China Outbound and Inbound Investments Q2 2021

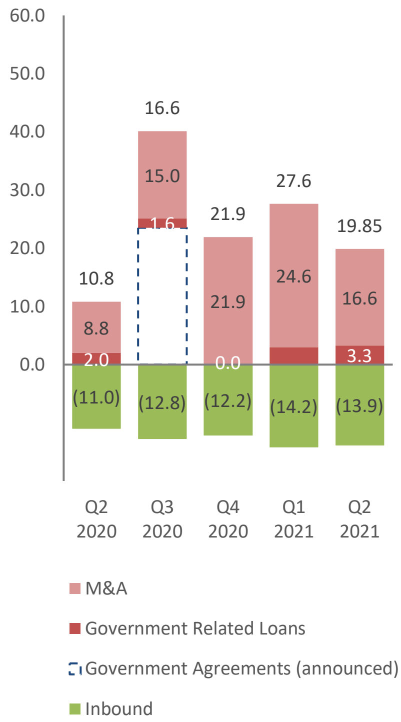
Significant Declines in Outbound M&A/Equity – reverting back to $60 billion/rate

Q1 2021 announced Chinese outbound M&A /equity investments saw aggregate amounts decline significantly to $16.6 billion, a 32.5% decline from Q1 total of $24.6 billion. This reversed the three prior quarterly increases and resulted in the lowest aggregate since Q3 2020. The strong decline in aggregate amounts tracks with 33% decline in transactions over $1 billion (from 6 to 4) and the 53% decline in aggregate amounts for transactions/investments over $500 million from $17.7 billion in Q1 to just $8.3 billion in Q2. POEs remain active, with metals and mining investments from large SOEs (which remain focussed on completing major BRI construction projects). At the Q2 rate, China appears reverting back to the 2019/2020 outbound pace of circa $60 billion, a fraction of 2016's $222 billion outbound.

Q2 2021 announced China inbound investments/pledges were $13.9 billion, down 2.1% from $14.2 billion in Q1 2021, but still well above both Q3 and Q4 2020 levels. This quarter was led by acquisitions of controlling stakes across financial services; banks, investment banks, securities firms, asset and wealth managers, insurers, real estate and logistics. North America led with $6.8 billion; led by two large acquisitions by Blackstone for $4.3 billion, while Canada based Brookfield acquired a set of five China mainland shopping malls for $1.4 billion.

There was one policy bank loan by CDB to Sri Lanka for $500 million –as a part of a March 2020 loan agreement – consistent with the low volumes/amounts over the past 2+ years. AIIB agreed 5 COVID related loans, 4 infrastructure loans and investments into two emerging markets NDB committed to its 9th $1 billion COVID related loan in the past 5 quarters – this one to South Africa.

Table 1: Aggregate Value (USD billion)



Key Highlights

- Volume remained above 200 (flat from Q1), again focussed on targetted outbound sectors of healthcare, technology, renewable energy, logistics and financial/blockchain.
- Average transaction size fell to only $92 million, led by many transactions below FDI threshold amounts. Investments with disclosed values of $10 million or less represented 38.7 % of all announced investments but 44.4% of all investments with disclosed values.
- Geographically, Asia continued to be the regional leader with 42.2% of Q2 total M&A/equity investment volume. Hong Kong continues as the clear leader in volume, followed by Singapore, Japan and Korea. Asia was also the home to three of the 7 largest M&A/equity investments in Q2. North America saw 27% of Q1 volume; aggregate amounts remained small as virtually all of these POE minority investments were below $100 million (save one $385 million minority investment by a major SOE in tech). The combined EU/UK fell to 20% of total volume (EU 10.6% of volume; UK 9.4%). Outside of the UK (volume leader), China made multiple investments in Germany, Netherlands, Switzerland and Scandinavia.
- Relative to industries, financial (including crypto), healthcare/pharma, consumer/ecommerce and tech/blockchain represented 79% of Q2 volume. These were followed by industrial/manufacturing, renewables and metals. In keeping with Dual Circulation, all of these appear to be strategic, either from a geographic or product line perspectiveAIIB was involved in 10 total commitments this quarter (down from 13 in Q4), including 3 COVID related loans (down from 5 in Q4), 5 infrastructure loans (same as in Q4) and investments in two funds (down from 3 in Q4). As in Q4 2020, NDB also approved two CEP/COVID loans in Q1, for $1 billion each to Russia and to PRC and 2 non-COVID loans, (down from 5 in Q4), for a total of $833 million, down 67.4% from Q4's total of $2.71 billion.

