Singapore Market

Shaken and stirred

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More combinations, privatizations & restructurings?

Singapore has seen a flurry of M&A, restructurings and privatisations this year. Market valuations are unstretched and liquidity is ample. In this backdrop, we see four major catalysts that could propel more deals going forward: (a) pandemic aided acceleration of structural shifts that were already underway, (b) distressed business models, (c) integration of green business strategies and (d) government initiatives. Transactions are likely across multiple sectors, but we think GLCs, high growth SMIDs and late-stage startups could lead the charge. Our screening identifies potential near-to-midterm candidates: AEM, AREIT, CIT, DBS, FPL, KEP, OLAM, ST, SGX, SMM, WIL (listed), and Carousell and Carro (private).

Pace of deals set to accelerate

Deal volumes and deal sizes in Singapore are now the highest since 4Q19. Privatizations of SGX listings are already 71% higher than the whole of 2020. Deal premiums are also seeing significant uplift. With the exception of Tech, sector PE valuations on SGX are trading 6-58% below their 5-year means. With valuations unstretched and interest rates low, we believe Singapore could be a focal point for more deals going forward.

Four key drivers leading change

Underlying trends of digitalization and hybrid-work have accelerated due to COVID restrictions, and this is forcing businesses to adopt fresh strategies of service and product delivery. This is also driving demand to buy any gaps in capabilities. Similarly, COVID-19 has altered the operating environment permanently for some organizations that is leading to exits or forced sales. Structurally, businesses are re-strategizing to achieve climate goals and de-risk their ESG exposures. We believe this could be a structural, multi-year theme, especially as increasingly capital allocations are being directed towards greener businesses. At the same time, Singapore's regulatory and government initiatives including the introduction of a SPAC framework and funding in late-stage and IPO capital raisings could further support the deal ecosystem going forward.

Deals from GLCs, growth SMIDs, late-stage startups

So far this year, the bulkier deals have been in real estate and technology. USD20bn of M&A transactions are pending – 2x of the deals that have been completed. This indicates an acceleration of deal related activity in 2H21. While timing and sectors are hard to predict, we believe the segments that could be most affected by the drivers above are GLC, high growth SMIDs and late-stage startups. Our screening highlights potential M&A and restructuring candidates in the near-to-medium term: AEM, AREIT, CIT, DBS, FPL, KEP, OLAM, ST, SGX, SMM, WIL amongst listings and Carousell and Carro amongst unlisted.

Stocks mentioned

Stock	Ticker	Price (LCY)	TP (LCY)	Rating
AEM	AEM SP	4.13	5.77	BUY
AREIT	AREIT SP	3.10	3.65	BUY
Carousell	NA	NA	NA	NR
City Developments	CIT SP	7.06	NA	NR
Carro	NA	NA	NA	NR
DBS	DBS SP	29.35	35.11	BUY
Frasers Property	FPL SP	1.13	NA	NR
Olam	OLAM SP	1.70	NA	NR
SingTel	ST SP	2.50	2.83	BUY
SGX	SGX SP	10.04	12.27	HOLD
Semb Marine	SMM SP	0.08	6.03	NR
Wilmar	WIL SP	4.08	6.03	BUY

NR: Not Rated
Source: Factset, Maybank Kim Eng

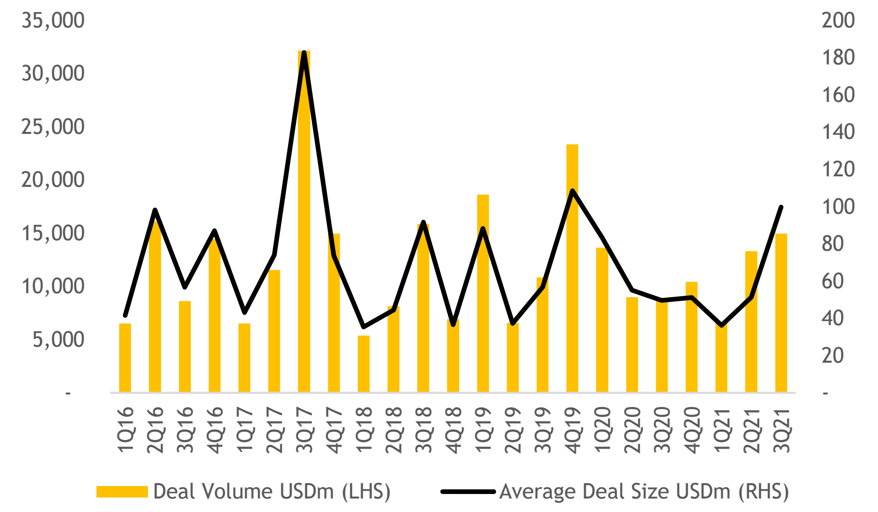
Link to ASEAN: Restructurings on the rebound (dtd 26 Sep 2021)

Pace of deals accelerating

Singapore is seeing a progressive increase in deal volumes after bottoming out in 1Q21. Importantly, the average deal size is now the highest since 4Q19 (Fig 1).

