

A Review of Chinese Outbound M&As in 2017–2018 and Outlook



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Abstract

Overall Characteristics: market features (number of deals, disclosed value, range of deal value – initiated and completed deals)

Regulatory Characteristics (Germany, EU, Britain, the US, Australia and China).

Annual highlights: hottest sectors, popular destinations, locations of active investors (ranked by deal volume);

Ratio: number of listed buyer companies/disclosed value; nature of ownership of buyer companies (percentage by number of deals, and percentage by disclosed value);

Features of segment industries (AI; specific application fields of AI; Manufacturing; auto parts; medicine/health; consumption upgrade; finance; TMT).

Overall trend: buyer trend (still active requests from buyers); seller trend (still active targets); classification by industry, region, value and purpose; regulatory trend

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Methodology and Terminology

Report Data Source: Database of Morning Whistle Group

Data Due Time: November 2017

Terms:

- Outbound M&As: target regions excluding Hong Kong and Macao
- Rumored Deals: widely reported by authoritative media but not confirmed by both buyers and sellers
- Intentional Deals: the buyers or sellers acknowledge informal involvement into the M&As
- Announced Deals: the buyers or sellers officially announce to start M&As or receive M&A offers
- Signed Deals: the buyers or sellers officially announce to sign M&A agreements
- Completed Deals: the buyers or sellers announce that deals are closed
- Terminated Deals: terminated before signing of agreements and after announcement; terminated before completion of deals and after signing of agreements
- Confirmed Deals: signed deals and completed deals
- Potential Deals: rumored deals, intentional deals, announced deals
- Megadeals: with target value of over USD1 billion
- Medium-sized deals: with target value of between USD10 million to 1 billion
- Small-sized deals: with target value less than USD10 million



376 confirmed deals disclosing USD146.5 billion in value

Preview: Morning Whistle Chinese Outbound M&A Annual Report 2017

According to the Research Department of Morning Whistle, by December 25, 2017, Chinese investors have initiated totally 573 outbound M&A deals in 2017, with disclosed value totaling approximately USD 296.109 billion, down 21.40% and 10.78% respectively over 2016. But the strong M&A momentum in overseas advanced manufacturing still continues. Among them, a total of 376 deals are confirmed (signed and closed) collectively disclosing a value of USD 146.545 billion. As we look into the upcoming trend of Chinese outbound M&A activity in 2018, the active M&A requests on ChinaMerger reveal to us that targets in healthcare, TMT and manufacturing are most preferred by Chinese buyers. Each of the three sectors represents over 10% of the total number of M&A requests. **(For detailed table of 573 deals in 2017 and M&A requests statistics and analysis in 2018, please click on the QR code at the bottom and subscribe Morning Whistle Chinese Outbound M&A Annual Report (2017–2018).)**

National Development and Reform Commission of China published Measures for the Administration of Overseas Investment of Enterprises (New Measures) on December 26, 2017, which will come into force from March 1, 2018. The New Measures are about the further reform of cross-border investment and financing systems in 3 aspects: streamlining administration and delegating power, strengthening regulation and improving service. It is generally believed that the new regulation would make for better efficiency in cross-border M&A and investment, and meantime, uncertainty and risks due to government approvals would be greatly reduced.

From great boom in 2016, to the sharp tightening of policies early 2017, and to the current good momentum, 2017 can be referred to as a year full of ups and downs for Chinese outbound M&As.

