China Outbound and Inbound Investments Q1 2020

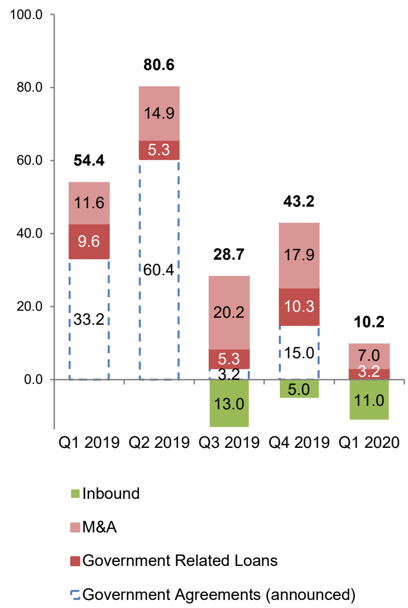
China Inbound surpasses Outbound; Shift to Healthcare/Pharma as Health Silk Road progresses

Q1 Chinese announced outbound investment across all three components we track; outbound M&A /Equity investments, committed Government related loans and G2G/B2B pledges, all declined markedly. The COVID-19 outbreak was a contributing factor, however, there were also a number of other factors within each of these components which we discuss below.

Conversely, a major success story of the quarter was China's inbound significant capital raising. During Q1 China raised circa $25 billion in fresh capital from three sources; $11+ billion in China inbound equity investments and/or pledges (set out below), $7.7 billion from IPOs in mainland China and $5.2 billion from selected Chinese disposals of international assets.

These amounts do not include foreign investment into Chinese equities (Shenzhen was the best performing major stock exchange during Q1) or foreign debt purchases (March was 16th consecutive month of increases in foreign investment in Chinese bonds), both of which are substantial. In addition to these amounts, in light of the lower energy prices, China could also see and estimated $100+ billion of possible 2020 energy savings from prior budgeted amounts.

Table 1: Aggregate Value (USD billion)



Key Highlights

- Announced Q1 aggregate M&A/equity investments totalled $7.0 billion, a decrease of 60.8%. This was the lowest total we have seen since Q2 2012. Volume only fell by 9.3%, reflecting continued activity but smaller investment amounts. Investments with disclosed values of $10 million or less increased from 41.3% of total Q4 volume to 49.3% of Q1 volume.
- The Consumer sector led with 23.6% of announced volume (mostly mid-sized e-commerce growth capital), followed closely by Healthcare/pharma/life sciences with 21.8% (growth capital for emerging players in the USA and UK/Europe), financials (mostly fintech) with 20%, industrials (including two former GM plants in Thailand and India) with 12.1% and tech with 9.7%. Healthcare saw both the largest increase as well as the only transaction over $1 billion.
- Relative to geographies, Asia led with 41.8% of announced volume, Europe with 26.7% and North America with 25.5%. Collectively, these 3 regions represented 94% of announced outbound M&A/equity investment. The remaining 6% was in LAC and Australia. Contrary to the preceding quarters, there were no announced Q1 investments into MENA and Africa fell to one as China focussed on strategic investments/sectors, especially pharma.
- Q1 announced China inbound investments/pledges totalled in excess of $11 billion across three continents. Asia led with over $6 billion actual investment while UK/Europe saw $4.5 billion (with disclosed values) from Germany, the UK, 1 joint UK/Netherlands, the Netherlands itself, France, Switzerland, Spain and Portugal. In the USA, MasterCard, Goldman Sachs and Morgan Stanley all received China regulatory approvals to operate in China (the latter two with majority stakes).
- Outbound committed policy bank loans were less than $1.5 billion as the BRI continues to progress from large G2G infrastructure focussed loans to the *Digital Silk Road*, led by explosive 2020 planned growth of 5G and developing the existing 80+ SEZs . CDB alone committed $3 billion in domestic loans in the Hubei province. AIIB and NDB committed loans also declined markedly to $1.2 billion. Grants remained at $500 million.

- This quarter there were zero G2G pledges, which is a first we have seen in our 12 years of this publication. There were important meetings and agreements signed with Laos, Myanmar and Brunei all involving developing economic corridors of CLEC, CMEC and BGEC and their linkages to ILSTC linking Southeast Asia to Europe via western China. Serbia was the first to visit Beijing post COVID-19 and a BRI MoU signed with Kiribati. None of the above agreements had any amounts disclosed.

Chinese Announced Outbound M&A Transactions/Equity Investments

$7.0 bn

-60.9%

Q4 aggregate amounts of announced M&A/Equity investments declined from $17.9 billion in Q4, to $7.0 billion in Q1, a decrease of 60.9%, the lowest we have seen since Q1 2012. Q4 transaction volume was 165, a 9.3% decline from Q4, but not inconsistent with prior quarters.

However, unlike prior quarters, Q1 saw only one acquisition of $1 billion or larger; Alibaba Health Information Technology announced it would acquire the offshore holding vehicle of sister firm Ali JK Nutritional Products, which specialises in on-line healthcare.