Similarly, the newsflow associated with restructuring, particularly amongst the Temasek-linked conglomerates, is also intensifying. Capitaland's privatization of its property development segment while keeping its REITs and asset management unit listed is an example. SingTel has announced that it may look to unlock value from its latent infrastructure assets globally.

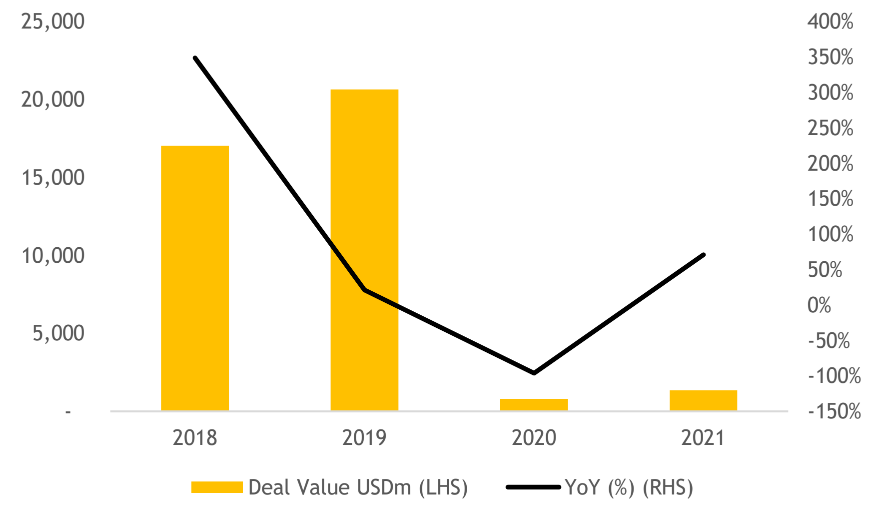
Fig 1: Announced M&A deal volumes and average deal size Singapore



Source: Bloomberg, Maybank Kim Eng

Deal value of privatizations of SGX-listed corporates has also picking up momentum. 2021YTD deals announced are already 71% higher than FY2020 (Fig 2). Notably, average offer premiums have seen a significant increase.

Fig 2: SGX privatization deal value (USDm)



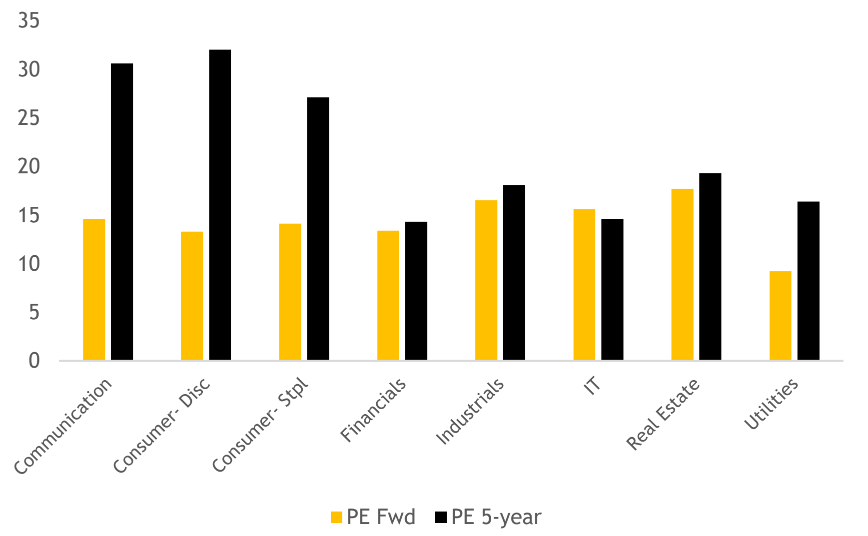
Source: Dealogic

According to Chambers & Partners, premiums to last transacted price has increased from 10-20% in 2016-18, to 38-40% in 2020.

Accommodating drivers and valuations

Despite a 7% YTD re-rating of the Singapore market, valuations remain unstretched across multiple sectors. Except for Technology, average sector 12-month forward PE ratios are 6-58% below 5-year averages (Fig 3). The COVID frontline sectors such as Consumer and Telcos show the largest discounts, while Financials and Real Estate also display divergence despite strengthening growth outlooks.

