

China Outbound Investments

Q2 2017

I. Overview

Q2 2017 Chinese outbound investments/pledges totaled \$97 billion, a decline of 11% from Q4 (which itself saw a decline of 44.4% from the peak in Q3 2016). It is also worth noting that circa \$29 billion of the Q2 total represented pledges, versus actual amounts leaving China.

Aggregate amounts for both M&A/equity investments (\$44.7 billion) and Government Related loan agreements (\$20.7 billion) both increased in Q2; however, were offset by a 53% quarterly decline in G2G agreements/pledges. Since is not a surprise as China seems very focussed on delivering on prior G2G agreements and/or loans related to its One Belt One Road strategy.

Disclosed M&A/equity investments amounts were up 24% from Q1's low of \$36 billion. These amounts remain below 2016 quarterly totals - closer to 2015 quarterly totals - a goal of Chinese policymakers. Volumes have remained consistent over the past 3 quarters - of circa 215 announced/quarter, again leading to decreasing average deal/investment sizes.

The Industrial sector led in aggregate value, with Logistics leading the way. We will be producing a separate analysis on China's explosive growth in ports and Logistics during Q3. There were also a number of real estate investments this quarter, sometimes linked to Logistics purchases.

North America led in both volume and aggregate amount, followed by Europe and Asia. A substantial percentage of US investments were technology related.

Government related loans in Q2 were focussed on East Africa (the first MSR economic corridor), Indonesia, Kenya and Uzbekistan.

G2G agreements were driven by China hosting the Belt Road Forum, by attending the SCO Forum in Astana and by countries attending Summer Davos in China.

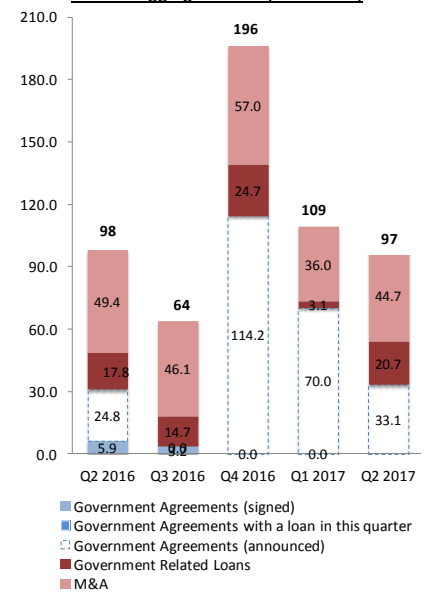
M&A Transactions / Equity Investments

↑24%

Q2 announced outbound M&A/equity investments aggregate value was USD 44.7 billion, up 24% from the USD 36.0 billion in Q1 2017. This quarter there were 7 transactions of at least USD 1 billion, totalling USD 22.2 billion (62% of aggregate value), while the remaining 207 transactions comprised USD 22.5 billion.

Average deal size (excluding equity investments below USD 10 million with disclosed transaction value) increased from USD 292 million to USD 334 million in this quarter, due to a higher incidence of transactions over USD 1 billion. Omitting such transactions, the average transaction size decreased from the previous quarter (USD 123 million in Q1 vs USD 119 million in Q2).

Table 1: Aggregate Value (USD billion)



Industry

Industrial led with aggregate value of USD 18.3 billion (41% of the total). This sector recorded the largest transaction of the quarter – the acquisition of Logicor Europe by CIC – as well as the \$1 billion acquisition of CWT by HNA.

Financials ranked #2 with USD 8.1 billion, representing 18% of aggregate amounts. This sector recorded two real estate transactions slightly below USD 1 billion – the acquisition of 48 commercial properties in US by China Life and the acquisition of a lot in Kai Tak area in Hong Kong by KWG Property Holdings and Longfor Properties.

Consumer ranked #3 with 17% of total aggregate value. The sector recorded three transactions above USD 1 billion – the USD 1.6 billion acquisition of Takata by Key Safety Systems, the USD 1.4 billion acquisition of 16.8% stake in Dufry by HNA Group and the USD 1.0 billion increase of stake of Alibaba in Lazada.

Healthcare ranked 4th in aggregate value (8%), followed by Basic Materials (7%).

Relative to volume, Financials ranked #1 with 49 transactions followed by Industrial with 39. Technology ranked 3rd with 38 transactions, followed by Consumer with 35. Together these four sectors accounted for 75% of total volume.