Average transaction/investment size for the 140 transactions/investments with disclosed values was only $50.2 million, a decline of 56% from Q4's $115.8 million. When adjusting for transactions $1 billion or greater, the adjusted average fell to $36.4 million, versus $48.6 million in Q4.

It is also worth noting that 49.3% of all Q1 transactions/investment volume with disclosed values involved amounts of less than $10 million, up from 41.3% in Q1.

Industries

The Consumer sector was the most active, with 39 transactions/investments, representing 23.6% of total volume, virtually flat from Q4. Aggregate amounts of consumer were lifted by some mid-sized ($50-$150 million) investments in e-commerce (we classify e-commerce as retail).

Healthcare/pharma/life sciences represented 21.8% of total volume. It also had saw the largest M&A deal, as well as two important life science JVs, with a major Japanese partner and one with a German partner. There were also a number of small investments into pharma companies in the USA and in a number of European countries. Activity in this sector increased monthly throughout the quarter driven in part by the need seek solutions to COVID-19 as well as what we perceive to be Western medicine options /next steps in building out the *Health Silk Road* – to augment the original plan to broaden distribution of Chinese medicines throughout the BRI.

The Financial sector ranked 3rd in announced volume with 20.0%. Most of these investments involved providing growth capital to fintech organisations (we count fintech under Financial). Virtually all involved minority stakes into companies into Asia, USA, Europe, Australia and LAC. There was only one significant real estate transaction (Poly Group into Australia), and no international acquisitions of any banks, insurers or asset managers.

Industrials saw 12.1% of volume including two acquisitions of former General Motors plants in Thailand and India for an estimated $550 million; tech investments represented 9.7% of quarterly volume.

Collectively, these 5 sectors represented 87.2% of quarterly volume.

There were multiple investments in mining, energy (mostly renewable) and logistics, but limited activity in chemicals, transportation and utilities (unlike at the start of OBOR when there were many utilities transactions announced).

Geographies

Asia continues to lead in volume; in Q4 Asia represented 41.8% of total announced volume of M&A/equity investments. Leading in activity, in descending order, were Hong Kong, India, Singapore, Indonesia and Malaysia. There was also activity in Korea, Japan, Thailand, Philippines and, to a lesser extent in Taiwan, Sri Lanka and Samoa.

Europe reversed its prior three quarters of declines, increasing to 26.7% of announced volume, up from 19.2% in Q4. The UK and Germany remain the leading countries both in volume and amounts. They are followed by France, Switzerland, Austria, Italy and Netherlands. Sweden and Norway saw investments in Scandinavia. We saw our first Russian inbound investment for many quarters, into communications.

North America volume increased to 25.5%, up from 20.2% in Q4 2019. Most of the activity involved Chinese investors investing in small stakes in USA investor led syndicates providing growth capital for USA based healthcare and fintech organisations. We also saw a modest increase in investments into Canada.

Collectively, these 3 regions represented 94% of announced outbound M&A/equity investment.

Latin America Caribbean (LAC) saw 5 Q1 investments, down from 8 in Q4. These were focussed on Argentina, Brazil and Mexico. The Middle East saw zero Q1 investments, down from 7 in Q4. Africa declined to 1 Q1 investment from 4 investments in Q4. Finally, Australia saw deals/investments in Q1. Two of these were in fintech and e-commerce, one in real estate and one in mining.

Chinese Inbound Announced M&A Transactions/Equity Investments

120%

$11.0+ bn

Q1 announced China inbound investments/pledges into China involved a number of industries and companies on the three continents in our analysis; Asia saw over $6 billion inbound investment by Hong Kong and Singapore based firms and an important healthcare JV with a major Japanese pharma group; UK/Europe saw $4.5 billion (with disclosed values) from 7 investments/pledges /JVs involving Germany, 5 from the UK, 1 joint UK/Netherlands (Royal Dutch Shell), 4 from France, 2 each from Switzerland and The Netherlands and one each from companies based in Spain and in Portugal.

In North America, there were also 3 confirmed investments from the USA, with MasterCard, Morgan Stanley and Goldman Sachs all receiving regulatory approvals to operate in China (the latter two with majority stakes). It is worth noting that in Q4 General Motors pledged $4.3 billion investment into China (through 2024) and in early April, JP Morgan paid $1 billion to acquire control of its Chinese JV. Canada's Bombardier JV also won a $400+ million Chinese based contract in Q1.

We see Q1 inbound as an acceleration of China's opening up commencing in 2018, initially led by a number of EU countries, expanding in 2019 to GCC countries – all of which we began tracking in earnest in 2018.

Government Related Loan Agreements/Grants/Donations

$3.2 bn

68.9%

Chinese Government related loans in Q1 were heavily influenced by COVID-19, both domestically and throughout the BRI.

