Southeast Asia
Capital Confidence Barometer
Expecting stability in a low growth environment
Companies are expecting stability in a low growth environment

The latest *EY Global Capital Confidence Barometer* finds that companies in Southeast Asia (SEA) are focused on resilience in a low growth environment. Despite several global and regional economic challenges, a majority of the respondents from the region expect stability in the markets that they operate.

Acquisition appetite has come off marginally to 39%, from 42% indicating that they will pursue an acquisition over the next twelve months. Despite this, 64% of the respondents expect the M&A market to improve in the next twelve months – deal pipelines are full, closure rates are high and valuation expectations remain stable. Majority of SEA respondents also see increased private equity (PE) competition for acquisition opportunities in the region.

Companies are also focused on diversifying their inorganic options for growth – 47% of the respondents expect to enter into alliances to help create better value from underutilized assets. In an increasingly disrupted world, the region is not going to be insulated by the waves of digital sharing economy. As such, seeking competitive scale and advantage through alliances appears to be a smarter option – because it does create innovative possibilities to seek better returns from both tangible and intangible assets owned by businesses.

Low growth prospects in many emerging markets will also demand greater focus on core business fundamentals and smarter management of costs and cash flows. Businesses also recognize that politics, the vulnerability of regional currencies and volatility in the commodities as concerns that they need to be mindful of in navigating their businesses.

Reflecting on these results, we believe that companies operating in this region should have a continuing focus on renewal and greater investment in innovation. Corporate finance strategies have to be redefined. There are clear disruptions to the fortunes of businesses that have grown through the geographic opportunity and commodities boom. Executives that navigate businesses in this region have to become smarter to recognize this change.

*Harsha Basnayake*

ASEAN Region Managing Partner and Asia-Pacific Managing Partner Elect Transaction Advisory Services

---

**Harsha Basnayake**

ASEAN Region Managing Partner and Asia-Pacific Managing Partner Elect Transaction Advisory Services
Highlights

- 49% Perceives the global economy today as stable
- 24% Sees changing customer behavior and expectations as most disruptive for its core business in the next 12 months
- 46% Is focusing on creating strategic transactions and alliances to drive growth in the next 12 months
- 88% Expects the M&A market to improve in the next 12 months
- 50% Expects to actively pursue acquisitions in the next 12 months
- 93% Expects to complete up to three acquisitions in the next 12 months
- 26% Expects greater competition from PE acquirers to become more prominent in deal making

Expects the M&A market to improve in the next 12 months - Global 57% | SEA 64%
Expects to actively pursue acquisitions in the next 12 months - Global 39% | SEA 42%
Expects to complete up to three acquisitions in the next 12 months - Global 83% | SEA 74%
Expects greater competition from PE acquirers to become more prominent in deal making - Global 42% | SEA 44%
Companies appear to be expecting a stable economic outlook both locally and globally.
**What is your perspective on the state of the economy today? (Global and local)**

<table>
<thead>
<tr>
<th>Perspective</th>
<th>SEA</th>
<th>Global</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly and Modestly Improving</td>
<td>Apr-16: 22%</td>
<td>Apr-16: 36%</td>
<td>Oct-15: 10%</td>
<td>Oct-15: 54%</td>
</tr>
<tr>
<td>Stable</td>
<td>Apr-16: 55%</td>
<td>Apr-16: 49%</td>
<td>Apr-15: 39%</td>
<td>Apr-15: 38%</td>
</tr>
<tr>
<td>Strongly and Modestly Declining</td>
<td>Apr-16: 23%</td>
<td>Apr-16: 15%</td>
<td>Apr-15: 50%</td>
<td>Apr-15: 8%</td>
</tr>
</tbody>
</table>

*Global data refers to global topics, and thus to the global perspective of the global economy today. Instead, data for SEA, China and India refers to the local perspective of the local state of the economy.*

**Modest and slow economic recovery is expected to continue**

As the world continues to recover at a slow and uncertain pace, most executives view the state of the global economy as stable. On one hand, the slow growth in advanced economies is expected to continue, while on the other, the diverse and challenging cases of some emerging markets have generated uncertainty. The slowdown and rebalancing of the Chinese economy has considerably influenced the global outlook. However, other large downward adjustments are also seen in emerging markets such as Brazil and Russia, as their economies has deteriorated more rapidly than expected. Lower prices for oil and gas and commodities are among the ongoing challenges in many of these economies.

