“THE WORLD IS YOURS”- MALAYSIAN COMPANIES LOOK ABROAD FOR GROWTH

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It has always been the dream of every corporation, large or small to make it big by venturing beyond their traditional markets and national boundaries, and Malaysian companies are no different. The last few years has seen the number of Malaysian companies venturing overseas in search of greener pastures rising steadily, as they seek to emulate the international success of our very own Fortune 500 company, PETRONAS. Talk to the top management of any local company and venturing overseas is likely to be very high on their strategic plan to grow their business.

With globalisation, Malaysian companies, great and small, taking the cue from PETRONAS bold thrust overseas, are increasingly confident of venturing abroad to aggressively compete in what was once the sole domain of foreign, especially Western corporations – venturing overseas to expand their target sales markets, increase production capacity, lower production costs and diversify geographical business risks.

The value of overseas mergers and acquisitions (M&As) involving Malaysian companies grew more than 40% per annum between 2004 and 2006 to RM21.8bil last year. Net direct investment abroad by Malaysians is also on the rise, with a 72% increase in 2006 to RM22bil. The momentum going into 2007 is encouraging with close to RM5bil in the first quarter alone.

According to PricewaterhouseCoopers Advisory Services Sdn Bhd (PWC) senior executive director Tan Siow Ming, “(w)e have been advising a growing number of Malaysian companies who are contemplating venturing overseas. The number has clearly been on the up-trend in the last three years. The concentration of deals is in India, China and South-East Asia. The number of cross-border deals that we have worked on has more than tripled from 2004 to 2006.”

**Some action points for investing in emerging markets:**

1. Due diligence is CRUCIAL
2. Do not be too rigid in due diligence- focus on key issues and strategies
3. Patience and courage are important
4. Weigh carefully the company’s experience and expertise
5. Don’t get caught up in ‘Buyers’ Fever’. Companies must be willing to walk away when the bidding becomes unreasonable
6. Modify standards to meet goals. Change in the M&A process may be needed for the company to act quickly
7. Undertake risk-minimisation measures to manage investment risks
8. Articulate a clear strategy and clearly communicate the strategy behind the risk
9. Carefully track political events throughout the region
10. Private equity firms can provide a useful step of cleaning up companies for investors to buy later

Source: PricewaterhouseCoopers
There were two distinct waves of players venturing overseas. “In the big league, the large listed or private and Government-linked companies (GLCs) are into sectors that require larger investments such as telecommunications, energy, utilities, infrastructure, financial services and real estate development. The second wave comprises Malaysian companies that are looking at smaller investments in manufacturing, oil and gas support services, retailing and services,” Tan said.

The drive to go abroad for large conglomerates and GLCs is due to the limited growth potential in the country's mature domestic markets. The smaller Malaysian players, however, seek a regional footprint to leverage on lower labour costs or to access new markets for growth. For example, the country's saturated telecommunication sector had pushed Telekom Malaysia Bhd and Maxis Communications Bhd to venture into new markets in Asia. In January 2006, Maxis acquired a 74% stake in Indian celco Aircel Ltd for US$800mil. Aircel has contributed positively to Maxis's bottom line since the day it was acquired.

**BUILDING COMPETENCIES ABROAD**

Construction companies are another group that have ventured overseas in a big way, as the pace of Malaysian construction activities slowed down over the last few years. The main focus has been on India and West Asia, taking advantage of India’s fast-paced development as one of the new Asian economic superpowers, and the construction boom in the affluent Gulf States of the Middle East. The list of major construction companies going abroad includes IJM, Gamuda Bhd, Road Builder Holdings Bhd, WCT Engineering Bhd and Mudajaya Corp Bhd. “KNM Group, Dialog Group Bhd, LCL Corp Bhd and UMW are also actively expanding their operations abroad,” an analyst said.

