

China Outbound Investments Q3 2013

Q3 2013 Overview

Q3 saw aggregate amounts of outbound investment of USD 101.8bn increase dramatically, by 156% qoq, on nearly flat aggregate volume. As shown on the graph to the right, aggregate amounts across all three types of investments are the highest over the past five quarters, led by strong growth in Government Agreements and six USD 1.0bn plus M&A transactions, which accounted for 91% of aggregate amount. It is worth noting that 68% of all Q3 aggregate M&A amounts involved transactions announced in countries President Xi visited in Q3, indicating strong links between Central Government and M&A.

M&A aggregate amount of USD 19.9bn was flat from Q2. The Oil & Gas sector led in both volume and aggregate amount, with five out of the six transactions over USD 1.0bn. M&A volume was down by 28% qoq and would had been lower except increased volume in Oil & Gas. Europe⁽¹⁾ and Asia were the most active regions both in volume and aggregate amounts respectively.

There were 14 Government Related Loan Agreements - unrelated to more comprehensive Government Agreements - with aggregate amounts of USD 3.2bn, down 32% qoq. These amounts represented only a fraction of the prior quarters.

There were ten Government Agreements with aggregate amounts of USD 78.7bn, up 421.2% qoq. The three largest of these agreements centered around energy in Central Asia in Kazakhstan (USD 25.0bn), Uzbekistan (USD 15.5bn) and Turkmenistan (USD 7.6bn) as well as a new agreement with Venezuela (USD 20bn). We did not include the USD 18bn MOU signed with Parkistan as is not yet a signed definitive agreement.

Key highlights:

We select below the largest announced transactions among each component:

- In M&A / Equity, the largest transaction was China National Petroleum Corporation's ("CNPC") acquisition of an 8.3% stake in Kashagan Oil & Gas field from Kazakhstan's state-owned KazMunayGas ("KMG"). CNPC also agreed to spend up to USD 3.0bn to absorb up to 50% of the cost of Kashagan's second phase development. Purchase of this stake blocked India's ONGC's plans to enter Kashagan.
- The largest Government Related Loan was a USD 1.2bn loan from China ExIm Bank to the Tanzanian Government to fund a 534-km gas pipeline linking Mtwara gas field to Dar es Salaam, with planned extensions to Tanga, Arusha and Mwanza regions.
- The largest Government Agreement was with Kazakhstan where 22 agreements were signed totalling USD 25.0bn. Two major components outside of M&A were USD 5.0bn and USD 3.0bn loans from China Development Bank and China ExIm respectively to Kazakhstan's state holding company Baiterek.

Key Statistics (yoy Growth)

Q3 '13 GDP Forecast ¹	+7.9%
<i>(versus +7.4% in Q3 '12)</i>	
M2 (September '13)	+13.6%
CPI (September '13)	+2.8%

¹ Bloomberg median forecast

Aggregate Amounts (USD bn) Breakdown by Quarters



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▪ M&A / Equity Transactions

↓ 1.0%

In Q3 2013, there were 28 outbound M&A / Equity transactions announced with an aggregate amount of USD 19.9bn.

- Overall, there were 15 investments involving takeovers / controlling interests, 9 investments involving minority stakes and 4 involving JVs.
- Oil & Gas led this quarter in aggregate sector amounts with USD 16.3bn, accounting for 81.9% of aggregate amount. The five largest Oil & Gas transactions, including three involving CNPC, and one each involving Sinopec and Sinochem, accounted for the majority of this amount.
- Oil & Gas also led this quarter in transaction volume with eight transactions, which represented 28.6% of the total volume. Basic Materials and Consumer followed Oil & Gas with 11 transactions, totalling USD 3.0bn. There were nine transactions across all other industries, with a total transaction value of only USD 0.6bn (representing 3.0% of the total aggregate amount).
- Europe led this quarter in volume with 10 transactions, a 25% increase in Q2 2013, representing 35.7% of total volume this quarter. Approximately 60% of the European transactions involved a UK or Russian target (3 in each country). Asia and North America followed Europe with eight and six transactions respectively.
- In terms of aggregate amounts, Asia led with USD 7.6bn, a 100% increase from USD 3.8bn in Q2 2013. Europe ranked second in aggregate amount with USD 6.6bn, a significant increase from USD 1.9bn in Q2 2013.

▪ Government Related Loan Agreements

↓ 31.9%

There were 14 Government Related Loan Agreements (outside of Government Agreements) in Q3 2013 which represented an aggregate amount of USD 3.2bn. This was down 31.9% from USD 4.7bn in Q2 2013. There were two loan agreements over USD 500m this quarter. Both of these agreements, representing 59.4% or USD 1.9bn, were Tanzania and Sudan. The remaining amounts were mostly loans from China ExIm to the Government of Jamaica (USD 300m) for infrastructure development projects and to Essar Energy in India (USD 300m).

▪ Government Agreements

↑ 421.2%

There were ten Government agreements announced in this quarter which represented an aggregate value of USD 78.7bn (up by 421.2% from USD 15.1bn in Q2 2013). There were four major Government agreements in Central Asia, a major agreement with Venezuela, several agreements in Africa and three with China's Southeast Asian neighbours.

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