

Headline	BHB: M&A for Bank Islam Must Be Strategic		
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CORPORATE

BY DALILA ABU BAKAR



BHB: M&A for Bank Islam Must Be Strategic

BIMB Holdings Bhd, which is finalising a full takeover of Bank Islam, is looking for value-adding M&A opportunities for the bank.

BIMB Holdings Bhd (BHB), which is in the midst of completing the acquisition of 49% equity interest in Bank Islam Malaysia Bhd which it did not own, is selectively looking for strategic partners for any future mergers and acquisitions to expand its Islamic banking business.

Group Managing Director/Chief Executive Officer Johan Abdullah says given that the bank is the pioneer Islamic bank in Malaysia, any future mergers and acquisitions (M&A) for Bank Islam must be strategic in nature.

"Whatever M&A proposal that comes

by, it has to be a strategic one, not just in numbers but strategic in terms of business contribution and outreach as well. We need to do a transaction that is value accretive, assuming there are candidates out there, and they must have what we don't have," he says.

"Opportunities always come to us but we have to properly evaluate in the interest of Bank Islam and all its stakeholders. We have to study whether they will add value," Johan adds.

Bank Islam is still trying to get a suitable partner in Indonesia after two failed attempts a few years ago. The country's oldest Islamic bank also currently owns

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a 20% stake in Sri Lanka's first licensed Islamic bank, Amana Bank Ltd.

He expects BHB to complete the acquisition of the 49% stake in Bank Islam by end of December 2013.

However, Johan stresses the financial group does not need to rush for another acquisition in the immediate term as the acquisition of the stake in Bank Islam will generate incremental earnings for BHB.

"With the 100% stake in Bank Islam, we are pretty much comfortable, looking at the incremental value without doing any other transaction," says Johan.

For its FY12, BHB group posted a net profit of RM497.6 million on revenue of RM2.52 billion.

"For the past several years, Dato' Sri Zukri (Managing Director of Bank Islam) and his team have delivered impressive numbers. We will continue to focus on the Bank's organic growth," Johan adds.

With Bank Islam's Hijrah to Excellence strategic plan ("H2E") programme, Johan has great confidence in the earnings growth of Bank Islam.

Bank Islam's H2E three-year strategic plan, covering the period 2013 to 2015, hinges on six pillars namely Robust Organic Growth, Service Excellence, Shariah-led Innovation, Resource Optimisation, Employer of Choice and Regionalisation.

It has set growth targets for financing of 25% per annum and profit before zakat and tax of 15% per annum for the next three years. The targets are in line with the country's Islamic Banking assets growth target of 15% per annum under the Economic Transformation Plan.

"We are pretty much focusing on Bank Islam's assets and earnings growth. With its H2E plan in place, we are confident on the growth of Bank Islam," Johan adds.

Shareholders of BHB have approved recently the resolutions for the proposed acquisitions of the 49% equity interest in Bank Islam from the Bank's other shareholders namely Dubai Financial Group ("DFG") and Lembaga Tabung Haji ("LTH").

Johan says 99.9% voted for the proposed acquisition of a 30.5% stake in Bank Islam from DFG for US\$550 million and the proposed acquisition of an 18.5% stake from its parent LTH for US\$334.6 million.



"We received overwhelming support from shareholders for the proposed acquisitions that reflects the merit of the transaction. The proposed acquisition of the 18.5% stake from LTH is also a related party transaction as we are going to acquire from our major shareholder. LTH could not vote, so we have to rely on the support of non-interested shareholders," he notes.

"We have crossed the last hurdle. Now, it's just a matter of concluding the deal. We have also received all the relevant approvals from the regulators," Johan adds.

BHB, DFG and LTH had in July this year signed an agreement for BHB to acquire the 30.5% stake in Bank Islam from DFG for US\$550 million, as well as the 18.5% stake from its parent LTH for US\$334.6 million.

Under the fundraising exercise, BHB will issue about 426.716 million rights shares together with free warrants on the basis of two rights shares and two warrants for every five existing shares, at an issue price of RM4.25 per rights share, to raise about RM1.814 billion. The proceeds from the

rights issue will be used to part-finance these acquisitions, says Johan.

"Inshaallah, we are looking at concluding the entire acquisition and the fund raising by end of December 2013," Johan says.

On talks that Bank Islam may be listed, Johan says, "Any corporate move must add value and we will look at its benefit to all stakeholders. But, for now we want to focus on this transaction first, which is valued at almost RM2.9 billion. We need to digest this transaction first. We will study any potential proposal and we are open for any available proposal that come.

"I think what is more important is that we need to look at how much we can bring the benefits from the acquisition to the shareholders. We are taking this opportunity to leverage the Dubai deal at the right price and the benefit that we can get from Bank Islam. In terms of incremental earnings per share, it's positive and good for the shareholders in the long run," he says.

BHB will also sell a 10-year Sukuk, which will raise about RM1.09 billion as part of the exercise to raise fund for the acquisitions. 