

**MALAYSIAN MANAGEMENT SEMINAR SERIES  
“MERGERS AND DE-MERGERS”**

**“MERGER & ACQUISITION –  
A PERSONAL EXPERIENCE”**

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**"MERGER & ACQUISITION -  
A PERSONAL EXPERIENCE"<sup>1</sup>**

**BY**

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At the outset, I wish to clarify that the terms "merger & acquisition" carry different meanings and should not be used interchangeably. There is a distinction in meaning: "A **merger** typically refers to two companies coming together (usually through the exchange of shares) to become one. An **acquisition** typically has one company – **the buyer** – who purchases the assets or shares of **the seller**, with the form of payment being cash, the securities of the buyer, or other assets of value to the seller."<sup>2</sup>

2. Recently, there has been a wave of consolidations, mergers, acquisitions and corporate restructurings in the country. During my 23 years in PNB, and almost 12 years as chairman, I have had a most valuable personal experience in a few of these exercises,

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<sup>1</sup> Text of speech at the Malaysian Management Seminar Series, Executive Development Centre, University Utara Malaysia on 5<sup>th</sup> April, 2008

<sup>2</sup> See Andrew J. Sherman in his book "Mergers & Acquisitions - From A to Z" - American Management Association, 1998 pp 8

as chairman, either of the buying or the selling entities. I would like to confirm that the reasons for the M&A exercises conform to those mentioned by Andrew J. Sherman<sup>3</sup> as follows:

- (i) for strategic reasons, such as the obtaining of additional intellectual capital;
- (ii) to obtain a more sound and secure financing;
- (iii) to cope with industry trends such as changing technology, to face fierce competitions, changing consumer preferences, to control costs – all these leading towards gains in efficiency;
- (iv) to transform corporate identity following a crisis to spread the risks and cost of developing new technology, research and gaining access to new frontiers;
- (v) to develop an international presence and expanded market share;
- (vi) for products and service lines to remain competitive:

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<sup>3</sup> ibid pp 8, 9 & 10

- (vi) to buy brand loyalty and customer relationships; and
- (vii) as an alternative to starting a new line of business.

PNB's M&A objective has been that on a postclosing basis, the entities should truly enhance shareholder value and increase the wealth of Bumiputera and their participation in the major sectors of the economy.

3. The goal is "postclosing synergy". The key premise to synergy is that the "whole will be greater than the sum of its parts". Synergy can be categorised into three aspects<sup>4</sup>:

- (i) Operating synergy refers to the efficiency gains or operating economies that are derived in horizontal or vertical mergers. Operating synergy often comes from a reduction in costs that result from a corporate combination. These cost reductions may result from economies of scale or the reductions in unit costs that result from an increase in the size or scale of a company's operations.

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<sup>4</sup> See Patrick A. Gaughan in "Mergers - What Can Go Wrong and How to Prevent It" - Wiley Finance, 2005 pp 56-63

- (ii) Revenue-enhancing synergy refers to the ability of a combined entity to realize more revenues than what the individual companies would have if they remained independent. What this means is that, after a corporate combination, if the corporation has an increase in its revenues that is beyond what is accomplished by merely adding together the revenues of the merger partners, then perhaps revenue-enhancing synergies explain the gain.
  
- (iii) Financial synergy refers to the possibility that the cost of capital can be lowered by combining one or more companies. In other words, financial synergy is when a target company has certain growth opportunities that it would like to pursue but it is hampered by insufficient access to capital. One way this problem may be alleviated is with a merger with a company that has better access to capital but that may not have the same profit-making opportunities as the target.

