China Outbound and Inbound Investments Q4 2020

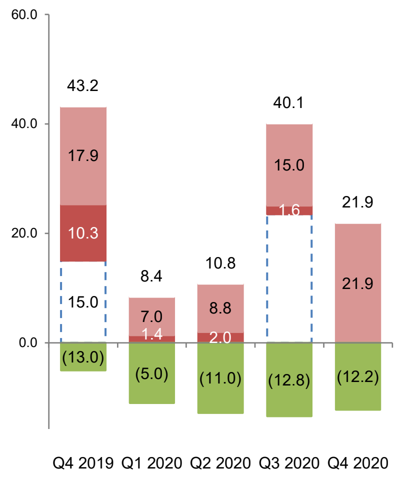
Dual Circulation Leads to Reduced Deal Volume and Increased Focus

Q4 2020 announced Chinese outbound M&A/equity investments saw aggregate amounts increase by 46% to $21.9 billion. This marks the 2nd consecutive quarter with significant increases – up from Q3's $15.0 billion, which itself was up 70% from Q2's revised $8.8 billion. The Q4 total is slightly misleading in that it was heavily influenced by 7 investments over $500 million in a quarter in which volumes fell significantly. It is worth noting that announced aggregate amounts for full year 2020 of $50 billion declined another 17% from $60 billion in 2020 and setting a new 5 year low.

Q4 announced China inbound investments/pledges were $12.2 billion, a decline of 9.8% from Q3 levels, excluding potential contingent healthcare payments from licensing deals. Clearly announced outbound was much greater than inbound – which is unusual for the past several quarters, especially post Dual Circulation. International investments into Chinese debt and equities, both via Greater China and the USA stock exchanges remained very strong throughout the quarter providing significant cash flows/investments into China.

Committed new Chinese policy bank loans were zero; instead there was a $90 million grant to Sri Lanka as the focus remains on restructuring existing facilities due to the effects of the pandemic. COVID and non-COVID new loans as well as investments into three funds increased slightly to $1.75 billion (Q3 $1.438 billion) at AIIB, while NDB saw total new commitments of $4.71 billion, up substantially from Q3's $1 billion led by 3 new COVID related facilities to Brazil and India (note, these are aggregate amounts; adjusted for Chinese ownership, China's new commitments totalled $1.4 million).

Table 1: Aggregate Value (USD billion)



Key Highlights

- Announced Q4 aggregate M&A/equity investments once again increased substantially from the prior quarter, this time up by 46% over Q3 totals. However, the volume decreased by 19% to the lowest level in several quarters. Investments with disclosed values of $10 million or less represented 27% of all announced investments but 35% of all investments with announced values.
- It is interesting to note that there were a number of transactions some with disclosed vales in excess of $100 million of stakes below 10%/FDI thresholds in Switzerland, Japan, Korea and Hong Kong and less than 15% in the UK.
- Q4 saw 7 announced M&A deals/investments over $500 million (up from 6 in Q2), including 4 over $1 billion. Collectively, these 7 represented nearly three quarters (71%) of Q3 announced aggregate amounts. In keeping with Dual Circulation, all of these are strategic, either from a geographic or strategic perspective.
- Once again, Phama/healthcare/life sciences led with 30% of total quarterly volume. Activity in this sector was driven by growth capital investments, licensing agreements and drug collaborations rather than large M&A transactions. Consumer was 20% of volume, but led in aggregate amounts due to two multi-billion retail M&A deals. Games and e-commerce were also active areas of investment. Financial ranked 3rd in volume, with a focus on fintech and crypto, mostly via minority stakes. Industrials saw 13% of volume, mostly in manufacturing. Logistics saw 6% of volume, with investments into Hong Kong, Thailand and USA while Renewables saw investments in Sweden, Mexico and USA. While volumes were low in utilities and mining, the largest deals of the quarter was a utilities deal in LAC,

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there were two sizeable mining deals in Africa and two construction deals, one in Portugal and one in Brazil.

