Datasite®

Where deals are made

Deal Drivers:
APAC 2023 Outlook

Mergermarket

Outlook for 2023

M&A cooled in 2022 even as deal volume remained buoyant and above historic levels

APAC M&A value felt the weight of gravity in 2022. That said, volume has been defiantly buoyant, remaining well above historic levels through the first three quarters of the year even as economic growth slowed. Much has been made of China's decelerating growth, the IMF hinting in December at a further downwards revision to its outlook for the country, which was pegged at 4.4% as recently as November.

The country, which accounts for around a quarter of all deals in the region and a fifth of global GDP, has so far committed to a zero-COVID policy that is hampering growth and this will likely stem deal flow. But GDP expansion in China and many other Asia Pacific countries is outpacing the rest of the world and there is a steady supply of assets that are being prepped for sale, especially in the I&C and TMT sectors.

	Greater China	Southeast Asia	South Korea	Japan	India	Australia & New Zealand	Grand total
Industrials and Chemicals	443	30	34	24	36	31	598
TMT	218	100	45	13	73	71	520
FInancial Services	170	55	13	10	47	32	327
Consumer	122	47	13	10	53	52	297
Energy/Mining/Utilities	164	50	5	9	21	39	288
Business Services	195	20	7	8	23	32	285
Pharma/Med/Biotedh	118	42	7	7	36	39	249
Real Estate	128	20	2		1	8	159
Construction	109	11	4		4	5	133
Leisure	48	20	18	10	5	24	125
Transportation	36	19	4	3	19	8	89
Agriculture	27	13		1	2	18	61
Defence	3		1				4
Grand Total	1781	427	153	95	320	359	3135

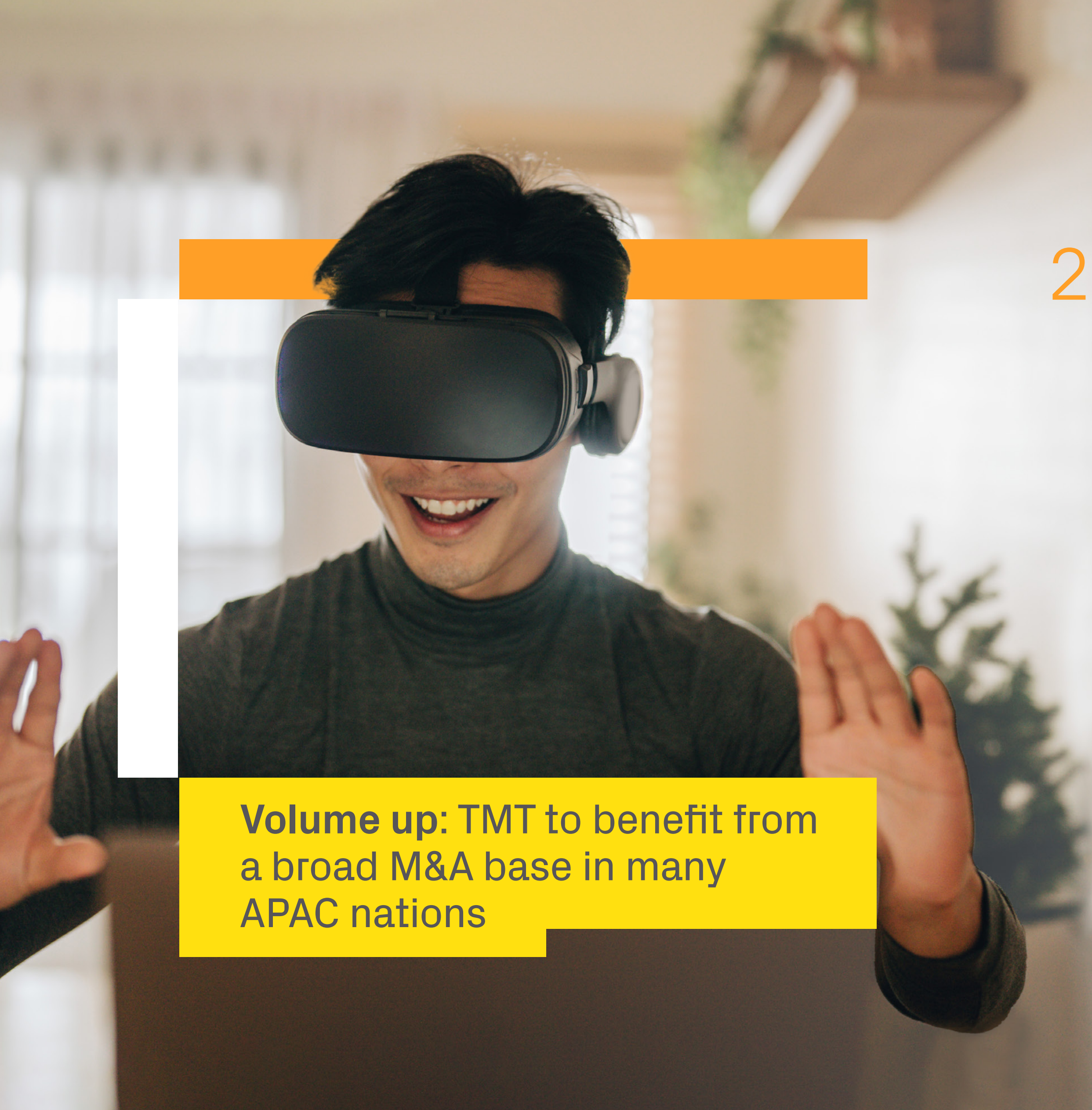
Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between June 1, 2022 to November 25, 2022. Opportunities are captured according to the dominant geography and sector of the potential target company.

