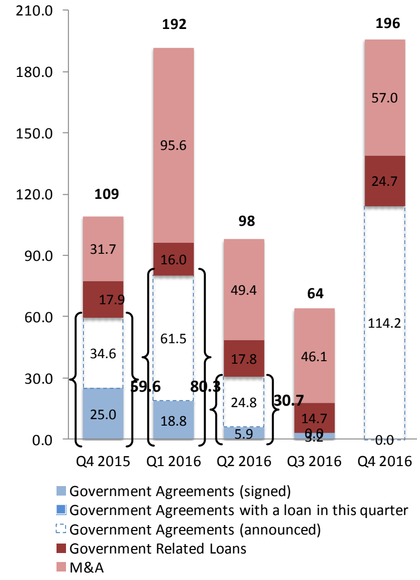
China Outbound Investments Q4 2016

I. Overview

Table 1: Aggregate Value (USD billion)



Q4 Chinese outbound investments totalled USD 196 billion, an increase of 206% from Q3. As shown in Table 1, all the three components improved leading this quarter to be the highest (since 2008 inception). The performance was strong across all there components; especially G2G agreements, in which China pledged over $114 billion aggregate value – 2nd only to Q2 2015, which included the $46 billion pledge to Pakistan (which we discuss later in the document). Quarterly announced M&A ranked 2nd only to Q1 2016 totals, which was led by the $44 billion Sygenta deal. However, it is worth noting that monthly amounts in Q4 declined from the peak October numbers and were still declining at the end of December due to tighter regulation on outbound investments at the Chinese Government level. Finally, the nearly $25 billion of confirmed Chinese government related loans this quarter also marked a 5 quarter high. This quarter's loans were dominated by Chinese policy bank loans to Asian, African and CEE countries - all vital to BRI.

In M&A/equity, there were increases both in volume and amounts. In volume there was a 20% increase to 216 compared to 180 transactions in Q3 and 9% compared to the last 5-quarter average. Disclosed aggregate amounts were USD 57.0 billion[1], up 24% compared to Q3 and 10% compared to the last 5-quarter average.

Relative to industries, Financials led in term of aggregate amounts (46% of the total led by leasing and real estate). Consumer ranked #2 in aggregate value (28% of the total), but led in term of volume (58 transactions in Q4).

Relative to geography, North America led both in aggregate value (53%) and volume (33%), while Europe and Asia ranked 2nd (respectively in aggregate value and volume).

M&A Transactions / Equity Investments

↑24%

Q4 announced outbound M&A aggregate value was USD 57.0 billion, up 24% from the USD 46.1 billion in Q3. This quarter there were 16 other transactions of at least USD 1 billion, totalling USD 39.4 billion (69% of aggregate value), while the remaining 200 transactions comprised USD 17.6 billion.

Average deal size (excluding equity investments below USD 10 million with disclosed transaction value) increased from USD 403 million to USD 427 million in this quarter, due to the presence of 16 USD 1+ billion transactions (vs 15 in Q3). Omitting the such transactions, the average transaction size was only USD 101.8 million.

[1] These amounts do not include the Silk Road Fund's (SRF) investment of a 10% stake in SIBUR, which owns and operates Russia's largest gas processing business and is a leader in the Russian petrochemical industry. While the amount was not disclosed, the joint press release stated that this was China's largest investment in Russia in 2016

Industry

Financials led by aggregate value with USD 26.4 billion (46% if the total). This sector recorded 6 transactions above USD 1 billion, including the largest – the USD 10 billion acquisition of the US-based CIT Commercial Air (Leasing) business by Bohai Financial Investment Holding.

Consumer ranked #2 with USD 16.2 billion, representing 28% of aggregate amounts. This sector recorded the 2nd largest transaction of the quarter – the acquisition of a 25% stake in Hilton by HNA Group for USD 6.5 billion. Collectively, these 2 sectors accounted for 75% of Q4 aggregate amounts.

Technology ranked #3 with 10.1% of total aggregate value. There were 2 transactions above USD 1 billion – the USD 3.0 billion acquisition of a 49% stake in Global Switch by a Chinese consortium and the USD 1.3 billion purchase of Lattice Semiconductor by Canyon Bridge Capital Partners.

Utilities ranked 4th in aggregate value (9.4%), followed by Oil & Gas (2%).

Relative to volume, Consumer ranked #1 with 58 transactions followed by Financials with 56. Technology ranked 3rd with 35 transactions, followed by Industrials with 25. Together these four sectors accounted for around 80% of total volume.

Geographies

North America led again in aggregate value, increasing from 36% to 53% of the total. Europe ranked #2, remaining stable (24% in Q3 vs 23% in Q4), while Asia ranked 3rd with 19%. Collectively, these three regions represented around 95% of Q4 outbound aggregate value.

Relative to volume, North America led again with 72 announced transactions/investments (33% of volume focussed on IT/tech investments), followed by Asia with 62 (29%) and Europe with 55 transactions (25% of volume). Collectively, these 3 continents represented 88% of volume.