Chinese Announced Outbound M&A Transactions/Equity Investments

-54.8%

As noted above, both the number of larger transactions as well as aggregate amounts related to those transactions declined significantly during Q2:

Transactions/investments over $1 billion

- Primavera Capital acquired a 92% stake in Reckitt Benckhiser Health Care(UK) China infant formula business for $2.2 billion
- A Chinese consortium of Hillhouse Capital, Boyu Capital and Sequoia Capital China invested $1.8 billion for a minority stake in J&T Express, a Malaysia based logistics and courier service
- ESR and GIC (Singapore) combined to acquire Blackstone's Australian logistics assets for $2.9 billion/ $1.45 billion each
- Huayou and EVE Energy agreed to acquire a 37% stake for $770 million and to partner with Tsinghan, the biggest nickel producer in Indonesia and the world's top stainless steel maker in building a new plant focussed on nickel and cobalt. It also agreed to acquire an estimate 20% stake for $250 miilion in nearby battery plant (total $1.02 billion)

Transactions/investments $500-$999 million

- Shenzhen Mindray announced the acquisition (100%) of Hytest Invest Oy, a Finland based diagnostic test materials provider, for $662.5 million
- Genfeng Lithium formed an Australian JV in lithium, investing $600 million in the JV
- A consortium of Chinese investors invested $550 million for a minority stake in Sweden based Polestar Holdings, an EV manufacturer.

Collectively, these 6 investments represent $8.3 billion of total aggregate value. Unlike prior quarters, these 7 transactions/investments represent just 50% of aggregate quarterly amounts.

Average transaction/investment size for the 178 transactions/investments with disclosed values was $93.3 million, a 2nd successive significant decrease from the prior quarter. Transactions/investments over $1 billion

Industries

The Financial sector ranked 1st in volume of announced Q2 investments with 26.7% of quarterly volume. While there were two significant commercial real estate/logistics investments in a few geographies (value circa $2 billion), most financial investments involved providing growth capital as minority stakes in fintech, insurtech, bitcoin and crypto currency organisations in North America, Asia , EU and the UK.

Pharma/healthcare/life sciences was slightly behind in volume with 24.1%. There were acquisitions of controlling stakes of healthcare companies in Hong Kong and in Scandinavia which totalled close to $1 billion. There was a 29% stake in a Hong Kong based life sciences company made by an SOE for over $350 million. There were also a small number of healthcare/pharma investments between $50-$200 million (including a UK based robotic surgery). However, as seen in prior quarters, virtually all of the other investments were below $50 million – as China's focus has become providing growth capital via minority stakes and/JVs/drug discovery throughout the world.

The Consumer sector stayed flat at 17% of total volume. This sector had the largest deal, the $2.2 billion Primavera Reckitt deal. It also saw investments across several sub-sectors: retail

(Klarna – Sweden) and controlling stakes in Hong Kong and Japan food; and controlling stakes in cosmetics (Korea) and fashion (Italy). Games investments included a controlling stake in a Scandinavia games leader and investments in a number of other games companies as well as an esports investment in the Philippines. Ecommerce was particularly interesting; $400 million into a leading Vietnam based platform; $71 million into an Indonesian platform; small investments into two Egyptian platforms, one into a Saudi based platform and a 5% stake in Dotz (Brazil), which has loyalty programme with 20 million customers.

Tech was the 4th most active sector with 12.3% of total volume. There were VC/growth capital investments into software, semiconductors, cloud computing and a significant increase in blockchain. With one exception ($140 million), all of these investments were below $50 million.

Renewables/energy continued to increase in volume although amounts remained small. There were new energy investments in Honk Kong and Australia and well as energy investments in LNG. Sinopec Capital invested in USA based LanzaTech, which has a focus on promoting direct production of chemicals from waste carbon. All but one of these of these investments (outside of LNG) involved less than $50 million.

Logistics saw less than 2% of volume, but saw Chinese parties proving growth capital to logistics companies in Malaysia ($1.8 billion) and Thailand ($50 million) as well as the acquisition of a Hong Kong logistics company for $200 million.

