation of stockbroking houses as co-underwriters because of their ready access to the market via their distribution network. It is envisaged that merchant banks with commercial banks and stockbroking firms as their affiliates and / or parents will continue to have competitive advantage over the other merchant banks. All the merchant banks in Malaysia have affiliated commercial banks except for two. Amanah Merchant Bank Bhd and Perdana Merchant Bank Bhd only have affiliated finance companies in their stable. Merchant banks and their affiliates like AMMB - Arab Malaysian Bank and Arab-Malaysian Securities, CIMB - Bank of Commerce and CIMB Securities and DCB Sakura Merchant Bhd - DCB Bank and Rashid Hussein Securities are expected to retain their status quo Top 5 positions in managing initial public offerings.

Table 4.2 shows the number of initial public offerings from 1992 to 1995 with the respective bank rankings.

1995

Bank	No. of issues	Amount Raised (RM'Mil)	Ranking by Number of Issues	Ranking by Amount Raised	Market Share (%)
AIM	1	35.54	11	7	0.84
AMANAHA	2	20.71	7	10	0.49
AMMB	9	119.53	2	4	2.84
ASEAM	5	463.74	5	2	11.02
BBMB	2	26.80	7	8	0.64
CIMB	10	319.94	1	3	7.60
DCB	7	3,029.94	3	1	71.99
MIMB	5	113.37	5	5	2.69
PERDANA	2	14.63	7	11	0.35
PERMATA	2	20.72	7	9	0.49
BSN	0	0.00	12	12	0.00
UTAMA	6	43.98	4	6	1.04
TOTAL	51	4,208.89			100.00

1994

Bank	No. of issues	Amount Raised (RM'Mil)	Ranking by Number of Issues	Ranking by Amount Raised	Market Share (%)
AIM	0	0.00	10	10	0.00
AMANAHA	2	59.40	8	7	2.94
AMMB	15	285.07	2	3	14.10
ASEAM	6	75.61	4	5	3.74
BBMB	10	771.34	3	1	38.15
CIMB	17	231.81	1	4	11.47
DCB	5	465.42	5	2	23.02
MIMB	4	70.79	7	6	3.50
PERDANA	0	0.00	10	10	0.00
PERMATA	2	29.53	8	9	1.46
RAKYAT	0	0.00	10	10	0.00
UTAMA	5	32.91	5	8	1.63
TOTAL	66	2,021.88			100.00

1993

Bank	No. of issues	Amount Raised (RM' Mil)	Ranking by Number of Issues	Ranking by Amount Raised	Market Share (%)
AIM	1	21.19	8	7	2.30
AMANA H	0	0.00	11	11	0.00
AMMB	7	168.04	2	2	19.90
ASEAM	1	7.73	8	10	0.92
BBMB	4	77.56	5	5	9.19
CIMB	6	87.66	3	4	10.38
DCB	6	134.92	3	3	15.98
MIMB	13	269.35	1	1	31.91
PERDANA	0	0.00	11	11	0.00
PERMATA	2	15.96	7	9	1.89
RAKYAT	1	16.65	8	8	1.97
UTAMA	3	46.15	6	6	5.47
TOTAL	44	844.20			100.00

1992

Bank	No. of issues	Amount Raised (RM' Mil)	Ranking by Number of Issues	Ranking by Amount Raised	Market Share (%)
AIM	1	13.71	10	10	0.25
AMANA H	2	162.13	8	5	2.96
AMMB	8	485.08	2	4	8.87
ASEAM	3	79.22	6	7	1.45
BBMB	3	768.71	6	2	14.05
CIMB	12	3,494.29	1	1	63.89
DCB	5	156.45	3	66	2.86
MIMB	5	210.69	3	4	3.85
PERDANA	0	0.00	12	12	0.00
PERMATA	4	66.04	5	8	1.21
RAKYAT	2	26.31	8	9	0.48
UTAMA	1	6.73	10	11	0.12
TOTAL	46	5,469.35	10		100.00

Table 4.2 : Initial Public Offerings from 1992 -1995

Source : Various public documents

Threat of New Entrants

New entrants into the industry invariably reduces the existing firms' profitability. Therefore, existing firms should be concerned with how easy it is to gain entry. Barrier for entry currently exist in the form of licensing and Government policy. The Honorable Minister of Finance is the sole licensing body for merchant banks in Malaysia. At this juncture, there is no indication that the Government will encourage or increase the number of merchant banks in the country as it is regarded that twelve merchant banks are sufficient to serve the merchant banking needs of the corporate sector. The number of merchant banks has remained at 12 for the past 19 years since 1976 except in 1994 when Bank Negara Malaysia suspended Rakyat Merchant Bankers Berhad's licence because of insolvency and mismanagement of funds. The licence has since been transferred to Bank Simpanan Nasional in 1995 for RM1.

However, it would not be speculative to bring to attention foreign merchant and investment houses who aims to ultimately set up fully fledged merchant banks in Malaysia after full liberalisation of the financial services sector. Foreign presence can be found in the form of representative offices of foreign banks in Malaysia as well as in Labuan IOFC (International Off-shore Financial Centre). Foreign merchant banks have been very active of late in Malaysia. For instance, BZW, the investment arm of Barclays Bank Plc was joint lead arranger for a lot of infrastructure financing in Malaysia. It has also worked together with RHB Group and DCB Sakura in designing the RM1.08 billion tender offer for Petronas Gas (25 Sept 1995, Business Times).

