

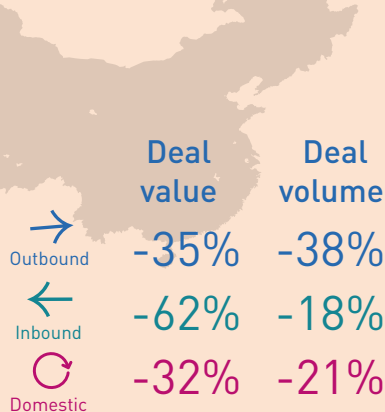
M&A Market Briefing – China and Hong Kong

Dealmaking in mainland China and Hong Kong plunged to record lows in 2019 as the escalating US-China trade war takes its toll on corporate and investor confidence. Inbound investment for Q1-Q3 2019 took the deepest dive, declining 62% in value and 18% in volume compared to the same period in 2018. This is happening even as the Chinese government pledges to open new sectors to overseas investors – including automotive and financial services – although economic uncertainty and persistent political instability in Hong Kong are weighing heavily on investor sentiments, casting a shadow over hopes for a recovery in inbound M&A.

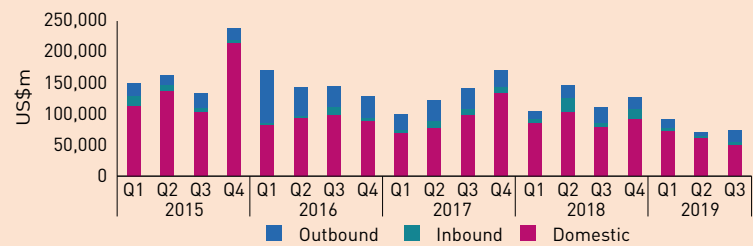
The domestic market has likewise suffered, with M&A sinking 32% in value and 21% in volume from last year. Going forward, industry consolidation and larger corporate reorganizations could drive domestic M&A as China restructures several of its key, strategic sectors.

On the outbound front, Chinese megadeals may have reached their peak. Outbound deals were down 35% in value and 38% in volume as Chinese government capital controls try to curb adventuresome cross-border forays. However, outbound buying has maintained some of its strength as slowed economic growth drives the need for Chinese firms to search abroad for growth and access to advanced technology, brands and key natural resources. Infrastructure and related investments as part of China's ambitious Belt and Road Initiative have also contributed to deal flow.

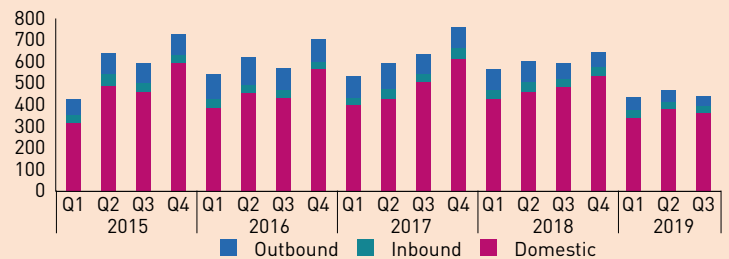
Q1-Q3 % change in Mainland China and Hong Kong M&A (2018 vs 2019)



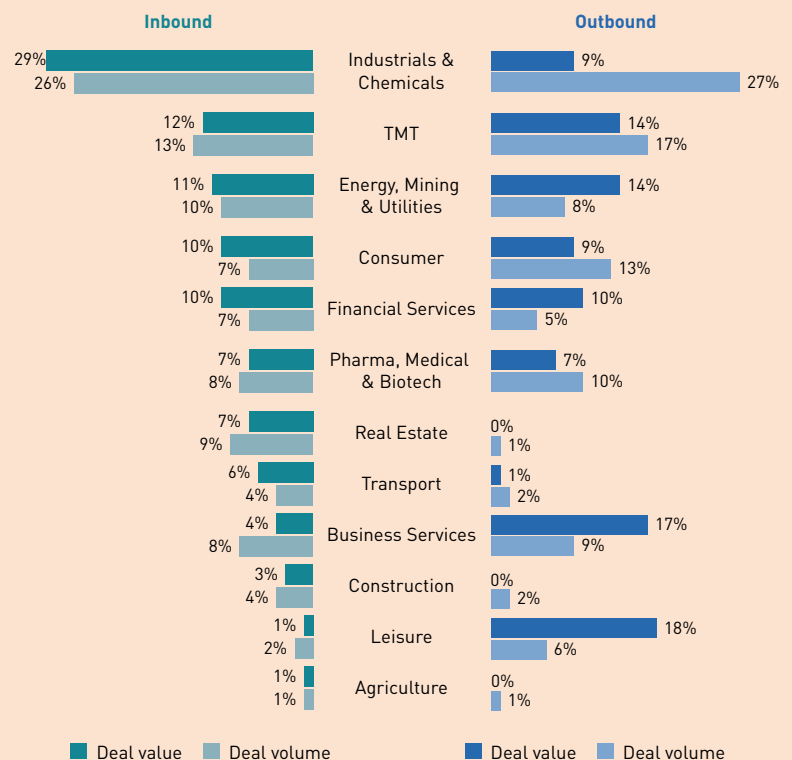
Deal values (US\$m)