Similarly, mining and metals saw little volume; however, saw over 25% of aggregate value as major SOEs were involved. CGN acquired a 49% in a Kazakhstan uranium mining business for $435 million. There were sizeable lithium investments in Argentina, Australia and one via a UK listed vehicle. Huayou and EVE Energy agreed to acquire a 37% stake in a major Indonesian nickel minor.

Unlike the initial years of the BRI, there were no major investments into utilities (one into water in Hong Kong for $25 million and an electricity concession to State Grid in Brazil for $120 million) and one small investment into construction, reinforcing our view that BRI 1.0 is virtually built – with the focus now on the *Digital, Health and Green Silk Roads*.

Geographies

Asia returned as the geographic leader with 40.3% of Q1 total M&A/equity investment volume. Hong Kong was the clear leader in volume, and as seen above, also was home to two of the six $1 billion+ transactions in Q1. Singapore was 2nd in volume. Korea saw 6 investments but two of the Asia returned as the geographic leader with 42.2% of Q2 total M&A/equity investment volume, up another 2% from Q1. Hong Kong was the clear leader in volume while Singapore was #2. Japan and Korea followed then Indonesia. Other Asian countries receiving investment included Malaysia, Thailand, Cambodia, Vietnam, Philippines, Taiwan and Kazakhstan. India, after blocking all Chinese capital for the past 18 months, appears to have permitted a few small Chinese minority investments in Q2.

North America was once again 2nd with 27% of Q1 volume. While volume remained significant, aggregate amounts remained small as virtually all of these investments were below $200 million except for the $385 million minority stake in a renewable technology business. Most of these investments were below FDI threshold levels, representing growth capital, frequently in healthcare, usually with some link back to China. Chinese continue to participate in North American led VC led tech syndicates particularly in medtech and fintech. Investments into crypto continue to increase, carrying on from Q1.

For historical/comparative purposes, the combined EU/UK fell to 20% of total volume. Separately, EU represented 10.6% of volume; UK 9.4 %. While the EU volume was small, it was home to three of Q2's largest deals, the $2.2 billion Reckitt (UK) infant formula acquisition by Primavera, Shenzhen Mindray's acquisition of Hytest Invest Oy, a Finland based diagnostic test materials provider, for $662.5 million and the $550 million capital raise by Polestar. EU volume remains focussed on investments (not controlling stakes) in Germany, Netherlands, Switzerland and Scandinavia (Sweden – another investment into Klarna and Finland consumer). Fosun also made a bolt on consumer acquisition in Italy (Sergio Rossi) and there was a small healthcare investment in Spain. In CEE, there were investments into Croatia, Romania and Lithuania. All of these were growth capital and minority stakes. There was also a tech investment into Greece.

The UK saw 19 investments, slightly less than one-half of the EU standalone volume. Activity remains focussed on healthcare, tech, financial and consumer. Activity surrounding crypto currencies and blockchain increased. Both transaction and investment sizes remain quite small, save for the Primavera consumer deal as noted above. There were two other investments over $200 million (metals and medtech), otherwise, there were no other investments greater than $50 million.

- Latin America Caribbean (LAC) – saw 7 investments with the focus on Brazil and Argentina in communications, metals and ecommerce
- MENA/Gulf – saw 5 investments this quarter, led by Israel. These were primarily focussed in healthcare and tech. Saudi Arabia also saw another investment this quarter
- Australia – 5 investments; a major lithium JV ($1.45 billion), a small financial/real estate acquisition, while the others were minority stakes in pharma, industrial and renewables
- Africa – 5 investments; two providing growth capital for Egyptian tech groups, and to acquire a majority stake in a Kenya based construction company.MENA/Gulf – saw 12 investments this quarter, led by Israel. There were also investments into Bahrain, Dubai, Saudi Arabia and Cyprus
- Latin America Caribbean (LAC) – saw 4 investments with the focus on Mexico
- Australasia – saw 4 investments; 3 in Australia and one in New Zealand. Two of the Australian deals were small sized mining deals, while one was VC funding for a high growth healthcare group: the New Zealand deal was the acquisition of a majority stake in a pet foods company
- Africa – 2 investments; 1 in DRC (mining) and one in Nigeria (fintech)

