

China Outbound Investments

Q3 2016

I. Overview

Q3 Chinese outbound investments totalled USD 63.9 billion, a decrease of 35% from Q2. As shown in Table 1, all the three components declined leading this quarter to be the lowest of the past 5. That said, the 90% decline in Government to Government (G2G) agreed amounts represented of the shift this quarter to strengthening relationships in bilateral meetings around the G20 meeting, which was hosted by China, rather than specific deals. These meetings, which represented a 200% increase in the volume of G2G in Q3 can be expected to produce significant agreements, deals and/or loan agreements in Q4 onwards.

In M&A/equity, both volume and aggregate amounts declined. There was a 22.1% decrease in volume (180) compared to Q2's all time high of 231 transactions and 8% compared to the last 5-quarter average. Disclosed aggregate amounts were USD 41.1 billion. However, Grisons Peak has estimated that two deals, with values not disclosed (SR Technics (USD 4 billion) and Tokyo land parcels (USD 1 billion) represent aggregate transaction value in excess of \$5 billion, which we add to adjusted total (USD 46.1 billion), and thus a 7% decrease from Q2.

The average investment size increased from USD 387 million in Q2 to USD 403 million in Q3. However, excluding the 15 announced transactions over USD 1 billion, which represented 74% of aggregate amounts, average transaction size stood at USD 86 million. This clearly indicates continued middle market focussed M&A transactions and smaller technology investments.

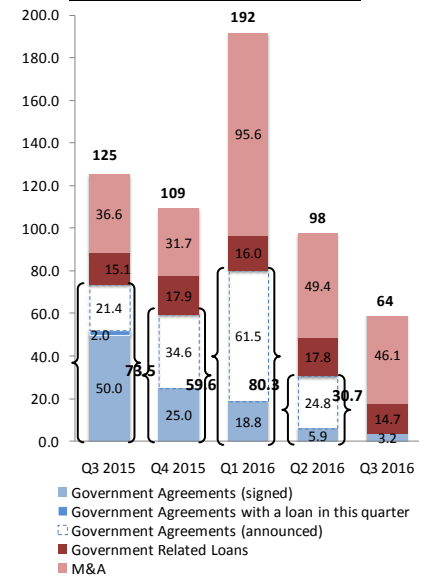
It is also worth noting that activity peaked in July; volume 74 / aggregate value nearly \$23 billion, declining to volume of 54 with aggregate value of only \$9 billion.

Relative to industries, Consumer co-led both in term of volume (32% of the total) and aggregate amounts (32% of the total). Technology ranked #2 in aggregate value, recording the largest transaction¹ of the quarter. Relative to geography, North America led both in aggregate value (36%) and volume (32%), while Europe ranked 2nd.

There were 12 Government Related/policy bank loans, representing USD 14.655 billion aggregate commitments. These numbers represent a 40% decline both in volume and aggregate amounts from Q2. Six of the 12 total loans went to African countries, 4 to Asian countries and one each to Iran and Russia. Relative to OBOR/BRI, of the 12 Government related loans this quarter, 7 were extended to BRI countries.

In this quarter, China entered 33 multi-deal G2G agreements, up 83% from Q2 (18 agreements) and an all time high in our 8 years analysing this component. As noted above, despite the high number of agreements, there was only USD 3.2 billion of identified aggregate value realised this quarter, and only in 2 of the 33 G2G agreements.

Table 1: Aggregate Value (USD billion)



¹ The merger between Uber China and Didi Chuxing. The value of the transactions was calculated as the sum of (i) 82.3% (jointly stake of Didi and Baidu) of the value assigned to Uber China alone (\$7bn) and (ii) the \$1bn direct investment of Didi into Uber US business

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M&A Transactions / Equity Investments

↓7%

As noted above, Q3 announced outbound M&A aggregate value was USD 46.1 billion, down 7% from the USD 49.4 billion in Q2. Volume decreased by 22.1%, to 180 transactions, from previous quarter record of 231. This quarter there were 15 other transactions of at least USD 1 billion, totalling USD 34.2 billion (74% of aggregate value), while the remaining 165 transactions comprised USD 11.8 billion.

Average deal size (excluding equity investments below USD 10 million with disclosed transaction value) increased from USD 387 million to USD 403 million in this quarter, due to the presence of the 15 USD 1+ billion transactions. Omitting the such transactions, the average transaction size was only USD 85.6 million.

Industry

Consumer led by aggregate value with USD 14.9 billion (32% of the total). This sector recorded 5 transactions above USD 1 billion, including the 2nd largest of the quarter – the USD 4.4 billion acquisition of the Israel-based Playtika by a consortium including Giant Investment (HK) Limited, China Oceanwide, Minsheng, CDH, Hony Capital and Yunfeng Capital / Jack Ma.

