News release

Meeta Bhar
Ernst & Young
+603 – 7495 8113
Meeta.Bhar@my.ey.com

Surge in capital confidence in Southeast Asia with high interest in M&As amid continuing focus on organic growth

- **Confidence in economic outlook closer to home and within industry**
- **Improved capital conditions and availability of finance to fund capital projects**
- **Focus on organic growth, yet interest in M&As remains keen**
- **Increased buyer-seller price expectation gap is top deal-breaker**

KUALA LUMPUR, 10 May 2011 – Ernst & Young's bi-annual *Southeast Asia Capital confidence barometer* study released today reveals that corporate confidence is robust in Southeast Asia (SEA). Capital conditions of SEA companies have maintained or improved over the last six months, with little perceived impediments to securing funding. Yet, many prefer to focus on organic growth while indicating M&As as their top activity in the next six months. The study of more than 1,000 senior executives around the world, of which close to 80 respondents were from Southeast Asia, was conducted in March 2011.

Strong corporate confidence in "comfort zones"

A 68% majority of the SEA respondents expressed optimism about their local economy, with 45% of them believing that the downturn is over in their own industry. The survey also finds that larger companies with turnover of US$10b or more were the most optimistic in Southeast Asia, with a vast majority (77%) of them expressing confidence about their local economy and that the crisis is something of the past.

However, sentiments among the BRIC (Brazil, Russia, India, China) and global respondents were less buoyant, with 37% of the BRIC respondents believing that their industry is free from economic turbulence and one-third of the global respondents indicating the same.

Meanwhile, confidence levels in the global economy among the SEA respondents were less robust. Only 15% of SEA respondents believe that the global economy has recovered, and a further 58% think it will persist for between six months and two years. Their BRIC and global peers were slightly more optimistic about global prospects, with 22% and 17% respectively believing that the global financial crisis is over and a further 46% and 51% respectively believing that it will last for between six months to two years.

George Koshy, Transaction Advisory Services Leader for Malaysia, comments: “Southeast Asia is unique among the emerging markets. It doesn't carry the limelight of the BRIC economies, yet has always been on the investment agenda of corporate and institutional investors. The survey responses reflect what we have experienced over the past six months, where there are low signs of distress in the region and increasing numbers of companies looking at better deployment and optimizing return on their capital.”

Capital market conditions buoyant

An overwhelming 96% of the SEA respondents indicated that the access to capital has stabilized (45%) or improved (51%). Access to funding for capital projects was not a problem for 45% of the SEA respondents, and another 40% expected financing to be available in the next six to 12 months. On the other hand, the majority of global respondents (62%) do not expect finance to be accessible to them at least for the next six months. This is despite 56% of them believing that financing conditions have improved compared to the last six months.

“The improved access to capital is very encouraging. Companies are finding it more conducive to secure financing, be it for their investment activities or for operations. There is good liquidity in the environment and a lot more confidence to commit capital to expansion activities. Companies are also discovering that there are alternatives to private equity,” comments George Koshy.

Focus on organic growth, yet M&A on agenda

Despite improved capital conditions and ease of access to funding, most SEA respondents (61%) indicated that their organizations will focus on organic growth in the next six months, Similarly, organic growth is high on the agenda for 53% of the BRIC respondents and 49% of the global respondents.

George Koshy adds: “It is not surprising that organic growth is high on the agenda for Southeast Asian companies. When the economies that they operate in are consistently stable and most policymakers are focused on maintaining this stability, businesses want to capitalize and ride that wave of growth.”

Most SEA companies are cautious about inorganic growth through M&A, joint ventures and alliances with private equity, given that only 29% of them will be actively looking for inorganic growth in the next six months. Similar sentiments were expressed by the BRIC (30%) and global (31%) respondents. This is so despite only a very small proportion of the SEA respondents (8%) indicated that they are restricted in pursuing inorganic growth and are in a survival mode (3%).

However, when asked about their top three activities in the next six months, SEA respondents were keen to engage in M&A activities. Forty-seven percent confirmed they were either undertaking or seriously considering an acquisition in an emerging market and 26% confirmed the same level of undertaking for an acquisition of either a distressed or non-distressed asset.

The continued interest in acquisitions is also demonstrated by a majority of SEA respondents wanting to do deals in the next two years. Twenty two percent of them indicated it was likely to highly likely that they would do deals in the next six months, 35% in the next six to 12 months and a further 44% indicated activity in one to two years.

Increased buyer-seller price expectation gap is top deal-breaker

However, hurdles to deal-making continue to exist. The new number one deal-breaker now is the valuation gap between buyer and seller expectations, according to 53% of the SEA respondents who cited this as an obstacle of increasing significance. BRIC and global respondents also agreed that this was a top concern. In addition, other challenges to executing M&As were heightened Board and audit committee scrutiny, as well as competition for assets, as indicated by 42% of SEA respondents.

George Koshy concludes: “Many companies see organic growth as their core focus while saying that they will not let go an interesting opportunity to acquire businesses, given the improved access to capital and relatively stronger currency. They seem to be more comfortable venturing into acquisitions closer to home, but also recognize that there could be good opportunities in the developed markets too. Pricing levels are still relatively acceptable, but given the competition for capital between organic growth and acquisitions, corporate development teams will find that boardrooms discussions on capital activities will get tougher and more rigorous.”

- ends –

About the survey
The Ernst & Young *Capital confidence barometer* is a survey of more than 1,000 senior executives from large companies around the world and across industry sectors. While the global study first began in November 2009, this is the first time that a specific study was conducted among close to 80 respondents in Southeast Asia to produce the *Southeast Asia Capital confidence barometer*. The objective of the *Barometer* is to gauge corporate confidence in the economic outlook, to understand boardroom priorities in the next 12 months, and to identify the emerging capital practices that will distinguish those companies that will build competitive advantage as the global economy continues to evolve. This is the fourth bi-annual *Barometer* in the series, which began in November 2009.

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of 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, please visit www.ey.com.

This news release has been issued by Ernst & Young.