Deal volumes



Mainland China and Hong Kong M&A: Target sectors (Q1-Q3 2019)

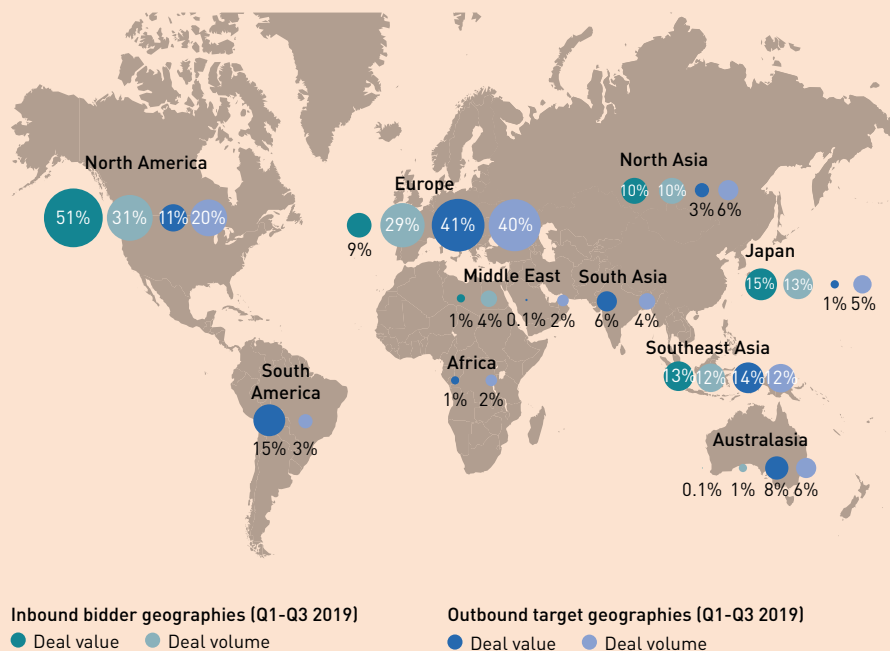


Despite declining foreign investment across the past year, various inbound buyers remain interested in China and Hong Kong. Buyers from North America were the top dealmakers, led by US acquisitions (US\$5.3bn) into the consumer space. Consumer-driven industries overall hold huge potential in China as a growing middle class demands new products and services. Buyers from Asia (Japan and Singapore) have likewise been active.

Outbound M&A focused mostly on European assets, as regulatory bodies in the US create approval hurdles that are proving prohibitive, forcing Chinese dealmakers to look elsewhere. Deal dollars have also found opportunities in Southeast Asia.

From a sectoral viewpoint, outbound M&A has centered on consumer-driven industries (in the US and UK) or those involving key strategic resources (Peru).

Mainland China and Hong Kong M&A: Target/bidder geographies (Q1-Q3 2019)



Mainland China and Hong Kong M&A: Top inbound countries (Q1-Q3 2019)

Country	Deal Value	Deals
USA	US\$5.3bn	21 deals
Japan	US\$1.9bn	13 deals
Singapore	US\$1.5bn	10 deals

Mainland China and Hong Kong M&A: Top outbound countries (Q1-Q3 2019)

Country	Deal Value	Deals
UK	US\$9.4bn	15 deals
Peru	US\$4.2bn	1 deal
USA	US\$3.6bn	24 deals

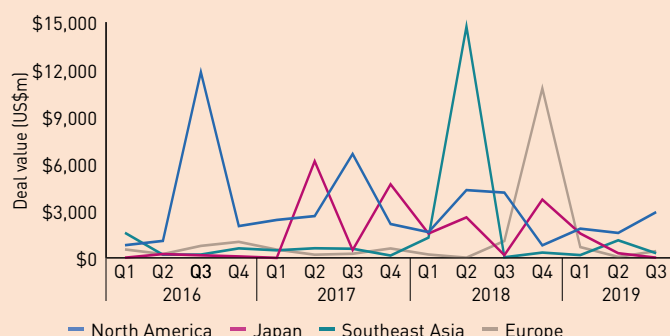
Mainland China and Hong Kong M&A: Top target sectors for inbound M&A (Q1-Q3 2019)