Other foreign merchant houses have been co-managers of financing deals and have worked with domestic merchant banks in developing new financial instruments e.g. Merrill Lynch with CIMB in developing call warrants. Presumably, they would not be hindered by the lack of capital or expertise as they are backed by highly capitalized parents. Further, the foreign banks have superior distribution network regionally or globally for any new financial instruments. Therefore, established domestic firms would have no absolute cost advantages over a new entrant over time e.g. due to the learning curve or technological know-how. The only quality that sets apart the domestic firm and a new foreign entrant is probably the close rapport and long work relationship with governmental and/or regulatory authorities such as the Securities Commission, Bank Negara Malaysia, Ministry of Trade and Industry, Registrar of Companies and others. However the stance of the Malaysian government is that a level playing field should exist and that competition be encouraged as part of a post-liberalisation scenario. The foreign players in the market famed for their steep learning curve should face little barriers in their assimilation with Malaysian ways. There might come a time when a shake out stage or consolidation with foreign merchant banks becomes imminent after the full liberalisation of the financial services sector.

Bargaining power of suppliers

Suppliers of vital resources to the industry can extract high prices, leading to a squeeze on profits through higher input costs. The concept of suppliers in the merchant banking industry can be extended to include the supply of raw materials, management expertise, skilled labour and the supply of capital. The input cost of raw

materials are negligible as books, computer software and hardware and other stationery are readily available. Thus, the suppliers of raw materials do not have much bargaining power.

As of the current moment, skilled and qualified personnel remains the nucleus of a merchant bank. The merchant bank have often been described as a motley crew of bankers, accountants, lawyers and engineers providing specialised financial services. With the prevailing tight labour market and high turnover of staff, one of the main problems that merchant banks face is sourcing and retention of qualified and skilled personnel. This has a negative impact as the learning curve of a bank would be impaired as experienced personnel exits the bank. Replacements are often costly and retraining will be time consuming. The problem is further aggravated by staff pinching and headhunting of merchant bank's managerial staff and experienced personnel by corporations and stockbroking firms. These firms are precluded from Bank Negara Malaysia's current guidelines as to pay rises and bonuses pertaining to bank personnel. As a result, merchant bank personnel are often enticed by the three to four fold leap in remunerations offered. Banks often resort to supply through developing their own managers and training their own staff. The availability of skilled staff may be crucial but it does not give the suppliers power since they are not organised under any union to exert it. Table 4.3 shows the staff level of merchant banks as at 31 December 1994.

Bank	No. of staff
AIM	84
AMANAHI	104
AMMB	850*
ASEAM	168
BBMB	160
CIMB	144
DCB	194
MIMB	150
PERDANA	79
PERMATA	137
RAKYAT	91
UTAMA	85

Table 4.3 : Staff level of respective banks as at 31 December 1994.

Source : Association Of Merchant Banks Malaysia

Note : (*) as of 31st December 1995

The supply of capital is a vital issue in light of the Bank Negara Malaysia's move to segregate players using the Tier system. Further, a higher capitalisation will enable it to take on more underwriting and fund based activities e.g. extension of credit, loan consortiums etc. Generally, the expansion in capital is through retained earnings and/or an expansion in shareholder's funds. Ultimately, it is the banks with strong shareholders that are willing to pump in additional funds at urgent notice that will satisfy Bank Negara Malaysia's rulings. A comparison of the merchant banks' total assets and shareholders' funds based on the latest published accounts as at 24 October 1995 is given in Figure 4.1 and Figure 4.2 respectively. Table 4.5 and Table 4.6 shows the rankings in terms of the merchant banks' shareholders funds and total assets respectively.

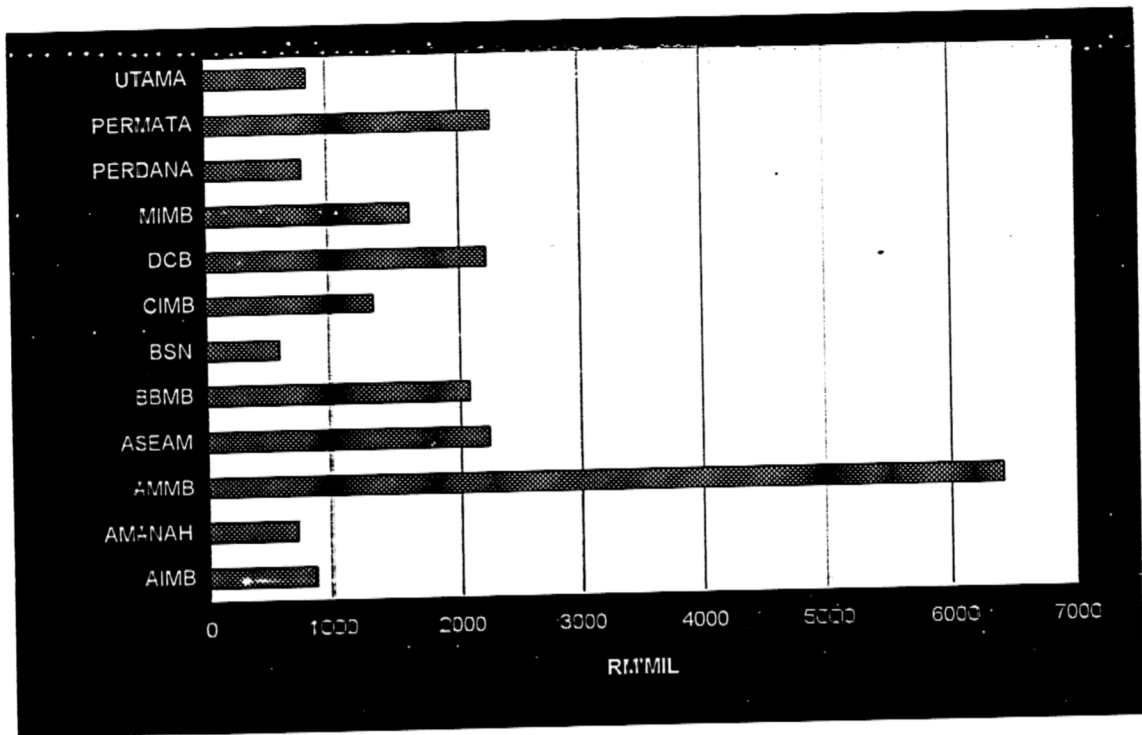


Figure 4.1 : A comparison of merchant banks' total assets (RM'Mil) based on the latest published accounts as at 24 October 1995

