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China Outbound and Inbound Investments Q3 2020

Dual Circulation already in Progress

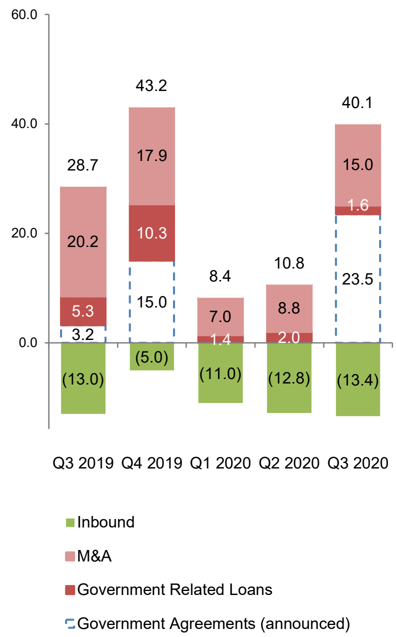
Q3 2020 announced Chinese outbound M&A/equity investments saw aggregate amounts increase by 70% to $15.0 billion from Q2's revised $8.8 billion. Through Q3, announced outbound M&A/equity investments are now running at a $45-55 billion/year pace, down slightly from 2019's $60 billion pace.

Announced Chinese inbound investment/pledges also increased by 4.7% to $13.4 billion *prior to potential contingent healthcare payments of $3.7 billion*. International investments in Chinese debt and equities, both in Greater China and the USA remained very strong throughout the quarter providing significant cash flow/investment into China.

For the first time in 2020, and for the largest amounts since Q2 2019, China made pledges of future B2B investments/loans of $23.5 billion to Pakistan and (midpoint) Armenia.

Committed new Chinese policy bank loans were only $600 million although an additional $3.7 BRI loans were agreed in principle but not yet signed. Chinese Govt loans were $1 billion to LAC for vaccines. COVID and Non COVID loans fell to $1.438 billion at AIIB, $1 billion at NBD.

Table 1: Aggregate Value (USD billion)



Key Highlights

- Announced Q3 aggregate M&A/equity investments increased by 70% over revised Q2 while volume was up by 4%. Investments with disclosed values of $10 million or less represented 38% of all announced investments but 48% of all investments with announced values.
- Q3 saw 6 announced M&A deals/investments over $700 million, including 4 over $1 billion, up from 1 of each in Q2. Collectively, these 6 represented 52.8% of Q3 announced aggregate amounts.
- Pharma/healthcare/life sciences led with 28% of total volume, up from 18.9% in Q2 as the industry sought solutions to the global pandemic. The Financial sector ranked 2nd with 20.7%, mostly growth capital/minority stakes, to fintech/insurtech, blockchain, cryptocurrency organisations in Asia and Europe. Consumer ranked 3rd with significant investments in e-commerce, games and food. Renewable energy investments continued to increase for the 3rd consecutive quarter both in volume and aggregate amounts.
- Regionally, Asia again led with 46% of announced volume, followed by North America with 28.2% while UK/Europe declined again to 17.7%. The uplift in the USA was related to small investments China made into investor syndicates providing growth capital primarily in healthcare. India was virtually nil and in fact negative as several previously announced deals were not funded. Announced Australia was nil.
- Q3 announced China inbound investments/pledges were $13.4 billion, an increase of 4.7% from Q2 announced. Europe led with $6.8 billion, followed by North America of $4.1 billion and $2.5 billion from Asia. These investments were across a number of sectors, but focused on automotive, financial services/logistics, tech and healthcare (as noted above, this amount does not include potential contingent healthcare payments of $3.7 billion).
- AIIB was involved in 7 COVID related loans totaling $877.6 million, nearly an 80% decline from Q2's $4.2 billion as well as 5 non COVID loans totalling $560 million. NDB approved one CEP loan, for $1 billion to Brazil. Policy bank loan commitments saw only 1 committed facility in Q3 for $590 million, down $1.865 billion in Q2 (although there are 2 such loans to Bangladesh and Pakistan agreed but not yet signed). In July, China agreed to provide a $1 billion loan to make its coronavirus vaccine accessible for LAC countries across LAC.

- In Q3, China announced $11 billion in B2B agreements in Pakistan, including $3.9 billion in two hydropower projects (no debt) and a restructuring of the Pakistan railway network. China also pledged $12.5 billion (midpoint) to build a SMART city in Armenia over the next 10 years.