Country	Sector	Deal Value
USA	Consumer	US\$1bn
	Construction	US\$1bn
	Industrials and chemicals	US\$801m
Japan	TMT	US\$1.7bn
	Real estate	US\$46m
Singapore	Real estate	US\$800m
	Transport	US\$300m
	TMT	US\$270m

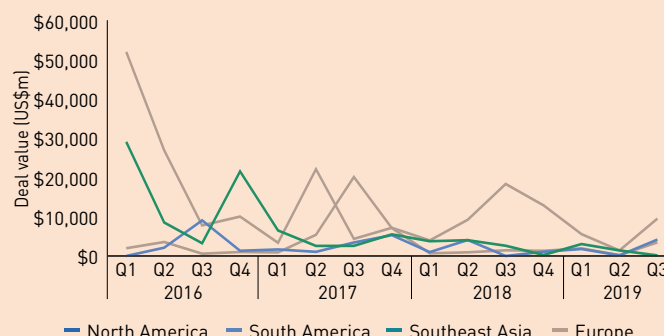
Mainland China and Hong Kong M&A: Top target sectors for outbound M&A (Q1-Q3 2019)

Country	Sector	Deal Value
UK	Leisure	US\$5.7bn
	Business services	US\$2.4bn
	TMT	US\$641m
Peru	Energy, mining and utilities	US\$4.2bn
USA	Pharma, medical and biotech	US\$2.3bn
	Business services	US\$344m
	Consumer	US\$291m

Mainland China and Hong Kong inbound M&A: Bidder geography trends



Mainland China and Hong Kong outbound M&A: Target geography trends

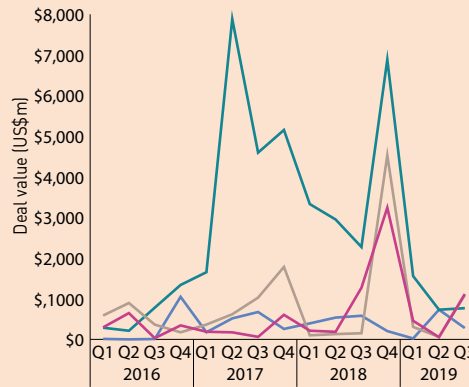


Following global trends, tech M&A has factored heavily in mainland China and Hong Kong cross-border deals. Considering inward dealmaking, foreign interest has been generally strong, although the past three quarters have seen a decline as international capital seeks safer shores and a limited impact from the trade war. Similarly, Chinese outbound tech deals have declined, the result of a continuous crackdown in the US and EU on Chinese investment.

Among other outbound trends, energy deals have remained in the spotlight as China ensures its resource security. Leisure M&A has ticked up in 2019 with several large-cap transactions.

PE/VC investment into mainland China and Hong Kong weakened in 2019 following several promising quarters in 2018 and 2017 as investors remain cautious amid the trade spat and keep a vigilant eye on Hong Kong's ongoing unrest. Likewise, outbound PE/VC capital flows have dropped – although more precipitously than inbound – a trend that started in 2017 and has yet to reverse.

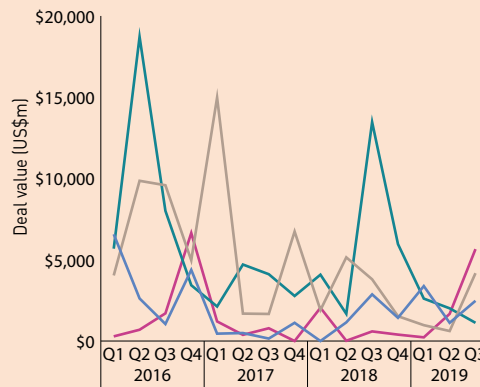
Mainland China and Hong Kong: Top inbound target sectors



2018 vs 2019 Q1-Q3 % change

Sector	Deal value	Deal volume
Consumer	-3%	0%
Industrials and chemicals	283%	20%
TMT	-64%	-40%
Business services	-32%	-25%

