

North Asia Taiwan

Taiwan's M&A transactions dominated by the technology sector were active in 2009 Q4 and expects to continue through 2010



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Current Environment

Taiwan's export-driven economy has gradually recovered from the global financial turmoil. Taiwan's GDP fell 1.29% in the third quarter of 2009, and was expected to rise 6.89% in the fourth quarter after the serious recession in the first half of the year. However, GDP through 2009 is still expected to decrease 2.53%. Although exports recovered gradually in the fourth quarter of 2009, full year exports dropped 20.3%, driven by a decrease in exports to North America and Europe.

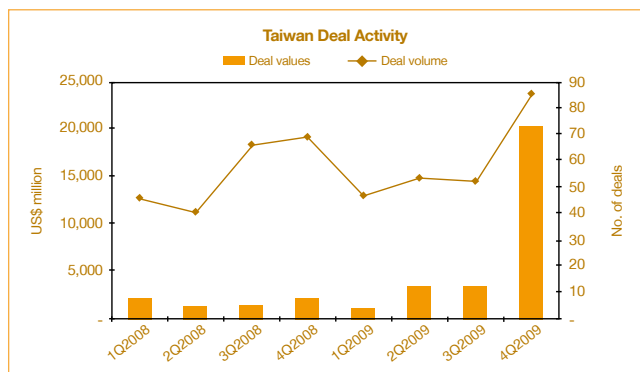
Facing currency depreciation from competing Asian countries in the first quarter, Taiwan's central bank let the Taiwanese dollar devalue against the US dollar from 33.15 to 34.34, a 4% decrease, in order to keep exports competitive. The Taiwanese dollar has risen to 32.28 at the end of 2009 which is consistent with the appreciation of most Asian currencies.

Boosted by the profits of Taiwanese companies operating in China, combined with the positive sentiment generated by the frequent cross-strait talks between the Chinese and Taiwanese governments, the Taiwan Stock Exchange index (TAIEX) rebounded 78% in 2009, one of the top ten best performances worldwide in 2009.

In November 2009, Taiwan signed a Memorandum of Understanding (MOU) with China which included cross-strait cooperation and supervision in the following sectors: banking, insurance and securities brokerage services. The most significant impact of the MOU is that Taiwan and China will progress towards more open financial regulations surrounding cross-border transactions. Signing the MOU is simply the first step of cross-strait economic and trade cooperation. The Economic Cooperation Framework Agreement (ECFA), which is expected to be signed in 2010, will further allow

Taiwan to significantly benefit from China's economic growth through tariff harmonisation and reduction. This which will help to strengthen Taiwanese products' competitiveness in China. Taiwan will be upgraded from the status of an average foreign trade partner to a priority partner status by signing the ECFA with China.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

Compared to the same period in 2008, announced M&A transaction volume in 2009 rose slightly from 135 deals to 137 deals, while deal values jumped from US\$3.5 billion to US\$23.6 billion, or 573%, as of the second half of 2009. The overall M&A market became more active in the second half of 2009 with the recovery of the domestic stock market and global economy. Compared to first half of 2009, trading volume rose 37% while deal value increased 435%. The major drivers were domestic deals, especially in the technology sector, and to a lesser extent, inbound deals. The financial sector saw the largest value of inbound activity while the technology sector posted the highest volume of inbound deals.

Several representative deals for the second half of 2009 include:

Financial Sector

China Strategic Holdings Ltd., a Hong-Kong company backed by a group of individual investors, teamed up with Primus Financial Holdings Ltd., to win a controlling stake in Nan Shan Life Insurance Co., AIG's Taiwan-based life insurance unit and Taiwan's second-largest life insurer, at a value of US\$2.2 billion. AIG was selling assets to help repay



loans from a US\$182.5 billion US government bailout. Nan Shan Life Insurance, with four million policyholders and 35,000 agents, was burdened with unprofitable guaranteed-return policies it sold in the 1990s when interest rates were higher, raising concerns that a buyer may need to inject more capital to make the company successful.

Chinatrust Financial Holding Co. planned to pay China Strategic Holdings and Primus Financial Holdings US\$649.1 million for a 30% stake in Nan Shan Life Insurance Co. after losing its bid to buy the business from AIG. Meanwhile, China Strategic will buy a 9.95% stake in Chinatrust for about US\$648 million as part of the deal. Chinatrust is Taiwan's third-largest financial company by market value. The transaction will help Chinatrust diversify its business away from the low growth banking sector. Chinatrust has been striving to become a leading regional player and is seeking opportunities to expand its franchise beyond a banking-focused operation.

Telecom and Media Sector

Taiwan Mobile Co., Taiwan's second-largest phone carrier, agreed to buy cable television operator Kbro Co. from Carlyle Group for US\$1.8 billion in stock and cash, making it the market leader. After the transaction, Carlyle will be the second-largest shareholder of Taiwan Mobile, with a 15.5% stake. Taiwan Mobile seeks to leverage its cable television business, its fastest-growing division, to boost revenue from so-called convergence services that combine phone, internet and television as one package. The transaction will raise Taiwan Mobile's share of the cable television market from 6.6% to 32%, making it the industry's largest provider with almost 1.6 million customers.

Technology Sector

Innolux Display, Foxconn Group's LCD manufacturer which specialises in the integration of system assembly, announced in October 2009 that it will acquire TPO, Compal Group's LCD panel producer, to strengthen its competitiveness in the small to medium-sized LCD panel market. Following the acquisition of TPO, Innolux announced another merger deal with CMO, which has the fourth-largest panel capacity in the world. The three-way all-stock transaction was valued at US\$13.8 billion. The consolidation will create significant synergies through integrated supply chain management, streamlined operations, greater economies of scale and a complementary customer base, and should result in a reshaping of the global LCD manufacturing market.

TSMC, the world's largest contract chip maker, formed a strategic alliance with Motech to tap TSMC's growth in the solar market. Motech is the largest solar cell manufacturer in Taiwan and one of the top ten manufacturers worldwide in terms of production capacity and output in 2008. With manufacturing facilities in Taiwan and China, Motech has a vertical integration strategy, in-house ingot and wafer capabilities and has invested in polysilicon production. TSMC will invest US\$193.2 million to gain a 20% stake in Motech. TSMC is expected to extend Motech's streamline integration further downstream to the system integration market for solar power plants.

Chipbond Technology, the only company in Taiwan to supply a true full turnkey service for backend assembly processing of LCD driver ICs from wafer bumping to packaging, announced that it will merge in an all-stock transaction with International Semiconductor Technology, Compal Group's IC-testing company. The transaction was valued at US\$240.5 million. The deal will create the world's number one LCD IC driver testing firm and is expected to take more than 50% of the market.

Outlook

With an anticipated recovery of the global economy in 2010, it is expected that Taiwanese firms with operations throughout Asia, in particular in China and Vietnam, will be the most attractive M&A candidates in 2010.

More capital raising activities are expected with a recovery in the stock market, especially in the solar cell and LED industries in 2010. Taiwan's solar cell and LED suppliers have been trying to extend their vertical integration and will continue to seek capital to finance their expansion and acquisition plans.

The MOU on cooperation across the Taiwan Strait was officially signed in November 2009 and should lead to some M&A activity in the finance sector. Taiwanese financial institutions have been aggressively exploring investment opportunities in China's finance sector since 2009 and will continue to do so in 2010. Conversely, Chinese banks are interested in the Taiwanese banking sector but due to regulatory restrictions imposed by both Chinese and Taiwanese governments, deals in the finance sector are expected to take the form of significant minority equity investments without full control being transferred. ■