Chinese Inbound Announced M&A Transactions/Equity Investments

-2.3%

Q2 2021 announced China inbound investments/pledges were $13.9 billion, down 2.1% from $14.2 billion in Q1 2021, but still well above both Q3 and Q4 2020 levels. These investments were a mixture of controlling inbound acquisitions, minority stakes, JVs and new plants/operations. This quarter was led by acquisitions of controlling stakes across financial services; banks, investment banks, securities firms, asset and wealth managers, insurers, real estate and logistics. We set out activity by region below: (1)

North America led with $6.8 billion. Two large acquisitions by Blackstone, one of a Beijing based commercial developer and one of a leading Chinese data management group, accounted for $4.3 billion. Canada based Brookfield acquired a set of five mainland shopping malls for $1.4 billion.

(1) Included in this analysis are transactions and/or investments which have both been signed and announced. Omitted from this analysis are transactions involving publicly traded debt or equities.

There was a furry of investments/announcements by leading US financial services groups including:

- JP Morgan – seeking to acquire the remaining 29% of its securities joint venture. (Estimate of $40-50 million). This follows JPM's Q1 acquisition of a 10% stake in China Merchants Bank, a leader in Chinese wealth management, for $410 million
- Morgan Stanley – remains interested in acquiring stakes in their Chinese securities and mutual funds JVs (circa $150 million)
- Goldman Sachs – launched its Chinese wealth management JV with ICBC wealth management: Goldman will control 51%
- Blackrock – announced that it had received its license for a majority owned (50.1%) wealth management JV with CCB and Temasek (Singapore). Blackrock also became the first global asset manager to start a wholly-owned onshore mutual funds business

Asia Q2 announced with disclosed values totalled $6.1 billion. Not surprisingly, Hong Kong and Singapore ranked #1 and #2 respectively by country. The largest Asian inbound investment was AIA's acquisition of a 24.99% equity stake in China Post Life for $1.8 billion. Hong Kong also saw a $500+ million acquisition of a Chinese shopping mall by a REIT and an inbound mainland Chinese hospital acquisition. Singapore saw 3 real estate/REIT transactions, one of which represented the successful IPO of GLP's logistics REIT (a landmark China REIT transaction), the launch of DBS' majority controlled mainland securities JV and a private placement by GIC into a leading tech platform.

This quarter also saw inbound JVs/partnerships involving many other Asian countries; Japan (Daiwa securities JV and an EV batteries JV), Korea (biopharma VC investment led by Mirae and a JV in lithium ion battery recycling), Mongolia (metallurgical coal JV), Thailand (hospitality/hotels entry), and Australia, a $1.4 billion lithium strategic partnership.

In MENA, China (Guangzhou) and Israel launched a 2nd Sino-Israel biotech Fund, managed by prominent Israeli professionals, is focussed on Israeli and EU biotech companies in phase II/III clinical trials.

Europe (excluding the UK) saw numerous JVs/investments, however, very few of them had disclosed values and thus aggregate disclosed values were $750 million.

In Germany, there were two JVs launched focused on electric batteries as well as one on fuel cells – all involving leading brands from both countries. There was a JV launched to focus on monorail components, one to bring German flying taxis into China and one to fund a Series C of a Chinese drone maker. Perhaps the most pressing Q2 German/China JV was the one between Fosun Pharma and BioNTech, which is designed to produce up to 1 billion of additional vaccine doses per year to mainland China, which needs this additional domestic vaccine capacity. (BioNTech also announced that it would be launching new regional vaccine production facility in Singapore).

BASF's new engineering plastics compounding plant at the BASF Zhanjiang Verbund site ($10 billion) is also on track with the first production plant to come on stream at the site in 2022.

German inbound VC investment volume was much lower in Q2 versus Q1 as Bertlesmann (BAI) – which made 5 VC investments in Q1 –saw none in Q2. BASF and Bosch VC funds saw much lower VC investment activity in Q2.

France saw Sanofi launch a new global research institute in China (its 4th such global institute), Air France/KLM acquired an additional $200 million to increase its stake in China Eastern (still below 10%) and TOTAL released updated data on its solar panel JV (TEESS) with Envision which appears to be making strides into the Chinese commercial & industrial user segment.