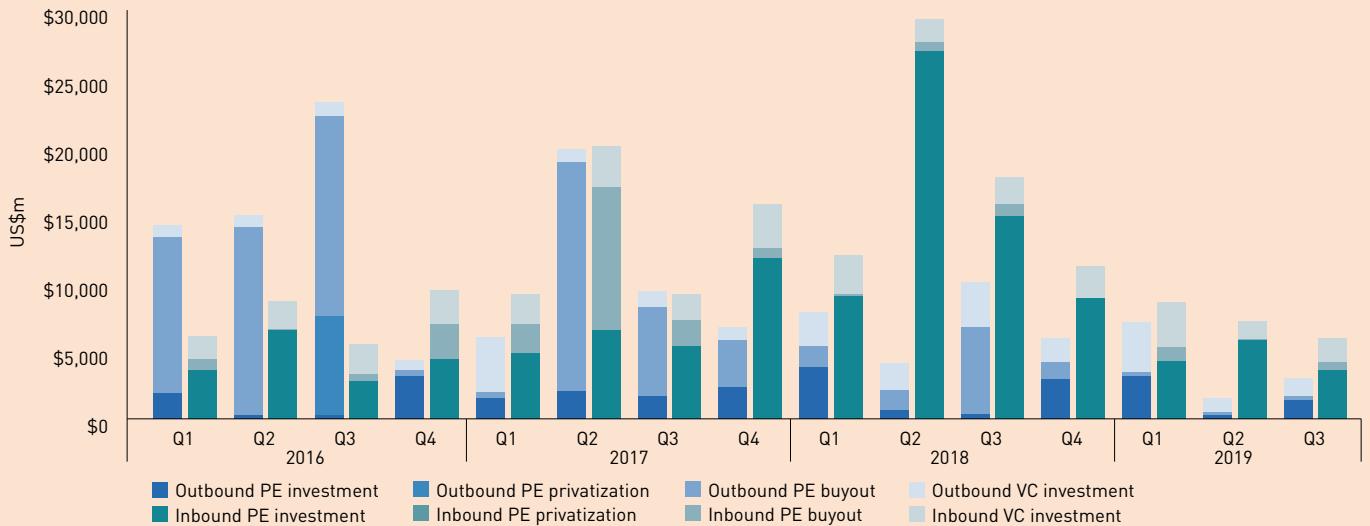
Mainland China and Hong Kong: Top outbound target sectors



2018 vs 2019 Q1-Q3 % change

Sector	Deal value	Deal volume
Business services	74%	-6%
Energy, mining & utilities	-47%	-55%
TMT	-70%	-45%
Leisure	185%	0%

Mainland China and Hong Kong PE/VC investment trends



Mainland China and Hong Kong PE/VC: Inbound and domestic investment

Q1-Q3 2018	Q1-Q3 2019
486 investments worth US\$59bn	337 investments worth US\$22bn

Overall inbound and domestic PE/VC investment **declined 63%** in value terms and **decreased 30%** in volume

Mainland China and Hong Kong PE/VC: Outbound investment

Q1-Q3 2018	Q1-Q3 2019
210 investments worth US\$22bn	201 investments worth US\$12bn

Overall outbound PE/VC investment **decreased 47%** in value terms and **decreased 4%** in volume terms

Top Mainland China and Hong Kong deals: Domestic, inbound and outbound

Announced date	Target company	Target sector	Target country	Bidder company	Bidder country	Deal value US\$m
26/02/2019	Hanergy Thin Film Power Group Limited (32.49% Stake)	Energy	Hong Kong SAR	Hanergy Mobile Energy Holding Group Limited	China	\$6,820
26/01/2019	Henan Luohe City Shuanghui Industrial Group Co., Ltd.	Consumer: Foods	China	Henan Shuanghui Investment and Development Co., Ltd.	China	\$5,845
24/01/2019	Beijing Easyhome New Retail Chain Group Co., Ltd.	Consumer: Retail	China	Wuhan Zhongshang Commercial Group Co., Ltd.	China	\$5,041
22/07/2019	China Southern Air Holding Company Limited	Transportation	China	Guangdong Hengjian Investment Holding Co., Ltd.; Guangzhou City Construction Investment Group; Shenzhen Penghang Equity Investment Fund Partners (LP)	China	\$4,359
02/01/2019	Jiangyin Xingcheng Special Steel Works Co., Ltd. (86.5% Stake)	Industrial products and services	China	Citic Pacific Special Steel Group Co., Ltd	China	\$4,138
19/08/2019	Greene King Plc (97.12% Stake)	Leisure	United Kingdom	CK Asset Holdings Limited	Hong Kong SAR	\$5,490
30/09/2019	Luz del Sur S A A (83.6% Stake)	Energy	Peru	China Yangtze Power Co., Ltd.	China	\$4,174
01/07/2019	SCB Life Assurance Public Company Limited (99.17% Stake)	Financial Services	Thailand	FWD Limited	Hong Kong SAR	\$3,035
29/03/2019	gategroup Holding AG	Services (other)	Switzerland	RRJ Capital	Hong Kong SAR	\$2,800

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