

CHAPTER 5: CONCLUSION

5.1 Summary

The purpose of the study is to determine the motivations behind the M&A activities in the telecommunications industry in Malaysia. First, the study analyzed the roles of government regulation, technology and competition played in the M&A. These factors were seen as motivations behind the M&A. The impact of government regulation was considered as one of the motivations behind the M&A in part because:

(1) Liberalization of the Industry and the CMA 1998

With liberalization in the mid-1990s, competition heightened in the industry, particularly in the cellular market where new players had a more level playing field against TMB (the once monopolist of the industry). Subsequently, the CMA1998 was introduced to provide a formal regulatory structure for the industry's liberalization and continues to promote healthy and effective competition among players in the industry under MCMC.

(2) Allocation of 3-G Spectrum

The 3-G technology was identified as the future of cellular service. By 2001, the government announced it would only allocate 3 licenses for the 3-G spectrum. In mid-2002, only 2 licenses were awarded to TMB and Maxis.

(3) Foreign Ownership restriction

Foreign ownership restriction limits investment. As such, smaller players with smaller market share and less economies of scale were not able to sustain the technology- and capital-intensive market.

The telecommunications industry is very much a fast paced, technology-intensive industry. Survival in the industry is inevitably dependent to technology:

- (1) The change from analogue to digital systems in the late 1990s caused TMB to consolidate its cellular business units to compete against the newcomers with digital systems.
- (2) 3-G is the future of cellular services. The allocation of 3-G spectrum by the government was to only two players; Maxis and TMB were chosen over TIMEdotCom, Digi and Celcom. Additionally, the building of the 3-G infrastructure requires an investment of RM2.5 – 3.5 billion.

The M&A posed as a solution for the strategic problems faced by the firms involved. The cellular market became highly competitive between the 5 players between 2000 and 2002. This resulted in:

- (1) Aggressive pricing in the prepaid market due to the fight for market shares. As a result, smaller players (i.e TIMEdotCom – TIMECel and TMB – TMTouch) in the cellular market were unable to achieve sustainability from economies of scale as the bigger players (Maxis and Celcom).

- (2) Branding became an inevitable success factor in the competition for market shares, TMB and TIMEdotCom did not managed to build successfully.
- (3) For the successful players Celcom and Maxis, numerous problems occur with the increase in number of users. Among them were operational inefficiencies, network congestions and coverage demands. Celcom fell into heavy debts as a result of operational inefficiency while Maxis faced network congestion.

Secondly, the study analyzed the economic and strategic impacts of the M&A. The analysis concluded favorable economic impacts for TMB and Maxis. The analysis showed that both TMB and Maxis were not affected in terms of profitability post-M&A. For the shareholders of TMB and Maxis, there were not earnings dilutions for investors as a result of the M&A. As for the strategic impacts, both Maxis and TMB showed positive strategic impacts post-M&A. Maxis and TMB's CAPEX/Sales ratio remained stagnant and decreased respectively despite 3G infrastructure investment. The OPEX/Sales ratio was used to determine if there was any improvement to operational efficiency as a result of the restructuring that followed the M&A activities. Both telcos showed a decline in OPEX/Sales ratio.

5.2 Conclusion

The study concluded that government regulation, technology and competition played significant roles in motivating the M&A activities in the telecommunications industry. The government created the groundwork that intensified competition and implicitly

coerced the industry players into M&As through the limitation placed on the access to 3G spectrum. The 3G technology is posed as the success factor for telcos to compete effectively far into the future. The high 3G infrastructure investment that comes with the technology provided further limitation for the then existing five telcos to adopt the technology needed for its sustainability. Although termed as the future of cellular services, the 3G technology have yet to be proven its effectiveness as most of the countries with 3G services are still at an early stage of its market. Further observation is needed in this respect.

The country's relatively small population was considered to be too small for the initial five telcos. Heightened competition and aggressive pricing cut into operating profits, and inefficiencies in operations due to increase in number of users provided additional motivations. With a larger share of the market, the remaining telcos are more likely to have the advantage of economies of scale and thus, sustain the aggressive pricing strategy. According to the MCMC, between the period of 2001 and 2003, subscriber's growth slowed down. The continuation of aggressive pricing in the prepaid market post-M&A could be seen as an effort by the remaining telcos to counter the slower or even stagnant subscriber's growth in between the period of 2001 and 2003¹⁹. As a result of the even more aggressive pricing in 2004, the subscriber's growth picked up to 31% from 23% the previous year.

¹⁹ Refer to Appendix II – Table 4.

By way of M&A, both TMB and Maxis gained in network infrastructure that stabilized capital investment. The almost constant capital expenditure shows that both telcos gained from the additional network infrastructure as a result of the M&As. On the other hand, restructuring activities that followed M&A activities improved operational efficiency and hence, sustained the continual increase in profitability and earnings per share.

5.3 Discussion

A more detailed study has to be conducted to explore further the effectiveness of the technology and include future changes in government regulation that might further affect the industry. While over the years the competition was mainly in the prepaid market, there are signs of the remaining three telcos moving towards competing in the post-paid market in 2005 with prepaid starter kits reaching to a low of RM20. The introduction of 3G services might push data growth in the cellular market due to the efficiency and speed in data transfer. Data pricing poses as a possible avenue for future competitive strategy among the telcos.

This study was done with the fact that the cellular sector is currently driving force of the industry and the most recent M&As in the industry involved telcos that are focused in the cellular market. There is neglect on the increasing dependency on broadband technology, data content providers and Internet Service Providers (ISP) that are also part of the telecommunications industry. As the cellular market becomes

more saturated and the 3G services fully implemented by the telcos, ISPs and data content providers could take over as the driving force of the industry.