China Outbound and Inbound Investments Q4 2019

2019 – Year in Review

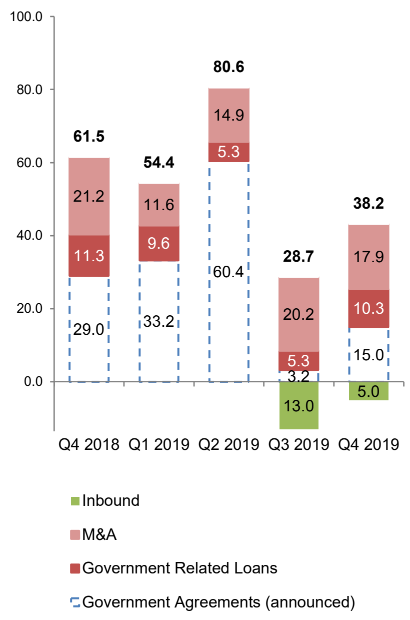
For all of 2019, announced Chinese outbound M&A /Equity investments were totalled slightly over $63 billion. This is a 3rd consecutive year in declining aggregate amounts and a 72% decline from 2016's $222 billion record announced outbound. The 2019 outbound amount is before an estimated $40 billion announced disposals.

Conversely, China inbound investments and/or future pledges increased throughout 2019 from the Gulf (Saudi, Qatar, UAE, Bahrain), the EU/UK (Germany, France, Italy, Sweden, UK, Netherlands), Asia (Singapore, Korea and Japan) and even the USA – specifically in financials and with Tesla's now functional $2 billion gigafactory.

G2G policy bank loans continued to decline throughout 2019 (see the related prior *Pulse*) – replaced by SPV loans to Chinese SOEs and/or grants/donations.

B2B saw a substantial increase of $64 billion at the Q2 BRF II, and, while the numbers were much smaller in subsequent quarters, we believe, as do a number of BRI observers, that this is a key future BRI growth component.

Table 1: Aggregate Value (USD billion)



Key Highlights – Q4

- Q4 aggregate amounts of M&A/Equity investments were $17.9 billion in Q4, a decrease of 11.4%, while volume was down a 3%
- Asia represented nearly 50% of total volume, while North America and EU/UK were both around 20%. LAC saw 8 investments, 4 of these into Brazilian energy, while MENA saw 7 and Africa 4
- The Consumer sector saw the largest volume and the largest investment. This was followed by financials (mostly fintech), healthcare and industrials. There were a handful of large transactions/investments into mining, energy and utilities
- We highlight inbound Q4 inbound investments/pledges from Germany, France, UK, Hong Kong, Bahrain and the Netherlands totalling circa $6 billion. We also note Volkswagen Group's 2020 pledge of €400 million (this analysis was added in Q3)
- Volume of Government related loan commitments increased by 21.7% led by AIIB loans/funds (see most recent *Pulse*) while aggregate amounts increased to $10.3 billion, led by NDB increases. $3.5 billion of policy bank loans were secured by Chinese SOEs, not the host governments
- China committed to 4 grants/donations in Q4 totalling $935 million to Nepal, Tajikistan, El Salvador and Ghana (this analysis was added in Q4)
- There were G2G/B2B agreements signed with France, Greece, Brazil and Nepal in Q4 – $15 billion of which are not included in other amounts

Chinese Outbound M&A Transactions/Equity Investments

$17.9 bn

-11.4%

Q4 aggregate amounts of M&A/Equity investments declined from $20.2 billion in Q3, to $17.9 billion in Q4, a decrease of 11.4%, but still well above Q1 and Q2 amounts. Q4 transaction volume was 182, a 3% decline from Q3, but still well above the prior three quarters.

Q4 also saw the continued increase number of transactions/investment (collectively) of $1 billion or larger, virtually all of which were strategic:

- State Grid's $2.23 billion acquisition of Chiquinta Energia (Chile)
- CNOOC and CNPC's three minority investments in the Brazilian energy sector aggregating $1.92 billion
- Zijn Mining's acquisition of Continental Gold, parent was based in Canada but the actual mine based in Columbia, for circa $1.1 billion
- Jianxi Copper's acquisition of a 18.4% stake in PIM Cupric Holdings (Canada) for $1.16 billion
- State Grid's acquisition of a 49% stake in Oman Electricity Transmission (Oman) for $1.0 billion
- On 31st December, Tencent acquired a 10% stake in Universal Music Group for $3.36 billion

Collectively, these 8 transactions/investments represented $10.8 billion or 60% of Q3 aggregate amounts and were mostly focused on power/energy.

