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# Acquisition Finance 2024

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**Singapore: Trends and Developments**  
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# SINGAPORE



## Trends and Developments

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## Market Outlook

It is anticipated that global mergers and acquisitions (M&A) will make a comeback in 2024 after one of the most bearish markets seen in the past decade. The uncertain economic outlook in 2023 saw investors holding back from deal-making, leading to pent-up buyer demand and a build-up in seller assets. This renewed appetite for investments, coupled with strengthening financial markets (on the back of decelerating inflation and expected interest rate reductions) appears to augur well for M&A activity in 2024.

Singapore's economic growth remains set to recover in 2024 despite a softer Q4 2023 expansion compared to advance estimates. Similarly, whilst the volume of M&A transactions dipped in 2023, M&A activity in Singapore in 2024 is forecasted to witness a 16.8% surge between 2023 and 2024, for a total transaction value of USD27.43 billion by 2024. Given that Singapore's interest rates largely track the movements of the US Federal Reserve (the "Fed"), the projected interest rate cuts by the Fed will likely be mirrored in Singapore, potentially spurring an even greater increase in borrowing (including for the purpose of acquisition financing), in Singapore.

Despite the muted economic climate in 2023, Singapore has managed to maintain its status as the foremost M&A dealmaker in the region, accounting for approximately 35.8% of the M&A deals in the Southeast Asian market. Significant M&A activity was seen in the consumer and retail, healthcare, industrial, financial, technology and energy sectors in Singapore. A notable example of such M&A activity is the acquisition by Lendlease Global Commercial REIT of a 10% interest in Parkway Parade Partnership Pte. Ltd. with an estimated acquisition cost of SGD90.5 million, which was part funded by way of debt facilities. Another noteworthy instance

would be the acquisition by aviation cargo and food specialist Sats Ltd. ("Sats") of European air cargo company Worldwide Flight Services for SGD1.8 billion, which was partially financed by a euro-denominated term loan of approximately SGD700 million. Significantly, Sats elected for a fixed interest rate of 4.5%, which allowed for the company to ensure "low and predictable" financing costs, especially in the light of interest rate instability in 2023. The acquisition financing space is anticipated to maintain an upward trajectory in the year ahead. Noteworthy trends and developments in this space, which will be expanded on below, include add-on acquisitions, private equity financing, private credit, sustainable financing and Islamic financing.

## Add-On Acquisitions

The recent economic climate, marked by high interest rates, diminished asset valuations and elevated inflation, has presented itself as a hurdle to private equity firms seeking to execute large acquisitions. The high costs of borrowing have made smaller target acquisitions like add-on acquisitions, which are facilitated through existing portfolio companies, more appealing. Unlike full-blown acquisitions, add-on acquisitions entail the acquisition of a complementary company by a private equity firm, which is then integrated into an existing business within the buyer's portfolio. In Q2 2023, the average debt-to-EBITDA ratio for M&A syndicated leveraged loans hit a low of 4.2x, causing private equity firms to seek smaller deals to grow their EBITDA.

The lower transaction costs associated with add-on acquisitions have made these acquisitions a more accessible alternative to fully leveraged buyouts, in turn, gaining traction amongst private equity players in the global M&A market. Private equity sponsors have primarily financed add-on acquisitions using both fungible and

non-fungible incremental term loan facilities. Fungible incremental term loan facilities may offer lower transaction costs as they are typically treated as part of the same facility as the existing term loan facilities (ie, with terms that mirror those of the existing term loan facilities). On the other hand, non-fungible incremental term loan facilities offer flexibility that may not necessarily be found in its fungible cousin, as borrowers can negotiate for improved terms or pricing that are more tailored to their specific financing needs, including lower interest rates, longer maturity dates and more lenient covenant structures; not to mention the benefit of sidestepping the transaction costs associated with having to navigate the intricacies and concomitant costs of restructuring more complex loan facilities.

Of the types of add-on acquisitions, two have gained prevalence – tuck-in and bolt-on acquisitions. Tuck-in acquisitions entail a larger company acquiring a smaller one, followed by integrating the target into the acquirer’s existing business framework. For instance, MoneySmart Group, a local personal finance group, announced in October 2023 their intention to raise funding, one of which purposes was to fund strategic tuck-in acquisitions. In addition, Singapore-headquartered oil and gas company Jadestone Energy acquired a stake in a Thai gas field via a tuck-in acquisition in early 2023.