Other European countries:

- Norway – saw two JVs, one to develop offshore wind in the Yellow Sea and one with UAC, a supplier of fiberglass pressure vessels, to build a large scale production facility in China
- Finland – Finnair – new JV with Juneyao Air to expand air service between both countries
- Switzerland – Clariant opened its new production facility for light stabilizers
- Italy – Daerg Chimica, a specialist in car washing business operating in 45 countries, announced the launch of its Chinese business
- Netherlands – Two major projects to install around 8,000 solar panels are being finalized by AkzoNobel in China; more than 5,000 at the Shanghai site and almost 3,000 in Guangzhou – further progress for its greener manufacturing plan

UK – (amounts with disclosed values of circa $250 million) – saw the acquisition of a majority (73%) stake in a small Chinese industrial company, acquisition of a 10% stake in a regional Chinese freight organisation, a JV involving China Everbright Fund providing growth capital for IP Group's China based portfolio companies, a chemical manufacturing JV, a JV in life sciences/AI, a small petrochemicals JV (via Shell), a data focussed JV involving Unilver, Alibaba's Brand DataBank and Fudan University, and a sizeable infant formula business exit by Reckitt Benckiser, a leading UK consumer health group.

Government Related Loan Agreements

Policy Bank Commitments

-51.5%

There was one policy bank loan commitment for $500 million by CDB to Sri Lanka, which was considered to be part of the Foreign Currency Term Financing Facility (FTFF) 2020 signed in March 2020 – terms remains at 10 years with 3 year grace with lower yields.

Multilateral Banks

AIIB – Macro

AIIB was involved in 11 total commitments this quarter (up from 10 in Q1), including 5 COVID related loans (up from 3 in Q1), 4 infrastructure loans (down from 5 in Q1) and investments in two funds (consistent with Q1). AIIB total new commitments were $1.75 billion, a decrease of 13.3% from $2.02 billion of Q1 new commitments.

AIIB – COVID Related

The 5 COVID related loans in Q2 represented a change from the declines over the past few quarters; 10 COVID related commitments in the Q2 2020 peak, to 7 in Q3, 5 in Q4 followed by only 3 in Q1. However, this needs to be examined further, as only 2 were focused on healthcare support (Indonesia for $500 million and Mongolia for $21 million), while 3 were related to providing liquidity/capital for SMEs in Turkey ($250 million), Georgia ($100 million) and Rwanda ($100 million).

AIIB – Non-COVID Related

In Q2, AIIB made 4 non COVID related loan commitments totalling $550 million, a 47.6% decline from the past two quarters. These were to:

- PRC – $300 million; port linking PRC and Vietnam — AIIB 65% of total project cost (TPC)
- Uzbekistan – $100 million; gas turbine — AIIB provided 10%; led by EBRD
- India – $75 million; gas distribution — AIIB provided 13.5% of TPC
- India (Punjab) – $75 million; sustainable water — AIIB provided 25% of TPC

As shown above, all of these AIIB non COVID commitments were multilateral.

Funds Investments – AIIB

AIIB invested into two funds in this quarter, totalling $230 million, flat from Q1. The largest was a $150 ($100 +50) million commitment to Global Infrastructure Partners Emerging Markets Fund I .GIP EM is a closed-end fund with a target size of $5 billion. It is designed to invest in infrastructure projects in middle income markets in Asia and LAC.

AIIB committed $80 million to an Asia Infra Securitisation through an investment in an issuance of IABS sponsored by Bayfront Infrastructure Management Pte Ltd, a Singapore-based entity with a mandate to invest in and distribute infrastructure debt in the Asia Pacific and MENA.

NBD – COVID related

As in Q4 2020, NDB also approved two CEP/COVID loans in Q1, for $1 billion each to Russia and to PRC.

NDB – Non-COVID related

NDB also approved a $1 billion COVID/CEP loan to South Africa, its 9th BRICS COVID commitment of the $10 billion set aside for COVID assistance dating back to April 2020.

Overview of Grisons Peak/China Investment Research Ltd

Grisons Peak is a UK based merchant bank focused on Asia which owns and operates an advisory business, a consultancy business (Grisons Peak Services) 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 then the BRI developed, the advisory business was adjusted to follow the BRI geographically.

The Chinese macro research business is based upon a proprietary database, launched during 2008, which tracks all Chinese outbound across M&A, 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 an increasing percentage 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 in itself – as we also choose to release quarterly data publicly, 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 2017 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 with the specialty in BRI.

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