

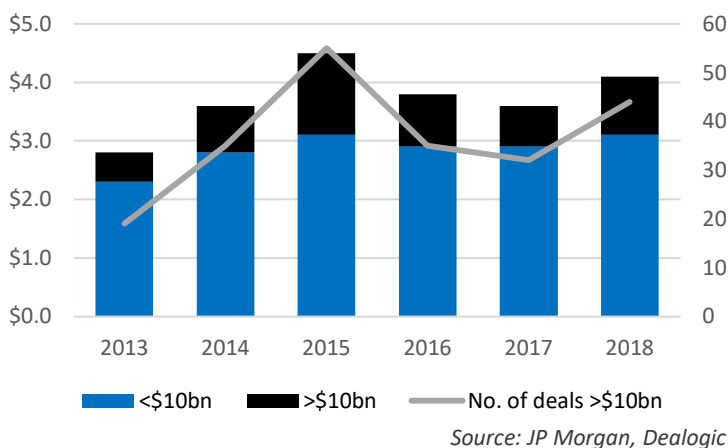
GLOBAL M&A SENTIMENT

M&A Global Sentiment:

In 2018, the global M&A value increased, largely driven by “megadeals” (greater than \$10 billion in size)- 30 megadeals were announced in the first half of 2018, compared with 14 deals in the first half of 2017.

US\$ 4.1tn
Value of M&A in 2018,
13.89% ahead of 2017

Global M&A volumes (\$tn)



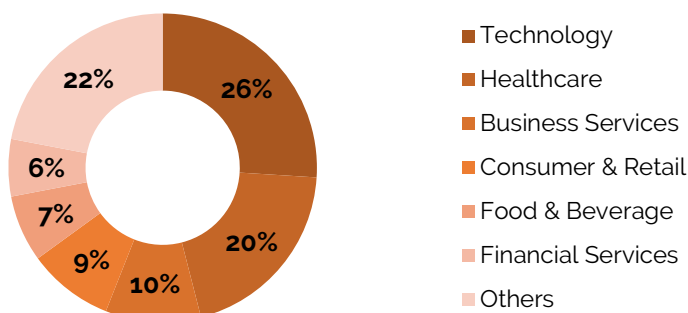
44
Number of
megadeals (>US\$ 10bn)
announced,
12 more than in 2017

Which are the targeted sectors?

In 2019, Technology, Healthcare and Business Services are expected to see the most increase in M&A volume. Besides, Industrials is also one of the top increase sectors in 2019.

Technology,
Healthcare,
Business Services
Rank the top 3 in highest
valuations in 2018

Highest valuation by sector in 2018



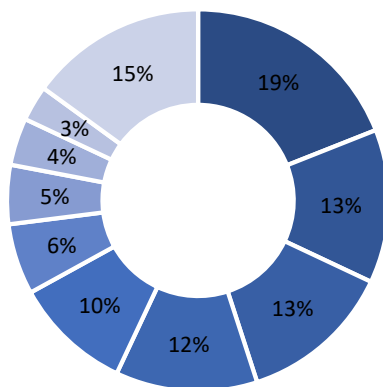
Asia Pacific M&A market

In 2017, overall positive global growth, improved cash flow, stronger balance sheets, lower cost of debt, investors and owners/ management continued to boost M&A activity.

In 2018, geopolitical uncertainty and the regulatory environment remained challenging, resulting declines both in Asia Pacific M&A volume and value.

Target sectors, manufacturing, consumers and logistics topped volume and value in 2018, and banking deals accounted for the region's top two deals by value. Besides, Succession, Horizontal consolidation and Global expansion rank the top 3 most common transaction types expected for 2019.

