

Insurance sector M&A accelerates

by **Tony C H Goh**

FD@bizedge.com

KUALA LUMPUR: As the protracted Hong Leong Bank Bhd-EON Bank Bhd merger continues to drag on, corporate activities appear to be heating up in another financial services sector — insurance — sending shares of insurance companies surging in the past two weeks.

The catalyst for M&A activities here was the industry's liberalisation moves announced in April 2009, when Bank Negara Malaysia (BNM) raised the foreign equity participation limit to 70%.

Recently, Tan Sri Quek Leng Chan's Hong Leong Financial Group Bhd hived off 30% of its insurance business under Hong Leong Assurance Bhd (HLA) for some RM940 million cash.

This valued HLA, which has both general and life insurance

arms, at RM3.13 billion, or a landmark 6.5 times book, based on the company's shareholders' funds of RM485 million.

Last week, rumours emerged that two insurance companies — Jerneh Insurance Bhd and Pacific & Orient Bhd (P&O) — could see corporate activities soon, sending their share prices surging.

However, it should be noted that these are general insurance companies and their price-to-book valuation would be much lower than HLA's.

P&O yesterday confirmed a report in *The Edge* over the weekend that Prudential Holdings Ltd is interested in the company, and that it had written to BNM to commence negotiations.

In 2007, CIMB Group Holdings Bhd hived off its general insurance business Commerce Assurance Bhd to Allianz Malaysia Bhd at a valuation of 2.9 times book.

Shares of Jerneh Asia Bhd, which owns 80% of Jerneh Insurance, surged to their highest levels in 13 years on heavy volume, buoyed by speculation that a sale of its insurance arm may be imminent. The stock ended at RM3.23 yesterday.

Last Thursday, *The Edge Financial Daily* reported market talk was rife that a buyer had been found for Jerneh Insurance. Some of the names bandied about include Italian insurance outfit Assicurazioni Generali SpA, HSBC and South Korea's Samsung Fire and Marine Insurance Co, but these rumours could not be confirmed.

Jerneh Asia's intention to sell is not new. In May, the company announced that it had received the green light from BNM to start negotiations with certain parties to hive off the 80% stake in its insurance arm.

In the past, market speculation

had it that Jerneh Insurance could be sold for around RM700 million, as previously reported by *The Edge*, which would value it at about 2.4 times book. Incidentally, if that rumoured price tag is true, Jerneh Asia's 80% share of the insurance arm would be worth RM560 million — roughly near its current market capitalisation of RM584 million after the recent rally.

The recent slew of corporate activities among insurance companies may well mark the start of restructuring and consolidation in the sector. This follows the earlier consolidation of the banking sector, which started in 1999-2000, and that of stockbrokers under the universal broker and later, the investment bank framework.

It does certainly look like things are heating up in the insurance sector. And the entry of large foreign players could reshape the industry further.