1 On an industrial scale

In most countries the industrials and chemicals (I&C) sector is offering only a moderate supply of potential deals. In Greater China, that couldn't be further from the truth. A total of 443 stories associated with possible forthcoming deals in the industry were published, no less than 74% of all coverage of I&C M&As in the making spanning Asia Pacific.

I&C plays a dominant role in Chinese M&A and delivered 117 deals valued at US$24.6bn in aggregate in Q3, comfortably ahead of any other sector. The largest of these was Sinopec's US$5.2bn acquisition of a 50% stake in INEOS Styrolution Advanced Materials, a plastics manufacturing operation owned by British chemicals group INEOS. Having been the world's largest exporter since 2009, industrials and manufacturing are some of the biggest contributors to China's economy and offer a commensurately large number of M&A opportunities.

I&C spur: China to lead deals in this sector across the Asia Pacific



Volume up: TMT to benefit from a broad M&A base in many APAC nations

2 TMT opportunities everywhere

Upcoming technology, media, and telecommunications (TMT) deals are far more broadly based than those in the I&C space. China leads but Southeast Asia, India, and Australia and New Zealand are also expected to see their fair share of activity. Altogether, there were 520 stories involving related companies.

One of the largest deals of Q3 offers potential clues of where to expect future activity. FAW Equity Investment picked up a 41% stake in Huada Semiconductor for US$2.3bn at a time when chip supplies have become a hot-button topic. As the US and Europe look to urgently patriate their manufacturing capacity and following the US government's decision to cut China off from key manufacturing equipment, there could be increased pressure for industry consolidation and to tap domestic sources of capital to develop R&D capabilities.

3 Banking on a recovery

There were 327 financial services deal stories tracked over the June-November period, putting the sector in third place though not leagues ahead of consumer; energy, mining, and utilities; business services; or pharmaceuticals, medical and biotech.

China accounted for just over half of these and there are good reasons to expect a flow of financial transactions. A major pain point in the country is the real estate sector and the knock-on effect property developers' travails are having on banks' non-performing loan ratios. The government has made efforts to shore up lenders with its state-backed bad debt managers – including pushing for consolidation between small regional institution.

Not to be missed:
Banking and finance deals will make their presence felt

Asian promise: Healthy deal activity is expected to persist in Southeast Asia

4 Southeast tigers

China is inevitably the consistent performer in APAC's M&A markets by virtue of the size of its economy and sheer volume of companies. However, Southeast Asia is expected to deliver over the coming months. The region had 427 deal reports, the majority (100) of which related to TMT assets.

While growth in the territory is expected to slow, it far outpaced global performance in 2022 with GDP up by around 5% versus 3.1% worldwide, according to the IMF, and well above the G7 group of developed economies (2%). Southeast Asia could continue to represent a bright spot and attract foreign investors taking a long-term view of the region's demographic tailwinds and the benefits that continue to filter through from supply chain restructuring.

Trends for 2023

China, Southeast Asia, and Australia to lead M&A activity in APAC

In 2022, M&A volume across the APAC region showed unwavering strength through the first nine months of the year. The 674 deals recorded was down by only 10% on the same period in 2021, a record year, and well above numbers seen over the same period in 2019, before the impact of the pandemic. Year-on-year, value fell precipitously but was still 77% above pre-COVID levels.

