1. INTRODUCTION

1.1 Background

There has been limited study in Malaysia banking mergers and acquisitions. There have been significant substantial structural changes in the Malaysian banking sector, following the introduction of Financial Sector Masterplan (FSMP) launched by Bank Negara Malaysia (BNM) in 2001. This paper aims to study 3 Malaysia bank mergers and acquisitions; the objective of the M&A, how the acquisition was made, key critical success factors and the significance of the banking merger and acquisition. One of the early programs of the Malaysian government to resolve the effects of the Financial Crisis was restructuring the financial system of Malaysia. Danaharta was created in May 1998 to acquire and workout to the extent possible non-performing loans of Malaysian banks. Danamodal was created to restructure Malaysian banks whose equity had fallen below nine percent. The Corporate Debt Restructuring Committee was created to facilitate voluntary restructuring of corporate debt. In July 1998, the government announced a restructuring program to consolidate fifty-eight financial institutions in Malaysia into six major bank groups. The anchor bank system was to consolidate the financial system to improve competitiveness and to reduce the number of bankruptcies in the financial system.

1.2 Problem Statement

In the Malaysia banking sector, the Financial Sector Masterplan (FSMP) was launched by Bank Negara Malaysia (BNM) in 2001. In the foreword by former Minister of Finance and

Minister of Special Functions, Tun Daim Zainuddin, the Masterplan was launched where it acts as a charter for the future growth and servers to outline the strategies to achieve a diversified, effective, efficient and resilient financial system for the next 10 years. The Masterplan's objective is to assist and enable Malaysia's financial system meet the ever increasing customer and business demands, adapt and adjust to technological advances and finally to meet and overcome challenges of globalisation, hence to continuously contribute and support the nation's economic growth and stability. The banking sector consists of commercial banks, finance companies, merchant banks, discount houses and money brokers which are licensed under the Banking and Financial Institutions Act 1989 (BAFIA) and supervised by BNM. On the last count at end 2000, there were 31 commerical banks (of which 14 are fully foreign-owned), 19 finance companies, 12 merchant banks and 7 discount houses. Malaysia's banking sector plays a critical role as financial intermediary since it is a primary source of financing for the domestic economy, accounting for about 70% of the total assets of the financial system as at end -1999 (FMSP, 2001).

Domestic banking groups through a process of mergers, acquisition, asset swaps and alliances will emerge stronger through the build-up of capital size, business scale, investment in ICT infrastructure and human capital. This will assist the domestic banking group to access skills and scale, acquire new customers and delivery channels, cut costs, develop new products and access cutting-edge technology.

Francis, B., Hasan. I., Wang, H., (2008), stated consolidation of the banking sector is particularly important to entrepreneurs because it impacts their ability to raise funds. Entrepreneurial firms are generally small, and as argues by Guiso et al. (2004) and Cole et al. (1996), among others, depend heavily on the credit provided by banking systems for their start, survival and continuous growth. This paper aims to study 3 cases of Malaysia bank mergers and its implications.

1.3 Objective of Study

The objective of this study is to examine the effect of M&A completion announcements on the financial performance for three anchor banks in Malaysia: Maybank Berhad, CIMB Bank Berhad and Public Bank Berhad. This study analyzes the impact of the M&A on the operating performance of these three banks. This study covers the period from 2001 to 2008.

1.4 Significant of the Study

In a study conducted by Pickering Pacific titled, "Study of trends in M&A deals in five major ASEAN countries, from 2006-2008", Malaysia accounted the highest deals in both volume and value with 1,226 deals at a disclosed value of US$65.7 billion. The five ASEAN countries included in the study are Indonesia, Malaysia, Singapore, Thailand and Vietnam. Furthermore, the M&A transactions in Malaysia were mostly taken up by domestic buyers 81% with the remaining balance by foreign buyers. The table below indicates M&A deals in Malaysia covering the period 2006-2008:

Table 1.1

	2006	2007	2008
Number of deals	274	446	506
Number of deals with value disclosed	213	335	364
Value in US$ billion	23.9	24.1	17.7
Average deal size US$ million	112	72	49

Source :Pickering Pacific, (Feb 2009), Study of trends in M&A deals in five major ASEAN countries, from 2006-2008."