4. I assumed the chairmanship of PNB on October 17, 1996. The first few years proved to be difficult as the country experienced a considerable setback posed by the Asian Financial Crisis of 1997-98. The Kuala Lumpur Composite Index fell from 1,237.96 points at the

end of 1996 to 262.70 points on September 1, 1998. This caused a double blow to the unit trust schemes when redemptions rose dramatically while equity prices kept falling. PNB, however, continued to maintain its leadership position in the unit trust industry as seen by the figures as at the end of the year 2000:

- (i) units in circulation rose by 29.3% to 36 billion units, from 27.8 billion units in 1996;
- (ii) proprietary and unitholder funds rose by 22.7% to RM50.2 billion, from RM40.9 billion in 1997; and
- (iii) the number of account holders grew by 8.9% to 7.8 million, from 7.1 million in 1996.

5. PNB's policy on restructuring, mergers, and acquisitions has five main objectives:

- (i) to strengthen, as well as to create, large companies, which will have the resources and capabilities to control, dominate and compete effectively in the main strategic sectors of the economy, thus generating future potential value;

- (ii) to enhance the efficiency, effectiveness, human capital capability and competitiveness of these companies, allowing them to secure business opportunities worldwide as befitting Malaysia's position as a major trading nation;
- (iii) to increase and strengthen Malaysian corporate branding efforts in the international markets, especially for companies which have already established their presence in various strategic sectors globally;
- (iv) to enhance shareholder value and increase dividend yields, thus improving PNB's income distribution capability to unitholders; and
- (v) to ensure that PNB's strategic holdings in the main corporate sectors can be retained and strengthened, especially in the financial sector (both conventional and Islamic), plantations, real estate, automotive, logistics and services, as well as new sectors with high growth potential.



6. One of the obvious targets for corporate consolidation early in my tenure included ports and logistics. PNB had a significant presence in port management and logistics through its subsidiaries Klang Container Terminal Berhad (KCT), Klang Port Management Sdn. Berhad (KPM), and Kontena Nasional Berhad (KN). KPM and KCT undertook similar activities and in fact, had facilities in physical proximity, and competed against each other for business. The growth of Malaysian trade as well as emerging competition from other port and logistics companies made these companies an obvious choice for consolidation through merger. The exercise in 1999 involved the 100% equity acquisition of KCT and Kontena Nasional, and a share swap between Northport Corporation Berhad as a new vehicle and the shareholders of KPM. Upon completion, the group now known as NCB Holdings Berhad which I chaired from the year 2000 has provided an end-to-end solution for logistical activities - from port management to haulage - with improved operational efficiency, economies of scale, a coherent and unified workforce, and a 20% market share of all container throughput in Malaysia and 40% market share of Port Klang with 2.81 million TEUs in 2007. NCB Holdings has since shown a significant increase in returns on equity, and continues to have a significant presence in haulage through Port Klang, which is now ranked 14<sup>th</sup> in the world in terms of container volume. Northport has the distinction of paying 70% of its profits to its shareholders in the year 2006, which made history among the PNB stable of companies. NCB Holdings equity

structure comprises PNB and its unit trust schemes which owned 57.1%, MISC Berhad 15.7%, Lembaga Pelabuhan Klang 5.3% and others 21.9%.

7. In the **financial sector**, the impetus created by the Asian financial crisis prompted the government to call for the consolidation of both the banking and insurance industries. With globalisation, exposure to global capital flows and markets meant that players had to be larger and better capitalised to survive and compete effectively. MNI Holdings Berhad was incorporated as a result of the acquisition by Timah Langat Berhad of MNI Sdn Berhad in 1996, with the objective of improving the income stream of Timah Langat, and unlocking the value for shareholders of MNI Holdings which I chaired from 1997. Both were investee companies of PNB, and the objective of the exercise was to enhance the value of the consolidated company. In order to enhance the market position of MNI Holdings, Sime AXA Assurance was acquired in 2000, thereby creating a larger company with higher turnover, and improved cost efficiency. The non-insurance businesses inherited from Timah Langat were later disposed of, thereby enabling the company to focus solely on insurance. Through this exercise, the penetration of insurance coverage in the Bumiputera population was enhanced through both conventional and takaful. As at the end of 2004, MNI's life and general business annual premium increased to RM794 million or 4.7% of market share from RM318 million or 2.7% in 1999. In takaful,

Takaful Nasional had mobilized contribution income of RM570 million in 2004 representing 51% of the industry thereby providing competition to other takaful operators, compared with RM154 million in 1999.