You will note that the majority of these investments were minority stakes, consistent with the message that Chinese investors no longer insist on control or even route to control in many investments.

Average transaction/investment size for the 155 transactions/investments with disclosed values was $115.8 million. After removing the 8 largest transactions/investments listed above, the average fell to $48.6 million.

It is also worth noting that 41.3% of all transactions/investment volume with disclosed values involved amounts of less than $10 million, lower than Q3, but still much higher than in prior years.

Industries

The Consumer sector was the most active, with 43 transactions/investments, representing 23.6% of total volume, virtually flat from Q3 (we classify e-commerce as retail). The Tencent investment into Universal Music Group was the largest in Q4, itself representing nearly 20% of outbound amounts. There were also a number of mid-sized consumer investments/acquisitions in Europe, Asia and one in Australia.

Financials increased to 17.0% of total volume; however, the majority of these transactions were relatively small and focused on fintech/insurtech. There were a couple of mid-sized fintech investments into India and a couple of smaller ones in Nigeria.

Healthcare, which includes pharma/biopharma and biotech, ranked 3rd in volume with 15.4%, consistent with Q2 and Q3. Once again, virtually all of investment sizes were substantially below $100 million, with investments mostly in the UK/EU as well as Asia.

Industrials followed with 14.8% of total volume. Much of this activity was in manufacturing and focused both in Asia and in Europe, in particular in France and Germany. There were also mid-sized transactions/investments into the construction industry.

Both volume and aggregate amounts increased substantially in mining (gold and copper) and energy, each with 9 announced transactions, the largest of which were set out above. There were also increases in transportation and logistics – a growing trend throughout 2019.

Geographies

Asia continues to lead in volume; in Q4 Asia represented 49% of total volume of M&A/investments. Leading in activity, in descending order, were Hong Kong (despite all of the unrest), Singapore, India, Indonesia and Malaysia. There was also activity in Korea, Japan, Vietnam and Thailand and, to a lesser extent in Taiwan, Samoa and Mongolia.

North America volume increased slightly to 20.2%, up from 18.5%% of Q3. It was also home three of the quarter's largest investments, including 2 mining deals and Tencent's 10% investment in Universal Music Group.

Europe continued its quarterly decline from 25.7% in Q2, 23.3% in Q3 to 19.2% in Q4. The UK and Germany remain the leading countries both in volume and amounts. They are followed by Switzerland, France, Portugal, Spain, Malta and Netherlands. Activity in Scandinavia was focused on Sweden. In the 17+1 Economic Corridor, activity was limited to Serbia.

Latin America Caribbean (LAC) saw 8 Q4 investments. Brazil led in volume but Chile in size as it saw one of the largest transactions. Also receiving Chinese investments were Argentina and Cayman. We anticipate increased Chinese inbound LAC investment as circa 19 LAC countries (out of 33) have already signed the BRI MoU. There are also a future number of investments still under discussion in Brazil.

The Middle East saw 7 investments. The bulk of these remain focused on Israel tech. One of the largest Q4 deals was in Oman, there was a logistics JV in Turkey and a construction JV in Saudi Arabia.

Africa declined to 4 investments in Q4. Nigeria tech continues to lead but there were also investments in South Africa and Zimbabwe.

Finally, Australia declined to only 2 deals/investments in Q4. One was a mid-sized mining acquisition and one a mid-sized dairy acquisition.

Chinese Inbound M&A Transactions/Equity Investments

As you will have seen from our prior quarterly research, we have begun to track this on a deal by deal basis, since MOFCOM already tracks this at China macro levels (albeit on a cash accounting versus upon announcement basis).

Germany

- Wirecard acquired a 80% stake in Chinese payments target for €109 million
- Allianz Real Estate announced it is acquiring 62% of a JV Alpha Investment Partners which is acquiring 85% of a €1bn Beijing office complex named Ronsin Technology Center
- In November, Allianz paid about $1 billion to acquire a 4% stake in Taikang Life

France

- In December, Amundi and BOC Wealth Management, a Bank of China subsidiary, received approval from China Banking and Insurance Regulatory Commission (CBIRC) to launch a new JV in China with a registered capital of RMB 10 billion ($1.4 billion). It is the first asset management JV company with a foreign shareholder holding a majority stake