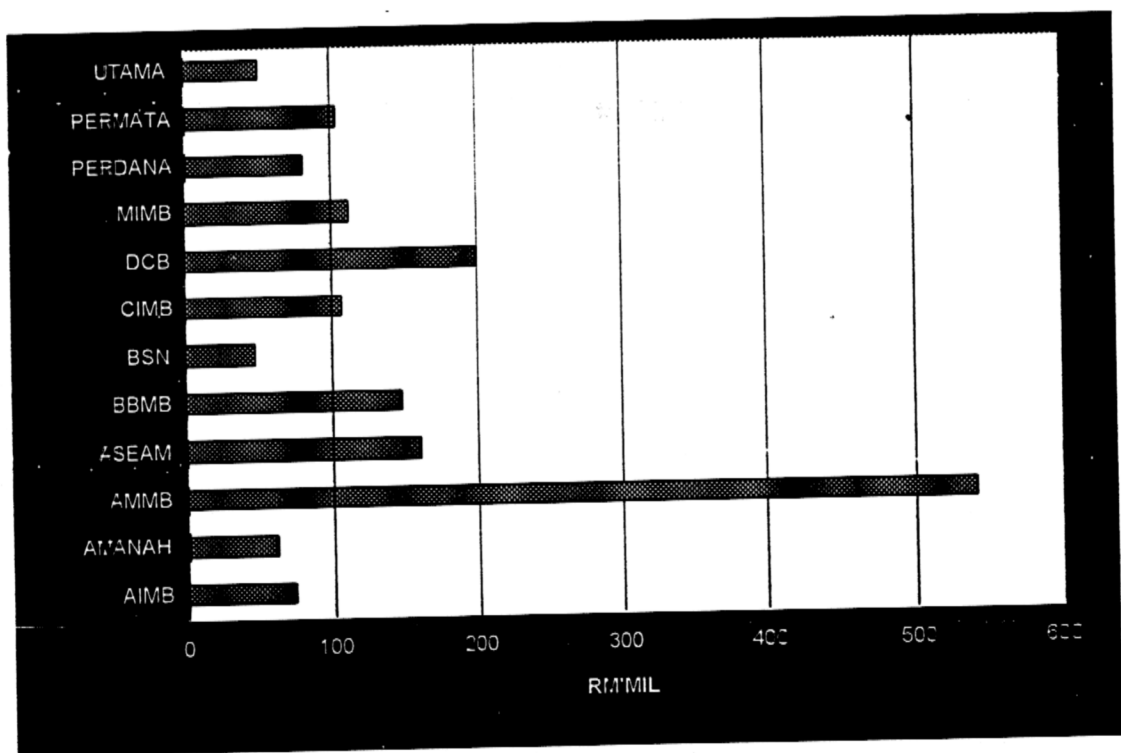


Figure 4.2 : A comparison of merchant banks' shareholders' funds (RM'Mil) based on the latest published accounts as at 24 October 1995.

Financial Years	1994 RM'Mil	Rank	1993 RM'Mil	Rank	1992 Rm'Mil	Rank
AIMB	56.40	10	44.20	10	39.90	10
AMANA H	63.57	9	57.00	8	51.50	8
AMMB	430.00	1	354.20	1	308.90	1
ASEAM	128.60	3	108.90	3	98.00	3
BBMB	122.30	4	98.10	4	84.80	4
CIMB	107.44	5	73.40	7	62.00	7
DCB	199.24	2	158.20	2	125.80	2
MIMB	93.10	7	82.50	6	76.40	6
PERDANA	83.04	8	34.50	11	27.90	11
PERMATA	104.60	6	89.10	5	78.20	5
BSN	-	-	-	-	-	-
UTAMA	53.79	11	46.50	9	42.70	9
TOTAL	1442.08		1146.60		996.10	

Table 4.5 : Ranking in Terms of Shareholders' Fund

Source : Published Annual Reports

Financial Years	1994 RM'Mil	Rank	1993 RM'Mil	Rank	1992 Rm'Mil	Rank
AIMB	809.80	9	510.70	11	542.40	8
AMANA H	727.75	11	664.30	8	503.80	10
AMMB	5636.10	1	4416.60	1	3748.40	1
ASEAM	2131.30	4	1451.00	4	1149.00	4
BBMB	1413.30	5	1090.30	5	917.20	5
CIMB	1339.10	6	758.00	7	519.70	9
DCB	2223.60	3	1628.40	3	1437.00	3
MIMB	1157.80	7	861.00	6	674.20	6
PERDANA	791.53	10	548.60	10	258.70	11
PERMATA	2285.50	2	1794.40	2	1619.60	2
BSN	-	-	-	-	-	-
UTAMA	851.08	8	639.30	9	596.80	7
TOTAL	19366.86		14362.60		11966.80	

Table 4.6 : Ranking in Terms of Total Assets

Source : Published Annual Reports

Threat of Substitutes

For our purposes, a substitute is something that meets the same needs as the services and products produced in the merchant banking industry or even 'doing

without' those particular products and services can be thought of as a substitute. The key question to ask is 'What substitutes pose a threat to industry profitability?'. If the substitute becomes more attractive in terms of price, performance or other determinants, then some buyers will be tempted to move their custom away from the firms in the industry. Pressure on an industry will be stronger the more close-substitutes (i.e. demand related) there are. Thus, the strategist needs to examine the impact of actual or potential substitutes making inroads into the market. More importantly, we must understand the needs that the merchant banking industry is currently satisfying.

