



ALB M&A REVIEW: 1H 2014

DEALS SURGE ON OPTIMISTIC OUTLOOK

SOUTHEAST ASIA LEADS THE CHARGE

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EXECUTIVE SUMMARY

After a decade in China's shadow, Southeast Asia is gaining the recognition it deserves as a dynamic region with high-growth potential. This recognition has led to a rise in M&A activity over the past couple of years and a visible surge in the first half of 2014 – particularly in terms of announced deals.

This report provides greater insight into the opportunities emerging in Asia-Pacific and analyses M&A activity by country and industry while considering the more prominent risks that have surfaced. In later sections, the report examines the nature of some prominent deals and provides key data on the most important players and their efforts to expand in the region.

Going forward, the number and value of the deals in the region is likely to grow as the corporate sector rides a wave of optimism.

For all the optimism, there are some trouble spots. Several countries are coping with internal issues that could impede growth. In Thailand, political instability, weak exports and slumping domestic demand caused 1Q GDP to contract by 0.6 percent, raising the very real spectre of recession².

Possible conflict with China over territorial claims in the South China Sea hangs over Vietnam and the Philippines, while Malaysia, Brunei and Taiwan also have similar disputes that could affect trade and investment flows. Add to that, labour unrest in Cambodia, ethnic tensions in Myanmar and a disputed election in Indonesia, and it becomes clear that the region is full of potentially disruptive flashpoints.

Meanwhile in China, growth is slowing. If the country is to meet its growth target of about 7.5 percent this year, it will have to take some steps to speed up the economy in the second half of the year.

The more developed economies in Asia are performing well. Japan and South Korea are growing above target and Hong Kong expects solid numbers despite a slight slowdown in 1Q.

The most significant upcoming development is the integration of the 10 members of the Association of Southeast Asian Nations (ASEAN) into the ASEAN Economic Community (AEC). Expected to launch by the end of 2015, the AEC will create a trading bloc of more than 600 million people with a GDP exceeding \$5.6 trillion, which would make it the seventh-largest economy in the world.

² Defined as two consecutive quarters of economic contraction.

Few predict the AEC to be an immediate game-changer in the region, however, as foreign ownership restrictions are not expected to change substantially in the bloc's early days. Nevertheless, the AEC should provide structural opportunities to those who know how to navigate it, particularly in areas such as financial services, telecoms and consumer goods. Real estate will also be a focus, along with its corollary markets of construction and building materials.

Domestic mergers will be driven by increased foreign competition. As for acquisitions, global and Asian players will seek to make greater inroads into the region.

With an average age of around 30 and a middle class of 150 million, ASEAN is poised for sustained economic expansion. This is fueling increasingly fierce competition for deals that benefit from the emerging consumer class.

Looming large over Southeast Asia is cash-rich China, which is heavily invested in Hong Kong and Singapore's capital markets, resources in Myanmar, Laos and Cambodia and property throughout the region. As investment advisor and fund manager Marc Faber recently said at a conference in Ho Chi Minh City, "The big opportunity for Vietnam is in China, not in the U.S. and Europe." The same could be said for most of Southeast Asia.

Meanwhile Japan, which also has deep pools of capital to deploy, is stepping into the Asia Pacific M&A arena to strengthen both relationships and supply chains.

What is the best way for companies searching for acquisitions to approach Asia in the complex landscape that has emerged in the first half of 2014? A one-size-fits all approach makes little sense. Legal and regulatory climates vary greatly, with well-established and highly regulated Singapore contrasting with countries like Myanmar, Cambodia and Laos. With so much change underway, the old adage that knowledge is power is applicable today more than ever.