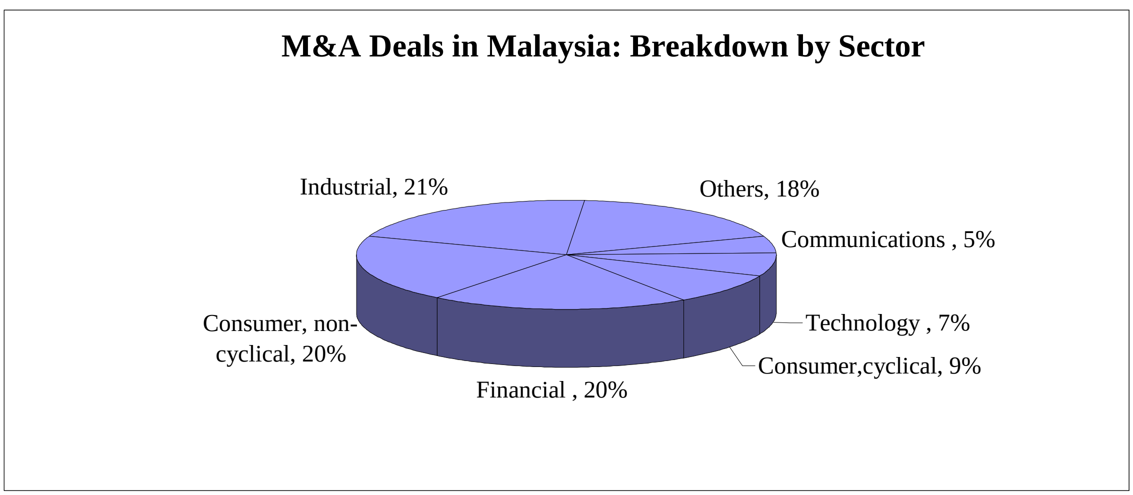
From 2006 to 2008, 1,226 deals were transacted in Malaysia. In the 3 years of analysis, 2008 registered the highest of M&A deals with 506. In 2008, the value of M&A deals fell from US$24.1 billion in 2007 to US$17.7 billion in 2008. This translates to a decline of 27% since the number of large deals (those above US$250 million) fell from 14 in 2006 to 6 in 2008. In 2008, 87% of the deals transacted were valued at less than US$50 million and the average deal size has been declining from a high of US$112 million to US$49 million.

In an analysis of M&A deals by sector, communications is only 5% but accounted for 33% of the disclosed transaction value and forms the two largest deals recorded for the period. The largest one was the bid by Binariang GSM Sdn Bhd for Maxis Communications Bhd. This buyout was deemed the largest privatization in Southeast Asia and the largest leveraged buyout in Asia, outside of Japan. Maxis Communications Bhd. was a publicly listed company and the largest mobile phone operator in Malaysia. Maxis Communications Bhd represented 4% of the total market capitalization of public companies in Malaysia and was favored by international investors as the Malaysian stock exchange’s largest non-state owned company. Tycoon and majority shareholder of Maxis, Ananda Krishnan, wanted to take the company private to further expand its regional operations.

The second deal is the demerger of the mobile and fixed-line businesses of the Telekom Malaysia Group to create two separate entities to serve the different market segments within the telecommunications industry. Telekom Malaysia Berhad is the largest telecommunication company in Malaysia and also Southeast_Asia's second-largest telecommunication company. The company says that the underlying objective of the proposed demerger is to "accelerate operational improvements and growth through clearer strategic and organisational focus and further unlock shareholder value". The demerger exercise will result in the creation of two companies - RegionCo, which will include TM's regional mobile operations under TM International, and domestic mobile operations under

