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Deal Drivers: APAC 2024 Outlook

Mergermarket

Outlook for 2024

Led by tentative calming of China's real estate market, APAC M&A eyes recovery.

The tentative recovery in aggregate M&A value seen in 2023 in the Americas and EMEA was absent in APAC, where total invested capital continued to decline. This has largely been a function of domestic dealmaking slumping in China to a decade-low. The country has an outsized real estate sector, which represents around a third of its economy, and is in dire straits. Over-levered property developers and declining sales have motivated the government to take measures to stabilize the sector, including easing credit conditions by lowering interest rates and reducing reserve requirement ratios for banks.

These stimulative steps are expected to bear fruit in 2024 and spur an uptick in private-sector investment. China's vast manufacturing base cannot be counted out, and the nation's industrial & chemicals (I&C) sector is expected to be core for M&A volume across the region in the coming months. APAC is of course a vast, diverse, and dynamic region, each of its constituent markets offering their potential independent of China's future course.

	Greater China	Southeast Asia	South Korea	Japan	India	Australia & New Zealand	TOTAL
Industrials & chemicals	273	24	41	17	18	20	393
TMT	151	66	31	40	45	28	361
Consumer	71	24	20	13	25	69	222
Pharma, medical & biotech	98	26	12	7	34	27	204
Energy, mining & utilities	89	28	6	4	22	42	191
Financial services	85	24	14	4	24	40	191
Business services	89	29	10	2	21	27	178
Leisure	29	10	11	1	4	21	76
Construction	57	4	2	3	4	4	74
Real Estate	58	7	1	2	2	1	71
Transportation	23	17	5	1	4	12	62
Agriculture	14	3		1		10	28
TOTAL	1,037	262	153	95	203	301	2,051

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between 01/07/2023 to 21/11/2023. Opportunities are captured according to the dominant geography and sector of the potential target company.

Industrials reign: No overestimating APAC's massive manufacturing capabilities

1 A matter of factories

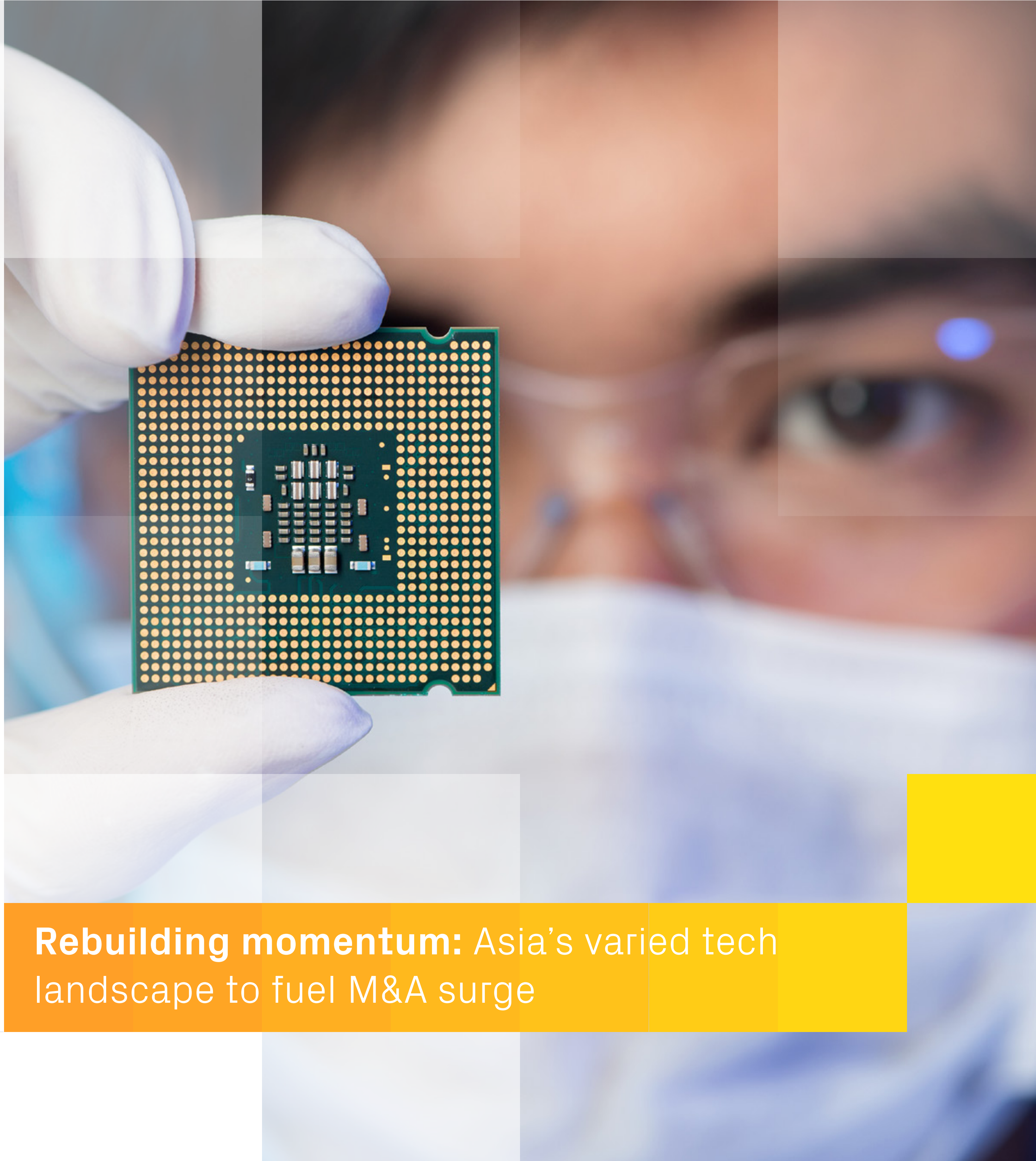
Although the I&C sector is only expected to dominate M&A proceedings in two markets – China and South Korea – it has a lead over every other industry. There were 393 deal reports involving APAC I&C companies, according to research from Mergermarket, just ahead of technology, media & telecoms (TMT). This equates to 19% of all deal reports in the region, and more than two-thirds of these involve Chinese targets.