Around the world, 2021 marked an outlier year for M&A markets. For the coming months it should be expected that deal levels track towards more historic volumes and therefore may continue to edge down. Divestment pressures and the need to consolidate could fuel deals in China and Southeast Asia, while well-resourced financial sponsors are likely to home in on digital infrastructure assets that offer inflation-resistant returns.

1 China restructuring

2 Smaller deals come into focus

3 Southeast Asia tech consolidation

4 Digital infrastructure rising

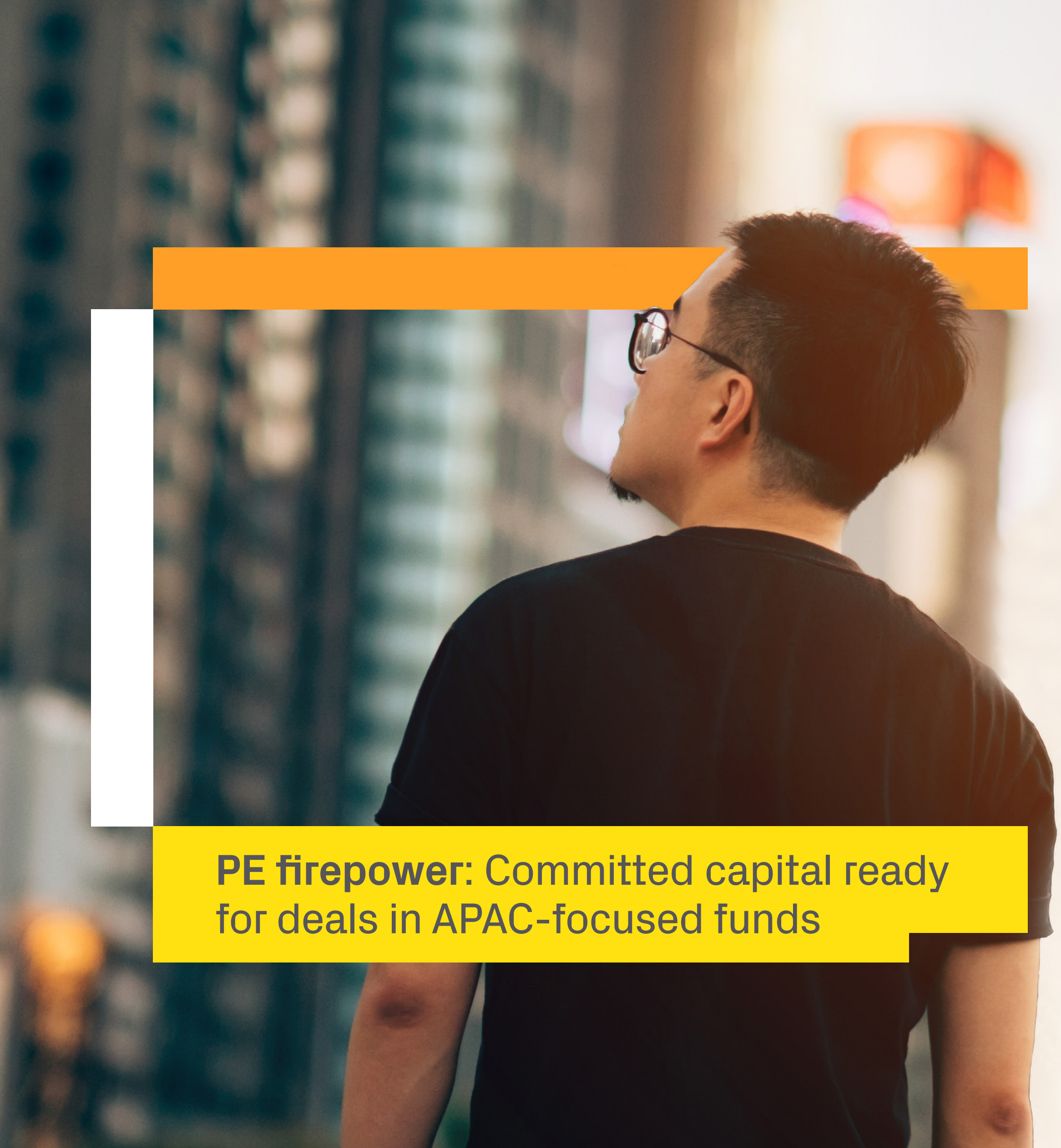
5 Economic resilience in the Lucky Country

1 China restructuring

A lack of clarity on China's zero-COVID policy, a recent private sector crackdown and increasingly restrictive regulations that favor the on-shoring and near-shoring of production are adding momentum to an ongoing process of deglobalization that could encourage new deals, particularly in manufacturing-related sectors.

