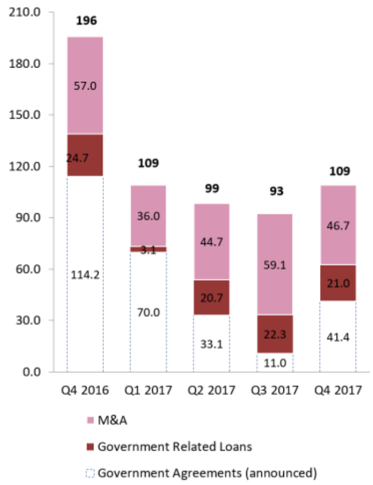
China Outbound Investments Q4 2017

I. Overview

Q4 2017 Chinese outbound investments, across all 3 components we track, totalled $110.4 billion, up 18.7% from Q3's adjusted total of $93 billion. M&A/equity investment saw $46.7 billion, down 21% from Q3, Government related bank loans were flat at $22.3 billion while G2G agreements increased by 276% to $41.4 billion.

M&A/equity investments saw a 21% decrease in aggregate value from Q3 to $46.7 billion. However, this still represented the 2nd highest total in the past 4 quarters. Volume built during the quarter from only 45 announced in October to nearly doubling to 83 during December. This continues the trend of increasing – yet focussed –outbound investment trends we commented on as early as March (see Table 1).

Table 1: Aggregate Value (USD billion)



As with Q3, there were 15 transactions/investments over $1 billion. Six of these represented minority equity stakes, including a $3.8 billion investment in Volvo and investments into Ola and Uber.

Financials, Consumer and Technology segments each represented circa 21% of aggregate amounts. Consumer led in aggregate amounts with $15.5 billion followed by Financials with $11.7 billion. Energy, Technology and Industrials all saw aggregate amounts over $4 billion.

Relative to geography, Asia led in volume (35%), followed closely by North America (also 35%). There were also 11 transactions involving Australia (although only $1.5 billion aggregate value), 9 with Japan (again only $1.5 billion announced value), 5 into Canada (total of $1.5 billion) and two major ones into Latin America: Brazil agriculture and Chile utilities, each over $1 billion in announced value.

Government related loans in Q3 remained nearly flat in aggregate commitments relativeto the past two quarters. The largest loan in Q4 was to Ghana, for infrastructure projects, but Russia, Brazil and Turkey also recieved $1+ billion commitments, while Bosnia and Bangladesh recieved commitments in excess of $500 million. Chinese policy banks also stepped up debt restructuring on some existing non-performing loans.

G2G agreements showed an increase in volume and aggregate amounts despite the senior level demands of the October Party Conference. There were agreements signed with 12 countries, up from 5 in Q3. There were disclosed pledges involving USA, Russia, Vietnam and the UK. In light of all of the previously announced agreements, China inbound deals and the 20+ year nature of any investment into West Virginia, we calculated aggregate amounts of $41.4 billion (only $34.5 related to the USA as opposed to the stated $250 billion announced amounts), up 271% over Q3 amounts.

M&A Transactions / Equity Investments

↓21%

Q4 announced M&A/equity investments aggregate values was $46.7 billion down 21% from Q3, while volume increased by 25%. This quarter there were 15 M&A transactions/equity investments over $1 billion, representing $28.9 billion or 62% of aggregate amounts.

Interestingly, there were 48 transactions/investments under $10 million, or nearly 25% of overall deal volume.

Average deal size (excluding investments under $10 million and the 27 deals where values were not disclosed) was $380 million, down 51% from Q3 average transaction size. Omitting transactions over $1 billion, average deal size was $117 million, consistent with Q3.

Industry

In Q4, the volume of outbound investments saw balance across a number of industries. Financials led with 40 investments (21%) followed closely by Consumer and Technology investments, each with 39 announced deals. It is also worth noting that both Industrials and Healthcare each saw over 25 transactions.

Consumer led in aggregate amounts, with $15.5 billion (33%), followed by Financials with $11.7 billion (25%). Energy, Technology and Industrials also saw aggrgate amounts in excess of $4 billion in Q4.

Major Consumer deals over $1 billion included Geely's $3.8 billion investment into Volvo, Tencent and Sequoia's combined $2.5 billion investment into Uber, Alibaba's nearly $3 billion investment into Sun Art and Jining Ruyi's $2.0 billion acquisition of Koch's apparel business. Fosun's $844 million investment for an 18% stake in Tsingtao at a 32% discount to market was also a visible transaction in this segment.

