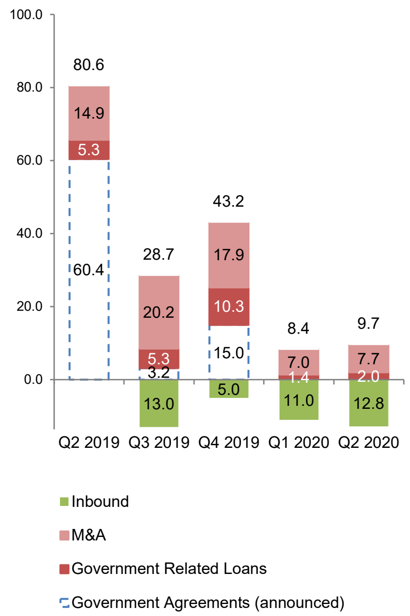
China Inbound continues to surpass China outbound: Increasing focus on BRI countries

Improving from Q1, Chinese announced investment in outbound M&A /Equity investments showed aggregate amounts increased by 10%, albeit from a 10 year low base. Through H1 2020, announced Chinese outbound M&A/equity investments continue to run at a $30 billion/year pace, an 86% decline from 2016's $222 billion record total.

Announced Chinese inbound investment/pledges increased from $11 billion in Q1 to $12.8 billion in Q2. In Q2, IPO activities in mainland China and Hong Kong, the two leading exchanges to date in 2020, returned to pre-COVID-19 levels. The two Q2 secondary listings of jd.com and NetEase raised $6.6 billion new equity. The STAR Market was similarly successful in the A-share market, with the SMIC listing set for early Q3. International investors bought $34 billion of Chinese government bonds in Q2; holdings by foreign investors totalled 2.2 trillion yuan up 33.5% yoy.

Policy bank loans remained virtually flat at circa $2 billion from Q1. Instead Q2 was dominated by debt restructurings/relief with many countries adversely affected by the virus as well as COVID-19 Emergency Programme (CEP) loans by AIIB and NDB. Together, AIIB and NDB were involved $14 billion CEP loan commitments; $12 billion by AIIB and $2 billion by NDB. AIIB was also involved in $1.9 billion committed loans for non COVID projects.

Table 1: Aggregate Value (USD billion)



Key Highlights

- Announced Q2 aggregate M&A/equity investments totalled $7.7 billion, an increase of 10% over Q1(1). Volume was flat from Q1. Investments with disclosed values of $10 million or less fell slightly from 49.3% of Q1 volume to 48.1% of Q2 volume.
- The Consumer sector was the most active, with 25% of total volumes, a mixture of mid-sized ($150-500 million) deals as well as minority/VC e-commerce investments. Financials with 20.7% saw the two largest land/property deals, but the majority remained focussed on growth capital for in particular fintechs. Healthcare at 18.9%, saw a number of investments in the $50-200 million range, although 30% involved $10 million or less, again with a focus on growth capital. Industrials at 10% were focussed on smart manufacturing. There was increasing number of investments in renewables, mining and logistics.
- Relative to geographies, Asia led with 46% of announced volume and North America with 24.2%, while UK/Europe declined to 19.4%. Volumes declined appreciably in India as the quarter progressed and remained muted in Australia. Conversely, BRI countries saw increasing volume and amounts.
- Q2 announced China inbound investments/pledges were $12.8 billion, an increase of 16.6% from Q1. These investments were a mixture of controlling stake acquisitions, minority stakes, JVs and new plants, across autos, chemicals, healthcare, tech, smart manufacturing and consumer. Europe/UK led with $8.0 billion. As a country, Germany led Europe with $3.5 billion with 9 announced investments, Asia saw $3.275 billion, and North America, with 10 investments, totaling $1.5 billion.
- Q2 government related loans were dominated by COVID-19 Emergency Programme (CEP) Loans via AIIB and NDB. Together, these two institutions were involved $14 billion CEP loan commitments; $12 billion by AIIB and $2 billion by NDB. Outbound committed

Footnote:

(1) This amount would have been even larger if amounts on a handful of transactions had been disclosed.

policy bank loans were again less than $2 billion with one large committed facility to fund a CEE HSR project represented over 95% of this total.

- As in Q1, again there were zero G2G pledges resulting from high level Government meetings. As Q2 quarter ended we saw a regional Central Asian BRI pledge for $6 billion new projects.

Chinese Announced Outbound M&A Transactions/Equity Investments

up 10%

Similar to Q1, there was only one transaction above $1 billion- the sale of a 25% interest in Vivid Synergy to a wholly-owned subsidiary of Ping An Life for $1.2 billion, and only one above $500 million – Alibaba's $600 million investment. Together, these two transactions represented 24% of announced aggregate value *(we excluded the LG Chem $1.1 billion deal to sell its liquid crystal display polarizer business to Shanshan as this was a conditional deal only (not yet binding)*.

