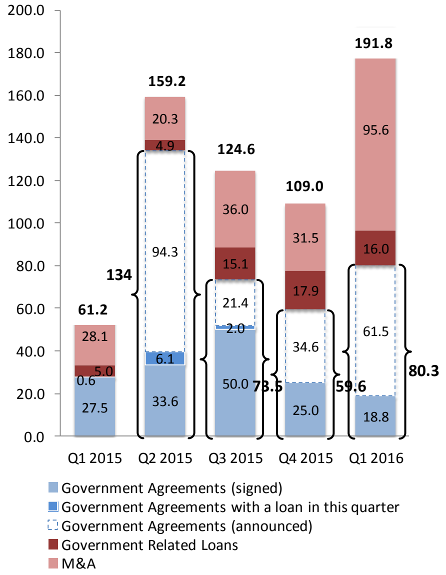
China Outbound Investments Q1 2016

I. Overview

Table 1: Aggregate Value (USD billion)



Q1 2016 Chinese outbound totalled USD 191.8 billion, an increase of 76% over Q4 2015 and the highest total ever recorded in our 8 years of Chinese outbound research.

The strongest performance by a single component in Q1 was M&A/equity investments, which saw both record volumes and aggregate amounts. Total volume was up by 6% to 208 transactions/investments (196 in Q4 2015). Aggregate amounts tripled to USD 95.6 billion[1], remaining well above the last 5-quarter average of USD 27.1 billion. The combination of a strong increase in amounts and small increase in volume led to a sharp increase of average investment (enterprise value) from USD 161 million in Q4 to USD 459 million in Q1. Excluding the largest transaction of the quarter (USD 43 billion), the average investment size was a more modest USD 254 million.

While the media focus this quarter has been on outbound M&A/equity investments. Government Agreements this quarter saw a robust USD 80.3 billion aggregate pledged amounts. During Q1, China signed agreements with 5 countries, all located along OBOR/BRI, as well as making significant pledges for countries in the Middle East Region and in 5 ASEAN countries (CMVLT) , also all located along the existing OBOR/BRI. Collectively, volume increased by 12.5% while pledged amounts increased by 35% from Q4 2015.

The committed to pledge ratio this quarter declined dramatically from 42% in Q4 2015 to 23% in Q1 2016. A key reason for this decline relate to the major regional unsigned / unallocated pledges made by President Xi in the Middle East and the one made by Premier Li related to China's Mekong River neighbours.

We also want to remind readers of the links between Government Agreements and subsequent M&A. While the financial media focussed on the announced USD 43 billion Syngenta M&A transaction, the China-Swiss Free Trade Agreement was signed in 2013 and only took effect July 2014. Switzerland became only the 2nd European nation, after Iceland, to have signed an FTA. Less than two years later, the Syngenta deal was announced.

There were 12 Government Related/policy bank loans/commitments this quarter, representing USD 16.0 billion aggregate value. Volume declined by 53.8% from Q4 2015 while aggregate commitments declined by only 10% from both Q3 and Q4 2015. Unlike prior quarters, only 50% of this quarter's volume and only 23.3% of aggregate commitments were with current OBOR countries. Central/Latin America saw only two loans, however, these represented 63.3% of this quarter's aggregate commitments.

We continue to improve our methodology of tracking pledge versus signed commitments/deals. In Table 1 (above right) we have added loans signed during Q1 which were pledged in Q2, Q3 and Q4

[1] Our number differs from the USD 102 billion frequently cited due to inclusion of only CIC's investment in the Asciano deal, not the total deal amount, as we only track Chinese outbound investment not Canadian

to the prior quarterly totals. We plan to continue this methodology throughout the foreseeable future which is unique among financial information providers.

M&A Transactions / Equity Investments

↑203%

As noted above, Q1 announced outbound M&A aggregate value was USD 95.6 billion, up 203.4% from the USD 31.5 billion in Q4 and 253% above the rolling 5-quarter average, mainly due to the acquisition of Syngenta by ChemChina, which represented 45% of aggregate amounts. Volume recorded a slight increase by 6.1%, to 208 transactions, also our highest volume total ever. This quarter there were 13 other transactions of at least USD 1 billion, totalling USD 78.3 billion, while the remaining 194 transactions comprised USD 17.2 billion aggregate value.

Average deal size (excluding equity investments below USD 10 million with disclosed transaction value) rose from USD 282 million to USD 815 million in this quarter – USD 451 million excluding the Syngenta transaction. Omitting the 14 largest USD 1+ billion transactions, the average transaction size fell to only USD 88.8 million.

Industry

Basic Materials led with USD 43.5 billion representing 46% of the aggregate value due to the ChemChina deal. Financials ranked #2 with USD 13.3 billion, representing 13.3% of aggregate amounts with 3 transactions in excess of USD 1 billion (all Real Estate – including the acquisition of Strategic Hotels & Resorts by Anbang (US – USD 6.5 billion), the purchase of Dah Sing Financial Center by China Everbright (Hong Kong – USD 1.3 billion)).

Consumer ranked 3rd with USD 12.4 billion (13% of aggregate value), with three transactions over USD 1 billion: the acquisition of the appliances business of GE (US) by Qingdao Haier for USD 5.4 billion, the acquisition of Legendary Entertainment (US) by Dalian Hexing Investment for USD 3.5 billion and the acquisition of Carmike Cinemas (US) by AMC Entertainment for USD 1.1 billion.

Technology ranked 4th in aggregate value with 11%. Collectively, these 4 sectors accounted for 83% of Q1 aggregate amounts.

Relative to volume, Consumer ranked #1 with 45 transactions followed by Technology with 43. Financials ranked 3rd with 36 transactions. Together these three sectors accounted for around 60% of total volume.