In the regional context, executives are also less optimistic about their local economy outlook. In particular, SEA executives mainly view their local economy as stable, with Singapore showing the highest rate of optimism within the region, as 35% of Singaporean respondents expect their local economy to improve. However, half of the Chinese respondents expect their local economy to decline this year, while, in contrast, most Indian respondents remain optimistic about the outlook of their local economy.
**Stability is expected across key economic and capital market indicators**

Globally the majority of executives remain confident of a favorable and stable capital market, especially in terms of global corporate earnings and credit availability.

In SEA, despite the lowering of energy and commodity prices, respondents also remain confident about their local capital indicators. Singapore respondents are the most confident, with 55% expecting a favorable outlook for local corporate earnings. However, there is significant shift in confidence by SEA executives with regard to credit availability compared to six months ago. In terms of local short-term stability too, the confidence level of SEA executives has deteriorated since last year, yet countries such as Thailand and Indonesia still remain largely positive with 48% and 52%, respectively, indicating favorable outlooks.

* Global data refers to global topics, and thus to the global perspective of the global economy today. Instead, data for SEA, China and India refers to the local perspective of the local state of the economy.
What do you believe to be the greatest economic risk to your business over the next 6-12 months?

### Risks to business outlook remain tilted to the downside of commodities and relates to geopolitical concerns

In SEA, the main downside risk is believed to be associated with global and regional political stability, commodity prices and currency valuations volatility. Executives in Philippines, Malaysia and Thailand remain most concerned about political stability implications on business. Slow growth prospects in China is also a significant concern for SEA executives given the importance of China to the region. China rebalancing is the main concern for China based executives.

Globally, political instability heads the list of economic risks to businesses, followed by the volatility in the commodity and currency markets. The challenges facing the European Union are also a concern for companies across all regions.
Corporate strategy

Alliances as drivers to growth: executives are more often considering entering into corporate alliances as a strategy for achieving growth targets.
**Stability and low growth prevail in regional jobs market**

Similar to the global trend, SEA tends toward employment stability, but with notable differences in terms of hiring intentions. In particular, job creation in SEA countries remains modest, with exceptional cases such as Singapore, where none of the companies surveyed have any intention of increasing their workforce. Countries such as Indonesia and Thailand are inclined to keep their current workforce as much as they plan to reduce it, both at levels higher than 40%.

Chinese executives’ plan to create jobs also remains low, even with a remarkable inclination to reduce their workforce. In contrast, Indian companies post stronger hiring intentions as compared to China and SEA trends.

**For most SEA executives, the focus remains on innovative strategies to remain competitive**

SEA companies overall are still focused on increasing research and development, yet this interest has shifted from the previous period toward investing in new markets. Chinese companies are also focusing on innovative strategies rather than the conventional ones.

Globally, the main focus is on both conventional and innovative strategies.
Q: From where do you see the most disruption to your core business in the next 12 months? (Select one)

![Disruption Bar Chart]

Changing customer behaviour is a major source of disruptions to businesses

Both globally and regionally, change in customer behavior and expectations is seen as the main disruption for companies’ core business. In China, executives see product innovation as the most disruptive factor.

Smart technology and social media have played an important role in this transformation, requiring a shift in businesses to focus more around altering their business models.

Q: Which of the following has been elevated on your boardroom agenda during the past six months? Select your top three answers.

![Boardroom Agenda Bar Chart]

The low growth economy places control of costs as top corporate priority

Both globally and in SEA, reducing costs and improving margins have consistently featured on the boardroom agenda. In the case of SEA, this has become a priority as compared with the previous survey.

However, in the SEA context, more than half of the Malaysian companies surveyed are mostly concerned about the impact of regulatory and antitrust oversight. These regulations might affect the M&A market in the country, and especially the larger transactions. In Thailand, however, more than half of the companies have particular concerns over cybersecurity.