Broadly, the merchant banks through the provision of corporate advisory services, corporate banking services, money market and treasury services; and investment and portfolio services are contributing to the needs of the society in the following areas :-

- 1) Assisting domestic institutions in the public and private sectors to meet new challenges in economic transformation.
- 2) The deepening and broadening of equity and the capital market .
- 3) The expansion of the financial market .
- 4) The spearheading of investment opportunities in Malaysia.
- 5) Participation in venture capital

The traditional role of merchant banks as financial intermediaries are about to change. Currently, only merchant banks are allowed to submit applications for listings, rights issue etc. to the Securities Commission and do underwriting of share

issues but they are already taking flaks from all sides. In the area of corporate advisory services, competition from substitutes exists in the form of stockbroking houses, commercial banks and audit companies who form Strategic Business Units (SBU) which specialise in corporate finance advisory services. A summary of what they offer mirrors that of a merchant bank and includes merger and acquisitions, financing/project financing, valuations, privatisation, feasibility studies, investment advisory services, public offering advisory services, strategic analysis, market position analysis and business planning. Some of these units have managed to get prominent private bodies as well as Government agencies as clients (Premier, Arthur Anderson 1995). Further, as part of efforts to provide excellence to clients, accounting firms enlist vigourly from other affiliated units worldwide. Referrals to and from other local and foreign units reflect their concept of a "global firm". Local and wide area computer networks, such as MSMail and Lotus Notes, are used daily for on-line communication within and with other offices, thus bringing their world closer. Even corporations have got into the picture with their own corporate finance departments staffed by former merchant bank personnel to duplicate the services of a merchant bank. Many have used the merchant bank as a 'courier' for submissions to the Securities Commission. This is an example where 'doing without' can be a substitute.

It is also common practice for some merchant banks to utilise the above forms of substitution to cut costs. For example, a merchant bank may have strategic alliances with certain accounting firms to perform a substantial part of their services e.g. statutory compliance. In effect, the merchant bank is 'subcontracting' out part of

their work functions which they might find cost inefficient or tedious. The net effect of this is that this may free up the expertise of merchant bankers to concentrate on other more lucrative areas.

There are also instances where Singapore based merchant banks, international investment banks and other financial advisers offer financial advice and assist behind the scenes by raising senior debt, subordinated debt, preferred stock or common stock on behalf of clients. These are mostly in the area of infrastructure and project financing where domestic merchant banks lack the expertise. A sample of infrastructure projects where they were involved in is given in Table 4.7.

Project name	Value RM Mil	Sponsor(s)	Adviser /Arranger	Financing
Malaysia-Singapore Second Crossing	1600	Linkedua/ United Engineers	CIMB, Morgan Grenfell Asia	Debt : RM1.03 billion facilities in three tranches, the largest an RM811 million 15 year term loan.
Segari 1300-MW IPP	4000	Segari Energy Ventures/ Malaysian Resources Corp, Tenaga, Perak government	Fieldstone Private Capital Group, Maybank, Bank Bumiputra	RM750m equity; RM300m revenue; RM3bn debt half in 15-yr, 10.25% coupon bond, and half in floating rate syndicated loan.
Port Dickson Power IPP	1200	Malaysian Resources Corp., Sime Darby	Fieldstone Private Capital Group/ Maybank	RM620m syndicated debt.

Table 4.7 : A sample of major infrastructure projects and their advisers / arrangers.

Source : CIMB, AsiaMoney, Schroders

Stockbroking houses already offer margin financing to its clients in corporate takeover exercises. They also provide venture capital and mezzanine financing to investors. Besides all that, they are knocking on Bank Negara's door for the right to provide corporate underwriting services, long since the stronghold of merchant banks. Merchant banks have a virtual monopoly when it comes to underwriting of new shares and private debt securities. In the first half of 1995, they collectively underwrote securities with an aggregate value of RM1.79 billion. Of this, 8 were public issues, 25 were rights and five, a combination of both. Currently, stockbroking houses offer share underwriting facilities which covers Initial Public Offers, Rights Issues as well as Convertible Bond Issues. In addition to share placement, they also act as a co-manager in the issue of covered warrants. Some stockbroking houses are also very active in portfolio management where they similarly structure investment portfolios to suit the risk profile and investment objectives of corporate investors.

Commercial banks especially the foreign banks in Malaysia are actively promoting fee-based products such as private debt securities, syndicated loans, custody, nominee and trustee services and unit trusts in direct competition with merchant banks besides providing similar leasing finance and corporate banking activities like term loans, loan syndication, bridging finance and offshore financing. It is obvious that with their trade finance expertise and forex facilities, services which merchant banks are precluded from; they are in a better position to cultivate relationship banking with corporate clients. Further, their competitive edge lies in their distribution network of branches and electronic banking facilities. Many of them

promote themselves as a one stop shop catering to the corporations every need. According to Yew (1993), public listed companies preferred other financial institutions to merchant banks for both investments and borrowings. This is attributed to the ample liquidity available as well as the ability to offer a lower cost of funding through more competitive rates. Further, there exists BNM's requirements on capital adequacy ratio and single customer restrictions which meant that for a larger loan quantum, merchant banks will not be able to match the larger commercial banks which have a larger capital base. As evidenced by the Treasury's 1995/1996 report, lending to the public sector increased by 17 percent while that to the private sector increased by only 7.7% from end of 1994 to the end of July 1995. Overall, lending operations by merchant banks increased by 7.8% to RM12.5 billion.