Average transaction/investment size for the 137 transactions/investments with disclosed values was $57.6 million an increase of 15% from Q1's $50.2 million.

Investments with disclosed values of $10 million or less fell slightly from 49.3% of Q1 volume to 48.2% of Q2 volume, both were up substantially from 41.3% in Q1 and in the mid-30s% range during 2018/2019. The trend of minority stakes and growth capital are marked changes from the first five years of the BRI.

Industries

Once again, the Consumer sector was the most active, representing 25% of total volume, virtually flat from Q1. Aggregate amounts of consumer were lifted by some mid-sized ($150-500 million) investments in education, e-commerce, food delivery, music/entertainment and games.

The Financial sector ranked 2nd in announced volume with 20.7%. Most of these investments involved providing growth capital, as minority stakes, to fintech organisations across Asia and Europe and to a lesser extent in MENA, USA and Australia. The two major Asian land/property acquisitions represented 23% of outbound Q2 value.

Healthcare/pharma/life sciences represented 18.9% of total volume. The two largest Q2 healthcare investments were in Hong Kong and Singapore. Neither exceeded $250 million value. Approximately 25% of said investments were less than $10 million into pharma companies along both coasts of the USA and across a number of European and Asian countries. We also saw healthcare investments/JVs in Nigeria and in the UAE. There were also 8 inbound life sciences investments/JVs during Q2. Activity in this sector increased monthly throughout the quarter driven in part by the need to seek solutions to COVID-19 as well as what we perceive to be Western life science options /next steps in building out the *Health Silk Road*.

Industrials, most related to smart/tech manufacturing represented 10%, as did media and communications.

There were 5 renewable energy deals including one mid-sized deal in Italy. There were also 5 mining transactions as China moves to replace changes in its supply chains resulting from growing international political pressure.

There were also 4 logistics deals (we continue to see this as a commercial growth area, both in China and along the BRI) and two transportation deals.

Unlike early in the BRI, there were no utilities deals – another sign of how quickly the BRI has and continues to evolve.

Geographies

Asia continues to lead in volume; in Q2 Asia represented 46% of total announced volume of M&A/equity investments. Leading in activity, in descending order, were Hong Kong, Singapore, Japan, Indonesia and Malaysia. Both Hong Kong and Singapore saw a transaction of $600 million or greater. There was also activity in Korea, Thailand, Philippines, Vietnam and Taiwan as well as a small investment into Pakistan. As expected there was a substantial decline of activity in India, including constraints with cash flowing into previously agreed deals.

North America was 24.3% of volume, down slightly from 25.5% in Q1. Most of the activity involved Chinese investors investing in small stakes in USA investor led syndicates providing growth capital for USA based healthcare organisations. We also continue to see a modest increase in investments into Canada.

Europe returned to the four quarter average of circa 19%. The UK (including British Overseas Territories) and Germany remain the leading countries both in volume and amounts. They are followed by France, Switzerland, Czech, Poland and Luxembourg. Also seeing activity were Italy, Sweden, Denmark, Monaco and Gibraltar.

- MENA saw 8 investments, led by Israel, but also in Saudi Arabia and the UAE
- Africa saw 5 investments, including Egypt and Nigeria as well as Guinea, Guyana and DRC
- Australian saw 2 investments, both in tech
- Latin America Caribbean (LAC) saw two Q2 investments, down from 5 in Q1 and 8 in Q4

Several of the above countries previously signed the BRI MoU

Chinese Inbound Announced M&A Transactions/Equity Investments

up 16%

Q2 announced China inbound investments/pledges were $12.8 billion, an increase of 16% from Q1. These investments were a mixture of controlling inbound acquisitions, minority stakes, JVs and new manufacturing facilities. They involved the chemicals, healthcare, tech, smart manufacturing and consumer sectors.

Europe/UK led with $8.0 billion. The largest announced Chinese inbound investment was Royal Dutch Shell/CNOOC plant for $5.6 billion (50% for EU or $2.8 billion). As a country, Germany led Europe with $3.5 billion[2], with 9 announced investments; 4 M&A (two by Volkswagen, one by Munich Re), 3 new plants (including BWM) and 2 VC investments by funds related to major German corporates. The majority of these inbound investments were into tech, healthcare and smart manufacturing.

The UK followed with $1 billion on 4 Chinese investments, the largest of which a $705 million was unsecured loan from Chinese banks into JLR China, which was experiencing high growth and needed liquidity as the Chinese economy and auto market recovered quickly. France had

Footnote:

(2) We assume that the new BMW plant represents €1 billion of the €3 billion BMW pledged in Q4 2018.
We also assumed that the Munich Re investment was for $400 million.

two announced investments totalling $500 million, the largest of which was the launch a US$453 million fund to finance investments by French companies investing into China.