Fig 3: Sector forward PE vs. 5-year average (x)



Source: Bloomberg, Maybank Kim Eng

These valuations discounts could drive momentum in M&A and Restructuring in Singapore. In terms of timing, we think this could happen sooner rather than later. We see four critical factors that may catalyse transactions in the near-to-medium term.

1. **Pandemic-acceleration.** Movement restrictions and lockdowns due to COVID-19 accelerated the pace of digitalization. According to Temasek & Bain, South-East Asia saw 40m new internet users in 2020 and 1-in-3 of all digital service consumers are new to service because of COVID-19. Separately, the prevalence of hybrid-work options and stricter protocols on health and safety have increased. These changes are affecting traditional business models and service delivery. This should drive corporates to pivot to new strategies and develop fresh capabilities that address these circumstances. They will need to either restructure internally or buy any gaps in capabilities, we believe. The investments in digital banking by SingTel and the merger of CMT and CCT in the face of growing e-commerce competition are examples.

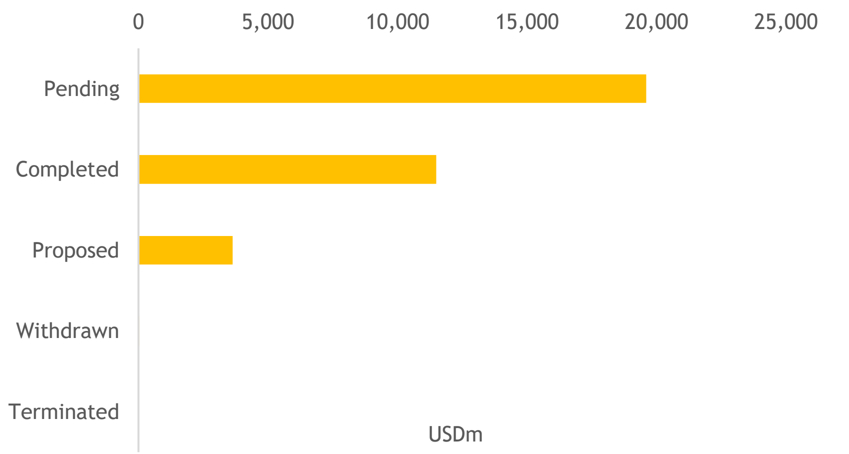
2. **Sustainability and impact.** The need to achieve the Paris Climate Agreement goals and the risks and costs associated with failure is increasingly becoming clearer (*see* *Singapore ESG compendium, 5 July 2021*). A survey by EIU shows that 76% of institutional investors expect the inflows to sustainable investments to accelerate because of the pandemic. Access to funding, whether through capital markets or bank lending is increasingly dependent on companies de-risking their ESG exposures. This could drive companies to re-look at their business strategies and growth assumptions. Gaps could catalyse restructuring or M&A, in our view. The announcement by Keppel O&M to increase contribution from alternative energy projects as well as SingTel's

strategy of incorporating sustainability to its new strategic thrusts are examples.

3. **Distress and strategy changes.** The pandemic and changes to business conditions have caused certain assets to underperform. The collapse of shipping company Hin Leong and the sale of hotel assets by Eagle Hospitality Trust are examples. Similarly, Citibank exiting their consumer banking business in 13-markets including China, India, Indonesia is an example of a strategy changes. This may present opportunities for corporates to acquire assets that could enhance their own value propositions. DBS' announcement they are actively looking at Citibank's assets in the markets that they operate is an example.