In China, these have been relatively small recently. The biggest play in the country in 2023, valued at US$7.2bn, saw Hangzhou state-owned Capital Investment Management back Zhejiang Yingde Holding Group, a manufacturer of on-site gas production, air separation units, and clean energy products. What turned heads in APAC was the US$23.1bn acquisition of VinFast Auto, an electric vehicle (EV) developer headquartered in Singapore but with Vietnamese operations, by special purpose acquisition company (SPAC) Black Spade. APAC possesses the largest industrial base globally, primarily due to the extensive manufacturing capabilities and industrial output of China, Japan, South Korea, India, and increasingly Southeast Asia. It is this prowess that will keep I&C transactions flowing.

2 Tech’s change of fortunes

The TMT sector is almost neck and neck with I&C and is expected to be the primary source of M&A activity in Southeast Asia (66), India (45), and Japan (40) in the near term. In total, there were 361 ‘company for sale’ stories involving TMT assets, or 18% of all coverage across the APAC region.

The largest of these is a case study of both the risks inherent in under-innovating and weak corporate governance. Japan Industrial Partners and TBJH threw Toshiba a US$16.1bn lifeline in March, with the national giant taken private to turn its fortunes around following an accounting scandal and years of losing market share to more competitive PC manufacturers. There is of course plenty of opportunity at the more vibrant end of the tech spectrum. Nasdaq-listed SPAC AlphaVest Acquisition Corp was behind a US$4.3bn buy of Chinese ride-hailing app Wanshun Technology Industrial Group in August. Following the funding winter in the tech space, high-potential assets with trimmed valuations are highly viable candidates for investors who can accelerate their growth.



Rebuilding momentum: Asia’s varied tech landscape to fuel M&A surge

3 Selective consumer bets

Consumer APAC deals had already been regressing over the past 15 years but fell off a cliff to a record low in 2023. Total transaction value also scraped a new nadir of only US$23.9bn by the end of Q3. Just one deal made it into the region's top 20 transactions, and even then, only into last place. Chinese state-run shipping company Cosco Shipping Holdings bought a 22.2% stake in food business Fortune COFCO, which recently launched high-end sub-brands to cater to the Chinese consumers' increasing preference for the finer things in life.

The sector may be in a slump but the M&A outlook is positive relative to other industries. The 222 consumer deal reports put it in third place, just in front of pharma, medical & biotech (204). Easing inflationary pressures may put consumer-facing companies' EBITDA margins under pressure as it becomes harder to keep raising prices while labor costs rise. This will favor businesses with differentiated products, strong brands, and loyal customers.

Consumer conundrum: Despite dealmaking downturn, the near-term outlook is optimistic

Slumbering giant: Domestic deal momentum in China beginning to mount

4 Made in China

In time-honored tradition, China, APAC's largest economy, will be the region's most active market as we move into H1 2024. The 1,037 for-sale stories linked to Chinese assets represent no less than 51% of all APAC deal reportage.

Dealmaking in the country has hit a fallow patch. Inbound activity from the US has ground to a near halt and domestic transactions have been similarly muted as the anticipated post-COVID reopening failed to deliver growth. As of mid-2023, Bloomberg's Credit Impulse Index has been moving up. It's too early to tell whether this will sustain, but more lending at lower rates will encourage economic activity and could be enough to bring M&A momentum back to its former self. China's next phase will likely look very different from the recent past as it pivots to more domestically-centric and lower growth. However, the vastness of its economy makes for an unmatched deal pool.

Trends for 2024

Budding deal markets in India and Southeast Asia hold vast promise.

A baseline has yet to be found in APAC's collective M&A market. However, deal data trend lines look familiar to those in the Americas and EMEA a year ago. If now isn't the bottom, then surely a base will form over H1 2024.

International financial sponsors continue to deploy capital at a rate consistent with years past and are showing an unwavering interest in digital infrastructure. India and Southeast Asia's rising stars are also hard to ignore, and even the knottier Japanese market holds promise as the benefits of corporate reforms set in. Add to that the need for corporates to tend to their supply chains, and there is no shortage of catalysts for 2024.