Table 4.8 shows the top arrangers of Malaysian bonds from 1991 to August 1995 of which two are commercial banks.

Lead Manager	Amount (RM'Mil)	No. of issues
DCB Sakura	5790.80	34
AMMB	3789.16	37
Bank Bumiputera Malaysia*	3595.00	5
CIMB	3403.32	28
ASEAM	1586.11	15
Malayan Banking Berhad*	1510.00	3
BBMB	1213.72	15
UTAMA	880.62	12
PERMATA	795.00	9
AIMB	776.21	8

Table 4.8 : Top Arrangers of Malaysian bond issues (1991 to August 1995)

Source : Rating Agency Malaysia

Note :(*) denotes Commercial Banks

The competition from the substitutes is affected by the ease with which buyers can switch to a substitute. Generally, buyers' e.g. corporations switching costs are low but there remains instances where services of the merchant banks are inevitable e.g. submissions to Securities Commission. One manager commented that using a substitute service may be akin to getting general practitioner treatment rather than going to the specialist's. However, the risk of substitution can be reduced by building in switching costs through added product and / or extra service benefits meeting buyer needs. Some merchant banks are already practicing the one stop shop or financial supermarket approach by cross-selling its affiliates or subsidiary's products or services which itself cannot offer to clients.

From the above discussions, we can conclude that substitutes do pose a substantial threat to the merchant banks and the trend to substitute services similar to merchant banks' offerings is likely to continue. The buyer's propensity to substitute will be higher if quality services exist at a better price. Obviously, the future outlook for the merchant bank that rests on its laurels does not look too bright.

Determinants of Buyer Power

Michael Porter (1985) reiterated that satisfying the buyer is at the core of success in a business endeavour. Buyers can bargain away potential profits from the firms in the industry and they can cause merchant banks to undercut each other to get the buyer's business.

In the merchant banking industry, buyers are mostly institutions, corporations and quasi-government bodies who look at the quality of services offered. The determinants of the purchase of merchant banking services in Malaysia are highlighted by Yew (1993) as creditability in terms of support, innovative, security, competence, responsive, and reliability. However, as most services are standard or undifferentiated, price undercutting is still common although guidelines for a minimum price structure exists. It remains, however, an elusive and almost undisclosed subject. From the same study by Yew (1993), it was found that buyers are not highly price sensitive. Indeed, some merchant banks interviewed do charge at a premium for work taken on as a reflection of their confidence in successful delivery.

Buyers e.g. corporations may gain bargaining leverage if their managers were formerly from the banking industry. Therefore, the merchant banks' profit spread become thinner as the buyer has information of actual transaction costs, funding sources etc. As the buyer's needs grow with the times, there is also a need to offer product innovations sensitive that meet those needs. In Malaysia, political linkage may sometimes have a bearing on buyer power. In these situations, buyers e.g. quasi-government bodies and institutions may be prone to shop selectively for a favorable price and purchase of services.

Competitive Rivalry

According to Michael Porter (1980), this takes the form of jockeying for a more profitable position using price competition, advertising battles, product introductions and increased customer service or warranties. Rivalry in the merchant banking industry takes the form of many dimensions e.g. service quality, advertising, product innovation and, range of services offered. It is pertinent at this juncture to precede with a detailed appraisal of the domestic merchant banks to understand competitive positions and standings in the industry.

In the three years to 1994, the merchant banks' total income rose by 42% and their profits by 114%. By comparison, the commercial banks' incomes rose by half that rate, and their profits by a respectable but lesser 90%. The merchant banks' 1994 pre-tax profits made up 10% of the banking system's RM4.8billion profits; three years earlier the figure was only 8%.

We begin our analysis by looking at the banks' profitability. A summary of each merchant bank's profitability and financial health is given in the following tables. Table 4.9 presents the ranking of merchant banks according to their total income. Total income represents the sum of net interest income and non-interest income e.g. fee income, investment & trading income, other operating income and other non-operating income. The Top 5 banks in terms of total income have been AMMB, BMBB, CIMB, ASEAM and DCB for the 3 years in review. Table 4.10 shows the ranking of merchant banks in terms of Profit (Loss) Before Tax. There

have been little change in profitability positions for the years leading up to 1994 except that CIMB has come in strength at No.3 after being in the middle league for the past years. AMMB and DCB Sakura have been incumbents at their No. 1 and 2 respective positions for the three years reviewed. Table 4.11 shows the ranking of merchant banks in terms of Earnings Per Share (sen). All banks showed steady non-volatile growth except that of BBMB and PERDANA. AIMB has shown unusual growth in earnings per share in 1994 while CIMB has very impressive statistics to support its incumbent No.1 position. Table 4.12 shows the ranking of merchant banks in terms of Pre-tax Return on Shareholder's Funds (%). Table 4.13 presents ranking in terms of Return on Assets (%). Return on Assets is a common measure of profitability for a merchant bank. Banks combine a relatively low (1% or less) return on assets with high financial leverage to provide an acceptable return on stockholder's funds.