Geographies

North America led again in aggregate value, with 41% of the total (vs 33% in Q1). Europe and Asia ranked #2 with 27% and 24% of the total respectively. Collectively, these three regions represented around 93% of Q2 2017 outbound aggregate value, up from 80% of Q1 2017.

Relative to volume, North America led again with 76 announced transactions/investments, followed by Asia with 64 (30%) and Europe with 52 transactions (24% of volume). Collectively, these 3 continents represented 90% of volume. Most of the US activity is based around technology investments usually in the Consumer, Healthcare or Financial segments.

Government Related Loan Agreements


↑ 567%

In this quarter there were 20 formally signed loan agreements, up from 12 in Q1, totalling only \$20.7 billion, up from \$3.1 billion in Q1. Eleven of these loans were granted by policy banks, one by Chinese Government, and 4 respectively by AIIB and New Development Bank.

The largest loan this quarter was to Nigeria related to the construction of Standard Gauge lines from Lagos-Kano, Kano-Kaduna, Lagos-Ibadan, and Lagos Calabar. Other relevant loans signed during the quarter involved Indonesia, Kenya and Uzbekistan.

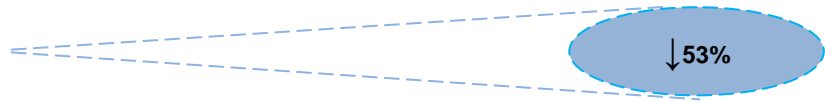
The China Government loan was granted to Nigeria for the purchase of farming equipment to boost local agriculture.

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Of the 4 NDB loans signed this quarter, three were related to renewable energy projects in Brazil, India and South Africa. The other was a loan to support construction of a small hydropower plant in Russia.

Among the 4 AIIB loans, there were the first loan granted to Georgia to fund a road project. Two other loans were related to infrastructure and power transmission and distribution systems in India.

Government Agreements



G2G Agreements

During Q2, we highlight agreements in President Xi meetings with leaders from 41 countries, Premier Li's with Germany and Minister Wang's meeting with Juan Carlos Varela from Panama.

There were G2G agreements signed with 45 countries totalling pledged amounts of circa \$33 billion (vs 13 agreements and \$70 billion pledged amounts during Q1). Argentina led with \$17 billion of pledged amounts which involved 16 cooperation agreements. The other sizeable G2G MoUs were signed with Kazakhstan (\$8 billion to enhance cooperation in energy, mining, mechanical engineering agricultural and infrastructure), Norway (\$4.6), and Greece (\$3.3 billion).

The meeting with Panama resulted in Panama accepting a one-China policy, reducing Taiwan allies to only 19 countries.

II. Quarterly feature

China hosted the Belt and Road Forum for International Cooperation (BRF) in Beijing on 14-15 May 2017. The Chinese side has put together a list of major deliverables of the BRF, which includes 76 items comprising more than 270 concrete results in five key areas, namely policy, infrastructure, trade, financial and people-to-people connectivity. Selected deliverables included:

Synergize Connectivity of Development Policies and Strategies

1. The Chinese government signed memoranda of understanding on Belt and Road cooperation with the governments of Mongolia, Pakistan, Nepal, Croatia, Montenegro, Bosnia and Herzegovina, Albania, Timor-Leste, Singapore, Myanmar and Malaysia.
2. The Chinese government signed the Memorandum of Understanding on Jointly Formulating China-Hungary Cooperation Plan with the government of Hungary, and signed bilateral cooperation plans to jointly build the Belt and Road with the governments of the Lao PDR and Cambodia.
3. The National Development and Reform Commission of China signed the 2017-2019 Plan on Key Areas of Cooperation Between China and Greece with the Ministry of Economic Development of Greece.

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4. The National Development and Reform Commission of China signed the Memorandum of Understanding to Jointly Coordinate and Promote Cooperation and Project Implementation with the Ministry of Industry and Trade of the Czech Republic.

