

China Outbound Investments

Q4 2018

I. Overview

Q4 Chinese outbound investments totalled \$60.8 billion across all three components. This was virtually flat from the adjusted (removing regional pledges of \$83 billion) Q3 total of \$60.7 billion.

M&A/equity investments in announced transactions totalled \$21.2 billion, up 14.6% while volume was up by 8% (188 versus 174 in Q3). Total M&A/equity outbound announced was \$112.2 billion. The three largest transactions represented \$11.6 billion of Q4 aggregate amounts.

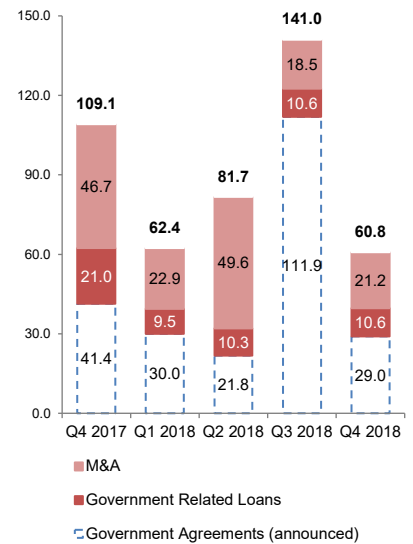
2018 marked the 3rd consecutive year of declining Chinese outbound FDI amounts (\$188 billion in 2016; \$120 billion in 2017) and the 2nd consecutive year when Chinese outbound was less than China FDI (2017 showed \$120 billion outbound FDI and \$135 billion inbound – a record high). It is clear that China continues to closely manage both inbound and outbound FDI as well as to focus it on BRI countries.

We see similar trends in Government related loans. In Q4 Government related loans, across policy banks, AIIB and NDB totalled \$10.6 billion. The Q4 aggregate amounts were very similar to Q1 and Q2 amounts of \$10 billion/quarter as well as pro forma Q3 (ex-Venezuela).

The largest policy bank loans in Q4 were to Ecuador, Egypt, Guinea, Sri Lanka, Angola and the Dominican Republic. AIIB loans included infrastructure loans to India and Indonesia and an investment commitment into an Asian based infrastructure fund. NDB loans doubled in volume and more than doubled Q3 aggregate amounts, with a focus on India and China.

Q4 aggregate amounts of G2G were of \$29 billion were consistent with the past 4 quarter's average of \$27.5 billion (without the regional pledges of \$83 billion in Q3). In Q4, there were 5 countries where G2G amounts were disclosed; Spain, Argentina, Kazakhstan, Papua New Guinea and El Salvador. The largest G2G announcement this past quarter was with Spain, which saw 10 signed agreements totalling over \$17 billion. While Spain has not signed the BRI MOU, it owns important ports and related logistical hubs for both Southern Europe and North Africa. While amounts with Portugal were not disclosed, it was during these meetings that Portugal signed the BRI MOU and that China communicated its strong interest in the Sines Port and related rail infrastructure.

Table 1: Aggregate Value (USD billion)



M&A Transactions / Equity Investments

↑ 14.6%

As noted briefly above, M&A/Equity investments aggregate amounts were \$21.2 billion (up 14.6% from Q3). Similarly, volume increased 8% from 174 to 188 announced transactions/investments. There were three transactions over \$2.0 billion each and 5 between \$500 million and \$1 billion. Collectively, these 8 transactions totalled \$15.3 billion, or 72% of the Q4 totals.

There were also 76 transactions/investments under \$10 million. This quarter, these smaller transactions represented 45% of transactions/investments with disclosed values (20 had no disclosed amounts). While this percentage has been increasing each quarter during 2018 (35.6% in Q3), this quarter was a record percentage, led by small tech investments.

The average transaction size for the 168 deals with disclosed values was \$126 million. When excluding the three transactions over \$2.0 billion, the average transaction size declined to a mere \$57 million, a 32.1% decline from Q3.

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## Industries

Once again, the Consumer industry led in volume with 55 announced transactions/investments. This number represented 29.3% of total volume, identical to Q3 and slightly below the 30% in Q2. Consumer also saw the largest transaction in Q4 the \$5.5 billion (enterprise value) acquisition of Amer Sports (Finland), a key link for the 2022 Winter Olympics. There were also two other Consumer transactions between \$750 million and \$1.0 billion including a major seafood transaction in Australia.

Information Technology saw 44 announced transactions/equity investments in Q4, representing 23% of quarterly volume, up from 19% in Q3 and 15% in Q2. While this industry segment saw many of the sub \$10 million investments, it also saw two of the largest deals this quarter including the \$3.6 billion acquisition of Nexperia (The Netherlands) and the \$2.5 billion acquisition of Linxens (France) by Tsinghua Unigroup.