The increased volatility in commodity prices and currency rates has also featured as a top corporate concern, mainly due to its implications for cross border trade and earnings implications.

Greater importance has been ascribed to the impact of digital technology, mainly because of the profound and ongoing changes in consumer behaviors, advances in data analytics, the boom of big data, and innovations around mobile technology and social media.
Are you planning to enter alliances with other companies or competitors to help create value from under-utilized assets?

**Alliance seen as enablers to realize growth potential**

In an a low growth economic environment, flexibility and collaboration are crucial and therefore alliances are becoming more relevant than ever before.

Corporate alliances’ more informal and less permanent in nature compared to, for example, joint ventures, are compatible with this constantly changing business landscape. They are critical to protecting the success of the core business objectives as well as to the development or maintenance of the business core competency. Alliances, moreover, mitigate disruptions risks to the business as well as increasing competitiveness and accelerating time to market.

For these reasons, executives are increasingly considering entering into alliances with other companies, including competitors, as a strategy for achieving revenue growth targets. 40% of global companies are planning to enter alliances, and in SEA this share is even higher. Indian companies follow this trend too, while Chinese companies are looking relatively less to alliances as a way to boost their growth.

On which of the following is your company focusing most to drive growth in the next 12 months?

Select up to three of the most important.
Deal intentions remain robust as companies continue to search for growth opportunities
What is your expectation for the M&A market in the next 12 months?

**M&A market meets economic stability expectations**

Executives surveyed globally predict a shift towards stability in the M&A market, with a remarkable decrease in the number of those who expect improvements over the next 12 months.

In the SEA context, the M&A market remains optimistic, with a moderate shift from those anticipating improvement to those anticipating stability or a decline. A similar sentiment is shared by Chinese companies, where a higher number of respondents expects the M&A position to stay the same compared to the previous year.
Confidence in deals fundamentals remains positive

At both a global and a regional level, executive confidence in the number of acquisition opportunities remains favorable, while confidence in the quality and the likelihood of closing an acquisition is compatible with a stable and sustained M&A market.

* Global data refers to the global M&A market from a global perspective, while data for SEA, China and India refers to the local M&A market from the local perspective.
Do you expect your company to actively pursue acquisitions in the next 12 months?

Percentage saying yes - that they will pursue an acquisition in the next 12 months

Acquisitions appetite remains positive and compatible with the companies' search for growth

In both the global and the SEA context, acquisitions appetite has slightly contracted from previous figures, but executives see little signs of a major slowdown in the M&A focus.

Majority of respondents expect to pursue up to two acquisitions, and for most of them this number remains the same as in the prior 12 months. In particular, 71% of global respondents expect the number of acquisitions to be same as those completed in the previous period, while for SEA, more than half of the respondents expect the same results.

Chinese executives have responded more positively than Indian respondents to pursuing acquisitions in the next 12 months, but with a higher rate of Indian executives expecting to complete five or more acquisitions. Among Chinese respondents, 46% expect the number of acquisitions to be the same, while 38% expect this number to be less than in the prior 12 months. In the case of India, more than half of respondents expect this number to be the same as in the previous year.
Regional deal pipeline remains solid

Globally, more than half of respondents have indicated that they are working on three or more deals, and this number is higher in the case of SEA. In the region, more than half the respondents have indicated that they have four or more deals in the pipeline. Moreover, Singapore and Thailand executives have indicated having five or more deals in the pipeline. The majority of Chinese and Indian respondents are also working on five or more deals.

At both global and regional levels, the great majority of companies expect this number to remain unchanged or even to increase. In particular, SEA and India remain the most confident, where half of each region’s respondents expect the number of deals in the pipeline to increase over the next 12 months. The great majority of respondents at the global and China level expect these numbers to remain unchanged.

SEA companies targeting bigger deals

Companies at a global level have moved toward bigger deals. A similar trend is observed in SEA, where the intention to bigger deals has increased notably since October 2015. There is, in particular, a jump toward deals ranging from US$251m to US$5b. Half of the respondents in both Indonesia and Singapore are planning to pursue deals in the range of US$251m to US$1b.