On the other hand, bolt-on acquisitions entail the acquisition of a distinct business entity capable of operating independently, often as a separate subsidiary with some level of autonomy. In contrast to tuck-in acquisitions, which may address any deficiencies in its product or service line-ups, the aim of such acquisitions is to capitalise on the target company’s distinctive strengths and capabilities to foster growth or diversification within the acquiring company. For instance, OCBC’s acqui-

sition of Commonwealth Bank of Australia’s Indonesian unit PT Bank Commonwealth for approximately AUD220 million was to complement its Indonesian operations. Briefly, the main distinction between bolt-on acquisitions and full-blown acquisitions relate to commercial reasons of scale and strategic purpose of the acquisition. Bolt-on acquisitions are typically smaller-scale acquisitions, such as the acquisition of complementary businesses or assets, which seek to strengthen a company’s existing operations. In contrast, full-blown acquisitions are of a larger scale; they may involve the acquisition of entire companies and are carried out for broader objectives such as to increase market share.

While the impact of tuck-in and bolt-on acquisitions in the debt financing landscape remain to be observed, the interest in and increased prevalence of these acquisition financing structures (as a consequence of the upward trajectory of add-on acquisitions as explained above) suggests that more of such structures can be expected to be seen in the acquisition financing space, particularly in Singapore.

## Private Equity and Private Credit

Non-bank lenders, such as asset managers, private equity firms and hedge funds, have been increasingly involved in providing acquisition loans directly to borrowers in the private markets over the past year. This trend bridges a financing gap, bypassing the need for an investment bank or intermediary, which typically adopts the more cautious approach of minimising risk exposure.

As forms of alternative investments, private equity and private credit both involve injection of moneys into a company by non-bank institutions. In the case of private equity, the investor acquires an ownership stake in the company in question. In the case of private credit, the inves-

tor lends to the company in question but does not acquire an ownership stake.

## *Private equity*

Although private equity (PE) experienced a decline in 2023, the long-term outlook for private equity remains sound. Singapore continues to retain the largest share of PE investments in the Southeast Asia region, bagging 97 out of 176 deals that were made over 2022 and attracting USD7.1 billion of investments despite a tumultuous 2022.

In the light of improving market sentiment, private equity investors will likely take up more acquisition financing in 2024. Such optimism can be seen on the ground, with institutional investors such as HQ Capital establishing its Singapore office and Blackstone expanding its private equity desk in Singapore with plans to double its headcount within the next two years in a bid for a Southeast Asia push – seeking to tap into a growing number of deals in the region. More recently, the Temasek-backed Fullerton Fund Management closed USD100 million in anchor commitment for its private equity fund to be applied towards decarbonisation investments in Asia’s emerging markets.

## *Private credit*

In recent times, the global private credit sector has grown exponentially from USD280 billion of assets under management in 2007 to USD1.5 trillion in 2022. Growing interest in private credit has also led to it topping the private market searches conducted by consultancy firm Bfinance in 2023, and is evinced by an influx of new investors such as family offices (which are one of the fastest-growing segments in Asia with approximately 1,400 single family offices in Singapore as of March 2024).

Accordingly, private credit now represents approximately 12% of the global alternatives market, solidifying its position as one of the primary strategies for alternative funding. Whilst relatively nascent, the Asian private credit market has seen exponential growth over the past two decades to over USD90 billion in June 2022 from only USD3.2 billion in 2000. The private credit market is now at a point where private credit lenders have displayed the appetite to take on financings that would previously only have been taken on by large bank syndicates. Notably, a consortium of funds which include the Canada Pension Plan Investment Board, Blackstone, and Singapore sovereign wealth fund GIC recently set an industry record by agreeing to provide a EUR4.5billion loan in 2023 to back the buyout of Adevinta ASA, a European classified advertisement company.

The allure of private credit as an alternative source of funding is understandable, given that it provides investors with lower volatility and potential higher returns compared to the traditional leveraged bank loan. In that regard, industry experts have commented that private credit remains attractive as a form of acquisition financing because of the involvement of a single lender, which provides discretion, flexibility, and reduces mark-to-market volatility. Similarly, borrowers would also stand to gain from private credit funding by gaining access to high-liquidity financing especially where such financings are cost-inefficient or involve sectors which may not be well covered by the traditional banking sector.

Singapore is a major contributor to the growth of private credit in the region, with large private credit players, such as Apollo, KKR, Blackstone, HPS Investment Partners and Oaktree having established or expanded their private credit capabilities here.