This has the potential to follow along the lines of the country's ambitions to pivot from the world's biggest producer to a more independent consumer nation in its own right. While some multinational corporates will be eyeing divestment, as Kraft Heinz is rumored to be doing with its Chinese baby food business, others are pouring more resources into China to benefit from its next wave of development, defined by rising purchasing power and domestic consumption, and an increasing share of trade with the rest of Asia. Far from a short-term trend, this is likely to play out for years to come unless geopolitical sentiment and current policymaking reverse course.

China's next wave: Deglobalization will encourage new deals in manufacturing-related sectors



PE firepower: Committed capital ready for deals in APAC-focused funds

2 Smaller deals come into focus

If the past 12 months are any measure, 2023 will be characterized by smaller transaction sizes. As mentioned, deal volume held up impressively amid the shift in global markets towards less risky investments. With debt financing currently more scarce and costly, buyers have less incentive to pursue larger deals. The downtrend in M&A value is also a function of equities having sunk over the past year, meaning that in most cases the same deal made a year ago will come at a lower price today.

Some of these transactions will be fueled by private equity – PE funds still have considerable firepower. Committed but unallocated capital ready for deals in APAC-focused funds hit a record high of over US$650bn in 2022 and this will take time to work through the system. Preqin data also shows that the region has been a strong performer, delivering net internal rates of return of 18.2% between 2012 and 2019. This should keep PE houses busy, even as attention turns to lower-cap deals.

3 Southeast Asia tech consolidation

One of the biggest success stories in APAC is the growing stable of tech unicorns in Southeast Asia, which numbered above 50 in 2022, including a select few “decacorns” with US$10bn-plus valuations. In the public markets, investors have moved away from growth stocks. High inflation and rising rates have made companies shift away from being solely focused on expansion with little regard for profit.

In a bid to grow their revenues as economic growth slows – and even achieve positive EBITDA – Southeast Asian tech startups with sizeable venture backing may seek to acquire competitors to bolster their existing products and services, or purchase young companies in adjacent but relevant sectors to expand their offerings. ASEAN VC activity soared to a record US$20bn in 2021 and down rounds are likely to follow in 2023. This could spell opportunity for selective strategic deals in a region that has an internet penetration rate of 70% yet plenty of digital adoption still to come.

Inorganic growth, for now:
Fastest way to expand market offerings for tech

Clickbait: Data storage and distribution assets to draw financial sponsors

4 Digital infrastructure rising

Digital infrastructure M&A in the Asia Pacific enjoyed an explosive year in 2022. Between January and November, the sector witnessed 31 deals collectively worth US$20.7bn, a record by both metrics, according to data from Inframation.

Data centers continue to draw strong interest from financial sponsors, evidenced by the US$5.7bn takeover of Singaporean logistics and data storage and distribution platform ARA Asset Management by ESR Cayman, which is backed by Warburg Pincus. Large telecoms deals were also on display in Australia, including Uniti Group's take-private and the buyout of Axicom. Secular digitalization is impossible without underlying distribution infrastructure. Investors should therefore continue allocating capital to these defensive assets, not least because they typically benefit from inflation-protection clauses in their service contracts. This makes these companies highly compelling from both a short-term hedging perspective, and in order to achieve long-term capital gains as businesses across the world further adopt digital processes.

5 Economic resilience in the Lucky Country

The post-pandemic recovery in Australia has been one of the strongest among advanced economies. Even with growth forecast to slow to around 1.7% in 2023, this will far surpass many other developed economies.

Growth in Europe, for example, is due to decelerate to around 0.3%. Currency movements are also conducive to inbound M&A over the near term. The Australian dollar began to rebound sharply in October against the US dollar but remains low by historic standards. Inflation showed signs of slowing in Q4 and if this persists and the Reserve Bank of Australia chooses to reduce, or even stop, its interest rate tightening, this could prove to be a boon for consumer confidence and a further catalyst for M&A activity. There were 359 deal stories across Australia and New Zealand as a whole, TMT and consumer leading the charge. The relative economic resilience of this corner of Asia Pacific is a reason for cheer.

About this report

Produced in partnership with Mergermarket, an Acuris company

Editors (Acuris Studios): Julian Frazer, Yining Su

Mergermarket

#Wheredealsaremade

Get in touch, visit www.datasite.com **or contact:** info@datasite.com **APAC** +852 3905 4800 | **EMEA** +44 20 3031 6300 | **AMERS** +1 888 311 4100

©Datasite. All rights reserved. All trademarks are property of their respective owners.

DS-1.400

Datasite®

Where deals are made