- Regionally, for the first time in years, North America led in volume, with slightly over 40% of quarterly volume, up substantially from 28.2% in Q3 and 24.3% in Q2. However, virtually all of these were small investments, frequently below FDI threshold levels, representing growth capital, frequently in syndicates led by North American investors/groups. Asia saw 25% of Q4 volume of M&A/equity investments. Singapore led in volume, followed closely by Hong Kong. In the 2nd tranche, Japan led followed by South Korea. EU/UK (for the last time) increased to 24.4%, a substantial rise from the 18% in Q3. Activity was centred in Germany, France and UK, although there were also investments across Scandinavia as well as several other EU countries.
- Q4 announced China inbound investments/pledges were $12.2 billion, a decline of 9.8% from Q3 levels. North America led with $6.5 billion, mostly from the USA but also included a few investments from Canadian financial investors. Asia followed with $3.0 billion announced inbound investment. The largest investment was GIC's co-investment with CITIC in the mixed use privatization of Chinese SOE Xugong Group Construction Machinery. EU/UK saw $2.3 billion of disclosed values, led by Germany, Netherlands and UK, although there were a number of investments/pledges without disclosed values.
- AIIB was involved in 5 COVID related loans totalling $530 million, a 39.6% decline from Q3's $877.6 million, as well as 5 non-COVID related loans totalling $1.065 billion, an increase of 90.2% from Q3 non-COVID commitments. AIIB also invested in 3 funds, totalling $160 million. NDB approved one CEP loan, for $1 billion to Brazil. NDB also approved two CEP/COVID loans, for $1 billion each to Brazil and to India and 5 non-COVID loans in Q4 totalling $2.71 billion.

Chinese Announced Outbound M&A Transactions/Equity Investments

+46%

As noted above, announced aggregate amounts in Q4 was driven by the presence of several large investments, which we list below.

Transaction/investments over $500 million

Similar to Q3, Q4 saw an increase in the number of investments above $1 billion as well as above $500 million:

- State Grid acquired a 96% stake in Cia General de Electricidad, an electricity network company based in Chile, from Naturgy Energy Group SA (Spain) for $4.60 billion (enterprise value; $3.0 billion equity value)
- Tencent acquired its 2nd 10% stake in Universal Music (USA) for $3.68 billion, after acquiring its initial 10% stake in 2019
- Alibaba agreed to invest $3.6 billion to take a 72% stake in Sun Art, one of China's largest supermarket chains, from Auchan Retail International (France). In 2017, Alibaba acquired its initial 36.2% stake for $2.88 billion
- CStone Pharmaceuticals has agreed a $1.3 billion deal to license the rights for its anti-PD-L1 and anti-PD-1 agents in exchange for an upfront $150 million payment and up to $1.15 billion milestone payments from EQRx (USA)
- China Investment Corp acquired 50% of Grosvenor Place (Australia), in two 25% stakes for $674 million, in Sydney's largest commercial property deal in 2020. CIC had previously acquired a 25% stake

- China Molybdenum acquired a 95% stake in the Kisanfu copper-cobalt mine in the DRC from US-based Freeport-McMoRan Inc. for $550 million, boosting their reserves in DRC, the world's top producer of cobalt
- Lalamove (Hong Kong) on-demand logistics raised $515 million led by Sequoia Capital China, with participation from Hillhouse Capital and Shunwei Capital

Collectively, these 7 investments represented aggregate value of $14.9 billion, over 71% announced Q4 aggregate value.

In November, Brazil's Bahia state signed a PPP contract with a Chinese consortium for the construction, operation and maintenance of the 12.4 km Salvador-Itaparica Bridge. The project is worth 6.9bn reais (US$1.26bn) agreed a 5.4bn reais in investment from the consortium, which is formed by CCCC's South America Regional Company (CCC CSA) and China Railway 20 Bureau Group CR20 and 1.5bn reais from the Govt. The consortium now has one year to obtain all necessary licenses and start building the bridge, with construction expected to take four years. We noted the signing but did not include any amounts for Q4 totals.

Average transaction/investment size for the 109 transactions/investments with disclosed values was $201.2 million, an 80.1% increase from $111.3 million in Q3 and an increase of 246.3% from Q2's $57.6 million. However, after removing the 7 transactions over $500 million, Q4 average investment for the remaining investments with disclosed values was $68.6 million – consistent with averages over the past several quarters.

Investments with disclosed values of $10 million or less represented 27% of announced investments but 35% of all investments. However, it is interesting to note that there were a number of transactions some with disclosed vales in excess of $100 million of stakes below 10%/FDI thresholds in Switzerland, Japan, Korea and Hong Kong and less than 15% in the UK.