Financial Years	1994		1993		1992	
	RM'000	Rank	RM'000	Rank	Rm'000	Rank
AIMB	27674	9	13397	11	15787	8
AMANAHI	24550	10	18602	9	11931	10
AMMB	219042	1	142258	1	124204	1
ASEAM	65712	5	50590	3	36184	2
BBMB	68690	4	35862	5	35351	4
CIMB	71283	3	29848	6	31941	5
DCB	92491	2	66507	2	35682	3
MIMB	28504	8	29314	7	16574	7
PERDANA	16760	11	16173	10	7683	11
PERMATA	54115	6	35949	4	25602	6
BSN	-		-		-	
UTAMA	29014	7	20832	8	14389	9
TOTAL	697835		459332		355328	

Table 4.9 : Ranking in Terms of Total Income
Source : Published Annual Reports

Financial Years	1994 RM'Mil	Rank	1993 RM'Mil	Rank	1992 Rm'Mil	Rank
AIMB	20.60	7	8.00	11	7.30	9
AMANA H	12.81	10	10.40	9	7.10	10
AMMB	148.40	1	92.40	1	78.40	1
ASEAM	35.90	5	23.00	4	18.70	4
BBMB	39.40	4	22.10	5	23.20	3
CIMB	52.89	3	19.70	6	17.30	5
DCB	72.30	2	47.10	2	25.70	2
MIMB	18.60	8	14.70	7	8.90	7
PERDANA	8.13	11	8.90	10	2.30	11
PERMATA	32.80	6	25.30	3	14.30	6
BSN	-	-	-	-	-	-
UTAMA	15.92	9	10.70	8	7.50	8
TOTAL	457.75		282.30		210.70	

Table 4.10 : Ranking in Terms of Profit Before Tax

Source : Published Annual Reports

Financial Years	1994 SEN	Rank	1993 SEN	Rank	1992 SEN	Rank
AIMB	86.50	3	32.70	7	31.45	5
AMANA H	41.80	9	35.70	4	24.00	7
AMMB	51.00	6	32.00	9	26.00	6
ASEAM	93.00	2	54.00	3	45.00	3
BBMB	52.00	5	30.00	10	60.00	2
CIMB	217.00	1	79.00	1	63.00	1
DCB	79.00	4	55.60	2	33.30	4
MIMB	50.50	7	32.40	8	22.40	8
PERDANA	21.00	11	33.00	6	11.00	11
PERMATA	47.00	8	34.00	5	22.00	9
BSN	-		-		-	
UTAMA	29.44	10	19.96	11	14.12	10

Table 4. 11 : Ranking in Terms of Earnings Per Share (sen)

Source : Published Annual Reports

Financial Years	1994 %	Rank	1993 %	Rank	1992 %	Rank
AIMB	36.52	2	18.10	10	18.30	6
AMANA H	20.16	9	18.20	9	13.80	8
AMMB	34.51	4	26.10	4	25.40	3
ASEAM	27.92	8	21.10	8	19.08	5
BBMB	32.22	5	22.50	7	27.40	2
CIMB	49.23	1	26.80	3	27.90	1
DCB	36.28	3	29.80	1	20.40	4
MIMB	19.98	10	17.80	11	11.70	9
PERDANA	9.79	11	25.80	5	8.20	10
PERMATA	31.36	6	28.40	2	18.30	6
BSN	-	-	-	-	-	-
UTAMA	29.60	7	23.00	6	17.56	7

Table 4.12 : Ranking in Terms of Pre-tax Return on Shareholder's Funds (%)
Source : Published Annual Reports

Financial Years	1994 %	Rank	1993 %	Rank	1992 %	Rank
AIMB	1.58	5	0.96	8	0.87	7
AMANA H	1.09	7	1.02	7	0.90	6
AMMB	1.75	4	1.39	3	1.32	3
ASEAM	1.02	8	0.86	10	0.91	5
BBMB	1.83	3	1.36	4	1.62	2
CIMB	2.67	1	1.73	2	1.99	1
DCB	2.13	2	2.05	1	1.17	4
MIMB	1.09	7	0.94	9	0.83	9
PERDANA	0.62	10	1.21	5	0.84	8
PERMATA	0.88	9	0.79	11	0.58	11
BSN	-	-	-	-	-	-
UTAMA	1.14	6	1.03	6	0.78	10

Table 4.13 : Ranking in Terms of Return on Assets (%)
Source : Published Annual Reports

The atmosphere of competitive rivalry is evidenced as we examine the merchant bank's activities. It can be divided into fund-based activities and fee-based activities. Sources of income from fund-based activities include deposits mobilised by merchant banks, capital and reserves, borrowings from domestic financial institutions

and Bankers Acceptances. Such resources of the merchant banks from fund-based activities rose by 13.4% to RM1,963 million at the end of July 1993, compared with an increase of 1.9 % during the first six months of 1992. In 1994, total resources from fund based activities rose by 6.6 % to RM 20,036.80 million at the end of July 1994 while the increase was 5.1% from the end of 1994 to RM24,780 million at the end of July 1995. The rise was contributed mainly by new deposits (Economic Report, 1995). As can be observed from the above, growth in this part of the industry is relatively slow, thus firms may expand market share at each other's expense and will lead to intense rivalry but this does not seem to be so as shown by the rankings in Tables 4.14 and 4.15. Generally, it can be deduced that each bank is comfortable with their performance and there has been little change in their relative position and market share for the past three years. Table 4.14 show the rankings of merchant banks in terms of total loans and advances. The Top 4 banks involved in loans and advances have been AMMB, DCB, PERMATA and ASEAM for the years in review. Table 4.15 highlight the rankings in terms of net interest income. Net interest income is one of the most important factors in managing bank profitability. It is defined as net interest earned on assets less interest paid on deposits and other liabilities. In short, it is the spread or the difference between the revenue on funds employed and the cost of funds. The Top 4 positions follow the ranking in terms of total loans and advances closely. However, MIMB traded places with AIMB in 1993 in terms of net interest income and have held on to strongly since. It can be deduced that competition do not feature well in this area of the merchant bank's activities. Common features of all the 4 top banks in this service area are that they are highly capitalised and are part of financial supermarket groupings.