8. **Further consolidation** appeared desirable, as Malayan Banking Berhad was considered a viable buyer of a PNB investee company having its own insurance and takaful business. As chairman of MNI Holdings, I led the entire process of merger and acquisition. MNI Holdings and its subsidiary Takaful Nasional Sdn. Berhad were acquired in 2005 by Maybank through Maybank Fortis Holdings Berhad, its insurance joint venture with European financial services giant Fortis International NV. MNI Holdings was then delisted, and I handed over the chairmanship to the succeeding company in the year 2006. The advantage to PNB? Firstly the postclosing synergy of the new entity has contributed to Maybank profits. Secondly, with the proceeds of the sale of MNI Holdings, it was able to mobilize funds for subsequent acquisitions. The exercise increased Maybank's participation in the insurance sector, further diversifying the bank's non-interest income. The Etiqa Group, a rebranded entity, contributed significantly to the increase of non-interest income in the Maybank group which grew 11.6% to RM5.48 billion in 2007 from RM4.9 billion in 2006. Maybank now has the second largest overall insurer (Etiqa Insurance), and the largest takaful operator in Malaysia (now re-branded as Etiqa Takaful). The

agreement with the Maybank for the disposal of MNI Holdings also involved the takeover of Mayban Unit Trust Berhad (MUTB) by Amanah Saham Nasional Berhad (ASNB), a wholly owned subsidiary of PNB, and MUTB is now called Amanah Mutual Berhad which I chair since the year 2006.

9. The other major **banking** arm within the PNB Group is Malaysian Industrial Development Finance Berhad or MIDF. I became chairman of MIDF from 1996. Initially formed to provide funds for small and medium scale development finance, MIDF had diversified into many other areas of finance including stockbroking, merchant banking and industrial property. It was thus an appropriate corporate vehicle in the consolidation of the financial sector. I left the company in the year 2001 at the start of the merger and acquisition exercise. As PNB also owned a majority stake in Amanah Capital Partners Berhad, which had interests in investment and property, MIDF was merged with the company in 2003 to leverage the combined capabilities of both companies. On completion of this exercise, with increased capital, Utama Merchant Bank Berhad was acquired by MIDF to flesh out the capabilities of the combined firm to qualify for investment banking status by Bank Negara Malaysia. Despite these moves, MIDF's share price was undervalued. PNB took the company private in 2007 through a Voluntary General Offer (VGO) by offering to acquire the remaining 79.98% stake in MIDF for

approximately RM1.48 billion in cash to allow for space and time for a realignment of its businesses for future value creation.

10. Within the **plantation and property sectors**, there was also much scope for consolidation and rationalisation. In the case of Golden Hope Plantations Berhad (I became the chairman in the year 1998) and Island & Peninsular Berhad, merging the businesses of the two companies would allow them to focus on their particular specialisation, take advantage of economies of scale, and improve management and operational efficiency. Through the mechanism of a share swap, the three property units under Golden Hope Plantations were moved to I&P, while Austral Enterprises, a plantation company, was transferred to Golden Hope. This merger exercise resulted in Golden Hope becoming the largest plantation company listed on Bursa Malaysia, and increased its plantation landbank by 48% from 128,118 hectares to 189,000 hectares to become the second largest plantation owner in Malaysia. I&P in turn became the largest property development company on the Bursa Malaysia, its development landbank increased five-fold to 11,369 hectares, and the gross development value of its projects rose by 42.4%. The exercise became more attractive to investors. Golden Hope's shares increased from the RM3.40 to RM3.80 range at the point of announcement to a RM4.30 to RM4.50 range just prior to the execution of the rationalization exercise, showing an increase of 32.4%.

