

Overview

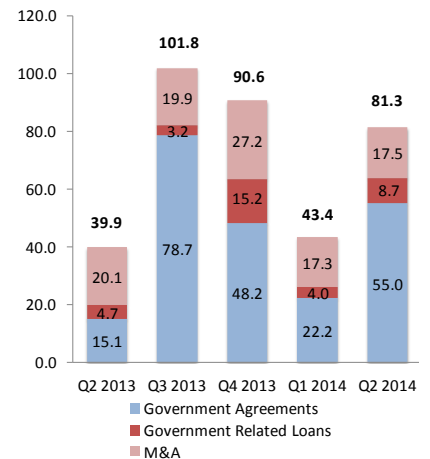
Total Chinese outbound activity rebounded strongly in Q2. While M&A/equity aggregate value increased slightly, there were large increases in aggregate values of both Government Agreements (up 148%) and Government Related Loan Agreements (up 121%).

Large transactions in each of these components drove such gains.

- The 9 largest M&A deals represented 76% of aggregate values (only 16% of volume). One of these deals was the largest Chinese outbound equity investment to date;
- The Government Agreements with Russia and the UK represented 94% of aggregate agreement amounts;
- The 3 largest Government Related Loans represented 74% of aggregate loan amounts.

We consider this to be an impressive performance especially in light of the domestic credit/financial tightening China experienced throughout this quarter.

Table 1: Aggregate Value (USD bn)



M&A / Equity Transactions

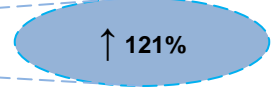


Despite the current global M&A boom, Chinese outbound M&A/equity of USD17.5bn showed only a 1% increase from Q1 with overall volume declining by 7% to 56. There were 9 M&A/JV transactions over USD500m. All of these were made by large Chinese state-owned enterprises (SOEs).

Latin America led in aggregate value – driven by the Las Bambas transaction. Europe led in volume (39% of total volume) for the fourth time in the past six quarters since Q1 2013.

Basic Materials led in aggregate value, due to the Las Bambas deal (the largest outbound Chinese equity investment deal to date). The Consumer segment was second (but led again in volume), while Financial Services, primarily Real Estate, ranked third.

Government Related Loan Agreements



There were 14 Government Related Loans (with disclosed values) in Q2 representing USD8.7bn aggregate value. This represented a 121% increase in aggregate value, while volume increased by 27%.

The largest loan, to Kenya for a railway extension, represented 41% of aggregate value. Two significant loans to the Greek shipping industry represented 33% of aggregate value. There was also a sizeable infrastructure credit facility and a loan framework agreement signed with Russia’s Vnesheconombank, and a sizable infrastructure loan to the Government of Cameroon.

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Government Agreements

↑ 148%

This quarter saw USD55.0bn in Government Agreements. This activity was focused in Russia, the UK and Greece.

In Greece, China has made considerable investments both prior to and during the financial crisis including purchasing Greek debt throughout the crisis and extending nearly USD3bn credit to the Greek shipping industry since 2010. During this most recent visit by Premier Li, he and Prime Minister Samaras launched the 17 kilometre railway linking the Piraeus port (managed by COSCO) to Athens, then to the Balkans and subsequently into Central and Eastern Europe. This is significant in that it represents a second step in linking maritime with railway assets to help transform Greece into a Southern European equivalent of Rotterdam. Airport investment has also commenced and is likely to strengthen in the future.

In addition to the Russia and Greece agreements, China entered into significant agreements with the UK (primarily energy related) and Pakistan (infrastructure related).