Financial Years	1994		1993		1992	
	RM'Mil	Rank	RM'Mil	Rank	Rm'Mil	Rank
AIMB	366.70	10	376.80	9	297.90	10
AMANAHA	461.56	8	451.10	7	327.10	8
AMMB	3313.50	1	2958.90	1	2662.30	1
ASEAM	801.00	4	930.90	3	850.30	3
BBMB	677.70	5	524.70	5	444.10	5
CIMB	613.96	6	427.20	8	372.20	7
DCB	1168.70	2	1015.80	2	928.60	2
MIMB	467.50	7	471.50	6	375.00	6
PERDANA	295.78	11	157.20	11	138.20	11
PERMATA	853.30	3	658.90	4	607.60	4
BSN	-	-	-	-	-	-
UTAMA	388.96	9	302.50	10	298.20	9
TOTAL	9408.66		8275.50		7301.50	

Table 4. 14 : Ranking in Terms of Total Loans and Advances

Source : Published Annual Reports

Financial Years	1994		1993		1992	
	RM'000	Rank	RM'000	Rank	Rm'000	Rank
AIMB	10216	10	7279	11	13243	5
AMANAHA	13621	8	8510	9	6063	9
AMMB	104546	1	71777	1	81589	1
ASEAM	26249	3	19228	3	16968	3
BBMB	20257	5	12323	6	11558	6
CIMB	14390	7	11584	7	10415	7
DCB	37327	2	29658	2	19968	2
MIMB	19750	6	16473	5	5223	10
PERDANA	8980	11	7723	10	2985	11
PERMATA	25107	4	18332	4	15853	4
BSN	-	-	-	-	-	-
UTAMA	12544	9	10558	8	6915	8
TOTAL	292987		213445		190780	

Table 4. 15 : Ranking in Terms of Net Interest Income

Source : Published Annual Reports

Fee-based activities generally include corporate advisory services, loan syndications, managing and underwriting of corporate securities, portfolio management. As a mindful reminder, merchant banks are to comply with the guideline on fee-based income, which required that at least 30% of the total net income be derived from fee-based activities. Total income from fee-based activities rose by 43.7% to RM211 million during the first six months of 1993, compared with RM147 million during the same period of 1992. The increase in fee income was due to the increase in income from the trading of financial instruments e.g. private debt securities. Fee-based activities continued to expand rapidly during the first half of 1994 where total fee income rose by 125.1% to RM215 million compared with RM95.6 million during the same period of 1993 (Economic Report, 1995). Total fee income improved from RM248 million in 1993 to RM386 million in 1994. Thus, it can be seen that this activity sector has experienced higher growth than the fund-based sector. (Table 4.16 presents the rankings in terms of Corporate Advisory Fee Income. It shows that CIMB is the undisputed leader in disseminating corporate advice with DCB following closely in second position. Generally, no one merchant bank aims to threaten another and their status quo remains. However there are exceptions in that AMANAH have been achieved a three fold leap in corporate advisory income for the financial year of 1994. Table 4.17 highlights the rankings in terms of fees on Loans and Advances. These fees are mostly derived from syndication of consortium loans. The leaders in this field are AMMB and DCB in position No.1 and 2 respectively while CIMB is catching up slowly but surely. Table 4.18 present rankings in terms of Underwriting Commission. The fees earned from underwriting activities rose significantly by approximately RM12 million or 65 % to RM31 million

in 1994. The bulk of this business was garnered by DCB and AMMB although some merchant banks saw two to three fold increases in their commissions with corresponding improvements in their rankings. The table shows that this is indeed an area of significant competitive rivalry. Table 4.19 show the rankings in terms of Portfolio Management Fees. AMMB has been the undisputed leader in this area for the three years under review while BBMB and MIMB have been holding very strongly on to their second and third spots. Table 4.20 presents the rankings in terms of Investment & Trading Income. This income item or activity represents another added dimension to the changing character of Malaysian merchant banking. From 1989 to 1992, trading accounted for 11.4% of total fee income earned while corporate advisory services and underwriting contributed 19.9% and 15.55% respectively (Bank Negara Malaysia, 1992). Two years later, trading of financial instruments had grown to 33.67% of fee-based income, while syndication, underwriting and advisory business had been relatively static in terms of percentage contribution to fee income. According to Bank Negara Malaysia's Annual Report 1994 on merchant bank income, syndication of consortium loans contributed 15.28% of fee-income, underwriting accounts for 9.06% while corporate advisory fees contributed for 16.84% of fee-income. The growth of securities trading and investment represents a new regime in merchant banking : it means that more than ever, the fortunes of Malaysia's merchant banks are tied to the health of the equities market. Table 4.21 presents the rankings in terms of Total Fee Income .

Financial Years	1994 RM'000	Rank	1993 RM'000	Rank	1992 Rm'000	Rank
AIMB	1,445	10	1,527	7	719	10
AMANAHI	1,854	7	662	11	555	12
AMMB	5,949	4	3,938	4	4,766	3
ASEAM	NA	-	1510	8	2,665	6
BBMB	6,287	3	6,219	3	6,150	2
CIMB	15,542	1	8,850	1	6,609	1
DCB	9,266	2	6,571	2	2,991	5
MIMB	3,162	5	2,641	6	3,280	4
PERDANA	1,665	8	864*	10	2,023	8
PERMATA	1,610	9	1,433	9	1,999	9
BSN	NA	-	NA	-	604	11
UTAMA	2,781	6	2,778	5	2,100	7
TOTAL	49,561		36,723		34,461	

