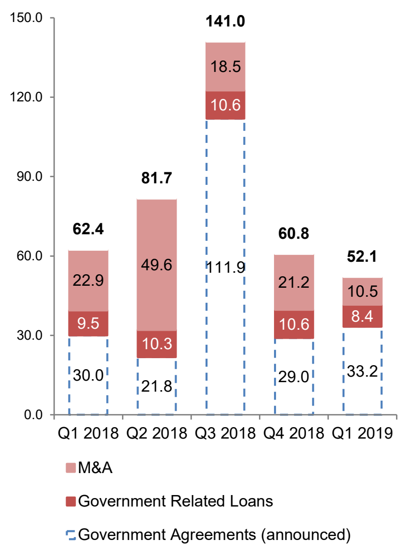
China Outbound Investments Q1 2019

I. Overview

Q1 2019 China outbound investments totalled $52.1 billion across all three components we track. This represents a decline of 14.3% from Q4 2018. The good news in Q1 is China inbound – which we calculate to be in excess of $15 billion pledged – which thus marks the first quarter in which we have tracked since 2008 where inbound is greater than outbound. In addition to assisting in balance of payments/bolstering inbound FDI, this major change is sending a message to the world that indeed China is opening up.

Table 1: Aggregate Value (USD billion)



In addition, outside of these G2 inbound pledges/announcements, Chinese equities had their best quarter in Q1 since 2014, attracting more inbound international investment. However, Chinese options in raising fresh capital remain challenging, as Hong Kong saw its lowest quarter in a decade for new listings while Chinese PE firms saw decreasing amounts from private sources.

Q1 announced outbound M&A/equity investments declined to $10.5 billion in Q1. This represents the lowest level we have seen in several years. It is also well below the 2018 quarterly average of $27 billion/quarter and the lowest quarterly total since Q3 2014 ($13.4 billion). Transaction volume remained at 170 (down 9.6% from Q4 2018) but relatively flat from Q3 2018.

Similarly, both number and aggregate amounts of government related loan commitments also dropped considerably. In Q1 there were only 11 such committed loans, well below the prior two quarters of 20/quarter. There were only 4 policy bank loans, 1 Chinese government facility, 1 AIIB committed facility (to Bangladesh) and 5 NBD loans, three of which were to South African credits. In terms of aggregate amounts, the only loans above $1 billion were to Egypt (electricity holding and light rail) and $2.5 billion in deposits to the Pakistan Central Bank.

There was a $600 million grant to Cambodia, which also saw a previously planned policy bank loan actually made as a commercial loan. We expect both of these deals to represent the trends to lower percentages of future loans to be the historical interest bearing types, with more grants and more policy bank loans moving to commercial lending.

There were major G2G agreements, signed mostly during state visits, with Saudi Arabia, Qatar, Italy, France and Finland. However, what is new in Q1 is the trend started during Q3 2018 of combining outbound investment as well as welcoming inbound investment into China from each of these countries (please refer to *BRI Pulse* for details of each major China inbound investment/pledge into China).

M&A Transactions / Equity Investments

50.5%

As noted briefly above, M&A /Equity investments aggregate amounts plunged to $10.5 billion, a decline of 50.5% from Q4 2018, well below quarterly averages and the lowest since Q3 2014. Volume remained near 2018 averages. There were no transactions over $1 billion and less than a handful over $500 million. Collectively, these represented only 25% of aggregate quarterly amounts, again the lowest we have seen for several years.

There were 54 transactions/investments with disclosed values under $10 million in amount. These represent 36% of total amounts, which is consistent with Q3 2018, but down slightly from Q4 percentages.

The average transaction size for 151 deals with disclosed amounts was $69 million, up 21% from Q4 2018, but well below historical averages.

Industries

Once again, Consumer led the industries with 39 announced transactions/investments during Q1, or 23%. The Consumer percentage was down slightly from Q4 of 29%, but still saw the largest transaction this quarter; the $930 million acquisition of a 51% interest in National Electric Vehicle in Sweden by China Evergrande.

Information Technology also saw 23% of Q1 volume; consistent with Q4 2018 percentages. Two of the largest investments in Q1 were in high growth technology investments in Asian companies which we discuss below.

Healthcare, which includes life sciences and pharma/bio pharma, remained at 13% of quarterly volume. Similar to prior quarters, there were no major transactions/investments this quarter.

Financials also saw 13% of volume, down slightly from 15% in Q3 and Q4 2018. Alibaba's acquisition of World Pay in the UK for $700 million was one of the largest transactions of the quarter.