The majority of planned deals in China remain at the US$ 251 to US$1b range, while the majority of those planned by Indian respondents remain at the lower-middle range (<US$250m).
How do you think that buyers’ expectations currently compare to sellers’ (valuation gap)?

Valuations support a stable outlook for M&A

The majority of respondents at both the global and the regional level have indicated that there is a gap in valuation expectations between buyers and sellers, and they view this gap at less than 25%.

Similarly in all cases, it is expected that this gap will increase or remain at the current level over the next 12 months.

Which of the following do you expect to become more prominent in dealmaking in the next 12 months?

Private equity to play a more substantial role in dealmaking in SEA

While at a global level it is expected that distressed asset sales will become more prominent in the next 12 months, in SEA it is expected that private equity firms will play a more prominent role. This is particularly the case for Indonesia and Singapore, as more than half of the respondents in each country expect greater competition from PE acquirers.

Both China and India follow the global trend, expecting in their majority an increase in distressed asset sales to drive dealmaking.
Which are the top destinations in which your company is most likely to pursue an acquisition in the next 12 months (including your domestic market)? Please rank your top three countries in order of importance:

1. China
2. France
3. India

In SEA, interest in intraregional acquisitions prevails

Global companies consider the US, UK, and Germany as the top investment destinations in the west, with China and India as the most attractive destinations for investors in the Asia-Pacific region. In addition to their domestic markets, the global trend is also followed by China and India.

In SEA, however, companies are more attracted to pursuing acquisitions within the Asia-Pacific region, with China and Indonesia heading the list. Intraregional investment has contributed to closer regional integration, as well as strengthening their regional supply and distribution chain networks.
Has the new guidance on tax issued by the OECD regarding base erosion and profit shifting (BEPS) altered your planned acquisition strategy?

In SEA there is a significantly larger proportion of companies reporting alterations to acquisition structures due to BEPS. This may be because SEA tax jurisdictions, compared with OECD countries, have been relatively less engaged in countering sophisticated cross-border tax avoidance structures. With the rapid emergence of the BEPS initiative this has changed and some SEA countries, such as Indonesia, have been early adopters of BEPS related initiatives. We believe that the BEPS initiative is encouraging SEA tax jurisdictions to “catch-up”, resulting in a relatively greater impact on acquisition structures in SEA compared with the global survey results.
Health care

Health care provider space continues to generate tremendous interest from PE and corporate investors alike, as a result of a fundamental demand-supply mismatch in hospital beds. However, there are relatively few assets of scale and quality, resulting in unreasonable valuation expectations. Hence, investors have shifted their focus to specialty care – cardiovascular, oncology, renal – as potential areas for roll-up and value add. Some have gone further and are looking at pay or solutions such as third-party administrators and health management organizations and other ancillary businesses as potential investment opportunities.

As for pharmaceutical business in SEA, competition in the generics space is heating up and we are likely to see some consolidation in this area as a result of weak profit profiles of local players as well as portfolio rationalization by Big Pharma as a result of Universal Healthcare implementation in a few markets.

Oil and gas

The market environment remains challenging as crude oil and gas prices are expected to stay lower for longer. Operational optimization, cost take-out, organizational right sizing, debt and capital restructuring, and portfolio review and rationalization are among top board agenda items in the current environment. However, there are many investors and capital seeking investment opportunities in the sector.

Portfolio optimization and distressed M&A could spur increasing transactional opportunities. We see a wider buyer universe, especially with trading houses and PE coming into the picture. Ideal targets for financial buyers are high potential assets facing capital constraints in the current low price environment to fund further exploration and development. Service companies with special technologies and consolidation potential attract PE funds with strong operating experience or capability in the specific industry.

Cheaper oil will prove a boon for refined fuel consumption growth in many of the region’s emerging economies. In the midstream and downstream sectors, we see significant investment or proposals in energy infrastructure, and this will necessitate significant raising of capital in the region in partnership with major international players and national oil companies.

Education

Education continues to be a sunrise industry, given its economic cycle-resistant or counter-cyclical nature.