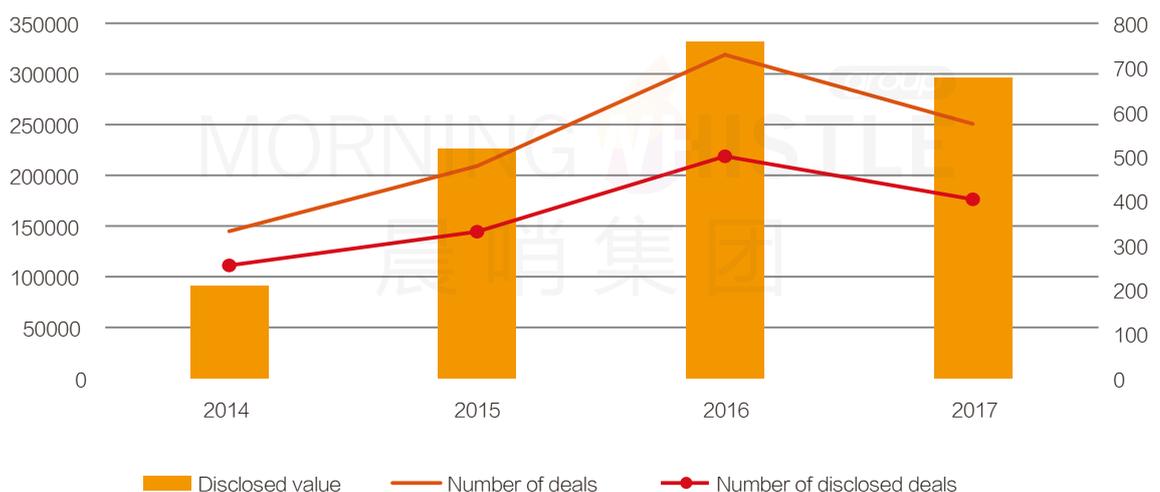
Decrease in both deal volume and deal value

Following a strong 2016, the year 2017 saw dramatic decline in both deal volume and value. According to the Research Department of Morning Whistle, by December 25, 2017, Chinese investors have initiated totally 573 outbound M&A deals in 2017, with disclosed value totaling approximately USD 296.109 billion, down 21.40% and 10.78% respectively over 2016.

Data from the Research Department of Morning Whistle showed that Chinese outbound M&A activity experienced a rapid growth from 2014 to 2016. Especially in 2016, M&As grew by leaps and bounds, with an year-on-year increase of 52.51% in number of deals and 46.28% in total disclosed value.

However, the government introduced a series of policies in 2017 to better regulate and guide overseas investments. Consequently, Chinese outward M&A expansion began returning to a rational track. In some restrictive fields like culture, entertainment and clubs, the decline was obvious (no new projects by Chinese Mainland investors), while the strong M&A momentum in overseas advanced manufacturing still continues.

Chinese Outbound M&A Trends in 2014–2017



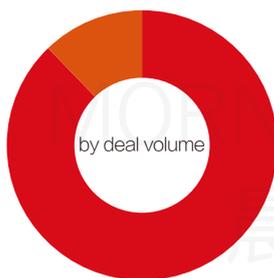
Source: Research Department of Morning Whistle Group

By transaction status, the Research Department of Morning Whistle has classified Chinese outbound M&A transactions into 5 types: "rumored deals", "intentional deals", "announced deals", "signed deals" and "closed deals". In this way, the development trend of M&A deals at different stages can be accurately captured and recorded. The former three types of deals – rumored, intentional and announced deals – are collectively called potential deals and the latter two (signed & closed deals) confirmed deals. 2017 saw a total of 376 confirmed overseas M&A deals made by Chinese investors, disclosing a value of USD 146.545 billion in all.

Stake acquisition dominated the market

The type of stake M&A still dominated Chinese outbound M&A in 2017. Up to 503 stake M&As occurred in 2017, recording a disclosed value of approximately USD 260.267 billion, which represented 87.78% and 87.90% of the total respectively. Though asset M&A can offer Chinese acquirers property and business necessary for operation, it has such disadvantages as high tax cost and complex owner-changing procedures. However, stake acquisition is more flexible, hence is more popular among M&A buyers and sellers. For example, in stake M&A, the target companies only have the shareholders changed, with the legal personality and legal capacity remaining the same. Therefore, no problems like company dissolution or employee dismissal would bother. Meanwhile, the liabilities of the target companies are assumed by the buyers indirectly, in proportion to the percentage of shareholding, which will help to mitigate investment risks in M&A deals.

Types of Chinese outbound M&A in 2017
(by deal volume)



- Stake M&A 87.63%
- Asset M&A 12.20%

Types of Chinese outbound M&A in 2017
(by deal value)



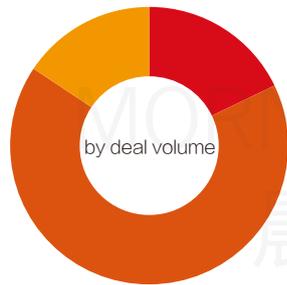
- Stake M&A 87.90%
- Asset M&A 12.10%

Source: Research Department of Morning Whistle Group

The mid-market was the most active

Morning Whistle Group has divided Chinese outbound M&As into megadeals (over USD1 billion, including USD1 billion), medium-sized deals (USD10 million to USD1 billion) and small-sized deals (below USD10 million). Among the 403 outbound deals with disclosed value in 2017, medium-sized deals took up the highest proportion – 66.50%, representing a total of 268 deals. Although there were only 72 megadeals, their value comprised up to 81.25%.