Netherlands

- In late December, Lyondell Basell (LB), one of the world's largest plastics, chemicals and refining companies signed a MoU to form a 50/50 JV) with Sinopec. The JV will construct a new propylene oxide (PO) and styrene monomer (SM) unit in Zhenhai, Ningbo to serve the Chinese domestic market. Once finalized, this JV will build upon their existing LB/ Sinopec/SM joint venture in the same location

Belgium

- Solvay announced it would expand its existing Chinese research facility. In April, Solvay Ventures invested in Longwater Investment, a Shanghai-based VC firm in advanced materials and chemistry-related technologies

UK

- AstraZeneca announced the creation of a new Global R&D Centre and an AI Innovation Centre, both in Shanghai, and the creation of a first-of-its-kind Healthcare Industrial Fund, target size of $1 billion, with CICC
- In October, BP and China's Zhejiang Petroleum and Chemical Corporation (ZPCC) signed a MoU to explore the creation of a new 50/50 JV to build and operate a 1 million tonne per annum (tpa) acetic acid plant in Zhoushan, Zhejiang Province. It would deploy BP's CATIVA® XL technology to produce acetic acid used in the production of purified terephthalic acid (PTA) of which BP is a leading global manufacturer. This would be BP's largest acetic acid producing site in the world
- In December, Bloomsbury (50%) announced a domestic China JV (owned 30/20% respectively) with China Youth Publishing Group (CYPG), a state-owned publisher, and Roaring Lion Media (RLM), a limited company subsidiary of CYPG. The JV will be based in Beijing and will publish its own titles originating from China, as well as licensing titles from Bloomsbury and other global publishers, in the Chinese language for the mainland market
- In December, British Airways (BA) and China Southern Airlines signed a JV at Daxing Airport, finalizing an MOU signed in January 2019 to expand each other's network and implement reciprocal frequent flyer benefits. In January 2020, both airlines began code sharing on all 31 flights between London and Beijing, Shanghai, Guangzhou, Sanya, Wuhan and Zhengzhou. Both airlines started the codeshare agreement in 2017 on ten routes

Hong Kong

- In November, HK based Gaw Capital Partners ($23bn AUM) announced a JV with data center developer and operator Centrin Data to acquire, develop, and operate a portfolio of hyperscale projects in China as part of a new fund. The JVs first project will be in Huaqiao, part of Kunshan, Jiangsu, which is 40km away from Shanghai's city center. In addition to the Huaqiao facility, Centrin also manages data centers in Beijing; Wuhan, Hubei Province; and Yantai, Shandong Province

Bahrain

- In December, Investcorp, China Resources and Fung Investments (Hong Kong) signed a $500 million private equity platform dedicated solely to investing in food brands in Asia, specifically China, Singapore and greater Southeast Asia

USA

- Telsa's $2 billion Shanghai gigafactory started construction in late 2018; the first cars were delivered from the factory in late December 2019

2020

In November, Volkswagen Group announced that, together with its Chinese partners, it will invest around €4 billion ($4.43 billion) in China in 2020, with circa 50% to be spent on developing e-mobility. VW's electrification strategy in China is being concentrated on manufacturing all-electric cars in two factories in Foshun and Shanghai. The manufacturer says by October 2020, the two factories combined will reach a capacity of 600,000 e-cars per year.

Government Related Loan Agreements/Grants/Donations 35%

Volume of Government related loan commitments increased from 23 in Q3 to 28 in Q4, an increase of 21.7%. Aggregate amounts increased from $6.0 billion to $10.3 billion. There were substantial shifts within each of the various components we track, which we discuss below.

In Q4, we began to monitor grants and donations. During this quarter, China either made or pledged donations/grants to four countries, El Salvador, Ghana, Tajikistan and Nepal totalling $935 million as China continues to address the “debt trap” propaganda label.

There were 7 policy bank loans, a decrease of 22.2% from Q3, with $5.5 billion in aggregate amounts (151% increase). However, three of these loans were B2B, into SPVs/corporates, producing adjusted policy bank totals of volume of 4 and total amounts of $1.9 billion. This continues the trend of decreasing G2G amounts and increasing use of SPV structures which we have seen the past several quarters.

New committed policy bank loans this quarter were extended to Turkey, Belarus and Nigeria, with B2B/SPV loans in Nigeria and Ukraine.