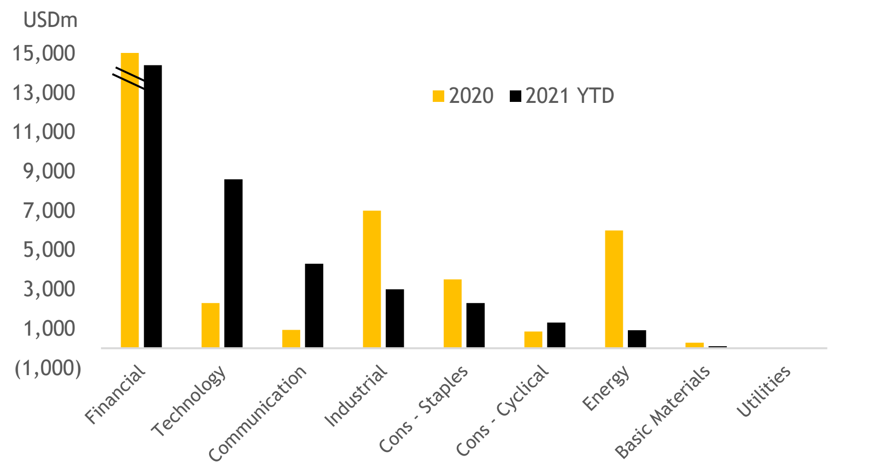
4. **SPACs and Government Initiatives** Blank-cheque companies contributed USD83bn in IPO proceeds in the US in 2020. SGX finally introduced its SPAC framework in early-Sep, which we believe is more accommodating and less onerous than its earlier proposals during the consultation stage. With a number of new economy companies maturing in South East Asia, the SPACing and de-SPACing process may drive deals going forward. In addition, the government has announced new measures to support Singapore as an IPO destination including two late-stage and IPO investment funds of SGD2bn. These could help shift Singapore's market complexion from 'old world' (77% of STI's market cap is financials, real estate, and industrials) to new economy opening up new valuation clusters. In our view, Singapore-based candidates such as Lazada, Carousell, Carro, Ninja Van, One Championship could potentially be beneficiaries of these changes.

Fig 4: Deal status by value - Singapore (USDm)



Source: Bloomberg, Maybank Kim Eng

Fig 5: Deal value by sector



Source: Bloomberg, Maybank Kim Eng

Indeed, close to USD20bn of M&A and restructuring deals are currently pending in Singapore (Fig 4). We expect newsflow to intensify as these deals near closing.

GLCs, growth SMIDs and late-stage startups prime candidates

As we discuss above a key catalyst for deals is the increased pace of digitalization and companies rushing to build or widen their capabilities. As Fig 5 shows, the Technology and Communication segments have seen YTD deal values materially surpass the full-year levels of 2020.

Fig 6: Top 10 largest deals YTD in Singapore

Deal Type	Announced Date	Target Name	Acquirer Name	Announced Total Value (mil.)	Deal Status
M&A	4-Aug-21	ARA Asset Management Ltd	ESR Cayman Ltd	4,827	Pending
M&A	13-Apr-21	Grab Holdings Inc	Altimeter Growth Corp	4,540	Pending
M&A	2-Aug-21	Singapore Press Holdings Ltd	Keppel Corp Ltd	3,492	Pending
M&A	24-Aug-21	Interplex Holdings Pte Ltd	Blackstone Inc	1,000	Proposed
M&A	19-Jan-21	OUE Bayfront property/Singapore	ACRE Angsana Pte Ltd	954	Completed
M&A	2-Aug-21	FinAccel Pte Ltd	VPC Impact Acquisition Holdings II	806	Pending
M&A	22-Feb-21	Transamerica business/Asia	Potential Buyer	700	Proposed
Investment	13-Aug-21	EMERITUS Institute of Management Pte Ltd	Bertelsmann, Sequoia Capital,Chan Zuckerberg Initiative LLC, etc.	650	Completed
Investment	7-Apr-21	Trax Technology Solutions Pte Ltd	Sony Venture Capital,BlackRock,SoftBank, etc.	640	Completed
Investment	16-Apr-21	Puma Energy Holdings Pte Ltd	Farringford NV	600	Pending

Source: Bloomberg, Maybank Kim Eng

Per Fig 6 above, the largest deals YTD has been in Real Estate – such as the M&A between ARA Asset Management and ESR Cayman and Keppel Corp and SPH – as well as the Technology sector such as the potential merger and reverse listing between Grab Holding and Altimeter.

In Fig 8, we highlight potential M&A and restructuring candidates in Singapore in the medium term.