Deal values of Chinese outbound M&A deals in 2017 (by deal volume)



● Megadeals	17.87%
● Medium-sized deals	66.50%
● Small-sized deals	15.63%

Deal values of Chinese outbound M&A deals in 2017 (by deal value)



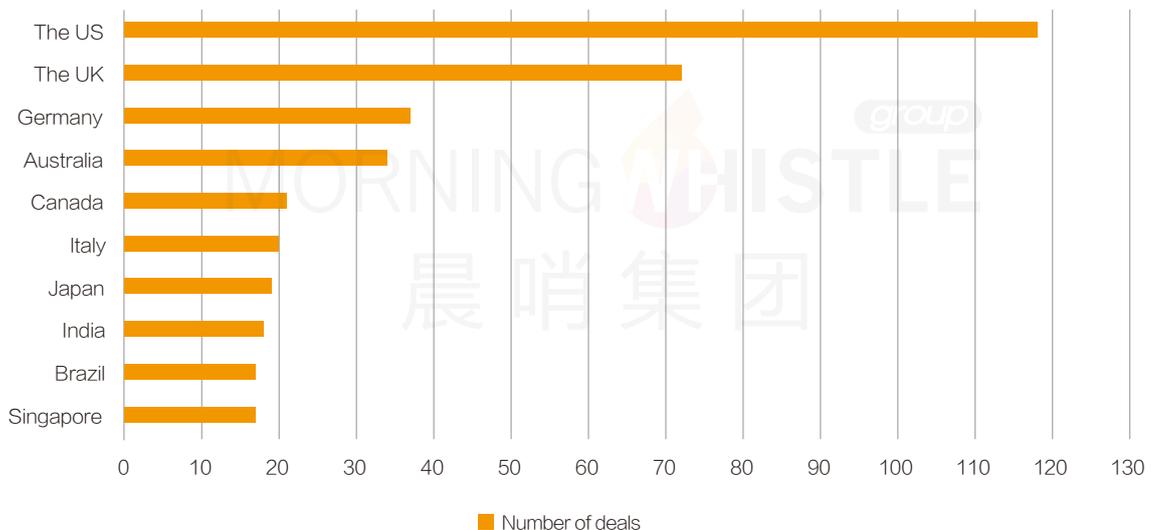
● Megadeals	81.25%
● Medium-sized deals	18.64%
● Small-sized deals	0.10%

Source: Research Department of Morning Whistle Group

USA still remain as the hottest destination for Chinese investors

Chinese outbound M&A activity happened in a total of 70 countries and regions in 2017; the developed nations led by USA were among the most popular. 118 deals involved US-based targets, constituting up to 20.59%. On December 22, 2017, the US president Donald Trump officially signed the USD1.5 trillion tax bill – Tax Cuts and Jobs Act at the White House, signaling the formal launch of the largest-scale tax cuts in USA in over 30 years. Tax relief is undoubtedly a great boon for Chinese enterprises to invest in USA; it is estimated that the US will still be the primary destination for Chinese outbound M&As in 2018.