Continents

Europe ranked #1 in aggregate value, accounting for 53%. For the 4th consecutive quarter North America ranked 2nd with 34% while Asia dropped from 49% to 7% of aggregate value. Collectively, these three regions represented 90% of Q1 aggregate value.

North America led again in volume with 84 announced transactions/investments (40% of volume), followed by Europe with 57 (27%). North America volume was once again driven by investments in Technology (30% of US volume).

Government Related Loan Agreements

↓11%

There were 12 Government Related Loan Agreements (down from 25 in Q4 2015) representing USD 16.0 billion aggregate commitments (down 11% from Q4 and Q3 2015). OBOR countries saw 50% of the volume with Egypt receiving 3 loans while one each went to Jordan, Sri Lanka and Nepal.

While OBOR countries led in volume, the Latin American continent led in aggregate amounts. The two loans to Latin America (to Venezuela and to Ecudor) represented only 16.7% of volume but 63.7% of aggregate commitments. The largest of these was a USD 10 billion (additional) loan to Petrobras, secured by future oil supplies, to alleviate its cash flow for debt service burden.

Even though Latin America is not officially part of OBOR, we will continue to monitor on a "pro forma" basis since even the *Global Times*, an official Chinese publication, and CSLA, a major Chinese owned investment bank, both argue that it is only a matter of time before Latin/Central America joins officially.

Six of the 12 loans/commitments in Q1 were related to infrastructure, two were related specifically to energy and two financially related.

Government Agreements

↑35%

During the quarter, China secured Government Agreements with 5 key OBOR countries; Saudi Arabia, Egypt, Iran, Nepal and Czech, the specifics of which we discuss below in our Quarterly Feature.

As seen previously, saw volume decline from 8 to 7 (5 countries plus 2 regions), a decrease of 12.5%, while aggregate commitments increased by 35% to USD 80.3 billion. It is important to note that no values were disclosed from two such Government Agreements, while numbers from countries which did disclose are likely to be substantially understated (ultimately).

II. Quarterly Feature: Significant OBOR/BRI steps forward

We believe that Q1 2016 represented a series of successes by China with several of its OBOR/BRI partners.

It is worth noting that President Xi's visits to each of the 4 countries he visited this quarter represented the following time passages between the last visit by a Chinese President;

- Czech 67 years,
- Iran 14 years,
- Egypt 12 years,
- Saudi Arabia 7 years.

Clearly, President Xi and China wanted to send a message each such country of their importance to OBOR and to China.

In Czech, China seems to have decided on a CEE base reset from its prior attempts to find a suitable CEE hub. Czech, a comparatively rich country with well capitalized banks with ample liquidity, is now expected to become a gateway for China to the EU and a Chinese hub for transportation, logistics and finance.

In Iran, China and the host country reached agreements in nuclear energy, financing of high speed rail potentially linking Tehran and the Xinjiang region of China, and irrigation systems.

In Egypt, China provided liqiuidity for its three of its banks, agreed to build a convention center, Parliament and Government offices as well as a rail project.

In Saudi Arabia, the two countries signed agreements related to nuclear manufacturing equipment as well as the expansion of the prior Sinopec/Aramco JV.

During Nepal Prime Minister Oli's visit to China, the two countries agreed to build the first ever railway link between Nepal and China through Tibet which will have the effect of lessening Nepal's dependency on Indian ports.

Finally, before the end of the quarter, Premier Li announced two credit facilities totalling circa USD 11.5 billion to five important ASEAN countries; Cambodia, Myanmar, Vietnam, Laos and Thailand -- all strategically important and all of which share the Mekong River with China.

While Europe was focussed on immigration issues, the UK on Brexit, Emerging markets on commodity prices, the US on its Presidential primaries (and related the *Showtime* network television programme "*The Circus*"), China logged on an impressive performance across 10 very important OBOR countries with very little fanfare or notoriety.

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Grisons Peak LLP is a London based merchant banking firm specializing in a number of sectors including financial services (including real estate), pharmaceuticals, infrastructure and consumer. We provide independent advice on cross border M&A, ECM and high yield issues, both public and private. We also selectively co-invest in equity stakes alongside our clients. In the area of merchant banking, Grisons Peak has invested in 7 client related investments across Europe, Asia and the Americas. We have exited three of these to date.

We operate via joint ventures and partnerships throughout Europe, the Middle East, Africa and in North Asia. Since its founding in 2003, the firm has advised on over €25 billion transactions across three continents. In the Advisory area, over the past 32 months, the firm has advised on 15 completed transactions and on 23 binding offers, mostly in emerging markets. In the Advisory area, we focus on transaction execution since virtually all of the firm's clients have done business with Grisons Peak or representatives of the firm previously. We also do not advertise as we are very discreet regarding our Advisory clients (hence only a 1 page website for this business).

Grisons Peak LLP launched and began publishing our quarterly research product China Outbound Investments in 2008. While other major database services track Chinese outbound M&A/Equity investments, our Chinese research is unique in that we monitor and analyse M&A/Equity in the context of much larger Government Agreements and Government Related Loan Agreements. Our research has been cited by major financial media including the *Financial Times*, *The Wall Street Journal*, *Reuters*, *IFR, Bloomberg*, *FT Confidential*, *EM Squared, Euromoney*, *IFR Asia*, *The Independent, GTR Review.*

We also proudly hold the distinction of having our firm's research cited by two important Chinese Government press; *Xinhua* and *China Daily*, on two unrelated very visible Chinese policy issues. We frequently release prior investment banking analyses over a section titled “Special Studies”; another link between the two businesses. We have also collaborated with New York University in econometric research on Chinese outbound investments into the USA. We see our firm’s USP as providing unique research and analytical skills in both of our core businesses.

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