

China Outbound Investments Q2 2013

Q2 2013 Overview

Q2 saw an increase in total volume of 53 transactions, up 13% qoq; however aggregate amounts of USD 39.9bn were down 26% qoq. As shown on the graph to the right, aggregate amounts across all three types of investments are at the second lowest over the past five quarters and roughly 55% of Q2 and Q3 2012 levels.

Increased M&A activity volume of 39 (up 86% qoq) in particular large transactions by several important Chinese SOEs (six deals over USD 1.0bn and two more averaging USD 500m) led to a 121% qoq increase in aggregate amounts to USD 20.1bn. This quarter represented the second largest M&A aggregate amount in the past five quarters. That said, M&A volume was nearly 13% lower than the prior four quarters' rolling average and nearly 18.5% below the prior eight quarters rolling average. The Consumer sector led in both volume and aggregate amount, while Asia was the most active region.

Offsetting the M&A increases were significant decreases in Government Related transactions. There were only seven Government related loan agreements (which were part of a trade package), with disclosed aggregate amounts of USD 4.7bn, down 72% qoq. These amounts represent only 25% of the aggregate amounts of Loan Agreements the past two quarters and only 10% of Q2 and Q3 2012 levels.

There were also seven Government related Agreements with aggregate amounts reaching USD 15.1bn down 46% qoq. The four largest of these agreements involved energy and all were made to emerging markets, including the Caribbean and Central America.

Key highlights:

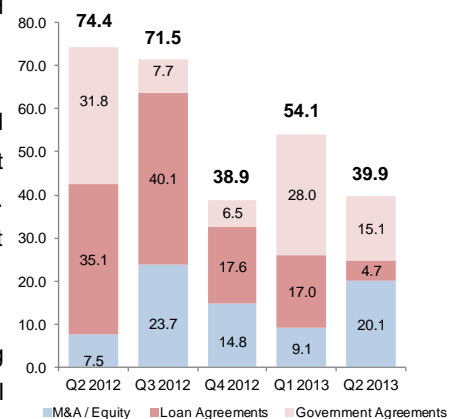
We select below the largest announced transactions among each component:

- In M&A / Equity, the largest transaction was Shuanghui International's acquisition of Smithfield for USD 7.1bn. If this transaction closes (see inside), it would be the largest Chinese takeover of a US company in history. The acquisition of the world's largest pork producer will help Shuanghui satisfy the increasing demand for pork in China as well as address food safety concerns that Chinese food producers have experienced in recent years.
- The largest Government related loan was a USD 3.0bn loan from China Exim Bank to Ethiopian Railway Corporation ("ERC") and the Djibouti Government to finance the construction of a railway connecting Ethiopia's capital Addis Ababa and Port of Doraleh in Djibouti.
- The largest Government agreement was signed with France during its President Hollande's visit to China. Eighteen economic cooperation agreements were signed totalling USD 7.9bn, led by the purchase of 60 Airbus aircraft. China and France also renewed their nuclear power cooperation and signed other agreements in tourism and agriculture.

Key Statistics (yoy Growth)

Q2 '13 GDP Forecast ¹	+7.6%
<i>(versus +7.8% in Q1 2012)</i>	
M2 (June '13)	+15.3%
CPI (June'13)	+2.5%

¹Bloomberg median forecast

Aggregate Amounts (USD bn) Breakdown by Quarters

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▪ M&A / Equity Transactions

↑ 120.9%

In Q2 2013, there were 39 outbound M&A / Equity transactions announced with an aggregate amount of USD 20.1bn.

- Overall, there were 24 investments involving takeovers / controlling interests, 11 investments involving minority stakes and four involving JVs.
- Consumer led this quarter in aggregate sector amounts with USD 7.9bn, accounting for 39.3% of aggregate amount. As discussed previously, the Shuanghui / Smithfield (USD 7.1bn) transaction accounted for most of this amount.
- Consumer and Financials (mostly Real Estate) led this quarter in transaction volume with eight transactions each. These two sectors represented 41.0% of the total volume and 59.2% of the total aggregate amount. There were 23 transactions across all other industries, which totalled USD 8.2bn (representing 40.8% of the total aggregate amount).
- Oil & Gas saw the largest drop this quarter in terms of aggregate amounts (down by 49.3% to USD 3.5bn) with three transactions. However, it is still the third largest sector in terms of aggregate amounts (after leading the ranking in Q1 2013), due to the relative larger size of these transactions.
- Asia led this quarter in volume with 19 transactions, a 375% increase from four in Q1 2013, representing 48.7% of total volume this quarter. 58% of the Asian transactions involved a target based in Hong Kong. Europe and North America followed Asia with eight and five transactions respectively.
- In terms of aggregate amount, North America led with USD 7.5bn again due to the Smithfield transaction, a 134% increase from USD 3.2bn in Q1 2013. Australia ranked second in aggregate amount this quarter with USD 5.1bn, a significant increase from USD 0.6bn in Q2 2013.

▪ Loan Agreements

↓ 72.4%

There were seven Government related loan agreements (outside of Government Agreements) in Q2 2013 which represented an aggregate amount of USD 4.7bn. This was down 72.4% from USD 17.0bn in Q1 2013. There were two loan agreements over USD 1.0bn this quarter. Both of these agreements, representing 85.1% or USD 4.0bn, went to Ethiopia and Djibouti. The remaining amounts were mostly loans from CDB to the Government of Sri Lanka (USD 580m) in infrastructure development projects.

▪ Government Agreements

↓ 46.1%

There were seven Government led trade agreements announced in this quarter. The ones where amounts were disclosed represented a total value of USD 15.1bn (down by 46.1%

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from USD 28.0bn in Q1 2013). Four of these were announced during visits by new Chinese leadership to India, Zimbabwe, Costa Rica and Trinidad & Tobago and focused on Energy / Infrastructure agreements.

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