Top Ten Popular Destinations for Chinese Outbound M&As in 2017

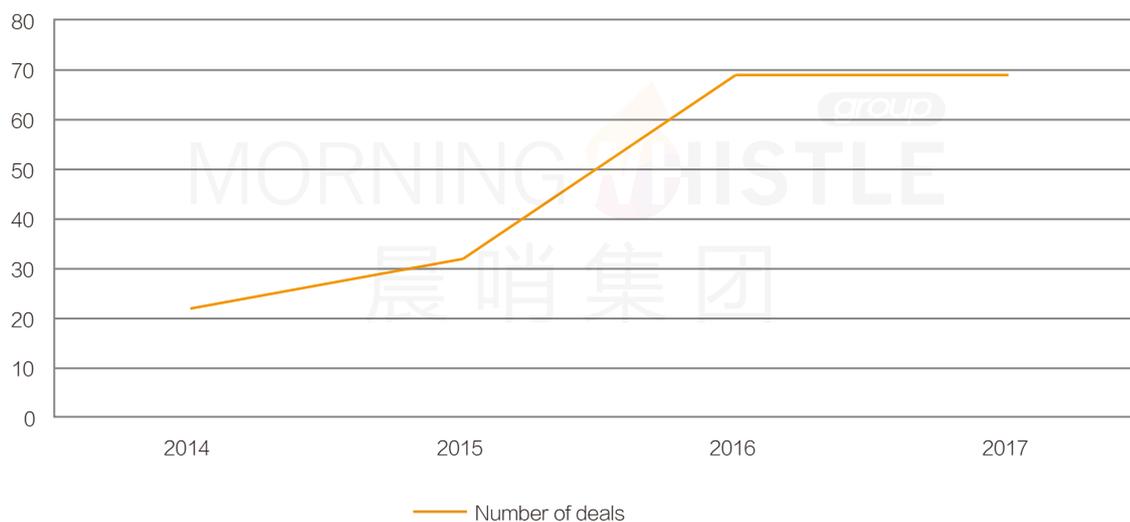


Source: Research Department of Morning Whistle Group

Investment trend along “the Belt and Road” is still strong

In 2017, a total of 93 Chinese outbound M&As involved nations along the Belt and Road, among which 69 are confirmed deals (signed & closed deals) and 41 deals disclosed a value totaling approximately USD 8.723 billion. While the overall trend is cooling down, Chinese outbound M&A in nations along the Belt and Road still persist at the level of 2016. With the deepening of “the Belt and Road” initiative, it is expected that Chinese outbound M&As in nations along the Belt and Road will see strong growth in the future.

**New Confirmed Deals Along the Belt and Road Countries
Made by Chinese Investors in 2014–2017**

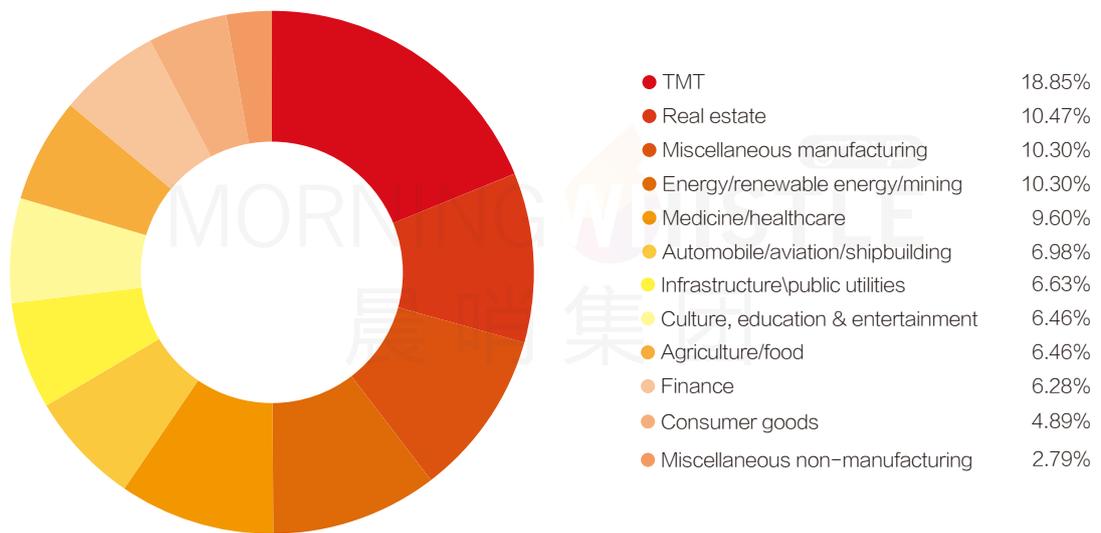


Source: Research Department of Morning Whistle Group

TMT, real estate, energy, manufacturing and medicine/health were the hottest target sectors

In 2017, Chinese outbound M&A deals covered all the 12 sectors. TMT was the most active one, registering 108 deals, or 18.85% of the total number of deals. Real estate, energy, manufacturing and healthcare followed, recording 60, 59, 59 and 55 deals respectively.