Technology ranked #2 with USD 8.4 billion, representing 18% of aggregate amounts. This sector recorded the largest transaction of the quarter – the merger between Uber China (valued at USD 7 billion) and Didi Chuxing, together with the USD 1 billion investment of the latter in the US business of Uber.

Industrials ranked #3 with 15% of total aggregate value. There were 2 transactions above USD 1 billion – the estimated USD 4 billion acquisition of SR Technics Switzerland by HNA Group and the USD 1.6 billion purchase of Urbaser SA by Firion Investments SL.

Utilities ranked 4th in aggregate value (12%), followed by Basic Materials (11%). Collectively, these 5 sectors accounted for 88% of Q3 aggregate amounts.

Relative to volume, Consumer ranked #1 with 58 transactions followed by Financials with 34. Technology ranked 3rd with 30 transactions, followed by Health Care with 22. Together these four sectors accounted for around 80% of total volume.

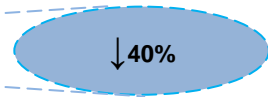
Geographies

North America led in aggregate value (36% of the total), after having ranked 2nd for 5 consecutive quarters. Europe ranked #2, decreasing from 54% to 24%, while Asia ranked 3rd increasing from 9% to 16% and the Middle East ranked #4, increasing from 0.5% to 13% (due primarily to the Playtika deal). Collectively, these four regions represented almost 90% of Q3 aggregate value.

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Relative to volume, North America led again in volume with 58 announced transactions/investments (32% of volume), followed by Asia with 52 (29%) and Europe with 41 transactions (23% of volume). Collectively, these 3 continents represented 84% of volume.

Government Related Loan Agreements



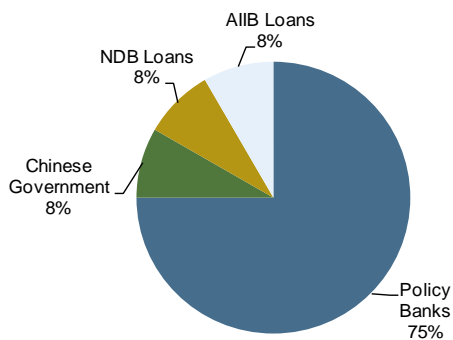
Q3 saw 12 loans representing \$14.655 aggregate value. These numbers represent a 40% decline both in volume and aggregate amounts from Q2. In Q3, we saw 9 policy bank loans representing \$11.445 billion, 1 Chinese Government loan representing \$3.09 billion, 1 NDB loan for \$100 million and 1 AIIB loan for \$20 million.

There was a marked shift in sources such loans: in Q2 AIIB and NDB represented 40% of quarterly volume; in Q3 this declined to 17%. Similarly, regarding aggregate amounts, AIIB and NDB represented 5% of Q2 aggregate amounts (8% excluding the 2 Chinese Government loans), but circa 1% of aggregate amounts (both of policy bank loans and Chinese Government loans).

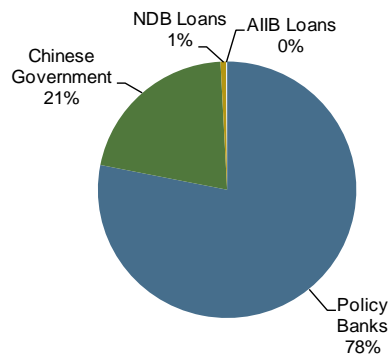
Chinese Government loans this quarter also fell in volume from 2 in Q2 (Kenya and Nigeria) to 1 in Q3 (Bangladesh). Aggregate amounts of Chinese Government loans fell from \$6.6 billion to \$3.09 billion (although the \$3 billion likely represents the first project of a \$9 billion pledge in Q3).

Six of the 12 Q3 total loans went to African countries, 4 to Asian countries and one each to Iran and Russia.

Breakdown by Volume



Breakdown by Aggregate Amount



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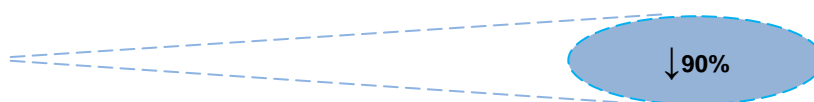
Relative to OBOR/BRI, of the 12 government related loans this quarter, 7 were extended to 7 BRI countries; including four of the 9 policy bank loans, 1 Government loan, the 1 NDB loan and the 1 AIIB loan.