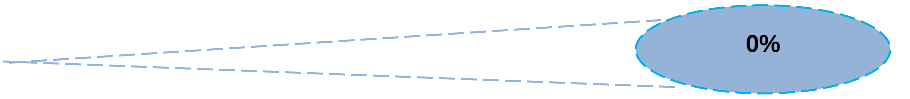
The largest M&A deal announced in Q4 was the $5.15 billion acquisition of Center Holdings in Hong Kong. While real estate investments are still not encouraged, there were a few mid sized transactions both in the UK and in Asia. Ping An's $729 million investment into HSBC and Geely's (circa) $800 million investment into Saxo Bank were also meaningfully sized financial deals announced in Q4

Geographies

Relative to volume, Asia led this quarter, with 68 announced M&A transactions/equity investments. This represented 35% of all quarterly volume. North America, after leading for a number of quarters, followed closely behind with 65 announced transactions or 35% of Q4 volume. As noted above, 5 of the North American transactions this quarter took place in Canada. Europe followed with 45 announced M&A/equity transactions, or 23% of volume.

Collectively, these geographical regions represented 92% of all volume in Q4, although there was also activity seen in Australia (11), Israel (2), South Africa (1). In the latter part of the quarter, there were two transactions over $1 billion each announced in Latin America (Brazil and Chile).

Government Related Loan Agreements



In Q4, confirmed policy bank loans totalled $21.0 billion, 3 AIIB loans totalling $824 million and 3 NDB loans totalled $414 million. The aggregate total of $22.3 billion represented no growth relative to aggregate amounts seen over the prior two quarters (note, we initially neglected to include the $10 billion Iran LOC in Q3 loans, as we could not locate commitment confirmation until Q4).

The largest loan committed loan in Q4 was for infrastructure to Ghana, which as readers recall, has been negotiating the remainder of its $3 billion commitment of nearly 6 years ago. There were also committed loans this quarter to Nepal, Bangladesh, Turkey, Zimbabwe, Brazil, Russia and Bosnia.

While committed loan values increased this quarter, Chinese policy banks have also stepped up their debt management/recovery programmes. In November, CDB became the first lender to file a case against Reliance Communications Ltd (RCom) under the Insolvency and Bankruptcy Code (India). CDB filed the case before the Mumbai bench of the National Company Law Tribunal (NCLT) on 24 November. The telecom company owes close to $2 billion in syndicated loans to CDB, from a total of $7 billion loans outstanding to a syndicate of RCom banks.

In October, CDB was thought to vote in favor of Oi SA's restructuring proposal, becoming the first big creditor to throw its support behind the Brazilian phone operator. CDB had been discussing how to restructure $1.2 billion in financing it provided to Oi just six months before it filed for the largest judicial recovery in Latin America's history, with $19 billion in debt. Oi has a confidentiality agreement with state-controlled China Telecom Corp. to discuss potential deals; China Telecom, China Mobile and TPG have been in discussions to acquire a controlling stake in Oi for most of November and December.

Government Agreements

↑276%

G2G Agreements

During Q4, President Xi hosted (current) leaders from 8 countries in China, while meeting with leaders from 8 other countries at the APEC summit. Premier Li met with leaders from over 20 countries along the side of the APEC and the 4th China-CEE Summit.

There were G2G agreements signed with 12 countries (up from 5 in Q3). There were aggregate amounts stated for four countries, USA, Russia, Vietnam and the UK. The largest stated amount was $250 billion announced during President Trump's visit to China. There were 8 agreements over $5 billion, which comprised 90% of the $250 billion total. In addition, as many analysts have already commented, many of the announced transactions embedded in this number were previously announced and/or part of ongoing trade between the two countries/companies such as Boeing ($38 billion) , American Ethene ($25 billion), Qualcomm ($12 billion), Delfin ($8 billion) and soybeans ($3.4 billion), to name some examples. Further, some were inbound; Ford ($10 billion), GM ($2.2) and Air Products ($3.5 billion)

Our calculation for new aggregate outbound pledges within this particular G2G set of agreements are: State of Alaska LNG – China $32 billion pledge while State of Alaska contributes $11 billion equity, Goldman/CIC - $2.5 billion each. We do not include any component of the $83 billion pledge to the US State of West Virginia for numerous reasons – one of which is that this amount represents over 10% in excess of the state's current GDP!

There were also agreements with disclosed values signed with Russia ($3 billion), Vietnam ($2 billion) and the UK ($1.9 billion), thus Q4 total was $41.4 billion.

Finally, it is also worth noting the developments with Japan (discussed below) and the initial tri-lateral meetings involving China-Pakistan-Afghanistan, which appear to be headed in a direct that Afghanistan has some type of inclusion into CPEC.