Industries

Pharma/healthcare/life sciences continued to increase its share of deal volume, rising to over 30% of Q4 volume, up substantially from 18.9% in Q2. This is not a surprise in an industry scrambling to deliver medical answers to the global pandemic. There were no major acquisitions in Q4; however, there were a number of licensing deals, one of which totalled circa $1.3 billion. As seen in prior quarters, 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.

The Consumer sector again saw 20% of total volume, flat from Q3 and down from 25% of total volume in Q1 and Q2. Games and e-commerce continue to be the main focus. We also saw increases in edtech. As shown above, two of Q4's largest acquisitions, totalling $7.3 billion were in this sector; one each by Alibaba and by Tencent. On average, deal sizes remained small to mid-size. Activity remained focussed both in Asia and in UK/Europe.

The Financial sector ranked 3rd in announced volume with 18.7%. 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, there was one significant real estate investment by CIC acquiring a controlling stake in a prior investment.

Industrials, mostly related to smart/tech manufacturing, represented 13%. These were concentrated in Asia, in particular in Japan, Hong Kong, Singapore and Vietnam. There were also small manufacturing investments into the EU and the USA.

Logistics saw 6% of volume, with investments into Hong Kong, USA and Thailand, renewable saw 3%, including investments into USA, Mexico and Sweden.

While volumes were low, Q4's largest deal was in utilities, there were significant investments into mining (DRC and to Ghana) and two in construction, one in Brazil and one in Portugal.

Unlike the initial years following the BRI launch, there were no investments into basic materials, chemicals or transportation.

Geographies

For the first time in years, North America led in volume, with slightly over 40% of quarterly volume, up substantially from 28.2% in Q3 and 24.3% in Q2. However, virtually all of these were small investments, frequently below FDI threshold levels, representing growth capital, frequently in syndicates led by North American investors/groups in tech, fintech, ecommerce, edtech and healthcare. Less than a handful of these investments were over $200 million; two were large drug licensing deals with USA healthcare firms. The USA did see one multi-billion consumer investment, but only for a 10% stake (which we discuss later). Canada saw investments in consumer/games as well as fintech.

Asia saw 25% of Q4 volume of M&A/equity investments. Singapore led in volume, followed closely by Hong Kong. In the 2nd tranche, Japan led followed by South Korea. There were also investments into Thailand, Vietnam, Indonesia and Pakistan. Once again, there were no acquisitions or equity investments into India – which contributed to a circa $4 billion decline in India's 2020 tech investments.

EU/UK (for the last time) increased to 24.4%, a substantial rise from the 18% in Q3. Activity was centered in Germany, France and UK, although there were also investment in Italy, Switzerland, Belgium, Portugal and across Scandinavia – Norway, Sweden and Finland. Again all of these investments with the exceptions of the large Alibaba/Auchland multi-billion investment, the UK Farfetch deal and one German and one Portuguese investment – both for circa $200 million, virtually all others were under $50 million, with several tech related investments below $10 million.

In light of the UK's 31st December exit from the EU we anticipated that Chinese investment will shift focus from the UK into the EU.

Before leaving the EU it is worth noting that the increasing importance of Liege as a key logistics connecting point between Asia and the EU. The airport and the area surrounding it, as well as the Antwerp port are likely to see increasing Chinese/global investment in the area continues to develop and expand.

- Latin America Caribbean (LAC) saw 5 investments, a major investment into Chile, a renewable investment into Mexico, an agricultural investment into Paraguay and a small fintech investment. We note the large Brazilian bridge investment above, but no funding will be released on it until 2021 at the earliest

- Australia saw 4 investments, the largest of which was for a 50% stake in a prior commercial real estate (for circa $677 million) and 3 much smaller, mostly minority stake investments in healthcare, manufacturing and consumer
- Africa saw 3 investments, 2 in mining in Congo and Ghana, and one in Nigeria fintech
- MENA saw 1 investment in Israel fintech
- Africa saw 2 small investments, both healthcare related

Chinese Inbound Announced M&A Transactions/Equity Investments

-9.8%

Q4 announced China inbound investments/pledges were $12.2 billion, a decline of 9.8% from Q3 levels. 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.

