

Philequity Corner (September 6, 2010)

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Acquirers or Targets?

The Philippines is a *well-banked* country. There are at present 17 universal banks and 23 commercial banks. There are also hundreds of thrift banks and rural banks. Do we really need all these banks? Other Asian countries only have a handful but equally strong banks. As competition heats up, banks that do not have the size and clout may be left behind.

In this article, we shall continue the list of other banks that could either be in the hunt for M&A or banks that could be up for the taking. In *Size Matters* (see 2 August 2010 issue of the **Philstar**), we said BPI may be on the prowl for acquisition again while PNB is not only an acquirer but also a potential takeover target. In fact, last Friday Aurelio Montinola III was quoted to be saying that BPI is now ready to acquire. Since our *Size Matters* article, banking stocks on average were up 12.6%.

BDO: Pacman of Banks

Banco de Oro has been an active acquirer since the start of the decade. Its biggest acquisition to date was Equitable PCIBank which catapulted BDO as the country's biggest bank. We wrote *Banking M&A – The Saga Continues* (16 Jan 2006) and *Buy Bank Stocks* (20 Mar 2006) about BDO's storied hunt of Equitable PCIBank. Two more acquisitions further lifted its consumer banking presence. Despite this, there is no sign that BDO is slowing down in its quest for sustaining leadership. Presently, BDO is awaiting approval from the Bangko Sentral to proceed with its purchase of Export Bank, whose assets are at the P30 billion mark. There could be more acquisitions in the fold especially if competition threatens to come close to its ranks. For the SM group, the goal is very clear: Be #1 and don't let anyone catch up.

BDO's History of Acquisitions	
Year	Company
2001	Dao Heng Bank
2002	First E-Bank
2003	Banco Santander
2005	United Overseas Bank
2007	Equitable-PCI Bank
2007	American Express Savings Bank
2009	GE Money Bank
2010	Export & Industry Bank (for BSP approval)

Metrobank: The Good Hands that Started it All

Before BDO took the reigns as the country's largest bank, Metrobank held the throne as the country's biggest bank. For Metrobank and its previous management, size mattered the most. BPI, at one time, abruptly took the lead from Metrobank after it acquired Far East Bank in 1999. Metrobank then made the quick move and gobbled up medium-sized banks PhilBank, Asianbank, and Solid Bank in just under a year to keep its rank atop. By the start of the millennium, Metrobank was again at the forefront with about Php400

billion in assets while BPI had Php375 billion. Metrobank thereafter consolidated Global Business Bank to further strengthen its foothold.

Now, with a relatively healthier asset profile, will Metrobank pull the trigger to regain its lost leadership? After all, it will only take a medium-sized bank to dislodge BDO. BDO's lead over Metrobank in terms of asset size is less than Php50 billion, even after assuming a full integration of Export Bank into BDO. Metrobank's good hands may be itching to get back into M&A again.

Metrobank's History of Acquisitions	
Year	Company
1999	Phil. Banking Corporation
1999	Asian Banking Corporation
1999	Solid Bank Corporation
2002	Global Business Bank

Other Predators and Preys

- 1. Union Bank of the Philippines (UBP).** *Acquirer and target.* Talk of BPI merging with UBP is rife. While rumours abound that Aurelio Montinola III is being groomed to be the next Bangko Sentral governor, Justo Ortiz is said to be the top man at the merged BPI-UBP. The Aboitizes are buying back their shares in the market at the moment. Is the move a preparatory step for an eventual share swap with BPI? However, we also cannot discount the fact that UBP has the appetite to acquire as proven by its acquisition of International Exchange Bank (iBank) in 2006.
- 2. Security Bank Corporation (SECB).** *Acquirer and target.* Security Bank was rumoured before to be one of the suitors of PBCom after the former raised some Php2.5 billion in fresh equity last October. It is presently rumoured to be courting PNB. On the other hand, if it were to be a target, Security Bank can definitely command a significant premium. It is by far the most enviable bank with the highest Return on Equity (a measure of profitability) of 20%. It is also one of the most capitalized banks with a Capital Adequacy Ratio of 18.4%.
- 3. Rizal Commercial Banking Corporation (RCBC).** *Acquirer and target.* With RCBC back on solid footing, it may be on the lookout for an acquisition. RCBC is raising fresh capital to fund growth. Will RCBC use the funds to acquire another bank? Or is it waiting for the right partner? Bank of Nova Scotia, which reluctantly sold its Solid Bank stake, is said to be looking at RCBC as a potential strategic partner.
- 4. China Banking Corporation.** *Acquirer and possibly a target.* While not as aggressive compared to its sister bank, BDO, China Bank also has experience in M&A. After acquiring Manila Bank, the bank may be on the lookout again for another bargain bank. Talks of a BDO-Chinabank union have surfaced before. The merger, while it makes sense, may happen but still further down the road.