II. Quarterly Feature; Increasing Flows between China-Japan: Q4 M&A/Equity Investments

One of the most interesting trends we saw in Q4 was the marked increase in Chinese investment in/collaboration with Japan. We believe this was led in part by very positive meeting in early November between Prime Minister Abe and President Xi. This meeting took place along the side line of the Asia-Pacific Economic Cooperation Conference (APEC) held in Danang, the harbor city, a fierce battlefield in the Vietnam War. According to Japanese news reports, Prime Minister Abe told President Xi "We want to expand the business in cooperation with China in third countries. It is very valuable not only for the local country, but also to China and Japan." Abe also expressed the support for "Yi dai yi lu, The Belt and Road Initiative."

In Q4, there were 9 Chinese investments/JV involving Japanese companies, up substantially from prior quarters. While the aggregate amounts are estimated to be only circa $1.5 billion, the investments were in a number of sectors including technology (AI/robotics, ag tech, fintech), healthcare/pharmaceuticals and consumer (beer, white goods).

As Q4 drew to a close, it was widely reported that Japan Display Inc, which is need of private capital to fund new product development (OLED screens which Apple and Samsung are using), is in discussions with three Chinese panel makers. These are rumoured to include BOE Technology, Tianma Miroelectronics and Shenzhen China Star Optoelectronics. Transaction size being discussed is between $1.5 and $2.0 billion.

- In early November, Fujitsu, Lenovo Group and Development Bank of Japan ("DBJ") announced a strategic collaboration that creates a JV between the three companies. The JV will focus on the research, development, design, manufacturing and sales of Client Computing Devices (CCD) for the global PC market. Fujitsu agreed to sell a 51% stake in its wholly owned subsidiary Fujitsu Client Computing Limited (reduced to 44%) to Lenovo and a 5% stake to DBJ. After the transaction, FCCL will become a JV owned by Fujitsu, Lenovo and DBJ and will continue to be known as Fujitsu Client Computing Limited.

- In mid-November, Troubled Toshiba Corp announced that it agreed to sell 95% of its TV and other visual products subsidiary to Chinese electronics maker Hisense Group for $113 million.

- In late November, Beijing Changcheng Weiye Investments, a Beijing-based investment development firm, announced plans to acquire Beijing Yanqi Chuo Kagaku Co., Ltd. from Chuo Kagaku Co., Ltd. for an undisclosed price. Chuo Kagaku Co., Ltd. is a subsidiary of Mitsubishi Corporation.

- In late November, Katakura & Co-op Agri Corp (japan) plans to set up a Shanghai-based agricultural science/technology JV to be capitalised at $2.5 million, with China Certification & Inspection Group Shanghai. Says co will hold 51% stake in the JV.

- In late November, Tsumura & Co, which will be mainly engaged in rude drug supply system, traditional Chinese medicine and health foods related business, announced plans for its wholly owned Shanghai-based unit to set up a JV Ping An. The JV will be owned 56% by Tsumura and 44% by Ping An. This is a 2nd step following Ping An acquiring a 10% stake in Japanese pharmaceutical company Tsumura for US$243 million in September – the largest investment made by a Chinese company in Japan's herbal medicine industry.

- In early December, SBI Ventures announced a partnership with Huobi, one of mainland China's all digital-currency exchanges with over 1.65 million accounts -- more than the total at any of the existing exchanges in Japan. Huobi will take a 30% stake in SBI Virtual Currencies, while SBI will purchase 30% and 10% interests in Huobi's Japanese and South Korean subsidiaries, respectively. Huobi wants to capture the growing Japanese market; it already manages an exchange in Singapore and plans to open platforms in Hong Kong, South Korea and Japan

- In early December, Tokyo-based Groove X, the humanoid robot developer founded by Kaname Hayashi, announced it has raised up to 4.35 billion yen ($38.7 million in US) in their latest series A round. Leading investors in this round were a number of high profile Japanese investors - Shenzhen Capital Group was also an investor.

- In mid-December, Lixil decided to sell its 51% interest in a Chinese JV involving Haier, to Haier, in a transaction valued at $67.7 million.

- In mid-December, Asahi decided to sell 18% of its 19.99% stake in Tsingtao Brewery, China's 2nd largest beer producer, to Fosun Group. Transaction size was $844 million. Fosun purchased the block of shares at a 32% discount to market.

In Q3 we saw sizeable Chinese investments in lithium batteries and pharmaceuticals, while in Q1 we saw Chinese investments in electronics and white goods. The prior two years were focussed on acquisitions of Japanese Real Estate – hence Q4 completely showed different trends.

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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 52 months, the firm has advised on 24 completed transactions and on 32 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, the South China Morning Post, China Daily and the Australian Financial 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 (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 Amsterdam) and Clarksons in the UK.

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