North America led with $6.5 billion, mostly from the USA but also included a few investments from Canadian financial investors. The largest deal continues to be the Exxon chemical complex, which will be 100% owned by Exxon – we included full year investment in this quarter. However, inbound investment volume was dominated by USA PE and VC firms focused on logistics, healthcare, tech and financial. The VC/PE investors included Blackstone, Tiger Management, Fidelity, Permira, Bain Capital, Wellington, LaSalle Investment Management, T Rowe Price, as well as OTPP and CCPIB. Healthcare investors included Pfizer, BlackRock, Kaiser Foundation, Mayo Clinic and Kleiner Perkins to name a few.

Asia saw $3.0 billion announced inbound investment. The largest investment was GIC's co-investment with CITIC in the mixed use privatisation of Chinese SOE Xugong Group Construction Machinery. Capital Land was also actively investing in business park properties in 5 Chinese cities. Singapore SWF's were also active in Chinese e-commerce, agriculture, edtech. There were major deals being discussed including Gaw Capital's new fund and Li Ka-Shing's sale of major Chinese assets, but neither was announced during Q4.

EU/UK saw $2.3 billion of disclosed values, although there were a number of investments/pledges without disclosed values. The $2.3 billion represents $1.75 billion of announced and $250 million quarterly investments from previously announced investments from BASF (Germany). The largest investment was VW's acquisition of a 25% stake in its JV with JAC for $1.25 billion which increased its stake to 75%. Royal Dutch Shell (Netherlands) also acquired the remaining 51% stake in its Chinese gas stations JV for circa $150 million. Farfetch (UK) enlarged its Chinese capital base by $500 million.

There were a number of German industrial companies which either announced increases in their existing Chinese operations for future pledges including Hahn Automation, MAHLE and Wacker Chemie – although no specific values were disclosed.

There were a number of tech/VC investments made which included Bosch Venture Capital and Evonik. Novo Nordisk (Denmark) invested $30 million into Chinese healthcare.

MENA, via Investcorp (Bahrain) saw investments into Chinese healthcare with a focus this quarter on medical testing devices-again no disclosed amounts.

Government Related Loan Agreements

Policy Bank Commitments/Grant

Not surprisingly, policy bank loan commitments continued their quarterly decline with only 1 committed facility (again) this quarter for $90 million, down from 1 facility in Q3 for $590 million. This facility was actually a grant, to be used for medical care, education and water supplies in Sri Lanka's rural areas.

Multilateral Banks

COVID (CEP) Loans

AIIB was involved in 13 total projects this quarter, including 5 COVID related loans, 5 infrastructure loans and investments in three funds. Q4 AIIB total new commitments were $1.76 billion.

The 5 COVID related loans in Q4 represented a decrease from 7 in Q3 and 10 in Q2. The two largest COVID loans of $200 million each were to Central Banks in Turkey and Uzbekistan. There were also COVID related loans to India ($60 million), Ecuador ($50 million) and Cook Islands ($20 million).

NDB also approved two CEP/COVID loans, for $1 billion each to Brazil and to India.

Non-COVID AIIB Commitments

AIIB

In Q4, AIIB made 5 non-COVID related loans totalling $1.065 billion, an increase of 90.2% from Q3 non-COVID commitments. These were to India ($500 million for extension of a rapid transit system), Russia ($300 million to Russian Railways), Bangladesh ($200 million for water supply and sanitation), India ($35 million for solar panels) and Laos ($30 million for highway upgrade). Again, virtually all of these were multilateral.

NDB

Meanwhile NDB also made 5 non-COVID loans in Q4 totalling $2.71 billion. These were to Brazil ($1.2 billion to BNDES sustainable infrastructure projects), South Africa ($1.0 billion for transportation infrastructure), Russia ($300 million for IT improvements), Brazil ($35 million for rural infrastructure) and Brazil ($75 million to Curitba transport upgrades).

Funds Investments – AIIB

AIIB invested into three funds in this quarter. The largest investment was for $100 million to become an anchor investor in ADM's private debt fund. It also invested $30 million into a private specialist growth PE fund focussed on climate change and another $30 million in Legend Capital's healthcare fund.

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.

In Q4, we led webinars in India, Singapore, Hong Kong and the UK. We were also a panellist in an Austrian (EU) based webinar.

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