The Financials sector was 3<sup>rd</sup> with 28 announced transactions, representing 14.9% of quarterly volume – exactly the same percentage as in Q3. Unlike prior years, there were no financial transactions over \$200 million and included deals in regional brokerage (Southeast Asia) and as well as a few BVI/Cayman holdings deals.

Healthcare, which includes life sciences and pharma/bio pharma, saw 13.8% of quarterly volume, up substantially from 8% in Q3. Despite increased volumes, there were no transactions/investments over \$200 million in Q4.

Industrials saw 17 transactions representing 9.0%, down substantially from 12.6% in Q3. Many of deals in this segment were in Europe, in particular in Germany.

Energy, Basic Materials and Communications round complete the industries. Together these 3 represented only 7.5% of quarterly volume. Three of the 8 energy deals had aggregate values of over \$1.2 billion including a wind acquisition in the UK and hydro in Peru.

## Geographies

Asia led with 80 transactions (42.6%), North America saw 53 (28.2%) and Europe with 37 (19.7%) of volume. The Middle East and Africa saw 9 transactions, Latin American/Caribbean (LAC) with 5 and Australia with four.

Asia saw activity throughout the entire region with transactions announced in Japan, Korea, Taiwan, Hong Kong, Philippines, Vietnam, Thailand, Singapore, Indonesia, Malaysia, Pakistan, India and Bangladesh. The largest volume of activity was in Hong Kong, which also saw 2 of the 8 deals over \$500 million.

In North America, this quarter saw the continuation of the trends seen from earlier in 2018 – decreasing transaction/investment sizes in the USA and an increasing number of investments/deals in Canada. None of the Chinese investments in the USA this quarter exceeded \$60 million; virtually all of these were in technology – fintech, biotech – and healthcare, life sciences, and tech led consumer. In Canada, the investments were larger and involved other sectors.

European activity was led by the UK and Germany. It also involved the Netherlands, France, Switzerland, Sweden, Finland, Estonia and Ukraine.

It is interesting to note that all three transactions over \$2.0 billion in Q4 involved European based targets – none of which were headquartered in Germany.

There were 9 transactions in the Middle East/Africa. Most of these were of companies based in Israel and focused on technology. There was also a basic materials transaction in Namibia.

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There were 5 transactions in LAC including Peru, Brazil and the Cayman Islands.

Finally, there were only 4 transactions in Australia in Q4; two smaller investments into technology and two consumer deals, including one large seafood/consumer acquisition.

### Government Related Loan Agreements

↓ 34.9%

Q4 Government related loans, across policy banks, AIIB and NDB totalled \$10.6 billion, a 34.9% decline from Q3 aggregate amounts of \$14.3 billion. Aggregate volume across all 3 components was flat at 20 committed loans. The biggest change was in policy bank commitments, which fell from 14 to 12 in volume but from \$12.5 billion aggregate amounts to \$7.9 billion. AIIB loans were down slightly from Q3 but NDB loans doubled from two in Q3 to four in Q4. NDB amounts more than doubled to \$1.5 billion this quarter.

The largest policy bank loans in Q4 were to Ecuador, Egypt, Guinea, Sri Lanka, Angola and the Dominican Republic. Virtually all of these were related to major infrastructure projects, most of which have been under discussion for some time. There was one PBOC loan to Nigeria, which represented only a small component of a much larger facility.

AIIB loans increased from four to three in volume with aggregate amounts remaining consistent. There were infrastructure loans to India and Indonesia and an investment commitment into an Asian based infrastructure fund. Unlike prior quarters, both committed loan facilities were for over 70% of the total facility – a major change from prior quarters.

NDB loans doubled from two to four this quarter, more than doubling the Q3 aggregate amounts. There was one facility committed to India while the other three were to China. The Indian facility represented a circa 10% stake in the overall facility, while the three Chinese loans were around 33% of each total facility.

### Government Agreements

↑ 3.6%

#### G2G Agreements

In Q4, there were 5 countries where G2G amounts were disclosed, Spain, Argentina, Kazakhstan, Papua New Guinea and El Salvador. Collectively, these represented \$29 billion aggregate value. This represents a decline of 73.9% decline from Q3 totals. However, when removing the \$83 billion of regional pledges, the actual country to country total was only \$28 billion, hence Q4 totals were actually up by 3.6%.

The largest amount this past quarter was Spain, which saw 10 signed agreements totalling over \$17 billion. While Spain has not signed the BRI MOU with China, it remains an important country to China. This is in part due to their important ports and related logistical hubs for both Southern Europe and North Africa. Chinese banks/banking will also thus become increasingly important as these logistics centres develop.

There were 30 agreements signed when President Macri visited China in early December. The largest of these was a \$9 billion currency swap to boost Argentina's foreign reserves after the currency crisis earlier in 2018. There were also agreements signed in agriculture and infrastructure.

Kazakhstan saw \$1.9 billion agreements, led by Premier Li. These mostly involved renewable energy and infrastructure.