While most deals tend to be below US$100M due to the fragmented nature of the industry, the total quantum of M&A is growing.

The entire region has seen growth in kindergarten deals given the number of active operators and the relatively low regulatory risk in that segment. The largest of these deals happened in Australia. In many developing countries, kindergartens are an under-penetrated education product, and so we expect further growth and M&A.

The growth of online education in China has attracted significant capital and innovation. Also, the megatrend of international student mobility (upwards of four million students studying outside their home country) continues unabated, especially from China, prompting interest in companies active in that sector.

Other niches, such as tutoring and international schools, remain active as consolidation continues in those segments. Uncertainty in regulations has frozen some market segments, highlighting the vulnerability of the education sector to government priorities and the remaining skepticism about the role of private capital in the delivery of education. Improved corporate governance and increased communication between the private sector and regulators will be key to resolving these bottlenecks and further developing the market while better serving students.

Mining and metals

The metals and mining sector is also facing low commodity price challenges. Low mineral prices are expected to drive further consolidation, production cuts and divestments among metal producers. Meanwhile, we see an increasing focus on innovation to improve operational efficiency of existing assets. Retaining financial flexibility is expected to be a recurring theme going forward, yet opportunities remain. Lower mining cost benefiting from cheaper fuels, significant development of power projects, and increasing thermal coal exports to India to fill domestic shortfalls, will drive solid industry growth in Southeast Asia.

The sharp fall in commodity prices also offers opportunities for countercyclical investors and those with strong financial positions.
Consumer and industrial products
Cost pressure and changing consumer behavior continue to disrupt traditional consumer products and retail approaches to value creation. Consumer products and retail companies across SEA have been operating in an increasingly volatile, complex, and uncertain marketplace. Competition is compelling companies to refocus on revenue, market share, and profitability in a different way to previous business cycles. With growth subdued and patchy, companies will have to be more granular in identifying and selective in deploying investment in the markets, channels and categories they invest in so that revenue growth is profitable. As companies reassess their portfolios for growth, opportunities exist for alliances, divestment of non-core assets, and the acquisition of new capabilities.

Power and utilities
Power and Utilities in ASEAN continues to be very healthy, with a mix of new investments and M&A activity.

In Myanmar, one of the leading energy operators in the region has achieved a significant milestone for its gas-fired independent power producer (IPP), a remarkable achievement that will hopefully pave the way for more capacity in a country in need of additional generation capacity to support its growth.

Likewise, in Indonesia, business development teams are actively preparing their bids for gas-fired IPPs tendered by the state-owned utility, and preparing for a significant M&A opportunity with the upcoming sale of geothermal assets in Indonesia and the Philippines. Another large operational coal-fired asset in the Philippines is currently being marketed to investors.

Fuel diversification is a key topic, with countries such as Myanmar, Bangladesh, Thailand and Indonesia needing to diversify away from their dwindling domestic gas reserves. Developers of power projects now need to take into account the fuel supply chain, with various floating storage regasification units (FSRUs) being planned.

With the significant commitments made at the COP21 for the increase in the share of renewable energy, governments are working on refining the regulatory framework to enable tapping into the significant solar, wind and hydropower potential in the region. Developers are watching developments in Indonesia and Vietnam in particular, and waiting for directions from the new administration to be elected in the Philippines in May.

Real estate
The various SEA economies has seen significant capital flow back into their stock market - rejuvenating interest on emerging market stocks.

However, regulatory restrictions placed in markets such as Singapore remains, which causes the overall property market to remain subdued but given the deferment of interest rate increases in US and reduction of interest rates in Indonesia etc, the property sector will begin to attract greater interest from investors alike.