11. The merged Golden Hope Plantations became a global integrated player in oils and fats business and became the first Malaysian public listed company to own downstream refineries and activities in oils and fats industry in Europe and South Africa when it acquired the following companies, their brands, technology and markets:

- (i) **Unimills** B.V. of Netherlands, Europe's third largest oils and fats refinery and its products are sold under the following key brand names: Delico hardstocks for margarines and spreads, GoldBake dough fats, Prifex for premium flaked fats, and Cremex the new generation of healthy ice cream fats.
  
- (ii) **Hudson & Knight**, South Africa's second largest producer of speciality oils and fats used for bakery, food service industry and food manufacturers and its main brands are Pastrex, Crispa, Mastercraft and Holsum; and
  
- (iii) **Cognis Oleochemicals** (M) Sdn. Berhad, (a 50:50 joint venture company with Cognis Deutschland of Germany), is the world's largest producer of vegetable-based fatty acid such as distilled and modified fatty acids, polyunsaturated fatty acids,

conjugated fatty acids, fractionated fatty acids, stearic acids, and oleic acids, and Cognis Oleochemicals is the only producer of azelaic acid;

Golden Hope's 500 hectares of pink guava plantation in Sungei Wangi Estate in Sitiawan, Perak is the world's single largest pink guava plantation and is also currently the nation's only pink guava producer. With an annual harvest of almost nine million kilograms since 2006, the estate produces 15% of the world's pink guava puree. The combined three biodiesel plants owned by Golden Hope produced almost 400,000 tonnes of biodiesel or about 20% of the global production. Profits before taxation of Golden Hope rose to a record high of RM750.4 million in the financial year ended-June 2005 before the merger, thereby bringing up earnings per share to 42.2 sen.

12. Not everything is smooth in merger exercises. The quest for synergy can be deceptive especially when there is inadequate communication between seller and buyer, as well as understanding the terms of the deals. In a merger, data gathering and due diligence are two-way and mutual, with each party positioning its contribution to the postmerger entity to justify its respective equity share, management and control of the new company. In the case of the merger between I&P and Golden Hope Plantations, a minority shareholder, Employees Provident Fund (EPF), objected to it when the voting came at the extraordinary general meeting of Negara

Properties. The EPF obtained a court injunction restraining Golden Hope from acting on the resolution passed at its extraordinary general meeting which I chaired pertaining to the acceptance of the Negara Properties' voluntary general offer. This did not affect the completion of the exercise, but Golden Hope did not receive an additional 57 million new I&P shares from the Negara Properties sale. As a result, Negara Properties remained under Golden Hope and did not merge with I&P and SPPK. The result of the merger? - successful merger of two plantation companies, Golden Hope Plantations and Austral Enterprise; successful merger of I&P and SPPK; failure by I&P to secure Negara Properties.

13. In the **biggest exercise** so far for the plantation, property, automotive, industrial, energy & utilities, and social services, the entire businesses of Sime Darby Berhad (which I chaired from 1998), Golden Hope Plantations Berhad and Kumpulan Guthrie Berhad were merged to form a big conglomerate. The benefits of this merger were clear: best practices could be enforced, cost reductions through the elimination of overlapping activities, and R&D spending could be more effectively increased. The latter is a significant advantage given the drive towards bio-fuels and bio-technology in the downstream sector as well as the search for disease resistant and higher yielding seeds plantation sector.



14. The merger exercise was initiated by a company called Synergy Drive, which acquired all the existing businesses and assets of the three companies and their subsidiaries, in effect taking them private. Synergy Drive was then listed as the single holding company, creating the single largest company on the Bursa Malaysia and the global number one originator of palm oil products, as well as the largest developer of residential and commercial property in Malaysia. The benefits of the merger also included potential cost reductions and revenue enhancements worth an estimated RM400 million - RM475 million annually, thus significantly enhancing the value of PNB's shareholdings. Synergy Drive was later renamed as Sime Darby Berhad when I was appointed deputy chairman starting from October 2007. The new Sime Darby Berhad:

