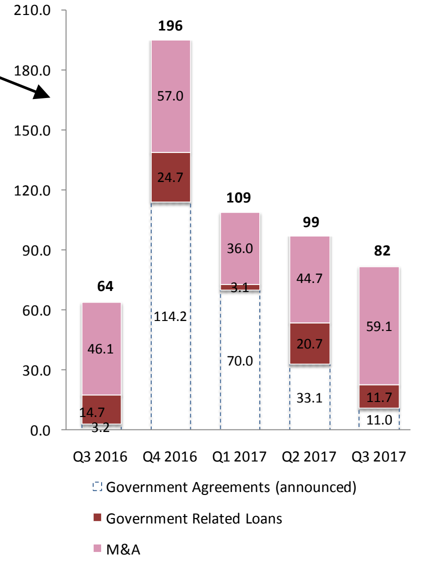
China Outbound Investments Q3 2017

I. Overview

Table 1: Aggregate Value (USD billion)



Q3 2017 Chinese outbound investments totaled $82 billion, a decline of 17% from Q2. As shown in Table 1 this continues the downward trend since the Q4 2016 peak. By component, Government Related loan agreements fell by 44% to $11.7 billion while G2G agreements/pledges fell by 67% to $11.0 billion. However, M&A/equity investments (calculated using enterprise value when applicable), increased by 32%, reaching a 5 quarter high. This is remarkable in a quarter Chinese Government controls limited investments into a number of segments.

While announced volume of announced transactions /investments fell 28% (to 155), there were 15 transactions/investments of at least $1 billion. These transactions were mostly focussed in BRII countries, countries which had previously signed strategic partnerships with China or represented technology which China can utilise (please see our Quarterly Feature for details).

The Industrial sector led in aggregate value, with Logistics the largest component. Asia led in aggregate value followed by Europe, while North America led in volume. A substantial percentage of US investments were technology related.

Government Related loans in Q3 showed a 5% decline in volume and a 44% decline in aggregate amount. Both continued the declines we have seen in the past few quarters as China has shifted its focus from new Government related lending to execute/deliver on existing loans/projects.

The largest Government Related loan recipients in Q3 were in Oman, Nigeria, Iran and to a corporate in South Africa. Overall, there was a 15% decline in volume and a 44% decline in aggregate amounts.

G2G agreements this quarter revolved around meetings alongside the G20 in Germany and the BRICS summit in Xiamen. Virtually all of the value associated with G2G this quarter was the nearly $10 billion agreement between CDB and RDIF (Russia) to create a joint investment fund and a Daimler/BAIC joint venture in producing a factory for battery electric vehicles production.

M&A Transactions / Equity Investments

↑32%

Q3 announced outbound M&A/equity investments aggregate value was USD 59.1 billion, up 32% from the USD 44.7 billion in Q2 2017. This quarter there were 15 transactions of at least USD 1 billion, totalling USD 48.4 billion (82% of aggregate value), while the remaining 140 transactions comprised only USD 10.7 billion (only USD 76 million by transaction/investment).

Average deal size (excluding equity investments below USD 10 million with disclosed transaction value) increased from USD 334 million to USD 775 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 119 million in Q2 vs USD 92 million in Q3).

Industry

The Industrials sector led with aggregate value of USD 30.6 billion (52% of the total). This sector recorded two of the three largest transactions of the quarter – the USD 18.3bn (enterprise value) acquisition of Global Logistics Properties (Singapore) and the USD 6.3bn acquisition of Orient Overseas International (Hong Kong).

Oil & Gas ranked #2 with USD 9.0 billion, representing 15% of aggregate amounts. This amount represents the acquisition of minority stake in Rosneft Oil Co PJSC (Russia) by CEFC.

Consumer ranked #3 with USD 5.8 billion, representing 10% of aggregate amounts. This sector recorded two transactions over USD 1 billion – the USD 1.4 billion acquisition of a 14% stake in Dufry AG by HNA and the USD 1.1 billion acquisition of the corn seed business of Dow Chemicals by CITIC Group.

Financials ranked 4th in aggregate value (9%) — which is not surprising in light of the Government restrictions – followed by Technology (6%).

Relative to volume, Consumer ranked #1 with 45 transactions followed by Technology with 30. Industrials ranked 3rd with 28 transactions, followed by Financials with 22. Together these four sectors accounted for 81% of total volume.

Geographies

Asia led again in aggregate value, with 57% of the total (vs 24% in Q2). Europe ranked #2 with 27% of the total. Collectively, these two regions represented around 85% of Q3 2017 outbound aggregate value, up from 52% of Q2 2017.

Relative to volume, North America led again with 51 announced transactions/investments, followed by Asia with 50 (32%) and Europe with 36 transactions (23% of volume). Collectively, these 3 continents represented 88% of volume. Most of the US activity was based around investments usually in the Technology, Healthcare or Fintech segments.