Switzerland also announced two investments, one by Nestle for circa $100 million and Credit Suisse's 18% controlling stake in its Chinese asset management partner[3].

Asia saw $3.3 billion announced inbound investment. This region was led by Japan which had 3 announced investments totaling $2 billion, including a $1.2 billion investment in a new Toyota plant in China, a $500 million investment by Softbank into Didi and a minority investment into a China based agricultural organization. Hong Kong had two announced investments totaling $400 million led by 3 prime logistics purchases in Jiangsu[4], while Thailand had one investment in a new consumer plant for $149 million.

In North America, there were also 10 announced investments, 9 from the USA and 1 involving Canada totaling $1.5 billion. The USA was led by JPMorgan's $1 billion acquisition of the controlling stake in its Chinese asset management JV, $150 million investment by Blackstone, 3 VC investments by Qualcomm (IoT, AI, 5G), two inbound Chinese healthcare investments (including USA and UK asset managers), a JV between KFC and Yum China and the approval of Mastercard's Chinese license.

Re Canada, Tencent announced an investment into Tim Horton's[5] expansion into China after agreeing to a deal with Cartesian Capital Group which acts as the master franchisor in the region since 2018. The partnership with Tencent will help boost the digital expertise at Tim Hortons for a market far more familiar with online ordering and delivery

up 33%

Government Related Loan Agreements/Grants/Donations

Q2 was dominated by COVID-19 Emergency Programme (CEP) Loans by AIIB and NDB, two multilateral development banks instead of Chinese policy bank loans focused on BRI projects. Together, these two institutions were involved $14 billion CEP loan commitments; $12 billion by AIIB and $2 billion by NDB. AIIB was also involved in $1.9 billion committed loans for non COVID projects. Conversely, there were less than a handful of committed policy bank loans, totaling circa $2 billion, consistent with the declining trend over the previous several quarters.

- AIIB approved projects increased from 2 in Q1 2020 to 15 in Q2. Aggregate committed loans amounts increased from $260 million in Q1 to $5.43 billion in Q2, which excludes a $150 million approved equity investment in an Asian infrastructure fund.
- NDB approved projects doubled from only 1 facility for $987 million to 2 for a total of $2 billion in Q2.
- Newly committed policy bank loans volume declined again from 6 in Q1 to only 3 in Q2, while total amounts committed increased by $1.4 billion in Q1 to $1.865 in Q2, a 33% increase – albeit on a very small base.

COVID (CEP) Loans

AIIB was involved in 10 COVID related loans involving 8 different countries (2 CEP loans each to Indonesia and India) totaling circa $12 billion. AIIB provided $4.2 billion, representing 35% of total commitments, in these 10 facilities. However, the largest aggregate commitments were from ADB which provided $5.6 billion or 46.7%. Local financial institutions provided $1.84 billion (15.4%), while the remainder was funded by the World Bank. India was the largest recipient with $3.75 billion (31.3%) followed by Indonesia with $3.5 billion (29.1%).

Footnotes:

(3) The amount is likely to be meaningful.

(4) We estimate the ESR Chinese logistics at $400 million.

(5) The amount is likely to be meaningful.

Pakistan, Mongolia, the Philippines, Georgia, Bangladesh and PRC were the other country recipients.

NDB also approved two CEP loans, each for $1 billion (up from 1 for $987 million in Q1), one to South Africa and one to India (when combined with AIIB CEP loans saw a Q2 total of $4.75 billion out of $14billion).

The June loan to South Africa came days after NDB priced its inaugural $1.5 billion 3-year COVID Response Bond in international capital markets, which saw strong participation from central banks and major institutions. Geographically, the final investor distribution was 56% Asia, 29% EMEA and 15% Americas.

Non COVID AIIB Commitments

There were 4 non COVID AIIB loans in Q2 and one AIIB equity investment in an Asian infrastructure fund. The projects involving the four loans totalled $1.72 billion; of which AIIB loans represented $1.1 billion or 65% of the total. The World Bank contributed $170 million while local financing sources approved $452 million. Two of these loans were to Bangladesh projects and two to Uzbekistan projects. All four were multilateral. The one ($100 +50 million) equity investment was into an Asian multi-country infrastructure fund based in Singapore which we flagged in Q1.

Policy Bank Commitments

Policy bank loan commitments continued their quarterly decline with only 3 committed facilities in Q2, totaling $1.865 billion. The largest, by CEXIM, was for $1.785 billion, which represents 85% of the cost of the 150 km Hungarian portion of the 370 km Budapest–Belgrade railway (under discussion since 2014). CDB also completed a $150 million bilateral facility with Bank Muscat to be used to fund domestic Oman growth. In early May, the Sri Lanka Govt Cabinet approved an $80 million CDB loan to develop a number of roads within the country. This paucity of new Chinese policy bank loan commitments continues as China rapidly moves to digitise prior BRI infrastructure 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.