Domestically, by mid-February, CDB had granted circa $3 billion in emergency loans related to NCP mainly to construction/protection of the two makeshift hospitals in Wuhan and to support businesses in the Hubei province.

Internationally, at the end of February, MOFCOM and CDB jointly issued a policy on BRI loans recommending; providing low-cost loans and foreign exchange working capital loans; overseas RMB loans to see interest rate cuts; extending loan repayment periods; and providing diversified financial support (e.g. increasing coordination with overseas financial institutions and promoting flexible and diversified domestic and foreign currency financing services.

In light of these conditions, it is not a surprise to see Government related loan committed totals in Q1 2020 fall considerably across all components.

- Newly committed policy bank loans volume fell only slightly from 7 to 6, but declined in total amounts from $5.5 billion in Q4 2019 to $1.4 billion in Q1 2020, a decline of 78%. Such loans were focused in Africa, Myanmar and Sri Lanka.
- Grants/aid decreased from 3 to 1; but amounts increased from $435 million to $580 million.
- AIIB approved projects decreased from 12 in Q4 2019 to 2 in Q1 2020 (Oman, Bangladesh). Aggregate amounts declined from $1.7 billion to $260 million, a decrease of nearly 85%.
- NDB approved projects declined from 8 for $2.6 billion in Q4 to only 1 facility for $987 million – to China for NCP related financial assistance.

Despite the environment, policy bank loans under discussion total over $45 billion; however, we believe that all were already on the list of 283 agreed deliverables from BRF II. Now, many of these are well advanced; specifically Sinosure/Turkey (MoU), Turkcell/CDB (MoU), SPIA Airport/CDB in Philippines and Russia based LNG projects. While this number appears large to an outside observer, it has continued to decline over the past two years as the BRI, as set out in our July 2019 *BRI Pulse*, continues to progress from its initial Infrastructure phase to the *Digital Silk Road, SEZs* and *the Health Silk Road*.

Government/B2B Agreements (Zero)

In early January, President Xi met with the Prime Minister of Laos in Beijing in meetings designed to accelerate construction of the China-Laos Economic Corridor (CLEC). These include railways, in particular the Laos-China railway and economic parks. PBOC and Laos also signed an agreement on bilateral monetary cooperation to enhance the use of local currencies in trade and investment.

In mid-January, during President Xi and Aung San Suu Kyi signed 33 agreements designed to progress development of the China Myanmar Economic Corridor (CMEC), with agreements on railways linking southwestern China to the Indian Ocean, a road going through BCIM, a deep sea-port in the Rakhine state, a SEZ on the border and a new city project in the commercial capital of Yangon.

In late January, China and Brunei agreed to further deepen the cooperation of the Brunei-Guangxi Economic Corridor and actively participate in the development of the New Land-Sea Corridor. Both countries also agreed to deepen cooperation in trade and investment, infrastructure, e-commerce, agriculture and aquaculture.

In late January, Serbia announced planned railway infrastructure spending of €3.5 billion as part of the €14 billion Serbia 2025 national investment programme. At the end of February, Serbia’s First Deputy PM and Minister of Foreign Affairs of Serbia Ivica Dačić became the first foreign minister received by China since the outbreak of the epidemic, confirming China’s role in railway and motorway projects.

Overview of Grisons Peak

Grisons Peak is a UK based merchant bank focused on Asia which owns and operates an advisory business, a consultancy business (Grisons Peak Services) and a China macro research business.

The advisory business was launched in 2003. During the period 2003-2018, Grisons Peak advised on over $25 billion of completed transactions. Initially, these were focused in the Financial sector. However, as Technology developed into a larger component of Financials, especially in emerging markets, the advisory business focus moved into Technology, which we consider to be an enabler across industries. As OBOR and then the BRI developed, the advisory business was adjusted to follow the BRI geographically.

The Chinese macro research business is based upon a proprietary database, launched during 2008, which tracks all Chinese outbound across M&A, G2G/B2B, Government related loans and public and private outbound equity investments (www.chinainvestmentresearch.org). Beginning in 2018, as China began to focus on inbound FDI, we began also monitoring China inbound.

We bring a forensic discipline to analysing data, with the goal to either reconcile and/or footnote each number back to original sources, which we believe is unique to other data providers.

We also track Chinese outbound investments below $10 million, as they have represented an increasing percentage of Chinese outbound volume since 2017. We believe that this is also unique to other financial data providers. This degree of discipline is loss making in itself – as we also choose to release quarterly data publicly, without cost, as a way of educating those interested in clean data/facts about the BRI.

Our data/research has been quoted by financial press globally and utilized by a number of major universities and think tanks as a basis for academic studies.

Based on over one decade of this data, in 2017 Grisons Peak launched a Consultancy business, which utilizes this data for bespoke studies prepared for selected major corporate and services organizations, academic institutions and governments. We also present this information at major BRI conferences globally. Over the past three years, bespoke Consultancy has become an increasing focus of Grisons Peak with the specialty in BRI.

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