Celcom. It is intended for the RegionCo to be demerged from TM Group and be separately listed. The second company is FixedCo, which will retain the listed TM's domestic interests in fixed-line voice, data and broadband, and other non-telecommunications related services under TM Ventures. The demerger will continue the success of TM by creating two listed telcos, both of which could potentially enjoy a status amongst the largest companies by market capitalisation on Bursa Malaysia. RegionCo will emerge as a regional mobile champion expanding beyond 10 countries and increasing its foot-print in Asia, while FixedCo will focus on growing the domestic broadband market. RegionCo, as a separate regional mobile champion will benefit from increased deal structuring capability with its enhanced profile as a successful and growing pure-play mobile operator. The separate listing also provides RegionCo with a more attractive acquisition currency, in the form of its own listed shares, and greater access to equity markets and increased flexibility in funding. These allow RegionCo to be better positioned to pursue its growth strategies.

Table 1.2: M&A Deals in Malaysia Breakdown by Sector



Source :Pickering Pacific, (Feb 2009), Study of trends in M&A deals in five major ASEAN countries, from 2006-2008."

The table below provides a run down of the top ten deals completed in 2006-2008:

Table 1.3: Top 10 Completed M&A Deals in Malaysia

No	**Date**	**Target**	**Acquirer**	**Value in US$m**	**Industry**
1	Q2 2007	Maxis Communications	Binariang GSM	11,911	Telecommunications
2	Q2 2008	TM International	Shareholders	8,586	Telecommunications
3	Q4 2006	Kumpulan Sime Darby	Sime Darby	4,506	Holding Companies
4	Q2 2006	Malakoff	MMC Corp Bhd	4,110	Electric
5	Q4 2006	Golden Hope Plantations	Sime Darby	2,265	Agriculture
6	Q4 2006	Kumpulan Guthrie	Sime Darby	1,767	Agriculture
7	Q1 2006	Southern Bank	Bumiputra Commerce	1,751	Financial Services
8	Q2 2006	Oyl Industries	Daikin Industries	1,343	Building Materials
9	Q1 2007	RHB Capital	Kumpulan Wang	1,341	Financial Services
10	Q4 2006	PPB Oil Palm	Wilmar International	1,255	Agriculture

In an economic downturn, there are more opportunities to acquire and more room in which to merge corporations. A recent report by global management consulting firm McKinsey gives a similar picture. In McKinsey's report entitled, "What's different about M&A in this downturn" it states that M&A may be more resilient in this downturn than in previous ones, but it will be a different kind of M&A. In the fourth quarter of 2008 M&A activity dropped sharply given the poor economic situations. McKinsey noted that M&A activity got a boost in 2008 from restructuring transactions that were generated by the crisis: government-sponsored deals represented 25% of those in the financial-institutions sector, which accounted for 23% of total deal volumes in 2008. The top ten transactions for financial institutions represented 4.5% of total deal volumes in 2008, in line with the 5% in 2007.

In 2000 and 2001, US, Europe and Asia accounted for approximately 60, 30 and 10 per cent of deal volumes by target respectively. From 2005 to 2008 the distribution was much more balanced, at approximately 40, 40 and 20 per cent. Cross-border M&A activity grew from 23% of the total in 2000 to 29% in 2006, 41% in 2007, scaling back to 35% in 2008. China and India combined represented close to 12% of all cross-border deals in 2008.

Table 1.4: Share of global M&A by geography of target, %

Source: Dealogic; McKinsey analysis

Of the past few years mega deals a significant feature – transactions valued at more than U$10billion, driven by the market's confidence and by a trend toward greater industry concentration. However in 2008, there was a change, most M&A were restructurings in the financial sector, namely Bank of America's acquisition of Merrill Lynch. Hostile takeover which peaked in 2007 became increasingly significant as a result of very strong market confidence and extraordinary financial conditions. Hostile takeover continued in 2008 where in the first 3 quarters of 2008, M&A deals amounted to U$50 billion a quarter, which is the average of 2000 to 2007 level. The trend dropped to U$21 billion in the fourth quarter. In M&A deals in an economy downturn, decisions must be made quickly when opportunities arise. Three specific areas where M&A deals in a rising market vs. economy downturn differ are speed, managing stakeholders and opportunity scanning.