Chinese Announced Outbound M&A Transactions/Equity Investments

+70%

Unlike in Q1 and Q2, Q3 saw an increase in the number of investments above $1 billion as well as above $500 million:

- The largest was the $3.0+ billion sale of a 28% pre-IPO stake to a number of Chinese buyers in an offshore real estate/property business owned by China Evergrande
- State Power agreed to acquire a 33% stake in two Brazilian LNG fuel plants
- Tencent acquired Hong Kong-based game developer and distributor Leyou Technologies
- Samsung Display sold a 60% stake in its LCD factory in Suzhou to CSOT for $1.08 billion, $739 million of which it redeployed into China by acquiring a 12.3% stake in TCL Huaxing
- China Mobile paid a record price of $772.6 million for a parcel of Hong Kong industrial land, outbidding local bidders; a 2nd sizeable HK real estate acquisition was also announced
- Harbin Pharma agreed to acquire GNC health foods (USA) out of receivership for $770 million

Average transaction/investment size for the 135 transactions/investments with disclosed values was $111.3 million, an increase of 93.3% from Q2's $57.6 million.

Investments with disclosed values of $10 million or less represented 39% of announced investments but 48% of all investments down slightly from Q2 but up substantially from 41.3% in Q1 and in the mid-30s% range during 2018/2019.

<u>Industries</u>

For the first quarter ever, pharma/healthcare/life sciences led with 28% of total volume, up from 18.9% in Q2. This is not a surprise in light of the industry searching for solutions to the global pandemic. Except for two USA acquisitions (only one of which was for control and was the result of a formal bankruptcy), for a total of $1.1 billion, virtually all of the investments were below $25 million – as China's focus has become providing growth capital via minority stakes and/or JVs/drug discovery throughout the world. It is worth noting that volume in this sector has nearly doubled over the past 4 quarters.

The Financial sector ranked 2nd in announced volume with 24.4%. Most of these investments involved providing growth capital, as minority stakes, to fintech/insurtech, blockchain, cryptocurrency organisations in Asia and Europe. As set out above, three real estate transactions involving Hong Kong represented circa 30% of Q3 aggregate amounts.

The Consumer sector fell to 3rd place with 20% of total volume, down from 25% of total volume in Q1 and Q2. E-commerce continues to be a focus. On average, deal sizes remained small to mid-size; except for the Tencent games deal in Hong Kong, and the China Resources $300 million City Super deal (also in Hong Kong), there were virtually no other consumer investments over $200 million. Activity remained focussed both in Asia and in Europe.

Industrials, mostly related to smart/tech manufacturing, represented 8%. These were concentrated in North Asia, in particular, in Korea, Japan and Taiwan. There were also small manufacturing investments into the EU and Israel.

Investments/acquisitions in renewable energy saw 7% of outbound global volume, but 15% of aggregate amounts. Outside of the Brazilian LNG investment, Three Gorges invested $600 million to acquire Spanish renewable assets. There were also renewable investments in the UAE (solar), Bangladesh and Canada (solar). There were also two investments into fuel cells, one of which was in Canada.

Unlike the initial years following the BRI launch, there were no investments into utilities, chemicals, transportation and only one announced in mining.

Geographies

Asia continues to lead in volume; in Q3 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. There was also activity in Korea, Thailand, Myanmar, Vietnam and Taiwan and one investment each into Kazakhstan and Bangladesh. Investments into India continued to decline, compounded by constraints on cash flowing into previously signed deals.

In terms of aggregate value, Hong Kong was home to three of Q3's largest deals, while Korea saw one over $1 billion and Taiwan one for nearly $500 million.

North America represented 28.2% of volume, down slightly from 24.3% in Q2. Most of the activity involved Chinese investors investing in below FDI levels in USA investor led syndicates providing growth capital in healthcare. We also continue to see a modest increase in investments into Canada as noted above.

Europe fell to 18%, slightly below the past four quarter average. The UK and Germany remained the leading countries both in volume and amounts. They were followed by Switzerland, Sweden, Norway, Belgium, France and Denmark. In light of the UK's 31st December exit from the EU we anticipate that Chinese investment will shift focus from the UK into the EU.

- Latin America Caribbean (LAC) saw 7 investments, including 3 in Brazil (one in tech, one in consumer and one in renewable): and two of Q3's largest deals.
- MENA saw 6 investments, focussed on Israel and UAE.
- Africa saw 2 small investments, both healthcare related.

Chinese Inbound Announced M&A Transactions/Equity Investments

+4.7 %

Q3 announced China inbound investments/pledges were $13.4 billion, an increase of 4.7% from Q2 (excluding *potential contingent healthcare payments* of $3.7 billion). These investments were a mixture of controlling inbound acquisitions, minority stakes, JVs and new plants/operations. They were focused around the automotive, healthcare, financials (USA, Canada and Asia), real estate, tech/insurtech, smart manufacturing and consumer sectors.