The private credit trend is likely to gain further traction here with Singapore not only primed, but also aiming to, become a regional hub for alternative assets. Notably, the Monetary Authority of Singapore (MAS) recently identified private credit as “the next key driver of growth in private markets” at the Private Debt Investor’s APAC Forum in 2023. With its strategic location and regulatory stability, Singapore is an ideal location for foreign institutional investors as a launchpad for their entry into surrounding Asian markets. Presently, Singapore is home to more than 300 global and regional venture capital and private equity managers based locally. This is significant as private equity firms are increasingly signalling interest in acting as private credit lenders.

Further, Singapore’s efforts to encourage private credit has also aided the growth of private credit locally. For instance, in 2023, the MAS expanded the scope of tax incentives awarded to single family offices to include private credit investments to boost deployment of capital in Singapore. In addition, the MAS USD5 billion private markets programme (PMP), which was established in 2018, has expanded, under which the MAS invested SGD1 billion with global private credit managers in 2022. Under the PMP, mandates have been awarded to global private equity and infrastructure fund managers which have invested and built their business operations in Singapore and pledged to increase the number of assets under management locally.

This has provided a catalyst for the growth of Singapore-headquartered private credit firms and platforms such as EvolutionX Debt Capital, a growth debt financing platform launched by Temasek and DBS; InnoVen Capital, a Temasek-backed venture debt vehicle, which has disbursed more than USD400 million to over a hundred start-ups which include nine unicorns

and six listed companies; and Orion Capital Asia Pte. Ltd., a private credit firm which recently announced USD205m for the first close of its latest fund in October 2023.

The global outlook for private credit remains optimistic, with private credit lending expected to double in value to USD2.8 trillion globally by 2028. Standard and Poor reported that 70% of respondents surveyed expect an increase in the share of their assets under management allocated to private debt over the next 12–24 months. An increase in private credit lending is expected in Singapore over the coming year.

## Islamic Finance

The global Islamic finance industry has also witnessed steady growth, with a projected increase of 10% across the industry between 2023 to 2024. In Southeast Asia, Islamic banking assets are expected to grow by 8% over the next two years. This increase is expected to outstrip growth in conventional banking, and is testament to the burgeoning popularity of Islamic financing. Looking beyond, this trend is anticipated to persist into the foreseeable future; the global Islamic finance market size is expected to attain an estimated 10.2% compound annual growth rate between 2024 to 2029 and grow to USD3.99 billion by 2029. Whilst growth in Singapore’s Islamic financing sector has been relatively slow over the last decade, this is poised to change, given the recent resurgence of Islamic financing activity in the wider Southeast Asia region, with Indonesia’s Islamic financing market predicted to expand by 10% to 12% in 2024.

This upward trend in Islamic financing is further bolstered by the recent trend of Islamic bank consolidations throughout various jurisdictions such as Indonesia and the UAE, which is expected to lead to an increase in dealmaking ability.

Globally, this may then lead to an uptick in the use of Shariah-compliant loans within the acquisition finance space.

As a regional finance hub, Singapore also features prominently in the global Islamic financing community, with it being ranked eighth overall in the Global Islamic Economy Indicator. There is already budding foreign interest in Singapore as an Islamic finance hub, with prominent Saudi Arabia-based Shariah-compliant asset management firm Sidra Capital launching its maiden Singapore-domiciled variable capital company Sidra Asian Opportunities Investment I VCC in late January 2024. Moreover, in the light of Singapore's potential as a regional centre for Islamic finance, there have been several notable Islamic financings since 2023, including deals involving Islamic sustainability-linked loans.

Globally, Islamic finance is today a USD2.5 trillion industry, with the bulk of Shariah-compliant assets concentrated in a select group of markets. Islamic finance's primary sphere of influence is in the Middle East, with the Gulf Co-operation Council constituting more than two-thirds of global Islamic assets. In line with the region's dominance in Islamic finance, the Middle East has led the way with market-leading transactions which have spearheaded the incorporation of Islamic finance principles into acquisition financing. A recent notable deal in the Middle East region is the grant of a USD1.42 billion Shariah-compliant loan to Saudi Telecom Company's infrastructure unit TAWAL for the acquisition of three telecommunications tower asset companies, and a USD93.3 million Murabaha facility that was granted to the National Medical Care Co. for the company's working capital and future acquisition plans. In Southeast Asia, Malaysian engineering group AWC Berhad recently entered into a RM100 million Islamic

loan to fund the acquisition of automatic waste collection company Steam Group.