**BANKING ON OVERSEAS GROWTH**

Banks have also been expanding overseas, but primarily through investments into existing banking entities instead of setting up new operational start-ups. The CIMB group acquired a 51% stake in PT Bank Niaga, Indonesia in 2002 for RM435mil. Public Bank Bhd similarly acquired a 100% stake in Asia Commercial Bank (ACB), Hong Kong in 2006 for HK$4.5bil. ACB has been able to deliver tremendous loans growth of 24% in the first half of the year compared with Public Bank's domestic loan growth of 7.7%, its foreign investment proving to be an immensely successful means for Public Bank to tap the fast-growing China market through its Hong Kong presence.

**OVERSEAS VENTURES- BOOSTING EARNINGS, PERFORMANCE AND REPUTATION?**

According to an analyst, smaller companies were not to be left behind in the drive to venture abroad: “Smaller companies seem to pursue a path of overseas expansion as well. The saturating markets at home have prompted these companies to venture abroad.”

A local bank-backed analyst said the majority of those that had ventured overseas over the past two years were rushing towards India and China to ride on the countries' economic boom. However, he said, more and more companies were also heading towards Vietnam and West Asian countries. “There are more Malaysian foreign direct investments, ranging from manufacturing operations in Thailand, Vietnam and China to toll and airport concessions.

“Over the past few years, Malaysian businesses have been investing more than RM10bil annually overseas,” the analyst noted. “Local companies that have successful overseas projects have gained from the positive publicity and seen a boost in their earnings performance and reputation.”

**ROUGH WAVES OUT THERE**

Another analyst said that it was not all smooth sailing for these companies which had made a name for themselves overseas. “There have been some disappointments after fruitless attempts in their overseas forays.” Analysts said despite all the successful stories, there were also less successful overseas ventures and these companies learned the process the hard way.
M&As- FUELLING CORPORATE GROWTH WITHIN MALAYSIA

The trend of Malaysians investing abroad is expected to continue into the future. An analyst pointed out that more Malaysian companies were listing overseas, particularly for their overseas subsidiaries, as it would be seen as a natural progression to expand their businesses abroad. According to another analyst, overseas expansion would be necessary in the long run, as the local playing field is getting flooded with players.

However, for some companies, opportunities at home have certainly not dried up. Analysts say local companies are also eyeing the variety of projects under the Ninth Malaysia Plan. Local construction players have also been urged by the Prime Minister to merge and form bigger entities that would be able to bid for projects overseas. The Government continues to encourage mergers among private sector companies with a view to increasing the number of high quality and large public-listed companies (PLCs) on Bursa Malaysia. Towards this end, a facilitative regulatory regime and tax incentives were introduced to promote mergers and acquisitions. Group relief was introduced to enable 50 percent of company’s current year losses to be offset against profits of other companies in the same group.

In addition to the ongoing plantation sector mega merger of the Sime Darby Bhd, Golden Hope Plantations Bhd and Kumpulan Guthrie Bhd Groups, the mergers and acquisitions market continues to buzz with activity. In the international banking and finance sector, the ongoing battle for ownership of Dutch bank ABN Amro between Bank of America, Royal Bank of Scotland and Barclays has aroused immense interest worldwide. On the home front, speculation is still rife as to the next big merger in the local banking industry.

It is no secret that the real reason for consolidation in Malaysia and abroad is competition brought about by increased globalisation. With the increasing volume and variety of cross-border transactions, free international capital flows and more rapid and widespread diffusion of technology, companies are expanding their reach well beyond the traditional borders of their countries of origin. Companies in all industries are getting much bigger with greater international reach than ever before.

The pursuit of size is really the pursuit of profitability in a much larger, more competitive battlefield and with Malaysia’s banking sector opening up this year as part of the Financial Sector Master Plan, the increased size of domestic banks should enable them to face the influx of foreign competitors out to prove themselves locally by providing more efficient services at better rates. Bigger is better, and those who do not expand or merge with others will invariably be left behind, to be snapped up by other companies themselves out to increase their size in order to better compete.

Source: StarBiz, The Edge magazine