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Beijing puts predators on a tighter leash

As China restricts the flow of its companies' cash out of the country, will it curb a voracious appetite for acquisitions?

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Stifled: HNA Group boss Adam Tan has had big deals blocked over national security concerns
CHRISTOPHER GOODNEY/BLOOMBERG

David and Simon Reuben have always been renowned for their sense of timing. But the brothers — third on The Sunday Times Rich List with a £14bn fortune — pulled off a real coup with their most recent big deal.

Late last year, the Reubens sold a 49% stake in their giant data centre operator Global Switch to a consortium of Chinese investors for £2.4bn. Just weeks later, Beijing started to curb the flow of cash out of China — stemming a tide of foreign investment that has propped up world dealmaking markets.

Chinese corporate titans are now starting to find it tougher to do deals, with regulators finding excuses to put a stop to large sums of money leaving the country.

Takeovers, mergers and investments worth almost $75bn (£57bn) were reportedly called off in 2016, according to law firm Baker McKenzie. "Outbound acquisitions are down about 45% year on year," said Jacques Callaghan, senior managing director at Macquarie Capital. The biggest failure was Anbang Insurance's aborted $14bn takeover of America's Starwood Hotels & Resorts, which fell apart mysteriously in March 2016. State intervention was blamed.

American regulators are also putting a stop to deals. HNA Group, an airlines-to-hotels conglomerate led by Adam Tan, is being stifled over national security concerns — most controversially, its attempts to buy SkyBridge Capital, a hedge fund investor set up by Anthony Scaramucci, President Trump's new communications director.

In London, however, senior City bankers insist that the deal flow has not stopped. A number of the Chinese corporate behemoths have been stockpiling cash outside the motherland. Some companies are asking that bills be paid to accounts in Europe rather than China, senior financiers claim.

The phenomenon, known to City wags as the RCB or "Random Chinese Bidder", has not gone away. The trouble is that working out whether a mysterious Chinese suitor can follow through on an offer is even harder than it was before.

"Vendors are much more suspicious of Chinese buyers," said one senior British investment banker. "It's also a challenge trying to work out which Chinese buyer will be allowed to [move money] by the regulatory and governmental authorities back in China to do the deal."

Uncertainty has scuppered several deals. According to City sources, Tan's HNA made the highest bid for London City Airport last year, tabling an offer of more than £2bn.

But owner Global Infrastructure Partners chose to sell to a consortium of infrastructure investors instead, to avoid uncertainty over whether the Chinese authorities would approve release of the cash. "With hindsight, that was clearly the right decision," said a source close to the auction.

Yet Britain remains a favoured place for investment from the East. Last week, London's "Walkie Talkie" skyscraper was sold for a record £1.3bn to Lee Kum Kee, a Hong Kong condiments maker led by Lee Man Tat, the "oyster sauce king".

On average, every three months sees another 13 British companies bought by Chinese investors, according to research by London-based investment bank Grisons Peak, which specialises in advising on Chinese deals.

That has been the trend since last summer's vote to leave the European Union, with the size of these deals getting slightly larger.

“Chinese acquisitions of UK businesses post-Brexit vote averages around $3bn per quarter, up from $2bn per quarter during the two quarters pre-Brexit vote,” said Henry Tillman, who runs Grisons Peak.

“The decline in sterling has been a contributor to this increased activity. So, any statement that Brexit has adversely affected Chinese M&A investment into the UK is not consistent with the facts,” said Tillman.

So what’s next on Chinese shopping lists? British football clubs have been a popular choice, with West Bromwich Albion and Wolverhampton Wanderers both recently sold to China-backed companies. But owning a top-five Premier League club with a world-famous brand would earn serious bragging rights — not least with Li Keqiang, the Chinese premier, a renowned football fan. An investment group led by China Everbright and backed by China Investment Corporation, the sovereign wealth fund, has been in on-off talks with the American owners of Liverpool football club since last summer.

Recently, sources said that American businessman John Henry — who controls Liverpool FC via the Fenway Sports Group — got close to agreeing a deal with the Chinese that valued the club between £900m and £925m. Could a sale be sealed before the new season?