Falling just behind the Middle East, the Asia Pacific is the second-largest market globally for Islamic banking, constituting 20% of the global total. South East Asia accounts for 80% of the Islamic banking assets of the Asia Pacific, highlighting the importance of South East Asia to Islamic banking. Given Singapore's aim to become a regional offshore Islamic financing hub and the increasing adoption of Islamic financing locally, there is potential for Islamic financing to similarly find increased application in Singapore's acquisition financing space.

## General Updates for Green Loans and Sustainability-Linked Loans

Sustainability remains an issue at the forefront of the financial sector, with corporations and financial institutions facing increasing pressure to take a more active role in the transition towards a more sustainable future. The Asia-Pacific region has seen an increase in governmental implementation of environmental, social and governance (ESG)-related regulations, which are prompting businesses to adapt to and comply with such regulations. In turn, borrower demand has steered lenders towards loan instruments that align with sustainability objectives (ie, green loans (GLs), and sustainability-linked loans (SLLs)). Globally, green M&As have also risen steadily, with such M&As forming 6.7% of total M&A deal value in 2023, a marked increase from 3.9% in 2013.

Locally, MAS's green finance initiatives form the driving force behind Singapore's endeavours to establish sustainable finance as a key feature of its status as an international financial centre. In line with last year's projections, continued growth has been seen across the sustainable financing sector in Singapore and it is anti-



pated that green financing will continue to trend in Singapore. OCBC reported a doubling of the amount of sustainable financing it extended to small and medium-sized enterprises (SMEs) in 2023 under its SME Sustainable Finance Framework, having provided over SGD7 billion of sustainable financing to over 1,200 companies across the region in various sectors.

In addition, the MAS continues to encourage and support sustainable financing through the introduction of new schemes such as the Sustainable Loan Grant Scheme (the “SLG Scheme”), which was announced in 2023. Through the scheme, the MAS will support companies obtaining sustainable financing by defraying costs of up to SGD125,000 for the engaging of service providers to evaluate the sustainability credentials of the loan, of which both green loans and sustainability-linked loans qualify. For borrowers seeking green financing of their acquisitions, the SLG Scheme will likely serve as a welcome boost.

In the financing space, the increased adoption of GLs and SLLs is anticipated in Singapore, as a result of the greater industry support for sustainable financing with an increased focus on ensuring that sustainability performance targets are met. In 2023, the Loan Market Association, the Loan Syndications & Trading Association and the Asia Pacific Loan Market Association published updated versions of Green Loan Principles (GLP) and Guidance, Social Loan Principles (SLP) and Guidance and Sustainability-Linked Loan Principles and Guidance (SLLP). The GLP and SLP now require borrowers to have an internal monitoring process to track the allocation of loan proceeds, and borrowers are required to make additional disclosures to lenders where necessary. Further, the updated SLLP guidance has introduced stricter requirements for Sustainability Performance Targets (SPTs), which

are now required to be set above “regulatory required targets”. While it is projected that the trend of continued growth in the green and sustainable loans sector will persist in 2024, these amendments are designed to be robust so as to counter fears of greenwashing and ensure that borrowers attain the minimum regulatory standards. These updates reflect recent market developments across the global sustainable finance markets, where both borrowers and lenders increasingly value transparency.

## Conclusion

In 2023, while the global economy grappled with an uncertain macroeconomic climate and a fractured geopolitical environment, Singapore (and the surrounding Southeast Asian region) managed to weather the economic turbulence fairly well, posting relatively robust growth figures; the region as a whole posted growth of more than 4%. Looking ahead, the outlook for acquisition financing in 2024 is expected to be more positive in the light of positive developments, such as anticipated interest rate cuts and the accumulation of a record amount of dry powder by private equity players, which are likely to drive deal-making activity.

Notably, while the challenging economic landscape in 2023 led to the market focusing on smaller deals (such as add-on acquisitions), there is optimism that 2024 will see the return of larger acquisitions as the Singapore economy continues to improve and is now expected to grow 2.4% in 2024, a doubling of 2023 growth figures.

An interesting area to watch in Singapore for the year ahead will be the private credit space, where substantial growth is anticipated even in the face of increased competition from syndicated bank lenders (who are also likely to be looking to increase their involvement in acquisition financings in the aftermath of a muted 2023).

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