Table 4.16 : Ranking in Terms of Corporate Advisory Fee Income

Source : Published Annual Reports

Note : (*) Annualised based on the results for 16 months

Financial Years	1994 RM'000	Rank	1993 RM'000	Rank	1992 Rm'000	Rank
AIMB	2817	7	1261	8	509	11
AMANAHI	3813	6	1542	7	946	8
AMMB	18309	1	13558	2	10020	1
ASEAM	-	-	3461	4	3287	5
BBMB	7153	4	3323	5	4846	2
CIMB	7498	3	2854	6	2446	6
DCB	13612	2	16135	1	4765	3
MIMB	1171	9	1043	9	986	7
PERDANA	1168	10	416	11	780	10
PERMATA	5059	5	4016	3	3692	4
BSN	-	-	-	-	-	-
UTAMA	2429	8	861	10	882	9
TOTAL	63029		48470		33159	

Table 4.17 : Ranking in Terms of Fees on Loans and Advances

Source : Published Annual Reports

Financial Years	1994 RM'000	Rank	1993 RM'000	Rank	1992 Rm'000	Rank
AIMB	760	10	971	8	401	11
AMANAII	991	8	314	11	2447	5
AMMB	6647	2	3803	1	3554	1
ASEAM	1349	6	3776	2	3014	4
BBMB	3054	5	1438	4	3208	3
CIMB	3754	4	1270	5	3456	2
DCB	7244	1	3338	3	2167	6
MIMB	1272	7	1462	7	525	9
PERDANA	372	11	723	9	418	10
PERMATA	4443	3	1181	6	990	7
BSN	-	-	-	-	-	-
UTAMA	914	9	374	10	859	8
TOTAL	30800		18650		21039	

Table 4.18 : Ranking in Terms of Underwriting Commission

Source : Published Annual Reports

Financial Years	1994 RM'000	Rank	1993 RM'000	Rank	1992 Rm'000	Rank
AIMB	25	8	36	9	65	8
AMANAII	942	5	737	5	409	5
AMMB	5364	1	6318	1	3971	1
ASEAM	-	-	-	-	-	-
BBMB	4150	2	1915	2	1760	2
CIMB	1077	4	-	-	-	-
DCB	-	-	810	4	586	4
MIMB	2974	3	1068	3	1513	3
PERDANA	-	-	-	-	-	-
PERMATA	476	7	278	8	280	7
BSN	-	-	-	-	-	-
UTAMA	753	6	507	6	295	6
TOTAL	15761		11669		8879	

Table 4.19 : Ranking in Terms of Portfolio Management Fees

Source : Published Annual Reports

Note : Some banks' portfolio management fees cannot be ascertained because of their unique accounts reporting policies.

Financial Years	1994 RM'000	Rank	1993 RM'000	Rank	1992 RM'000	Rank
AIMB	8810	7	673	11	673	10
AMANA H	2599	10	4357	6	363	11
AMMB	49814	1	29876	1	10481	1
ASEAM	23078	3	15849	2	1364	8
BBMB	23649	2	7771	4	3310	2
CIMB	21851	4	1273	10	1484	7
DCB	15608	5	6016	5	2561	5
MIMB	(1565)	11	1956	9	2690	4
PERDANA	3514	9	4329	7	1237	9
PERMATA	15274	6	9102	3	2844	3
BSN	-	-	-	-	-	-
UTAMA	8424	8	4304	8	2134	6
TOTAL	171056		85506		29141	

Table 4.20 : Ranking in Terms of Investment & Trading Income

Source : Published Annual Reports

Note : Investment and trading income includes net trading income from money market instruments, net profit from dealing in investments/securities, gross dividend income and related items.

Financial Years	1994* RM'000	Rank	1993# RM'000	Rank	1992# Rm'000	Rank
AIMB	8648	8	5385	11	2434	11
AMANA H	8270	9	7012	9	5663	9
AMMB	64473	1	44017	1	33582	1
ASEAM	16184	5	19312	3	11913	5
BBMB	24555	4	15680	5	17527	3
CIMB	34890	3	16918	4	21212	2
DCB	39265	2	36849	2	15714	4
MIMB	10313	7	8389	8	9063	7
PERDANA	3672	11	6052	10	4244	10
PERMATA	13704	6	11311	6	9471	6
BSN	-	-	-	-	-	-
UTAMA	7895	10	9053	7	6371	8
TOTAL	231869		179978		137194	

Table 4. 21 : Ranking in Terms of Total Fee Income

Source : Published Annual Reports

Note : (*) excluding investment and trading income .

(#) including trading income from financial instruments

To sum up, there is a high potential of competitive rivalry because of the jostling for market share among substitutes and merchant banks, as well as among the merchant banks themselves, services offered by the merchant banks which are basically undifferentiated, the changing strategies of competitors to suit the market demands and the emergence of well-known personalities who lead the merchant banks.

Intense competition faced by merchant banks from within and outside the industry has resulted in the creation of market niches by the smaller merchant banks. Further, they have also experienced that a firm's bank preference and customer loyalty may make it difficult to prise customers away from their existing competitors. Therefore, their market niches include specific-industry, customer-size, specific-banking activities, quality and affordability of price specialists.

Many of the small merchant banks still rely on interest earnings for their income. But the larger banks e.g. CIMB, now draw two-thirds of their incomes from fee-based activities. This have been achieved by breaking into the traditional turf held by the foreign houses - corporate advisory, syndication, and underwriting. For instance, once domestic and foreign banks collaborated to advise on infrastructure projects. Now, the balance of power in that partnership has shifted as domestic merchant banks handle deals solely. For instance, The Petronas Gas IPO exemplifies the domestic merchant banks growing capabilities and confidence. The deal, although

international in nature, was handled exclusively by Rashid Hussain's broking and investment banking group which includes DCB Sakura Merchant Bank. To put it simply, the Malaysian merchant banking industry is a case of playing 'catch' - the smaller merchant banks trying to catch up with the market leaders - AMMB, CIMB and DCB.