- (i) is the world's largest listed oil palm plantations company with fresh fruit bunch (FFB) production of 9.4 million metric tonnes; CPO production of 2.2 million tonnes or 6% of the world production; mill capacity of 14.8 million tonnes; and planted area of 524,626 hectares in Malaysia and Indonesia;
- (ii) is the largest listed company on Bursa Malaysia with a market capitalization of RM55.8 billion (26 March 2008) representing about 6.8% weighting on the Kuala Lumpur Composite Index (KLCI), and a

hefty increase from RM29 billion pre-merger (peak of RM80.53 billion post-merger as at January 11, 2008) ;

- (iii) is an integrated property giant in Malaysia focused on property development with complementary operations in property investment, asset management, hospitality and leisure and Sime Darby has a landbank of 15,000 hectares;
- (iv) has property related interests in seven countries other than Malaysia – Singapore, Indonesia, the Philippines, Vietnam, China, Australia and the UK, with a significant presence in the Asia-Pacific region;
- (v) has motor operations in five countries other than Malaysia - Singapore, China including Hong Kong and Macau, Australia, New Zealand and Thailand;
- (vi) is BMW's third largest dealer group globally and is also franchise holder for Rolls-Royce and MINI, Peugeot, Ford, Land Rover, Hyundai and Mitsubishi, and in the trucks and commercial

vehicles, is franchise holder for Nissan, Renault, Mack, Hino and Mitsubishi Fuso;

- (vii) is the world's fifth largest dealer for heavy equipment maker Caterpillar with exclusive distribution rights for the sale and rental of Caterpillar heavy equipment, parts and service support in Malaysia, Singapore, Hong Kong, Brunei, China (seven provinces), the states of Queensland and Northern Territory of Australia, Papua New Guinea, New Caledonia, the Solomon Islands, Nauru, the Republic of Maldives and Christmas Island;
- (viii) has power plants situated in Port Dickson, Malaysia and the Laem Chabang Industrial Estate in Chonburi, Thailand as well as a water treatment business in the Shandong Province in China;
- (ix) owns and operates Weifang Port in China handling approximately 7.3 million metric tonnes of cargo;
- (x) has a 50 year concession for the sale of treated water for industrial use to the Shandong Hai Hua

Development Zone and Hanting Northern District area in Shandong province of China; and

- (xi) is leading a seven-member consortium to build the Bakun main dam.

15. In this mega merger exercise, I was chairman of two of the three companies, namely Golden Hope Plantations and Sime Darby. Pre-merger, they had shown good profits. Golden Hope Plantations registered a pre-tax profit of RM406 million (net profit of RM269 million) for the financial year ended June 2006. Sime Darby, for the first time in its history, reported a record net profit exceeding the RM1 billion mark or RM1.12 billion (pre-tax of RM1.64 billion) in 2006. It was therefore a source of great pride for me to convince shareholders at their respective EGMs of these two companies, bringing fore to the justifications for merger, and most importantly, the postclosing synergy. There was an absence of fireworks from shareholders at these EGMs.

16. PNB is always on the lookout for building significant stakes in good companies, especially where potential rationalisation benefits are available. As an example, PNB had acquired an additional stake of 22.36% in the Chemical Company of Malaysia Berhad (CCM), bringing PNB's shareholding in the company to 52.81% as its fertiliser operations greatly complemented PNB's

presence in the plantations sector, where fertiliser costs form a considerable proportion of operational expenses. CCM's purchase of Duopharma (M) Sdn Berhad is in line with PNB's philosophy of enhancing value, resulting in the company having an elevated profile in the local pharmaceuticals industry. CCM is now:

- (i) the largest local manufacturer of generic drugs with over 280 products including antihistamines, antibiotics and expectorants with a market share of 20%;
- (ii) the leading over-the-counter (OTC) products manufacturer in the country with brands such as Champs, Proviton and Uphamol; and
- (iii) the leading producer of domestic composite fertilizer with a market share of 30%.