There were 12 transactions in industrials (mostly in Europe), 11 in communications/ media/social media, 7 in basic materials and 5 in energy and mining. Contrary to early OBOR days, there were no utilities transactions and the energy and mining deals were all relatively small.

Interestingly, there were 10 transactions/investments in logistics/infrastructure. We see more of these to occur as links continue to develop as the BRI continues to develop.

Geographies

Once again, Asia led with 72 announced transactions/investments, representing 42.4% of total volume. It also saw two of the four investments greater than $500 million, one in Indonesia and one in India. There was activity throughout the entire region, led by Hong Kong, but also in India, Malaysia, Philippines, Thailand, Singapore, Japan and Korea.

North America was next with 43 transactions or 25% of total volume. While volume was meaningful, size of investments continued to shrink. There was only one investment of $200 million or more, in education, with most under $10 million and typically part of US led investor groups. We expect this trend to continue throughout the near term future.

Europe was 3rd with 22% of volume. There were deals announced across Scandinavia (Sweden, Finland and Norway), as well as Ireland, Netherlands, France, Germany, Italy, Switzerland, Greece, Serbia and the UK.

Australasia saw 9 transactions, although unlike the large mining and energy deals in the past, these were mostly focused on technology. Africa and the Middle East saw 8 deals, mostly focused on Israeli technology.

There was only one transaction in Latin America, but this was an important one for China as it represents China's first acquisition of a controlling stake in a Latin American port (Peru). We understand that Cosco is also partnering with Abu Dhabi ports on this important venture.

Government Related Loan Agreements

20.4%

Q1 Government related loans, across policy banks, AIIB and NDB totalled $8.4 billion, a decline of 20.4% from Q4 totals of $10.6 billion, a third consecutive quarterly decline. The decline in volume was even more pronounced, falling to only 11 committed facilities (only 4 policy bank loans, one Chinese government loan, one AIIB loan and 5 NDB loans). This represented a 45% decline from 20 such committed facilities across all 3 components in Q4 2018.

The largest loan in Q4 was China agreeing to place $2.5 billion in deposits into the Pakistan Central Bank. The two largest policy bank loans this quarter were to Egypt (electricity holding company and light rail). Kazakhstan and a Chinese corporate with a Hong Kong vehicle also received policy bank loans.

AIIB committed to only new loan this quarter – $120 million to a Bangladesh project. NDB agreed 5 new facilities this quarter, 3 to South African borrowers and 2 to Chinese credits – all very late in the quarter as it was previously occupied in raising capital for its own balance sheet this quarter.

Government Agreements

14.4%

G2G Agreements

In Q1, there were 3 countries where amounts were disclosed; Saudi Arabia, France and Italy. Aggregate amounts disclosed were (omitting aircraft orders from France) were $33.2 billion. This amount represents the third consecutive quarter of circa $30 billion in G2G agreements/pledges.

However, what is different this quarter is the balance of outbound with inbound. Looking more closely at each of the three G2G with disclosed amounts, as well as undisclosed amounts with Qatar, virtually all of these have substantial components of Chinese inbound investment. Saudi Arabia's disclosed amount of $38 billion included $10 billion inbound in a China based refinery as well as an estimated $2-3 billion for a 9% stake in a China based petrochemical plant. Within France's $2.4 (net of aircraft), there was nearly $1.5 billion in China based wind farms and BNP SME financing. Italian agreements were primarily China outbound, many of which were financing related, but there were also some inbound industrial and consumer agreements signed. (For more information on this, please refer to our *BRI Pulse* product.

We believe that this more balanced G2G represents the growing trend of inbound China investment which started in mid-2018 involving several European countries *(BRI Pulse 2018)*.

II. Quarterly Feature

We have decided to move from our standard quarterly feature to more frequent *BRI Pulses* – also as the BRI changes daily, many times hourly, which we believe cannot be captured fully in a quarterly feature.

Our *BRI Pulse's* are designed to be no more than a 3 minute read (and visuals wherever possible).

Which are available to view on our website.

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".

Since 2017, have presented our research at Cambridge University, University of Edinburgh, London School of Economics and the Shanghai Institute of International Studies, one of the world's leading think tanks.

During 2019 we presented the materials below to major governments, corporates and universities:

- BRI 2018 Developments – Increasing Regional Collaboration
- Polar Silk Road – Far Eastern Convergence
- BRI and its links to the Arctic Railway
- Digital Silk Road – Emerging BRI Tech Hubs – BRI 2.0
- China – Ireland Tech Funds (2014, 2018)
- Growth Opportunities in Rapidly Developing Middle East/African SEZs

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For further information on this, please visit: www.chinainvestmentresearch.org.