2017 Target Sectors of Chinese Outbound M&As



source: Research Department of Morning Whistle

Analysis:

TMT: TMT (technology, media and telecommunications) has always been the favorite sector of private equity investors. As an effective channel to obtain state-of-art technologies from abroad while expanding business to the rest of the world, TMT recorded a significant proportion of Chinese outbound M&A deals by both volume and value over the past years. Even in 2017 when the Chinese outbound M&A market was obviously affected by government policy, TMT still sat as the hottest target sector.

Real estate: In 2017, London's real estate market saw large capital inflows from Hong Kong. Since the second half of 2016 when the Chinese government set tight restrictions on home purchases to guide and regulate investment activity, many Chinese investors shifted their focus abroad, and London, with house prices gradually returning to reasonable levels as a result of the pound's sustained fall after Britain left the EU, attracted a large number of investors from Hong Kong who saw an opportunity for bottom fishing.

Energy: In the context of global energy crisis, the energy sector naturally becomes one of the favorite sectors for Chinese investors. In 2017, most Chinese outbound M&A deals occurred in Australia's metal ores market, mainly including Zhejiang Huayou Cobalt's AUD10 million acquisition of Nzuri Copper Limited, and the AUD 28 million deal conducted by Great Wall Motors (02333) for a 3.5% stake in Pilbara Minerals.

Manufacturing: For a long time Chinese manufacturing firms have been striving to realize a transformation to high-end and intelligent manufacturing. This is also a driving force behind Chinese outbound investment in the manufacturing sector. In 2017, the U.S. and developed European countries with advanced technologies were the most attractive targets for Chinese manufacturing investors, and most deals happened in the mechanical equipment and chemical engineering industries.

Medicine/health: China is now in the transition from a big generic drug maker to an innovative drug and medical equipment manufacturer. As the CFDA speeds up the approval process, the payback period of innovative drug and medical equipment projects will be greatly shortened, which indicates a shift from marketing to product R&D in medicine/health investment. Take for example Jiangsu Hengrui Medicine Co., Ltd., and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. Product R&D will become the core factor affecting their market values. Listed firms with R&D strength will see market values remaining above those of other listed companies. In the future, outbound M&A activity will play an increasingly important role in increasing R&D strength.

Beijing, Hong Kong and Shanghai took the lead among top 10 locations of Chinese outbound investors

In 2017, Chinese investors participating in outbound M&As were from 33 provinces and municipalities. Beijing, Hong Kong, Shanghai, Zhejiang, Guangdong, Shandong, Hainan, Jiangsu, Chongqing and Fujian were the top 10 seeing the most active investors. By deal volume, Beijing was way ahead of others with 118 deals, or 20.59% of the total number of deals. Geographically, most Chinese investors were located in the developed coastal areas, and Chongqing was the only inland city highly ranked.

2017 Top 10 Locations of Chinese Outbound Investors



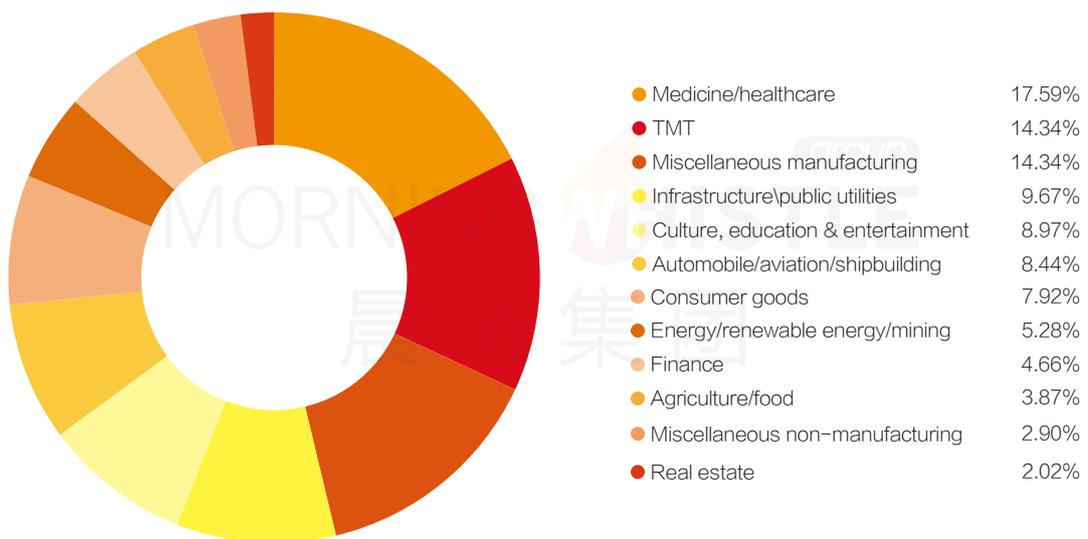
Source: Research Department of Morning Whistle Group

According to such information as M&A requests, target projects, and user behavior collected by Morning Whistle ChinaMerger, the Research Department of Morning Whistle has predicted Chinese outbound M&A trends in the coming 2018.