Most common transaction types Expected for 2019



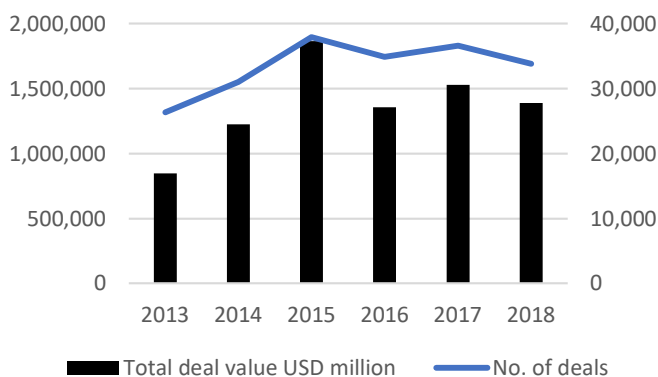
Source: IMAP

- Succession
- Horizontal consolidation among competitors
- Global/international expansion
- PE Exits
- Cash out
- Capital raising
- Vertical integration along the value chain
- Innovation
- Turnaround or bankruptcy targets

Singapore M&A Overview

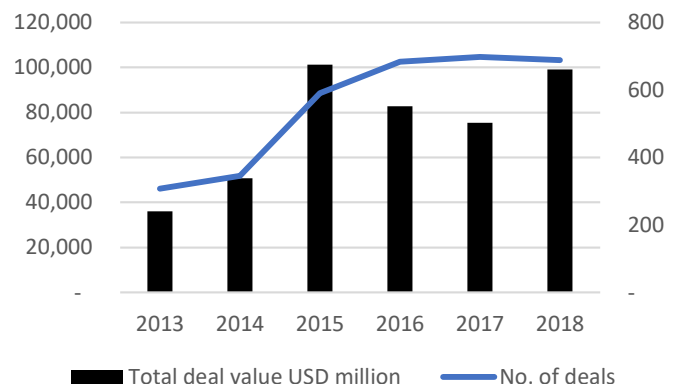
Singapore M&A deal volume kept its momentum from 2013 to 2016. However, the total deal value in 2016 did not reach the heights of 2015 on account of a reduction in average deal size. In 2017, although volumes continued to show an uptick, the total deal value was lower compared to the past year. The deal volume witnessed a decrease in 2018, while the total deal value increased, driven by sizeable outbound M&A transactions by sovereign wealth funds (SWFs) GIC and Temasek Holdings.

Asia Pacific deals by volume and value



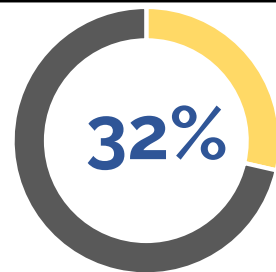
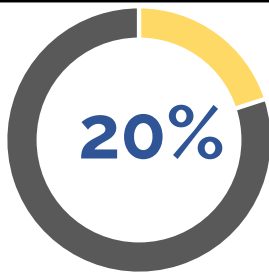
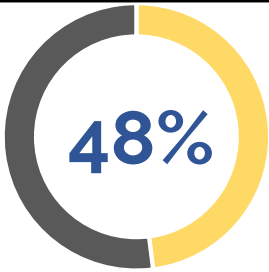
Source: Bureau van Dijk

Singapore deals by volume and value



Source: Duff and Phelps

SINGAPORE BUYOUT/ TAKEOVER...



Owners/Management

Strategic Buyers

Private Equity

*Figures estimated based on our compiled list from various news sources, SGX, Bloomberg

Who Are The **BUYERS?**



ARA



Owners/Management

Owners/management may prefer the path of a delisting to eliminate the costs of submission with the listing rules and the long list of regulations to follow, especially if the companies has also not been or have difficulties to tap on the capital market for financing. Being in the business, owners/management (who also typically already has a stake) seek the opportunity to privatize the company during a cyclical downturn or if the market is deeply undervaluing it. Some owners find it easier to expand the business being a private company.



Private Equity

Lately there have been new PE firms eyeing on Singapore companies. PE may buyout as a fund or work in concert with owners/management to privatize the company. The focal point is to find undervalued assets with the potential for profit improvement. One of the principal investment strategies of PE is the utilization of leverage for buyouts to magnify their returns. As such, they require good cash flow generation (for interest payments). This makes certain sectors such as manufacturing being highly popular to PE Funds due to their absolute low valuation and good cashflow generation



Strategic Buyers

Identical to owners/management, strategic buyers understand the industry and business of the target company the best. Strategic buyers may be seeking a bargain purchase during a business downturn or acquire a competitor to increase its market share.



CONSUMER





While historical valuations may seem high during a business downturn, consumer stocks are still a popular M&A target due to their established brand equity. In recent years, there have been a few M&A transactions- with the more notable ones being OSIM, Super and most recently Challenger (which failed).