Deepen Project Cooperation for Infrastructure Connectivity

5. The Chinese government signed the agreements on international transportation and strategy coordination with the governments of Uzbekistan, Turkey and Belarus.
6. The Chinese government signed the Intergovernmental Agreement on the Peaceful Use of Nuclear Energy with the government of Thailand.
7. The Chinese government signed the Memorandum of Understanding in the Field of Water Resources with the government of Malaysia.
8. The Ministry of Transport of China signed the memoranda of understanding on transport cooperation with the relevant government departments of Cambodia, Pakistan and Myanmar.
9. The Ministry of Water Resources of China signed the Memorandum of Understanding on Cooperation in the Field of Water with the Ministry of the Environment of Poland.
10. The China Development Bank signed the Key Financing Documents on Indonesian Jakarta to Bandung High-Speed Railway Project with PT Kereta Cepat Indonesia, and financing cooperation agreements on port, electricity and industrial park with relevant institutions of Sri Lanka, Pakistan, Lao PDR and Egypt.
11. The Export-Import Bank of China signed the loan agreements on the modernization and reconstruction of Hungarian-Serbian Railway Line for Belgrade Center-Stara Pazova Section with the Ministry of Finance of Serbia, on road projects with the Ministry of Economy and Finance of Cambodia, the Ministry of Finance of Ethiopia and JSC "KazAutoZhol" of Kazakhstan, on urban railway line project with the Ministry of Finance of Viet Nam, on telecommunication project with Telekom Srbija of Serbia, on bridge project with the Ministry of Finance of Mongolia, on airport development project with Yangon Aerodrome Company of Myanmar, and on inland container depot project with the National Treasury of Kenya.

Expand Industrial Investment, Enhance Trade Connectivity

12. The Chinese government signed the economic and trade cooperation agreements with the governments of 30 countries, namely, Pakistan, Viet Nam, Cambodia, the Lao PDR, the Philippines, Indonesia, Uzbekistan, Belarus, Mongolia, Kenya, Ethiopia, Fiji, Bangladesh, Sri Lanka, Myanmar, Maldives, Azerbaijan, Georgia, Armenia, Afghanistan, Albania, Iraq, Palestine, Lebanon, Bosnia and Herzegovina, Montenegro, Syria, Tajikistan, Nepal and Serbia.

13. The Export-Import Bank of China signed loan agreements on industrial park projects, projects of power transmission and distribution, wind power project, water projects, dam project, satellite project, hydraulic factory projects with the relevant government departments of Belarus, Cambodia, Ethiopia, the Lao PDR, Kenya, Mongolia and Pakistan, loan agreements on power grid upgrading project, thermal power project, coal mine modernization project, tyre factory project, with relevant companies of Egypt, Bangladesh, Uzbekistan and Saudi Arabia, and signed the Strategic Cooperation Framework Agreement regarding Lines of Credit with the Philippine Metropolitan Bank and Trust Company.

Enhance Financial Cooperation, Promote Financial Connectivity

14. The Silk Road Fund will expand by RMB 100 billion.
15. China encourages financial institutions to conduct Overseas Fund Business in RMB with the estimated amount of about RMB 300 billion, providing financing support for the Belt and Road Initiative.
16. The National Development and Reform Commission of China will set up the China-Russia Regional Cooperation Development Investment Fund, with a total scale of RMB 100 billion and the initial scale of RMB 10 billion to promote cooperation between China's Northeast and Russia's Far East.
17. The Ministry of Finance of China signed the memoranda of understanding on collaboration on matters of common interest under the Belt and Road Initiative with the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the New Development Bank and the World Bank Group.
18. The China Development Bank will set up the Belt and Road Multi-currency Special Lending Scheme for Infrastructure Development (RMB 100 billion equivalent), the Belt and Road Multi-currency Special Lending Scheme for Industrial Cooperation (RMB 100 billion equivalent), and the Belt and Road Multi-currency Special Credit Lines for Overseas Financial Institutions (RMB 50 billion equivalent).
19. The Export-Import Bank of China will set up the Belt and Road Multi-currency Special Lending Scheme (RMB 100 billion equivalent) and the Belt and Road Multi-currency Special Lending Scheme for Infrastructure Development (RMB 30 billion equivalent).

Invest More in People's Livelihood, Deepen People-to-People Exchange

20. The Chinese government will increase its assistance to the developing countries along the Belt and Road. The total assistance over the next three years will be no less than RMB 60 billion.

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 46 months, the firm has advised on 21 completed transactions and on 29 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. Our database has been used in academic research by Masters Programmes in NYU and Cass Business School.

Our unique research on One Belt One Road has been presented to over 10 Asian universities and used in Executive Seminars at Cambridge, as well as in major conferences such as GOSS Forum (Hong Kong) and industry conferences such as ILSS Intermodal (Shanghai) and Clarksons, Platou in the UK.

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