

China Outbound Investments

Q1 2017

I. Overview

Q1 2017 Chinese outbound investments totalled USD 109 billion, a decrease of 44% from Q4 2016. Moreover, \$70 billion of this total represent pledges (as opposed to actual) to Saudi Arabia and Australia, leaving only \$39 billion actually leaving China. Such numbers are entirely consistent with the capital controls instituted by the Chinese Government in Q4.

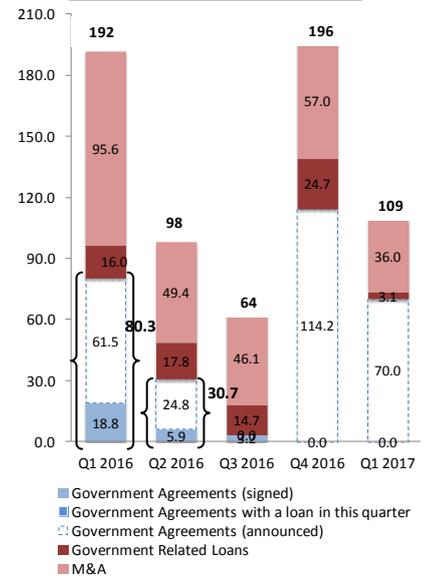
Aggregate amounts declines across all 3 components: G2G, from \$114 billion in Q4 to \$70 billion in Q1, M&A, from \$57.0 billion in Q4 to \$36.0 billion and Government Related Loan Agreements, which fell from \$24.7 billion in Q4 to only \$3.1 billion in Q1.

Disclosed aggregate M&A amounts were USD 36.0 billion, representing the lowest amount in the past five quarters. However, quarterly volumes remained stable. In Q1 2017 there were 213 transactions, a decrease of only 1% compared to 216 in Q4 2016 and an increase of 3% compared to the last 5-quarter average. While activity was down in the quarter, it picked up substantially in March, which we discuss in our quarterly feature. We also discuss the activity of HNA, which itself represented circa 10% of all Chinese announced outbound M&A amounts this quarter.

Relative to industries, Financials led in term of aggregate amounts (38% of the total) led by 3 real estate deals over USD 1 billion. Consumer ranked #2 in aggregate value (23% of the total), but once again led in term of volume (56 transactions in Q1).

Relative to geography, North America led both in aggregate value (33%) and volume (33%), while Asia and Europe ranked 2nd both in aggregate value (24%), while Asia led in volume (32%).

Table 1: Aggregate Value (USD billion)



M&A Transactions / Equity Investments



Q1 announced outbound M&A aggregate value was USD 36.0 billion, down 37% from the USD 57.0 billion in Q4. This quarter there were 10 other transactions of at least USD 1 billion, totalling USD 15.6 billion (43% of aggregate value), while the remaining 203 transactions comprised USD 20.5 billion.

Average deal size (excluding equity investments below USD 10 million with disclosed transaction value) decreased from USD 427 million to USD 292 million in this quarter, due to a lower incidence of transactions over USD 1 billion. Omitting such transactions, the average transaction size was USD 122.6 million (vs USD 101.8 million in Q4 2016).

Industry

Financials led with aggregate value of USD 13.7 billion (38% if the total). This sector recorded 3 transactions above USD 1 billion, all in Real Estate – the acquisition of 245 Park Avenue (US) by HNA, the acquisition of Leadenhall Building (UK) by CC Land and the acquisition of a building in Rockefeller Center (US) by CIC. Other financial transactions of

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note in this sector involved a Hong Kong life insurer, a US hedge fund, a stake in a US based asset manager and two stakes in Deutsche Bank.

Consumer ranked #2 with USD 8.3 billion, representing 23% of aggregate amounts. This sector recorded the 3rd largest transaction of the quarter – the acquisition of a 5% stake in Tesla by Tencent for USD 1.78 billion. Other transactions of note in this segment include a stake in Seaworld and Aquascutum.

Basic Materials ranked #3 with 13% of total aggregate value. The sector recorded the largest transaction of the quarter – the USD 2.45 billion acquisition of Coal & Allied Industries by Yancoal Australia, which is 78% controlled by Yanzhou Coal.

Oil & Gas ranked 4th in aggregate value (10%), followed by Healthcare (8%). There were two African oil and gas disposals by Chevron and the announced acquisition of a significant German healthcare company.

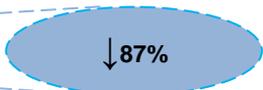
Relative to volume, Consumer again ranked #1 with 56 transactions followed by Financials with 48. Technology ranked 3rd with 32 transactions, followed by Healthcare with 30. Together these four sectors accounted for 78% of total volume.

Geographies

North America led again in aggregate value, with 33% of the total (vs 53% in Q4). Europe and Asia ranked #2 with 24% of the total. Collectively, these three regions represented around 80% of Q1 2017 outbound aggregate value, down from 95% of Q4 2016.

Relative to volume, North America led again with 71 announced transactions/investments, followed by Asia with 69 (32%) and Europe with 52 transactions (24% of volume). Collectively, these 3 continents represented 90% of volume. Again, most of the US activity is based around technology investments usually in the Consumer or Financial segments. This activity has begun to be noticed by US press and Government.

Government Related Loan Agreements



↓87%

This was a relatively light quarter in this category with only 12 formally signed agreements, down from 22 in Q4, totalling only \$3.1 billion, down from \$24.7 billion. in Q4. Nine of these loans were granted by policy banks while 3 were from AIIB. There were no Chinese Government loans nor any NDB loans this quarter.