Hot outbound M&A target sectors

M&A requests published on Morning Whistle ChinaMerger show that in 2017, medicine/health, TMT, and manufacturing were the favorite target sectors for Chinese investors, with each sector registering over 10% of the total number of M&A requests. We believe that these sectors will still be very attractive for Chinese investors in 2018.

**2017 Target Sectors of Chinese Outbound M&A Requests
Published on Morning Whistle ChinaMerger**

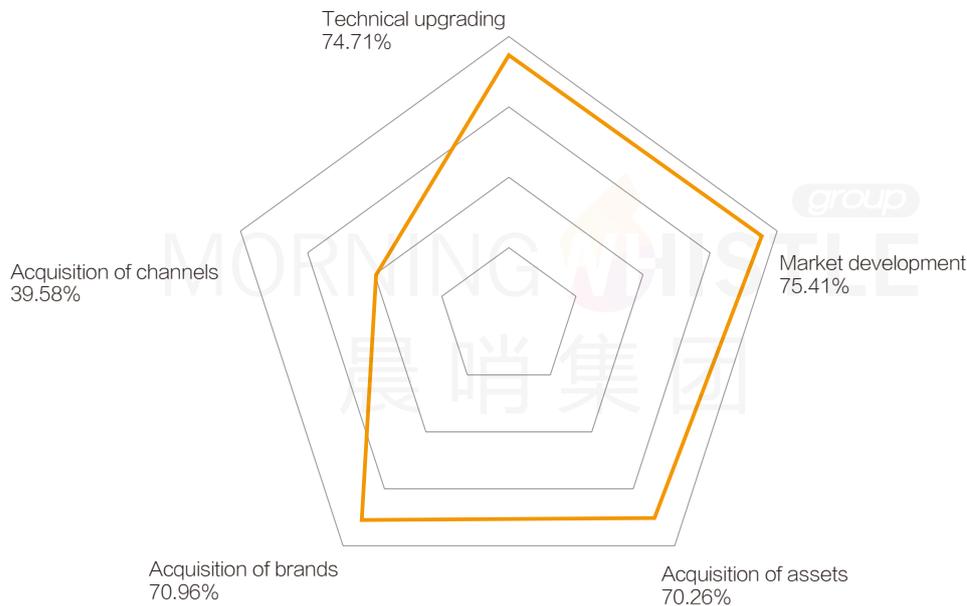


Source: Research Department of Morning Whistle Group

Main outbound investment purposes

Data provided by Morning Whistle ChinaMerger indicate that in 2017, Chinese investors mainly sought outbound M&A opportunities for market development and technical upgrading, followed by the acquisition of valuable foreign brands and assets. Only a small proportion of M&A requests stated the purpose of acquiring foreign channels.