17. If we believe that a company would be worth more when taken private, then that avenue would be explored as well, as was done with Island & Peninsular Berhad and Petaling Garden Berhad in 2007. With this exercise and together with Pelangi Berhad, a major developer in the Southern region, PNB has the potential of creating the largest independent property developer in Malaysia. In total, the property companies where PNB has substantial equity holdings, -

Sime Darby Property, I&P, Pelangi Berhad and Petaling Garden - have an aggregate landbank of 25,000 hectares, and have already developed 300,000 residential units housing 1.4 million people in the Klang Valley, Selangor, Negeri Sembilan, Johor and Pulau Pinang over an area of 17,000 hectares.

18. PNB also has opportunities to create synergistic benefits in the property sector. Its wholly-owned subsidiary, Pelaburan Hartanah Nasional Berhad (PHNB), had taken over the management of Mayban Property Trust Fund One (MPTF-1) from Mayban Property Trust Management Berhad and was subsequently renamed Amanah Harta Tanah PNB 2 (AHP 2), to complement PNB and Malaysia's first property trust Amanah Harta Tanah PNB (AHP) which was launched in 1989. AHP and AHP 2 currently have 19 properties within its portfolio. At the PNB level it has several properties with a total net lettable area of 1.7 million square feet including Menara PNB, Commercial Area of PNB Darby Park, Menara Tun Ismail Mohamed Ali, Wisma KPMG, Bangunan PNB Damansara and Bangunan MAS, a recent acquisition. PNB also has two hospitality properties namely PNB Darby Park and PNB Training Centre and Holiday Resort and the stadium land, when both Stadium Merdeka and Stadium Negara were acquired in the year 2000. Plans are on its way to develop the land into a residential and commercial property, with the two stadia to be retained as national heritage. With the government promoting real estate investment trusts (REITs), the property assets owned by PNB

and its investee companies could potentially be injected into REITs. Overall, PNB's four investee companies involved in property plus its two wholly-owned subsidiaries, namely PMSSB and PHNB owned an estimated 6 million square feet of office and commercial space in 40 buildings, in addition to owning or operating ten hotels, resorts and service apartments encompassing 2,000 rooms.

19. In conclusion, with large stakes in leading companies, PNB has the ability to be positively involved in M&A activities that could potentially benefit all shareholders. This would not be possible under a passive shareholder philosophy, such as that constraining the Employees Provident Fund which manages a much larger fund size of RM289.5 billion. The ability to combine and consolidate companies through M&A allows for the creation of world-leading corporations that are more efficient, more profitable, and better able to enhance shareholder value.

20. The phenomenal success of PNB as a fund manager is clearly seen by the following figures as at the end of 2007:

- (i) units in circulation rose 99.6% to 71.8 billion units from 36 billion units in 2000, equivalent to 35% of the industry;
- (ii) proprietary and unitholder funds had risen 151.1%

to RM126 billion from RM50.2 billion in 2000, equivalent to 11.4% of the market capitalization of Bursa Malaysia; and

- (iii) the number of accountholders grew 14% to 8.8 million from 7.8 million in 2000, equivalent to 72% of the industry.

This progression has been built in part on sustained success in portfolio management, as well as positive contributions from M&A activities undertaken by the PNB group.

21. "Successful mergers and acquisitions are neither an art nor a science but a process."<sup>5</sup> On a personal level, I was privy to all the deals that are close with both, buyers and sellers. I participated in the exercises through chairing the board meetings of the companies as well as the extraordinary general meetings to seek shareholders' approval. I learnt a great deal, being involved in the process, studying the economic, financial and tax benefits of both buyers and sellers. At the end of it all, by being actively involved in

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<sup>5</sup> Andrew J. Sherman in his book "Mergers & Acquisitions - From A to Z" - American Management Association, 1998 pp 5



these transactions, I had to uphold the trust to ensure that PNB shall benefit from the real and durable value of the shareholdings. On a personal level, my corporate responsibility was mercifully relieved when I am no longer chairman of MIDF, MNI Holdings, Golden Hope Plantations and Sime Darby Berhad, and a few subsidiaries of these entities. Nothing is worth more than experience.

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