The buyers are typically strategic industry players looking to increase their market share/presence or led by owners looking to privatize after a significant correction in share price (or in Auric Pacific's case- privatize a deeply undervalued company).

In filtering for our potential candidates, we look for stocks that have

- (i) A strong brand equity
- (ii) Underwent a recent correction
- (iii) Insiders holding more than a 30% stake in the Group

Year of delisting	Consumer	Max drawdown prior to offer	Implied Mkt cap of Offer S\$m	Offer Price \$	P/E	EV/EBIT DA	P/B	Insiders/Maj or SH % holding	Buyer
2016	Osim	-65.0%	1,046	1.320	17.3	8.5	2.6	68.3%	Owner led
2016	Eu Yan Seng	-53.5%	269	0.600	59.0		1.7	30.7%	Owner led
2016/17	Super Group	-67.0%	1,450	1.300	28.0			60.0%	strategic buyer
2017	Auric Pacific	N/A	207	1.650	11.0	3.1	1.5	76.7%	Owner led
2019	Courts Asia	-69.8%	106	0.205	N/A		0.6	73.8%	strategic buyer
	Average				28.8	5.8	1.6	61.9%	
	Consumer	1 year % change	Mkt cap (S\$m)	Price	P/E	EV/EBIT DA	P/B	Insiders/Maj or SH % holding	Dividend yield %
	Food Empire	-6.5%	267	0.500	8.9	6.8	1.0	33.7%	2.0%
	Jumbo Group	-26.0%	237	0.370	20.0	10.5	3.6	51.4%	3.2%

Source: Bloomberg (T12M data), various sources



Largest takeover offer for Singapore-listed stock in 2016

REAL ESTATE



Real Estates are popular not just among individuals but also as a buyout target due to its easy to determine fair value and historical long-term growth in value.

Most of the M&A transactions have been typically owner-led, holding more than 50% stake in the company, as they take the opportunity to privatize the group when the price is right. As such, in filtering for our potential takeover candidates, we look for companies with

- (i) Market Cap less than S\$2b (the larger it is, the more money it takes to privatize)
- (ii) An attractive Price/Book
- (iii) A high major shareholder holding of more than 50%.

WHEELLOCK
PROPERTIES

Keppel Land



SIM LIAN GROUP LIMITED
Creating Space | Creating Homes

Year of delisting	Real Estate	Max drawdown prior to offer	Implied Mkt cap of Offer S\$m	Offer Price \$	P/E	EV/EBIT DA	P/B	Insiders/Major Shareholder % holding	Buyer
2015	Keppel land	N/A	6,760	4,380			0.9	54.6%	Owner led
2015	Lee Kim Tah	N/A	546	1,080	9.53		1.0	71.3%	Owner led
2015	Popular	-31.0%	255.1	0.320	16	5.5	1.2	61.3%	Owner led
2016	Sim Lian Group	N/A	1086	1,080	15.7	11.9	0.9	80.0%	Owner led
2017	Global Premium Hotels	N/A	384.02	0.365	19.80		0.6	67.6%	Owner led
2018	Wheelock Properties	-26%	2,510	2.10	20.3	13.7	0.8	76.2%	Owner-led
	Average				15.3	8.7	0.9		
	Real Estate	1 year % change	Mkt cap (S\$m)	Price	P/E	EV/EBIT DA	P/B	Insiders/Major SH % holding	Dividend yield %
	Tuan Sing	-12.1%	403	0.340	13.2	38.7	0.4	59.0%	1.7%
	Hong Fok	24.9%	722	0.840	N/A	6.8	0.4	67.1%	1.5%
	Hiap Hoe	-8.6%	374	0.795	792.6	24.1	0.5	74.3%	1.1%

Source: Bloomberg (T12M data), various sources

LOGISTICS



Logistics has also been another hot M&A sector in the last few years, which may be attributable to the rise in e-commerce driving the demand for more logistics services.

The largest M&A transaction in recent years was the takeover of Global Logistics Properties (GLP) in 2017, after a Chinese PE consortium acquired the Singapore listed company for S\$16b, in Asia's largest PE buyout. GLP portfolio includes about 1,300 properties and counts Amazon as its biggest tenant. A quick look at the transactions will show that most of the buyout targets are being acquired by private equity (PE) or a strategic buyer looking to expand their market presence. As such we believe, these potential buyers may also be seeking a certain scale in operations when shortlisting their potential candidates. Hence, in filtering for our potential takeover targets, we look for candidates

- (i) Above S\$200m in market cap and
- (ii) With presence in more than 1 country.