Average loan size varied considerably via the vehicle:

- 9 policy bank loans averaged USD 1.27 billion (3 loans over USD 1 billion, including 1 of USD 7.6 billion)
- 1 China Government loans (USD 3.1 billion)
- 1 NDB loan (USD 100 million)
- 1 AIIB loan (USD 20 million)

The past two quarters have seen sizeable G2G Loans. While these were much more common in 2013, there were none extended during 2014, as well as H1 2015. They restarted in H2 2015, and have continued throughout 2016.

Government Agreements



In Q3, China entered into 33 multi-deal G2G agreements, which is an all time high in our 8 years of analysing this component. Also during the quarter, President Xi had official meetings with leaders of 37 countries/organisations, another all time high. Most of these meetings were bi-lateral meetings around the G20 summit, held in Hangzhou.

Despite the high number of G2G agreements (an increase of 200% increase from Q2), there were only \$3.2 billion (\$2 billion to Belarus and \$1.2 billion with Canada) aggregate value of concrete monetary value of agreements signed (90% decrease from Q2) and an all time low. This is due to the fact that most of the bilateral meetings were relatively brief and thus on specific items. Examples include overall relationship building (Laos, Singapore, Russia, Kazakhstan as well as on implementation of existing projects (Myanmar hydroelectric dam, Indonesian high-speed rail, Greek port, UK nuclear, Egypt) and planning for future projects (Saudi Arabia, Brazil, Papua New Guinea).

II. Quarterly feature: Selected Project Completion Schedule (2013 – 2014 loans)

Over the past year, we have used the information in the loans database to build a project by project database from Q1 2013 through Q4 2015. To date, we have focussed on primarily 2013 and 2014 projects as they were started earlier and thus several of them have been completed. In our analysis, we track a number of variables including Chinese companies involved, local and other labor, actual versus planned completion.

By the close of Q3, we have analysed over 50 projects, which involved over 55 loans (several projects have multiple phases and thus required different funding).

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We recently presented at the Xiamen Maritime Silk Route conference and wanted to show the participants China's success in delivering on time when local partners deliver from their end. As such, we excerpted 12 (2013 – 2014) projects which had been completed.

The table below analyses the completion dates for a subset of 12 projects and/or phases of projects from our database. While not statistically significant (N<30), it is a start.

As shown, 75% of projects/phases were completed on schedule, 8% of projects/phases 6 months past plan and 17% of projects were completed 12 months past plan.

Sample Size 12

Completed on time	Completed 6 months past plan	Completed 12 months past plan
9	1	2

We found that the 3 leading causes for delays once securing the loan and the contractor were:

- underestimating the delays in land purchases
- underestimating the size and capabilities of the local labour force
- obstructions to political noise between national/provincial/regulatory

We are happy to collaborate with other researchers in OBOR, infrastructure and renewables analyses.

Overview of Grisons Peak

Grisons Peak LLP is a London based merchant banking firm specializing in a number of sectors including financial services (including real estate), pharmaceuticals, infrastructure and consumer. We provide independent advice on cross border M&A, ECM and high yield issues, both public and private. We also selectively co-invest in equity stakes alongside our clients. In the area of merchant banking, Grisons Peak has invested in 7 client related investments across Europe, Asia and the Americas.

We operate via joint ventures and partnerships throughout Europe, the Middle East, Africa and in North Asia. Since its founding in 2003, the firm has advised on over €25 billion transactions across three continents. In the Advisory area, over the past 32 months, the firm has advised on 16 completed transactions and on 26 binding offers, mostly in emerging markets. In the Advisory area, we focus on transaction execution since virtually all of the firm's clients have done business with Grisons Peak or representatives of the firm previously. We also do not advertise as we are very discreet regarding our Advisory clients (hence only a 1 page website for this business).

Grisons Peak LLP launched and began publishing our quarterly research product China Outbound Investments in 2008. While other major database services track Chinese outbound M&A/Equity investments, our Chinese research is unique in that we monitor and analyse M&A/Equity in the context of much larger Government Agreements and Government Related Loan Agreements. Our research has been cited by major financial media including the *Financial Times*, *The Wall Street Journal*, *Reuters*, *IFR*, *Bloomberg*, *FT Confidential*, *EM Squared*, *Euromoney*, *IFR Asia*, *The Independent*, *GTR Review*.

We also proudly hold the distinction of having our firm's research cited by two important Chinese Government press; *Xinhua* and *China Daily*, on two unrelated very visible Chinese policy issues. We frequently release prior investment banking analyses over a section titled "Special Studies"; another link between the two businesses. We have also collaborated with New York University in econometric research on Chinese outbound investments into the USA. We are currently cooperating on an academic study involving all Chinese M&A into the UK (2012-30 June 2016) with Cass Business School, within the City University of London. We see our firm's USP as providing unique research and analytical skills in both of our core businesses.

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