Government Related Loan Agreements

↓44%

In Q3, there were 19 signed/committed loan agreements, down from 20 in Q2, a 5% decrease. These totalled $11.7 billion, down from $20.7 billion in Q2, which represented a 44% decline in aggregate amounts.

While aggregate amounts have declined, Loans Under Discussion remain in excess of $ 50 billion. As with M&A/equity, this pipeline is focussed on existing BRI countries as well as countries which have previously signed Strategic Partnerships with China.

The largest committed loan this quarter was a $3.55 billion loan to Oman-- a relationship that both countries have built over the past few years. All other loans were focussed on either BRI countries or African countries with long term strategic partnerships with China.

Of the 4 BRICS bank's loans in Q3, three were focussed on renewable energy while 1 dealt with IT infrastructure in Russia.

The AIIB loans again focussed on renewable projects as well as to develop a number of villages in India.

Government Agreements

↓67%

G2G Agreements

During Q3, President Xi met with leaders of 17 countries, including twice with leaders from Russia and Sinapore. The majority of these meetings were along the sidelines of the G20 summit and/or the BRICS summit.

There were G2G agreements signed with 5 countries (down from 13 in Q1) totalling only $11 billion. It is worth noting that G2G pledges have declined precipitously during 2017: $70 billion in Q1, $33 billion in Q2 and $11 billion in Q3.

Virtually all of the value associated with G2G this quarter was the nearly $10 billion agreement between CDB and RDIF (Russia) to create a joint investment fund and a Daimler/BAIC joint venture in producing a factory for battery electric vehicles production.

II. Quarterly feature: Message Received!!

In a quarter highlighted by messages from the Chinese Government to focus on outbound investment on BRI countries and on key industries (excluding real estate, hotels and football), the table below shows that the messages were well received.

Table 2 below sets out high level information on all 15 outbound transactions/investments (enterprise value) of at least $ 1.0 billion.

Table 2

Target	Country	Industry	Acquirer Name	Amount ($bn)
GLP	Singapore	Logistics	China Consortium	18.3
Rosneft	Russia	Energy	CEFC	9.0
Orient Overseas	Hong Kong	Port	COSCO	6.3
BIL	Luxembourg	Financial	Legend Holdings	1.8
Yancoal Australia	Australia	Basic Materials	Yancoal (1)	1.5
Dufry	Switzerland	Consumer	HNA	1.4
Hydro Power Plant	Peru	Utilities	China Consortium	1.4
Mass Mutual Asia	Hong Kong	Financial	Yunfeng/Ant Financial	1.4
Port of Hambantota	Sri Lanka	Port	China Merchants	1.1
Corn Seed Business	Brazil	Agriculture	CITIC	1.1
Grand Pharma	India	Pharmaceuticals	Fosun	1.1
Tokopedia PT	Indonesia	Tech	Alibaba	1.0
Automotive ES	Japan	Auto/Tech	GSR	1.0
Careem Inc	Saudi	Tech	Didi	1.0
GoGo Van	Hong Kong	Logistics	58.com	1.0

[1] Glencore will pay cash consideration of $1,139 million plus a 27.9% share of $240m non-contingent royalties over five years and 49% of price contingent royalties payable by Yancoal to Rio Tinto on production from HVO in respect of the C&A acquisition. This calculates a total value of $1.5 billion

By Geography

Of the 15 transactions listed above, 9 were in official BRI countries. It is worth noting that Luxembourg is both the focal point for Chinese banks in the EU as well as the Head of the Air Silk Route.

Of the remaining 6 investments in Table 2, 4 were into countries which had previously signed "Strategic Partnership Agreements" with China, including;

- Peru (2013)
- Australia (2014)
- Saudi Arabia (2017)
- Brazil (2017)

The Fosun Pharmaceutical acquisition of Global Pharma in India represents:

- A reduction from an 86% stake to a 74% stake
- The largest acquisition by a Chinese pharmaceutical group in India

The Automotive ES Supply transaction represented the disposal of JV by Nissan and NEC to GSR, a leading Chinese PE firm. The JV has a 10 year track record of producing lithium style batteries; technology and production capacity which will strengthen Chinese production capabilities.

By Industry

Ports and logistics represented $26.7 billion (enterprise value) on the above table. There was also a $924 million ports deal with China Merchants acquiring one of Brazil's most profitable ports. If this is to be included, ports and logistics represented $27.6 billion (in Q3 alone). *This ports and logistics represented 47% of all Chinese outbound M&A/equity investments during Q3.*

It is also clear from the table that virtually all of the above transactions took place in industries which are considered to be of importance to China.

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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 49 months, the firm has advised on 23 completed transactions and on 31 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 and the South China Morning Post.*

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 (UK) and presented at the UK House of Commons.

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

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