Year of delisting	Logistics	Max drawdown prior to offer	Offer Price Implied Mkt cap S\$m	Offer Price \$	P/E	EV/EBIT DA	P/B	Insiders/Maj or Shareholder % holding	Buyer
2014	Goodpack	N/A	1,100.0	2,500	19.4			32.0%	PE Fund
2017	CWT	N/A	1,399.0	2,330		15.7		65.1%	strategic buyer
2017	Global Logistics Properties	N/A	15,454.0	3,380			1.1	36.8%	PE Fund
2017	Cogent	N/A	488.1	1,020	15.0	10.5	3.6	84.3%	strategic buyer
2018	Poh Tiong Choon	N/A	275.5	1,300	23.0	11.8	3.1	66.7%	Owner led
	Average				19.1	13.2	2.6		
	Logistics	1 year % change	Mkt cap (S\$m)	Price	P/E	EV/EBIT DA	P/B	Insiders/Maj or SH % holding	Dividend yield %
	Singapore Post	-18.3%	2,059	0.915	18.3	13.2	1.6	22.1%	3.9%
	Mapletree Logistics Trust	25.2%	5,788	1,590	29.7	25.8	1.4	31.5%	5.2%
	Cache Logistics Trust	-2.6%	793	0.735	20.4	18.2	1.1	9.6%	8.2%

Source: Bloomberg (T12M data), various sources

Global Logistic Properties



Asia's largest PE buyout

MANUFACTURING



The manufacturing/tech sector for Singapore is also another favorite among potential takeover targets as well as among investors in general.

While they are cyclical, the sector also typically has one of the lowest absolute valuation in terms of Price/Earnings or EV/EBITDA. Most of the manufacturing stocks also tend to have very attractive balance sheet- (some of companies having a net cash position that forms more than 50% of their market cap). As a result, this sector has long been a favorite among PE funds who may leverage to acquire these companies (using the acquired companies strong cashflow generation to finance the loan for the acquisition).

As such EV/EBITDA is a common yardstick used in valuing the takeover. In filtering for our potential candidates, we look for companies with

- (i) An attractive valuation (<5x EV/EBITDA and/or low Price/Book) and/or
- (ii) With a global/regional presence and/or
- (iii) Strong customer network and/or
- (iv) Technological excellence

INNO *Values*



Year of delisting	Manufacturing	Max drawdown prior to offer	Offer Price Implied Mkt cap S\$m	Offer Price \$	P/E	EV/EBIT DA	P/B	Insiders/Maj or Shareholder % holding	Buyer
2015	Chosen	N/A	67.6	0.240	17.4	5.3	1.0	51.0%	PE Fund
2019	Memtech	-55.0%	189	1.350	20.9	6.8	1.1	57.8%	owner led
2017	Fischer Tech	N/A	168.4	3.020	12.9	5.7	1.5	51.3%	PE Fund
2017	Innovalues	N/A	331.4	1.010	15.9	9.6	3.7	38.7%	PE fund
2016	Interplex	N/A	449	0.820	9.1	5.2	1.7	57.7%	PE Fund
2019	PCI	N/A	264.8	1.330	12.1	5.0	2.0	76.7%	PE Fund
	Average				14.7	6.3	1.8		
	Manufacturing	1 year % change	Mkt cap (S\$m)	Price	P/E	EV/EBIT DA	P/B	Insiders/Maj or SH % holding	Dividend yield %
	Sunningdale	-10.1%	238	1.220	30.6	4.5	0.6	27.5%	6.5%
	Innotek	9.8%	100	0.435	4.8	1.1	0.6	48.0%	3.5%
	Fu Yu	18.6%	158	0.215	13.8	3.4	1.0	40.3%	8.4%
	Hi-P	12.9%	917	1.140	8.5	3.7	1.7	84.8%	3.2%
	PNE Industries	-4.9%	65	0.770	9.6	4.1	0.8	37.6%	7.8%

Source: Bloomberg (T12M data), various sources