Network effects: Benefits of data boom felt throughout APAC

1 Digital infrastructure’s enduring appeal

APAC’s digital infrastructure space is set to continue providing a rich source of deal flow in 2024. Infralogic data shows that a record 56 transactions and US$34.8bn of aggregate capital was invested in the region’s data centers, fiber networks, and towers in 2023. The advent of generative artificial intelligence is putting further demands on computational power and data storage, as is technology adoption in previously digitally underserved countries.

China continues to lead in the data center space, with significant investments such as the US$3bn take-private of Chindata by Bain Capital in August 2023. However, Southeast Asia’s data center market is emerging as a key area of focus and is expected to grow by 17% over the next five years, attracting up to US$13bn in investment over that time. The operational capacity of centers in emerging markets like Indonesia, the Philippines, Thailand, and Malaysia is anticipated to more than double in the coming years, while APAC’s data center market as a whole is forecast to exceed US$53bn in 2028 on the back of sharply rising demand for these services.

2 India on the map

Most analysts were surprised by India's Q2 GDP boom of 7.6% published in December; they shouldn't have been. The country has shown impressive buoyancy since the pandemic, steeled by strong corporate profits, government spending, and an unstoppable financial sector benefitting from higher interest rates. This recent period of abundance is not being felt by everyone though – private consumption remains sluggish due to weak demand in rural areas. But the fact remains that the subcontinent, touted for years already, has now arrived on the world's M&A stage.

Global investors are increasingly interested in India's market potential. As the most populous country in the world as of 2023, there is a large consumer base to tap and the nation is committed to advancing its global business standing. The regulatory environment is becoming more conducive to M&A, with incoming reforms aimed at expediting merger reviews. All in all, India's M&A market will be one to watch closely in 2024.

Irrefutable India: All eyes on the subcontinent's rapidly maturing M&A market

3 Japan is calling

Japanese M&A got off to a flying start in 2023, with the country recording 1,631 deals in H1, a fall of only 7% on 2022's record-setting opening six months. But the market softened considerably in Q3 and, at just 95 'company for sale' stories, Japan has the narrowest deal pipeline of any APAC market.

That shouldn't take away from some highly positive developments. In 2023, guidelines were introduced to encourage more M&A, aiming to spur industry consolidation and boost competitiveness. The new code of conduct focuses on reducing defensive tactics against takeovers and ensuring credible offers are sincerely considered. This move, which is drawing significant interest from global investors frustrated with Japan's traditional resistance to takeovers, reflects a broader shift in the country's corporate culture towards prioritizing shareholder value. The lowest interest rate of any major economy certainly doesn't hurt either. Japan may not be the most active market in APAC in 2024 but don't be surprised if it becomes an increasing draw for acquirers.

On the offensive: Essential M&A reforms point to revitalized Japanese dealmaking

ASEAN ascends: M&A flourishes as barriers to overseas investment fall

4 There's no stopping Southeast Asia

The Asian Development Bank projects GDP growth in Southeast Asia to reach a hearty 4.8% in 2024. Singapore stands out as the region's M&A powerhouse, thanks to its strategic location, investor-friendly policies, and mature financial sector. The city-state's strong performance in tech M&A, and especially fintech, is notable, though its largest deal of 2023 involved EV manufacturer VinFast, which from an operational perspective is a Vietnamese business.

Other Southeast Asian countries are rapidly catching up to Singapore, buoyed by expanding manufacturing capacities, rising household incomes, and growing technology adoption. Frontier markets in the region have been removing investment barriers and enhancing their competitiveness. Vietnam's revised Law on Investment and the Philippines' amendment of its Foreign Investment Act are examples of policy shifts geared towards attracting overseas investment. Investors are paying close attention to this part of APAC and government modernization efforts, which are not only fueling economic growth but also stimulating dealmaking.

5 Reconfiguring supply lines

If the COVID pandemic taught companies one thing, it's that they must mitigate against single points of failure. M&A in the APAC region should benefit from efforts to reshape supply chains to achieve greater resilience. This trend is a direct response to the disruptions experienced during the pandemic, emphasizing the need for companies to diversify their vendors and reduce dependency on individual markets, but has been furthered by ongoing geopolitical frictions between the US and China. Manufacturing has been relocated to Southeast Asian countries like Vietnam and Thailand in the past two years, and there is now an incentive for companies to vertically integrate by making acquisitions up the supply chain.

Chinese Premier Xi Jinping's high-stakes visit to the US in November, the first in six years, went some way to simmer down tensions and repair diplomatic relations. However, with protectionist export restrictions in place to prevent the transfer of technology, the writing is on the wall. Companies want to broaden their supply chain horizons and M&A will no doubt play a central role in this ongoing reconfiguration.

Future-proofing: Diversification is the order of the day for dealmakers interested in APAC

About this report

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For a full version of the Mergermarket M&A deal database inclusion and league table criteria, go to: www.mergermarket.com/pdf/deal_criteria.pdf

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