2017 Chinese Outbound M&A Purposes Published on Morning Whistle ChinaMerger

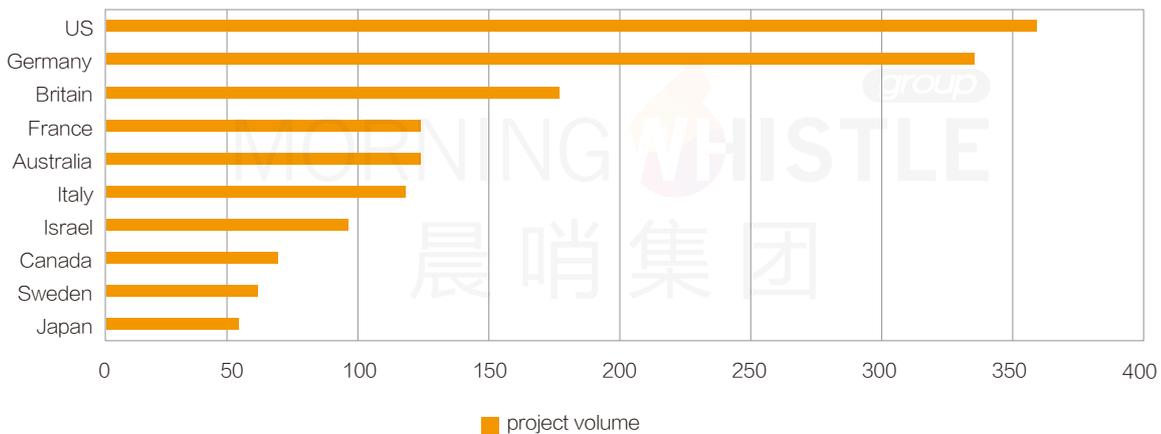


Source: Research Department of Morning Whistle Group

Hot outbound M&A destinations

As Morning Whistle ChinaMerger reveals, in 2017, the U.S., developed European countries, Australia and Japan were the most popular destinations for Chinese investors. Israel moved into seventh place on the top 10 list as an important country along the Road and Belt. This indicates the active response of countries along the Road and Belt to foreign investment. As the Belt and Road Initiative keeps advancing, more countries along the Road and Belt are expected to become popular destinations in 2018.

2017 Top 10 Chinese Outbound M&A Destinations Published on Morning Whistle ChinaMerger

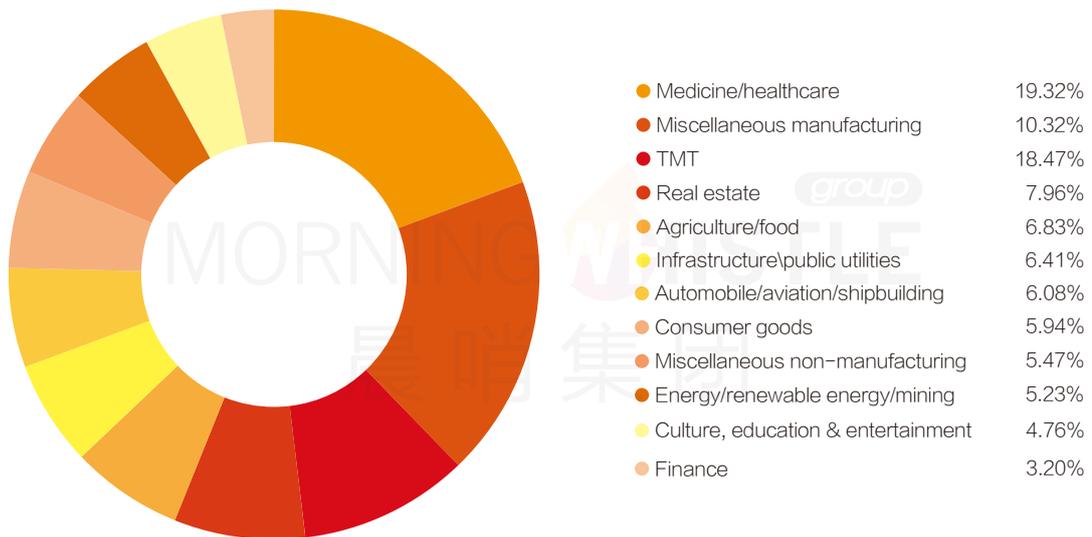


Source: Research Department of Morning Whistle Group

Sectors with the most active sellers

Data collected by Morning Whistle ChinaMerger show that in 2017, medicine/health, manufacturing and TMT saw the most active sellers across the world, with projects accounting for 19.32%, 18.47% and 10.32% of the total number of projects. Since such projects failed to find appropriate Chinese buyers in 2017, it's quite possible that they will be still available in 2018.

2017 Sectors with the Most Active Sellers Published on Morning Whistle ChinaMerger



Source: Research Department of Morning Whistle Group

The statistic interval of the report above is from Jan. 1, 2017 to Dec. 25, 2017. Some data may be adjusted. Please refer to our final annual report for accurate data.

For more information such as the table of the total 573 deals in 2017, the analysis on Chinese outbound M&A requests in 2018, and the analysis on target projects for sale in 2018, please long press the QR code below to subscribe the Morning Whistle Chinese Outbound M&A Annual Report (2017-2018).

