

## China Investment Research:

## China Outbound Investments Vol. 17

## Q1 2013 Overview

Q1 2013 saw the continuation of the recent quarterly declines in both transaction volume (47 / -46% qoq) and aggregate transaction amounts (USD 54.1bn / +33% qoq). Not surprisingly, there was a sizeable decline in aggregate amounts in M&A / Equity (USD 9.1bn / -45% qoq) as well as a 61% decrease in volume. This quarter saw the lowest Q1 M&A activity in volume and aggregate amounts in the last four years. These declines are not surprising given the National Party Congress (March) and the related leadership changes across the Central Government's financial functions.

However, within one week of President Xi assuming his new responsibilities, activity was relaunched with China signing four major trade agreements during H2 March, all in growth markets. These resulted in aggregate amounts in Government related trade agreements increasing when compared to the previous quarter (USD 28.0bn / +329% qoq).

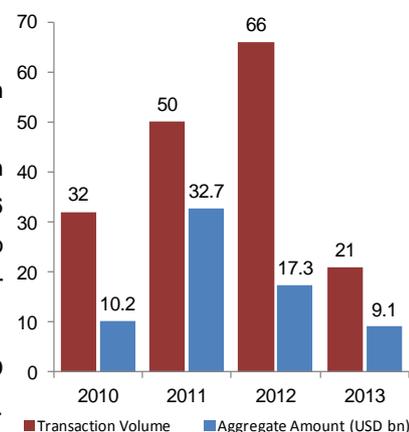
In Q1 2013, there were:

- 21 China outbound M&A / Equity transactions (down by 61%, compared to 54 in Q4 2012) with an aggregate amount of only USD 9.1bn (down 45% from Q4 2012).
- 21 Government related loan agreements announced in Q1 2013 representing an aggregate amount of USD 17.0bn. This was down 3% from Q4 2012. There were 6 major Government related loan agreements each over USD 1bn. Five went to emerging markets, including three to Africa, and one to Russia. Four of the major Government related loan agreements were focussed on energy and infrastructure.
- 5 Government related trade agreements announced in Q1 2013, representing USD 28.0bn of disclosed aggregate amount (+329%). All 5 involved emerging markets. Three of these were with strategically important African countries. The others included Russia and Pakistan.

**Key Statistics (yoy Growth)**

Q1 '13 GDP Forecast <sup>1</sup>	+8.0%
<i>(versus +7.8% in Q1 2012)</i>	
M2 (Mar '13)	+14.2%
CPI (Mar'13)	+2.5%

<sup>1</sup>Bloomberg median forecast

**Total Q1 Volume and Aggregate Amounts****Key highlights:**

We select below the largest transactions among each component:

- In M&A / Equity, the largest transaction was the purchase of a 28.6% stake in Eni East Africa by China National Petroleum ("CNPC") for USD 4.2bn. This acquisition gave CNPC an indirect 20% stake in offshore gas reserves in Mozambique (Eni East Africa owns a 70% stake in this offshore gas field). As part of this agreement, CNPC and Eni announced an agreement for shale gas exploration in China's Sichuan province.
- The largest government related loan was a 5-year USD 5.0bn loan from China Development Bank to Transnet, South Africa's freight rail company, designed to help fund Transnet's revamp across its network.

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- The largest trade agreement was with Tanzania involving c. 16 economic cooperation agreements across agriculture, energy, infrastructure, representing an aggregate value of USD 16.0bn. The centerpiece of this agreement was to build a major new USD 10bn port financed by loans from China (includes China Merchants Bank), of which USD 500m were to be made during Q1 2013.

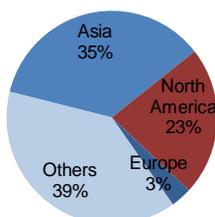
▪ **M&A / Equity Transactions**



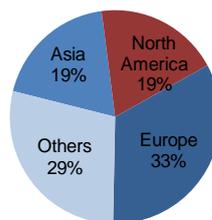
In Q1 2013, there were 21 outbound M&A / Equity transactions announced with an aggregate amount of USD 9.1bn.

- Overall, there were 8 investments involving takeovers / controlling interests, 10 investments involving minority stakes and 3 involving JVs during the quarter.
- Oil & gas led this quarter in aggregate sector amounts with USD 6.9bn, accounting for 75.8% of aggregate amounts. The majority of the amount was driven by three major transactions: CNPC / Eni East Africa (USD 4.2bn), Sinochem Petroleum Group (“Sinochem”) / Pioneer Natural Resources’ 40% share in Wolfcamp shale (USD 1.7bn) and China Petroleum & Chemical Corp / Chesapeake Energy’s Mississippi Lime Oil Acreage (USD 1.0bn). With these three large transactions, sector aggregate amounts increased by 5% (qoq).
- There were 17 transactions across all other industries, which totalled only USD 2.2bn (representing only 24.2% of the total aggregate amount). Energy (including basic materials and oil & gas) led the quarter’s transaction volume with 10 transactions (6 and 4 transactions respectively) representing 48% of the total volume.
- Financials (which includes Real Estate) saw the largest drop this quarter in terms of aggregate amounts (decreased by 93% to USD 0.4bn) with only one real estate transaction.
- Europe led this quarter in volume of transactions with 7 transactions while Asia, Australia and North America followed with 4 transactions each. Australia showed the second largest decrease this quarter, returning to volume levels from all the previous quarters except Q4 2012. As shown below, over the past three years, there has been a significant shift from Asia to Europe in M&A volume.

**Volume by Region as a % of Total M&A Volume Q1 2010**



**Volume by Region as a % of Total M&A Volume Q1 2013**



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- In terms of aggregate amount, Africa led with the USD 4.2bn of the CNPC / Eni East Africa transaction. This represented a 40% increase compared to Q4 2012. North America ranked 2nd with USD 3.2bn, (decrease of 54%).

- **Loan Agreements**



↓ 3%

There were 21 Government related loan agreements in Q1 2013 which represented an aggregate amount of USD 17.0bn. This was down 3% from the USD 17.6bn in Q4 2012. There were 6 loan agreements over USD 1.0bn this quarter. Five of these, representing 66% or USD 11.1bn, went to emerging markets (South Africa, Bangladesh, Pakistan, Angola and Sudan). The other one went to Russia. The remaining amounts were mostly loans to a number of African countries including Republic of Congo, Tanzania, Liberia, Ethiopia and Mauritania (representing 10% of total aggregate amounts). As noted previously, recipients were based in countries also negotiating trade agreements with the Chinese Government.

- **Trade Agreements**



↑ 329%

There were 5 trade agreements announced in the quarter (with only 3 having disclosed transaction values). The ones which were disclosed represented total value of USD 28.0bn (329% increase from USD 6.5bn in Q4 2012). Four deals were announced in the last week of the quarter when China's new President Xi Jinping began his first tour as President. The agreements with Russia, Tanzania and South Africa were centered around energy and transportation. Four of these involved ports.