There were 13 AIIB commitments, an increase of 44% from Q3; aggregate amounts were flat at circa $1.7 billion. These consisted of 9 senior bank/project finance facilities, 2 PE funds (Asian funds) and 2 on-lending facilities to Egypt and Turkey. The senior debt commitments were to India, Nepal, Turkey, Russia, Pakistan, Kazakhstan, Uzbekistan, Singapore, Egypt and China.

The Nepal facility was AIIB’s first sovereign backed loan. One of the Chinese loans was to an important LNG terminal in Tianjin. All but two of these loans were multilateral.

In Q4, NDB approved 8 loans (increase of 100% from Q3) totalling $2.6 billion (increase of 54.8%). Six of the 8 commitments were related to specific projects while the remaining two represented commitments to Brazilian infrastructure funds. Recipient countries of project loans were led by India, followed by Russia and China. All Q4 NDB project loans were multilateral.

Government/B2B Agreements +573.9

In Q4, there were only five countries in which there were specific amounts of G2G/B2B amounts disclosed. Meetings with leaders of France, Greece and Brazil saw mostly B2B agreements, while meetings with leaders Nepal and El Salvador saw mostly G2G agreements

In early November, France and China signed new trade contracts worth $15 billion in aeronautics, energy and agriculture. Both leaders also agreed to double down on climate change.

Greece and China signed 16 government and business agreements across agricultural exports, education, energy, the airline industry/tourism. There were commitments to a significant expansion of Pireaus Port, in part funded by the EIB, as well as Chinese involvement in the important Cyprus-Crete-Attica electricity grid and the MINOS 50MW solar power project in Crete.

Brazil and China signed 8 trade and cooperation agreements/ MoUs in the areas of agriculture, health inspection, transport, health and culture. One of these was a new agreement paving the way for exports of thermo-processed Brazilian beef to the Chinese market. Brazil also invited China to participate in the offshore oil auctions (see M&A above) while China Communications Construction Company (CCCC) is keen to make an investment in the northern Brazilian port of Sao Luis.

We believe that Nepal represents an excellent example of Chinese pragmatism. In 2017, China pledged circa $8 billion to Nepal for upgrading infrastructure including an ambitious rail project over 500 kms linking India to Tibet via Nepal.

In October, President Xi visited Nepal, the first visit by a Chinese president in 23 years, saw 20 deals signed regarding connectivity, security, border management, trade, tourism and education and nearly $500m in financial aid pledged. Discussions continued on a much smaller 70-km (42-mile) rail link will connect Gyiron in Tibet to Kathmandu.

Perhaps the most important of all the Q4 meetings was between President Xi and Prime Minister Modi. While no official agreements/MoUs were signed, it is clear that China has become much more open to Indian investment into China's pharmaceutical and technology industries.

Overview of Grisons Peak

Grisons Peak is a UK based merchant bank focused on Asia which owns and operates an advisory business, a consultancy business and a China macro research business.

The advisory business was launched in 2003. During the period 2003-2018, Grisons Peak advised on over $25 billion of completed transactions. Initially, these were focused in the Financial sector. However, as Technology developed into a larger component of Financials, especially in emerging markets, the advisory business focus moved into Technology, which we consider to be an enabler across industries. As OBOR and the BRI developed, the advisory business was adjusted to follow the BRI geographically.

The Chinese macro research business is based upon a proprietary base, launched during 2008, which tracks all Chinese outbound investment across G2G/B2B, Government related loans and public and private outbound equity investments (www.chinainvestmentresearch.org). Beginning in 2018, as China began to focus on inbound FDI, we began also monitoring China inbound. We bring a forensic discipline to analysing data, with the goal to either reconcile and/or footnote each number back to original sources, which we believe is unique to other data providers. We also track Chinese outbound investments below $10 million, as they have represented circa 35% of Chinese outbound volume since 2017. We believe that this is also unique to other financial data providers. This degree of discipline is loss making – as we also choose to release quarterly data publically, without cost as a way of educating those interested in clean data/facts about the BRI. Our data/research has been quoted by financial press globally and utilized by a number of major universities and think tanks as a basis for academic studies.

Based on over one decade of this data, in 2016 Grisons Peak launched a Consultancy business, which utilizes this data for bespoke studies prepared for selected major corporate and services organizations, academic institutions and governments. We also present this information at major BRI conferences globally. Over the past three years, bespoke Consultancy has become an increasing focus of Grisons Peak.

Grisons Peak LLP is Authorised and Regulated by the Financial Conduct Authority.

For further information on this, please visit: www.chinainvestmentresearch.org.