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Mergers & Acquisitions

China’s M&A deals in UK hit record in mid-2016

Investors respond positively to UK acquisition announcements, study shows

EM Squared

The theory of the “M&A curse” has it that the benefits of a deal generally go to the seller, while the buyer’s share price often slides after a deal is done. However, a new study shows that in the case of Chinese companies acquiring UK counterparts, such hoodoo appears to be absent.

“Most, or almost all, M&A deals show a significant share price decline (of the buyer) when the deals are announced,” said Scott Moeller, professor at Cass Business School in London. But, he added, Chinese companies acquiring firms in the UK generally see an uptick in their share prices as deals are announced.

“This demonstrates that the market positively evaluates the UK M&A activities by Chinese firms to obtain, for example, well-known brands, technologies and network channels,” according to a report jointly authored by Prof Moeller and Lin Zhu, also of the Cass Business School.
A sample of 44 Chinese listed companies that bought UK firms between 2012 and 2016 showed that the share price of the acquiring company 10 days before and after the deal announcement recorded a performance that was stronger than overall market dynamics.

The findings identify one of the motivators behind rising M&A deal volumes in the UK, which hit a record high in the second quarter of this year with 16 deals announced, according to data compiled by Grison’s Peak, an investment bank based in London.

As the chart below shows, a boom phase in announced Chinese acquisitions in the UK began in 2015 and has carried through into this year, notwithstanding concerns voiced by some Chinese entrepreneurs over Brexit. It remains to be seen how many of the announced deals are carried to a successful conclusion.

Assessed by value, the priorities of Chinese acquirers become clear. Some 44 per cent of the value of deals announced have been in the property sector, followed by 28 per cent in the consumer sector, 8 per cent in financial services, 7 per cent in oil and gas and 5 per cent in healthcare with the remainder split between industrials and technology, according to Grison’s Peak data.

The study by Prof Moeller and Lin Zhu shows that real estate acquirers experienced some of the most pronounced share price bounces among Chinese acquirers. Buyers of financial services firms, by contrast, tended to record a share price slide around the time of the deal announcement.

Consumer deals were also often viewed favourably by investors. “Chinese enterprises investing overseas aim to bring products and services to meet the growing Chinese
domestic demand because of the expanding middle-class and increasing consumer consumption levels,” the report said.

One of the reasons for the high levels of announced M&A deals in the UK over the past couple of years has been the influence of a visit by Xi Jinping, China’s president, in October 2015. He presided over the signing of £40bn in business deals during his trip, though several of these were long-term investment plans and sales contracts rather than M&A deals.

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**Green avant-garde**

The city of Zhuhai has an ambitious plan: It wants to have the cleanest, greenest traffic system in all of China, and within ten years aims to become one of the world’s top cities in terms of green transportation. This is all the more remarkable given that outside China, hardly anyone has even heard of Zhuhai. Small wonder: With 1.5 million inhabitants, it’s not very large by Chinese standards. There are about 120 cities of this size in China, and their number is expected to double...