Fig 8: Potential M&A and Restructuring candidates in Singapore

Stock	Ticker	Rating	Comments
AEM	AEM SP	BUY	With the proceeds from Temasek's SGD103m investment in AEM, we expect AEM to end FY21E with SGD220m of cash, or SGD153m of net cash. This should be a sufficient war chest for AEM to speed up acquisitions and R&D efforts to solidify its position in system level test in response to an increasingly competitive landscape. Contrasting to the past where AEM's M&A were mostly smaller sized and have long revenue gestation periods, we believe some future M&As may be of bigger bite size with targets that have strong existing value proposition and cash flow so that AEM can quickly "bolt on" new capabilities to strengthen its proposition. We see wafer probe, incremental capabilities in test and consumables, software and data analytics as the most relevant areas for AEM's M&A efforts.
AREIT	AREIT SP	BUY	AREIT has gained scale from its overseas diversification efforts. Recent acquisitions including 30 business park assets in the US Dec 2019), and 11 data centres in Europe (Mar 2021), have helped boost AUM by c.69% to SGD15.9bn. Its balance sheet is strong with low 37.6% gearing, which suggests an estimated SGD4.2b debt headroom (to reach the 50% limit) to support further acquisitions. We expect AREIT to deepen in its core geographies (Singapore, Europe, Australia, the UK and US), as it aims to increase the contribution from new economy assets, comprising business park space, data centres, and logistics properties.
Carousell	NA	Unlisted	Carousells marketplace that allows users to buy and sell diverse products have expanded to eight markets in ASEAN as well as Taiwan and Hong Kong. The Group has high profile backers including Telenor Group, Rakuten, Naver and Sequoia. The Straits Times report that it may be considering a SPAC-listing that could potentially value Carousell at USD1.5bn.
CityDev	CIT SP	Not Rated	CityDev has applied for a IPO of a UK REIT and has written down its investments in a Chinese developer. Its hotels business facing frontline COVID-19 impact and property development may face similar circumstances as CapitaLand, Keppel Group etc. Therefore, we think there may be potential for additional restructuring and M&A to unlock value going forward.
Carro	NA	Unlisted	The online car-sales platform has strong backers including Softbank and has a fast growing retail presence in Indonesia, Thailand, Malaysia as well as Singapore. Carsome - a Malaysia based competitor - has announced it may seek a SPAC listing. We think, this may be a path for Carro to unlock value going forward as well.
DBS Group	DBS	BUY	DBS has been increasing investments in broadening its reach in its key markets. Examples include the purchase of Lakshmi Villas Bank in India to give it a wider geographical presence in India and the purchase of a 13% stake in Shenzhen Rural Commercial Bank to bolster its North Asia reach. We estimate DBS has around SGD6.6bn of excess capital assuming a long-term comfortable CET1 level of 12.5%. Management has stated that they are actively looking at some of the assets available from Citibank's exit of retail banking in the region, particularly in the markets where DBS has a operating presence. We believe markets such as India, China, Indonesia may be key areas of interest for the Group.
Frasers Property	FPL SP	Not Rated	The Group has a large REIT management role together with large property development division. It may likely face similar restructuring drivers as CapitaLand and Keppel Group, in our view.
Keppel Corp	KEP SP	Not Rated	Keppel has offered to take the restructured SPH business - which is mostly comprised of property asset holdings - private for SGD3.4bn. The Group already has a sizable REIT management role together with large property development division. We think it may have the potential to engage in further restructuring similar to CapitaLand and take its property development segment private to improve valuation transparency.
Olam	OLAM SP	Not Rated	Olam reorganized its operations to Food Ingredients and Global Agri. It has announced that the former could be de-merged from the ParentCo and listed separate IPO in 2022. It may also look to unlock value from its Global Agri business as well, we believe
SingTel	ST SP	BUY	Singtel has announced a strategy to monetise latent assets, broaden 5G offerings and increase focus towards information technology. It is also embedding sustainability in its business operations. We think it can potentially split the Group into infrastructure and a customer facing MVNO service. This could allow the infrastructure business to provide network services to the MVNO for a fixed return. Separately, since its core operations (SG + Australia) are valued close to zero, these could be privatized, while the ListCo could offers consolidated exposure to higher growth businesses and associates, we think. Separately, its success in winning a digital banking license together with Grab may underpin acquisitions to supplement and enhance its capabilities in digital finance.
SGX	SGX SP	HOLD	SGX is pivoting to become an Asian multi-asset exchange leveraging on the rise in demand for risk management, increased regulation on fixed income and OTC products and the rise of passive investing and sustainability. The Group has made sizable investments including ScientifiBeta, MaxxTrader, CIX. It has an unleveraged balance sheet with large headroom for additional funding for bolt on acquisitions. SGX has increased its FY22 capex guidance to SGD60-65m (from SGD51m in FY21) as it looks to invest in digitalisation of fixed income, FX and other accretive opportunities.
SMM	SMM SP	Not Rated	SMM announced a MoU with Keppel Corp, which may provide the platform to explore a potential merger with Keppel O&M. We think this could provide scale in a industry with overcapacity, while also give it the resources to transition towards new segments in Green energy from its traditional focus on oil and gas.
Wilmar	WIL SP	BUY	Wilmar has successfully ring-fenced and listed its China operations in SZSE. It has demonstrated a clear valuation differential between its SZSE listing and the ParentCo on SGX. Moreover, the valuation differential means that its other emerging markets businesses trade at zero value. Despite its recent announcement of a IPO of its JV in India is on hold, the Group may focus on restructuring and unlocking further value of its business portfolio in Indonesia, Vietnam, Africa and sugar, in our view.

Source: Maybank Kim Eng

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