5. **Phil. Bank of Communications (PBCom):** *Target.* The bank is on the selling block as it searches for a third party to acquire 67% controlling interest of Phil. Deposit Insurance Corp (or PDIC) since the 5-year deadline for the Luy, Nubla, and Chung families to divest control of the bank had expired. PBCom engaged the services Macquarie and Punongbayan & Araullo to assess its company's value.
6. **Robinsons Bank.** *Acquirer.* Robinsons Bank is the comeback platform of the Gokongweis in the banking space, especially now that it has a commercial bank license (after acquiring RBS Phils.). Previously, JG Summit had a very strong banking presence with strategic stakes in Far East Bank and PCIBank. If these banks had merged, JG Summit would have owned the biggest Philippine bank at that time.

Presently, JG Summit is No.1 in airline and food snacks. It is also a prominent player in the real estate and telecom sectors. The conversion of Robinsons Bank's banking license from a savings bank to a commercial bank should allow the bank to harness the financial strength and synergy within the group. It is only through a commercial bank license where it can have a meaningful presence in industry. Having one of the brightest and sharpest minds, the Gokongweis can be one of the biggest banks in the country again.

7. **Bank of Commerce (BOC).** *Acquirer and target.* San Miguel intends to hike the bank's capital to become a unibank. San Miguel's diversification presents opportunities for BOC to expand its horizon. But then again, knowing Ramon Ang's numerous M&A experience, BOC can be sold at the right price.
8. **Eastwest Banking Corporation.** *Acquirer.* After its purchase of AIG Savings Bank, the Gotianun-led Eastwest may be on the lookout again for another bank. Eastwest has turned the corner under Tony Moncupa, Jr.'s (former EVP at iBank) guidance and the 200+ officers, branch managers, and sales people from iBank who transferred with him. It was reported that Eastwest Bank is projected to make P1.5 billion in net profits this year, a stark contrast to the minimal income prior to Mr. Moncupa's stint.
9. **United Coconut Planters Bank (UCPB).** *Target.* Ramon Sy, former President of iBank, turned UCPB around. This should prime the value of the bank once the ownership issue is resolved. If the Supreme Court rules in favour of Danding Cojuangco and the coconut farmers, then Bank of Commerce will likely end up owning UCPB. But if the government wins, then it is up for grabs. As to when the issue will be resolved is anybody's guess.
10. **Asiatrust Development Bank.** *Target.* Asiatrust is the only thrift bank listed in the market. The bank never took off despite its move to gain a niche in SME banking. Recently, there were reports that Asia United Bank was interested in acquiring the bank. The value of Asiatrust lies only in its network of 28 branches.

11. Government banks. Talks of the possible merger of the Land Bank of the Phils (LandBank) and Development Bank of the Phils (DBP) have surfaced during the time of the Arroyo administration. With the P-Noy administration in place, this could be the opportune time to create a better and stronger government bank.

12. Foreign banks. Acquirers. As the country is back in foreign investors' radar screens, a number of foreign banks may consider entering via strategic tie-ups. This is value enhancing to banks struggling to be competitive. Chinese banks, for instance, may plan to expand their footprint and include the Philippines. ICBC, Bank of China, China Merchants Bank, and Bank of Communications are some of the Chinese banks on expansion mode. In fact, one of these Chinese banks has been rumoured to be partnering with PNB. Other foreign banks like Bank of Nova Scotia and UOB may also consider re-entering the country. HSBC and Standard Chartered Bank may also be interested to have a bigger presence in the industry.

Endless Possibilities

The permutation on bank combinations is endless. What is important in this exercise is to identify the predators and preys and cherry pick the ones that could do well. Gleaning from past M&A activities, the share price of targets typically rise faster than acquirers. Acquirers, over the long haul, outperform the PSE index.

On a larger scale, the ingredients for bank M&As are in place. The landscape is very conducive for another M&A wave. Aside from the strong fundamentals of the ASEAN region, particularly of the Philippines, talk of M&As in the banking sector is pushing the PSEi to fresh highs.

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