Europe led with $6.8 billion. The largest was a pledge of $17.5 billion of incremental inbound automotive investment by Volkswagen between 2021-2024; however, there were also a number of other automotive and German corporate investments. In healthcare, there were inbound (mostly corporate) investments/JVs from Germany, Netherlands, France and UK totalling $221 million upfront with $602 contingent payouts. Waterdrop (insurtech) raised

$230 million in a new round of funding jointly led by Swiss Re and Tencent. Other EU inbound investments involved tech and smart manufacturing.

North America saw $4.1 billion of inbound investment flows led mostly by USA banks and Canadian pension funds. In the USA, there were inbound investments from Cargill, Citigroup, Blackrock, JP Morgan and Trustbridge Partners. Chubb closed on its 15.3% stake in Huatai Insurance Group Co Ltd for $1.53 billion (now 46.2%). Canada saw significant investments from CCPIB and Manulife Financial, both in commercial real estate/logistics. In July, Vanguard, through its JV with Alibaba, announced higher than expected growth among its retail clients in Chinese equities. Inbound USA healthcare saw 9 corporate transactions/JVs/licensing, totaling $1.31 billion at closing plus contingent payments of $3.1 billion.

Asia saw $2.5 billion announced inbound investment. CK Asset, founded by Li Ka-shing, sold a residential and commercial development project in Chengdu for around $1 billion. Samsung Display agreed to pay $739 million to become TCL CSOT's 2nd largest shareholder with a 12.3% stake. Ping An Insurance announced healthcare JVs with Shionogi (Japan) in Shanghai and Hong Kong; Shionogi agreed to invest $225 million in the Shanghai JV. There were additional inbound investments into Chinese healthcare from Singapore, Bahrain and Israel. Both DBS (Singapore) and Daiwa (Japan) received authorisation to operate JVs in China; each with circa $200 million capital.

G2G/B2B Agreements/Pledges

NM

For the first time in several quarters, Q3 saw signed multi-billion agreements with Pakistan and Armenia; and proposals from Iran and Russia. We highlight the two agreements below:

- Pakistan – in Q3, Pakistan and China signed CPEC related investment agreements totalling $11 billion to restart CPEC development; $3.9 billion for circa 2G of hydropower (no debt) and a $6.8 billion rail upgrade ($2.7 billion loan).
- Armenia – in August, China signed an agreement to finance the construction of a new "Smart Science City" in Armenia. The financing was stated to be $10-15 billion, to be invested over a period of up to 15 years.

Government Related Loan Agreements

Policy Bank Commitments

-14.2%

Policy bank loan commitments continued their quarterly decline with only 1 committed facility in Q3 for $590 million, down from $1.865 billion in Q2. The $590 million, 8 year maturity loan can be utilized in both euros and China's renminbi (yuan) currency designed to finance Turkcell's infrastructure investments over the next 3 years. Much of Q3 policy bank activity was focussed restructuring existing facilities related to the effects of COVID, although another $3.7 billion loans were agreed but not signed with Bangladesh ($1.0 billion) and Pakistan ($2.7 billion).

Chinese Government Loans

In July, the Chinese Government agreed to provide a $1 billion loan to make its coronavirus vaccine accessible for countries across LAC. This decision was communicated by Chinese Foreign Minister Wang Yi to ministers from Argentina, Barbados, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, Mexico, Panama, Peru, Trinidad and Tobago and Uruguay.

COVID (CEP) Loans

AIIB was involved in 7 COVID related loans in Q3, down from 10 COVID related loans in Q2. Q3 AIIB new exposures declined to $877.6 million, nearly an 80% decline from Q2's $4.2 billion. Bangladesh ($300 million) and Pakistan ($250 million) were the largest Q3 AIIB commitments, followed by Uzbekistan, Turkey, Kyrgystan, Fiji and Georgia.

NDB also approved one CEP loan, for $1 billion to Brazil. This loan was NDB's fourth emergency assistance program to combat COVID-19, following the emergency assistance programs to China, India, and South Africa.

Non COVID AIIB Commitments

In Q3, there were also a total of 5 non COVID loans totalling $560 million. These were to India ($200 million for HDFC line of credit), Indonesia ($150 million for a satellite project – PPP), Maldives ($40 million for waste treatment), Vietnam (up to $100 million VP Bank trade finance) and Turkey (€50 million for a metro line extension). Virtually all of these were multilateral.

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.