Technology
In SEA, Singapore has emerged as the regional hub for start-ups due not only to the strong government support and funding (e.g., the National Research Foundation - Early Stage Venture Funding Scheme, the technology incubation scheme), but also to its easy access to private capital. For instance, in Singapore, 43% of venture capital deal activity between 2010 and 2014 occurred in the country, far outstripping the next largest country, Indonesia, at 25.7%. The venture capital deal activity in Singapore amounted to US $854m and is projected to continue growing at 37% per year through 2018. Moreover, Singapore’s strategic location, its highly educated English speaking workforce, ease of starting new businesses, and its accommodative tax structure have also contributed. In fact, the number of people starting new businesses grew from a 250,000 in 2011 to over half a million in 2014, with a CAGR of 30%. Local start-ups have become well known and part of the country’s everyday life, especially for online-related businesses.
EY Capital Confidence Barometer is a regular survey of senior executives from large companies around the world, conducted by the Economist Intelligence Unit (EIU).

The respondent community comprises an independent EIU panel of senior executives and select EY clients and contacts.

This survey gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their capital agenda.
For a conversation about your capital strategy, please contact us:

**Global and Regional**

**Pip McCrostile**  
Global Vice Chair  
Transaction Advisory Services  
+65 6309 6560  
Follow me on Twitter: @PipMcCrostie

**Steve Krouskos**  
Deputy Global Vice Chair and Global Vice Chair Elect  
+44 20 7980 0346  
Follow me on Twitter: @SteveKrouskos

**John Hope**  
Asia-Pacific Leader  
Transaction Advisory Services  
+852 2846 9997

**Harsha Basnayake**  
ASEAN Regional Managing Partner and Asia-Pacific Managing Partner Elect  
Transaction Advisory Services  
+65 6309 6741

**ASEAN Market Segments**

**Purandar Rao**  
Singapore Market Leader  
Transaction Advisory Services  
purandar.rao@sg.ey.com  
+65 6309 6560

**David Rimbo**  
Indonesia Market Leader  
Transaction Advisory Services  
david.rimbo@id.ey.com  
+62 21 5289 5025

**George Koshy**  
Malaysia Market Leader  
Transaction Advisory Services  
george.koshy@my.ey.com  
+60 3 7495 8700

**Ratana Jala**  
Thailand Market Leader  
Transaction Advisory Services  
ratana.jala@th.ey.com  
+66 2 264 0777

**Renato Galve**  
Philippines Market Leader  
Transaction Advisory Services  
renato.l.galve@ph.ey.com  
+63 2 891 0307

**Toan Quoc Nguyen**  
Vietnam Market Leader  
Transaction Advisory Services  
toan.quoc.nguyen@vn.ey.com  
+84 838 245 252

**Ruwan Fernando**  
Sri Lanka Market Leader  
Transaction Advisory Services  
ruwan.fernando@lk.ey.com  
+94 11 246 3500

**ASEAN Competencies**

**Vikram Chakravarty**  
ASEAN Regional Managing Partner Elect  
Capital Transformation, Operational Transaction Services and Corporate Finance Strategy  
vikram.chakravarty@sg.ey.com  
+65 6309 8809

**Seng Leong Teh**  
Transaction Support  
seng.leong.teh@id.ey.com  
+62 21 5289 5000

**Benjamin Koesmoeljana**  
Transaction Tax  
ben.koesmoeljana@id.ey.com  
+62 21 5289 5030

**Andre Toh**  
Valuation & Business Modeling  
andre.toh@sg.ey.com  
+65 6309 6214

**Rajagopalan Seshadri**  
Restructuring  
rajagopalan.seshadri@sg.ey.com  
+65 6309 6892

**Angela Ee**  
Restructuring  
angela.ee@sg.ey.com  
+65 6309 6933

**Lynn Tho**  
Infrastructure Advisory  
lynn.tho@sg.ey.com  
+65 6309 6688

**Luke Pais**  
Mergers & Acquisitions  
luke.pais@sg.ey.com  
+65 6309 8094
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY’s Transaction Advisory Services
How you manage your Capital Agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you’re preserving, optimizing, raising or investing capital, EY’s Transaction Advisory Services combine a unique set of skills, insight and experience to deliver focused advice. We can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.

APAC no: 12000814
ED None

© 2016 Ernst & Young Solutions LLP. All Rights Reserved.

Ernst & Young Solutions LLP (UEN08LL0734H) is a limited liability partnership registered in Singapore under the Limited Liability Partnership Act (Chapter 163A).

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com