The largest loan this quarter was to Nigeria related to the construction of the Lagos-Ibadan segment of the Lagos-Kano railway project. There were 3 policy bank loans signed with Cameroon, as well as loans to Ethiopia, Guyana, Cape Verde, Belarus and Jamaica.

Of the 3 AIIB loans signed this quarter, two were related to water related projects in Indonesia and one to a gas transmission project in Bangladesh. Again these represented relatively small exposures (average size of \$95 million) and involved other partners- two involved the World Bank while the other one was led by the ADB.

During the quarter, AIIB approved 13 applicants joining, thus increasing total membership from 57 to 70 members. The new members included 5 Regional Prospective Members

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(Afghanistan, Armenia, Fiji, Hong Kong, Timor Leste) and 8 Non Regional Members (Belgium, Canada, Ethiopia, Hungary, Ireland, Peru, Republic of Sudan and Venezuela). This marks the first time AIIB has added new members since its launch. In addition, 15 more countries joined the que, and when approved, would increase membership to nearly 90 countries.

Government Agreements



G2G Agreements

During Q1, President Xi met with leaders from 15 countries, while Premier Li met with leaders from Australia and New Zealand. The were G2G agreements signed with 13 countries totalling pledged amounts of circa \$70 billion (up from 11 agreements and \$114 billion pledged amounts during Q4). Saudi Arabia led with \$65 billion of pledged amounts which involved 14 cooperation agreements at the Government level and 21 cooperation agreements/MoUs at the specific company to company level. The only other sizeable announced G2G MoU with disclosed amounts is the A\$6 billion (\$4.6 billion) infrastructure project involving the BBI Group in Australia and CSCE which involves an iron ore mine and related road construction- which we understand also involves links to a port.

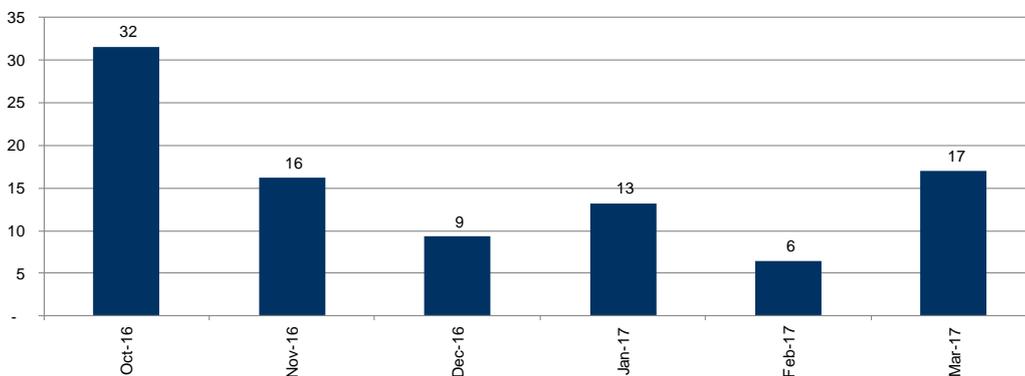
There were also important meetings with Zimbabwe, during which President Mugabe updated China on 7 existing projects between the two countries and with Kyrgystan, which represents an important hydroelectric power project set to re-tender later this year.

Finally, China signed BRI partnerships with New Zealand, the first of its kind with a developed Western economy and with Madagascar.

II. Quarterly feature: Increased March M&A Activity

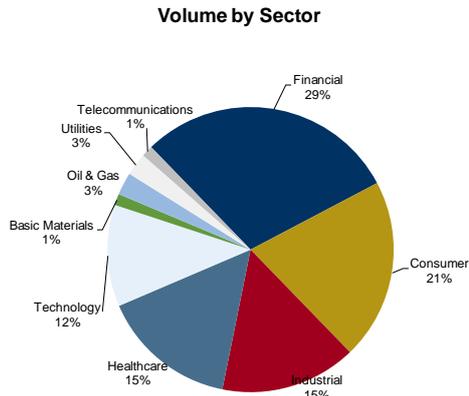
As shown in the table below, while the first two months of Q1 remained relatively quiet, activity increased substantially in March.

Aggregate Amounts by Month (\$bn)



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The most active acquirer during March was HNA. In March alone, HNA announced 5 Chinese outbound transactions/investments totalling over \$4 billion (or 24% of March's total). Such investments included a German airport, one investment into Deutsche Bank, a 25% stake in a mid sized US asset manager and two Real Estate acquisitions in North America and Asia respectively.



The data in March clearly indicate that the most recent outbound activity is very much following the past few months guidance from the central government. Activity was balanced across a number of sectors: no one sector had over 30% of volume and the top 5 sectors, financial, consumer, industrial, healthcare and technology saw 92% of March volume. Also these transactions have been more aligned towards expansion by strategic players such as HNA investing into a German airport (and also into the largest German bank) with another Chinese investor into a Slovenian airport—in the same quarter the €10 billion Sino-CEE Fund was announced.

Our conclusion is also consistent with a statement by Zhou Liujun, head of ministry's Department of Outward Investment in March that "The Government will encourage ODI activities that assist the development of the Belt and Road Initiative and resolve the issue of overcapacity in global markets, as well as supervising and preventing irrational investments."

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 43 months, the firm has advised on 20 completed transactions and on 28 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. In 2012, collaborated with New York University in econometric research on Chinese outbound investments into the USA. In 2016, we collaborated on an academic study involving Chinese M&A into the UK with Cass Business School, within the City University of London which currently ranks in the top 10 SSRN academic studies regarding Chinese outbound investments. We see our firm's USP as providing unique research and analytical skills in both of our core businesses.

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