Papua New Guinea and China signed 14 agreements, just prior to the start of the APEC Economic Leaders Meeting. The largest with a disclosed amount was for a \$300 million facility from CDB for resource and infrastructure projects.

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While the Portugal amounts were not disclosed, it was during these meetings that Portugal signed the BRI MOU and that China communicated its strong interest in the Sines Port and related rail infrastructure.

Similarly, while no specific amounts on the 29 agreements signed were not mentioned regarding the Philippines, the fact that President Xi was the first Chinese leader to visit the Philippines in 13 years is significant.

During the past quarter President Xi also met with leaders from El Salvador, Panama, France, Cuba and Brunei – as well as Saudi Arabia and India along the side lines of the APEC meeting. Meanwhile, Premier Li also met with leaders from Tajikistan and Belarus in Q4.

## II. Quarterly Feature: Tariffs and Asian Furniture Manufacturing

This quarter we chose to highlight a small China outbound transaction which is a minnow in size relative to the largest proposed China outbound acquisition of 2018 – Three Gorges \$27.5 billion (enterprise value) acquisition of EDP (based in Portugal) – and involves Asian furniture manufacturing.

In 2016, there were 9 Taiwanese companies among the top 10 Asian furniture manufacturers. In addition to domestic Taiwanese demands, more than half of the top 20 US leading furniture brands outsourced their furniture manufacturing to Taiwanese manufacturers, most of which own and operate major Vietnamese factories.

A major Asian manufacturer in the top 10 but not Taiwan based is China based Markor Home. Founded in 1990, Markor Home has 10 furniture production facilities in China, most of which are in Tianjin (near the port) as well as in Urumqi, where it is based. Markor Home also owns American home decor brand Rowe Furniture and high-end wood furniture brand Jonathan Charles, which has its own factory in Vietnam.

Apart from significant increases in domestic sales (for obvious reasons), China's furniture exports have also demonstrated sustained growth. According to the [13<sup>th</sup> Five-Year Plan for the Development of China's Furniture Industry](#), the value of China's furniture exports increased at an average annual rate of 8.8%, from US\$38.9 billion in 2011 to US\$54.3 billion in 2015. Such exports are expected to show an average annual growth rate of 3-5% during the *13<sup>th</sup> Five-Year Plan period (2016-2020)*.

During 2018, the US Government imposed tariffs on more than \$200 billion of Chinese-made consumer products, including furniture. A 10% tariff took effect 24<sup>th</sup> September and was scheduled to be increased to 25% on 1<sup>st</sup> January 2019 unless an agreement with China was reached before that date.

In October, Markor Home agreed to become a major shareholder in Vietnam based furniture manufacturer Starwood Furniture Manufacturing, which it had known and collaborated with for years. Starwood, founded in 2004, has 1.7 million square feet of production space and employs 3,000 workers in Vietnam. It produces a wide range of bedroom, dining room and occasional furniture as well as upholstery, home entertainment and home office furniture.

As a part of this transaction, both Markor Home and Starwood agreed to fully integrate their product development, manufacturing, warehousing and container transportation functions into the Vietnam based firm. Such consolidation is standard in a merger, especially among companies and managements which already know each other. Separate from the corporate benefits of this Q4 merger, is there a tariff angle via Vietnam?

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## 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), infrastructure, healthcare 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.

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 58 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).

In 2008, Grisons Peak founded *China Outbound Investments*, which tracks and analyses Chinese G2G agreements, Chinese Government related loans and M&A/equity investments in a single quarterly report, all of which have been reconciled with original source documents whenever possible. This database also includes bespoke capabilities which measure Chinese Government related loans linked to individual infrastructure/renewable energy projects since 2013. Our research has been cited by many major press including *The Financial Times*, *FT Confidential*, *EM Squared*, *The Wall Street Journal*, *Bloomberg*, *China Daily*, *Xinhua*, *The South China Morning Post*, *Australian Financial Review*, *Euromoney*, *Thompson Reuters*, *Global Trade*, *IFR Asia* and several others. Two of the Financial Times articles have been cover page stories; two on Chinese ports and logistics generated over 100,000 paid downloads.

This database has also been used by major universities for academic research regarding Chinese outbound investment in the UK (Cass Business School), the US (New York University) and presented in the UK House of Commons.

In Q1 2018, we published, via GOSS Research, a longitudinal study on Chinese investment into Cambodia – the first such BRI/China country study. Article entitled “Exporting the Chinese Model to BRI Countries”.

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.

During Q4 we have created various presentations for the Pakistan Government; Turkish Government; Chinese Government; European Bank; London School of Economics (LSE); FinTech; Refinitiv and China Resources including:

- Bangladesh Project Update (2018)
- Chinese Investment into Turkey (2015-2018)
- BRI 2018 Key Developments
- BRI 2018 Developments – Increasing Regional Collaboration
- Growing Numbers of Tech Hubs along the BRI
- China Investments into UK (Q1-Q3 2018)
- BRI Selected Key SEZs

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