Government Related Loan Agreements

↑69%

Q4 saw 22 confirmed loans representing $24.7 billion aggregate value. These numbers represent an 83% increase from Q3 volume and a 69% increase from Q3 aggregate amounts. In Q4, we saw 19 policy bank loans representing $24.0 billion, 1 NDB loan for $350 million and 2 AIIB loans for $301 million. There were no Chinese Government loans in Q4, for the first time in the past 3 quarters.

There was a marked shift in sources of such loans with policy loans once again dominating: in Q2 AIIB and NDB represented 40% of quarterly volume; in Q3 this declined to 17% of volume. In Q4, these new banks represented only 14% of total volume. In aggregate amounts, AIIB and NDB represented only 3% of Q4 aggregate amounts, down from a high of 5% of Q2 aggregate amounts.

Nine of the Q4 confirmed loans went to Asian countries (including four to Bangladesh and two to Cambodia), 5 to Africa, 4 to CEE, two to Latin America and two to Oman (AIIB).

While the trend for less transparency on terms of confirmed loans continues, we have considerably built out our Loans Under Discussion Section, which is a separate subscription service.

Government Agreements

↑3,469%

G2G Agreements

In Q4, China entered into G2G agreements with 11 countries, down from 33 in Q3 (decrease of 67%). However, these 11 agreements, only 7 of which have disclosed values, represented over $114 billion pledged amounts (over 3400% increase from Q3).

While this percentage increase is surprising, it comes on the heels of 33 Q3 multi-deal G2G agreements, virtually all of which had no specific disclosed values. Also during Q3, President Xi had official meetings with leaders of 37 countries/organisations, most of which were relationship building and most of which were bi-lateral meetings around the G20 summit, held in Hangzhou.

We were so impressed at the developments in this component, and so assured that other news organisations would be focussed on M&A trends only, that we discuss this component below as our Quarterly Feature.

II. Quarterly feature: strong growth in G2G Agreements

There were over $114 billion in disclosed amounts of G2G agreements, focused on Bangladesh, Malaysia, Philippines, Pakistan and one region (CEE). The majority of these agreements centered around infrastructure, energy (especially renewables) and transportation, backed in many cases by concessional loans between these countries and China. Similar to M&A trends, G2G amounts peaked in October and slowed as the quarter ended.

Such amounts are over double the $49 billion quarterly average G2G since President Xi became President and dwarf the average of $43 billion over the past four quarters.

There were also G2G agreements signed this quarter with Laos, Peru (starting point of proposed Twin Ocean Railway), Chile, Uruguay, Ecuador and Gabon; countries where there were dozens of agreements / MoUs signed but no specific amounts were disclosed.

Country	Q4 Amount Pledged
	($ million)
Bangladesh	37,500
Malaysia	32,700
Philippines	24,000
CEE	11,200
Pakistan	8,500
Cambodia	237
Sierra Leone	60
Total	**114,197**

Pakistan Q2 2015 - Pledge versus Actual

Q4s' aggregate amounts ranked 2nd only to Q2 2015, with $134 billion, which featured Pakistan $46 billion agreements Q2 2015. Also in Q4, Pakistan's Planning, Development and Reforms Minister stated that out of the $46 billion pledged in Q2 2015, so far Pakistan has been able to energize about $35 billion. He also confirmed that about $11 billion has been allocated to infrastructure projects while another $8 billion to update its railway network. The remaining amounts are earmarked for generating electricity in a country constrained with lack of power.

Of the total $134 billion pledged in Q2 2015, $40 billion was deployed in that quarter. This 30% actual to pledged in Q2 2015 was well below the 51% percentage in 2015 of Q4 actual overall. In effect, the $46 billion Pakistan pledge package initially reduced China's well managed efficiency improvements in pledge versus actual. However, in light of the statements made in Q4 by Pakistan, China will soon have delivered on 76% of the $46 billion pledged to Pakistan only 6 quarters ago.

Transformational Effects of Loans and Construction Expertise

During President Xi's visit to Ecuador in November, he and Rafael Correa (remotely) inaugurated the Coca Coda Sinclair hydroelectric power plant, which was partially funded by a Chinese policy bank loan and built by Sinohydro. This plant, which will provide over 30% of Ecuador's energy needs when fully operational, was launched in April, only days before a major earthquake struck Ecuador. This plant, as well as the other 6 hydroelectric plants being built in Ecuador, mostly by Chinese companies, will convert Ecuador from a petroleum importer in 2009 to a regional renewable energy exporter by 2020.

While many countries discuss infrastructure build and spend, China does what is says "on the tin.". This quarter, the company China Road and Bridge (CRBC) alone - saw the opening of the Capital Airport Expressway linking the capital of Madagascar to the Ivato international airport opening a 172 kilometre toll road in Northeast Cambodia and performed emergency repairs to 60 kilometres of the trunk road in the Togo Coastal Area Eastern part which extends to the border of Benin.

Overview of Grisons Peak

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 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 38 months, the firm has advised on 18 completed transactions and on 28 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. In 2012, collaborated with New York University in econometric research on Chinese outbound investments into the USA. In 2016, we collaborated on an academic study involving Chinese M&A into the UK with Cass Business School, within the City University of London which currently ranks in the top 10 SSRN academic studies regarding Chinese outbound investments. We see our firm's USP as providing unique research and analytical skills in both of our core businesses.

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