

# Oaklins

## VOICE FROM CHINA

QUARTERLY UPDATE ON THE  
M&A MARKET IN CHINA

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# INTRODUCTION

This year's M&A market in China kicked off with large-scale overseas investment strategies by Chinese enterprises bearing fruit: one of the largest Chinese automotive manufacturing companies, GEELY, announced that it has acquired a nearly 10% stake of Mercedes-Benz owner, DAIMLER, for approximately US\$9bn<sup>1</sup>. The move not only gives GEELY the largest single shareholder stake of DAIMLER, but also sets the stage for further expansion by the Chinese players into the global automotive marketplace.

The newly reformed regulatory requirements for overseas investment by Chinese companies, put into effect by the Chinese government on March 1st this year, give us an insight into how the government plans to regulate future Chinese overseas investment. It is worth keeping an eye on what effect these reforms will

have on the foreign investment choices of ambitious Chinese enterprises.

Meanwhile, foreign regulators are keeping abreast of a stricter policy orientation on cross-border transactions. Proposed adjustments to EU policy are expected to make it more difficult for foreign investors to acquire European firms. Along with these reforms is an increased intervention by the US Committee on Foreign Investment ("CFIUS") regarding US-related transactions, with a combined result of adding to the uncertainty in the M&A market. More preoccupying for investors is the prospect of a new trade war between China and the US. An outbreak of any kind of economic sanctions and retaliation would profoundly influence the investment outlook between the two countries.

## REGULATORY CHANGES AFFECTING CHINA'S CROSS-BORDER M&A MARKET

Order No. 11, issued on 26 December 2017, declared the Administrative Measures for Overseas Investment by Enterprises (the "Administrative Measures")<sup>2</sup>. Following that, on 11 February 2018, the Catalogue of Sensitive Industries for Overseas Investment (the "Catalogue")<sup>3</sup> and the Standard Forms Related to Administrative Measures for Overseas Investment by Enterprises (the "Standard Forms")<sup>4</sup> were published. All three went into effect on 1 March 2018.

Both the Administrative Measures and the Catalogue have been implemented in order to allow the National Development and Reform Commission ("NDRC") to more carefully examine overseas investments by Chinese enterprises, with the goal of ensuring that

such investments are based on appropriate strategic reasoning and are not used for the transfer of illegal assets. The Standard Forms have added expanded and stricter filing and documentation requirements for NDRC approval of overseas investments compared to the ones provided under the old measures. Chinese enterprises may need more time to become familiar with the new requirements. They may need to spend more resources on filling the required application documents when entering into transactions, which could result in increased deal costs.

Besides current domestic regulatory reforms, recent changes in the international regulatory environment need to be taken into account when considering

<sup>1</sup> <https://www.bloomberg.com/news/articles/2018-02-23/china-s-geely-is-said-to-be-buying-9-billion-stake-in-daimler>

<sup>2</sup> [http://www.ndrc.gov.cn/zcfb/zcfbl/201712/t20171226\\_871560.html](http://www.ndrc.gov.cn/zcfb/zcfbl/201712/t20171226_871560.html) (in Chinese)

<sup>3</sup> [http://www.ndrc.gov.cn/zcfb/zcfbtz/201802/t20180211\\_877272.html](http://www.ndrc.gov.cn/zcfb/zcfbtz/201802/t20180211_877272.html) (in Chinese)

<sup>4</sup> [http://www.ndrc.gov.cn/zcfb/zcfbtz/201802/t20180211\\_877273.html](http://www.ndrc.gov.cn/zcfb/zcfbtz/201802/t20180211_877273.html) (in Chinese)

Chinese investments. Increasingly tough foreign regulation is affecting the global ambitions of Chinese business. Despite a strong desire by the Chinese to engage in foreign investment, in 2017 the number of failed Chinese outbound acquisition deals reached 68, a record high<sup>5</sup>.

According to media reports, Germany, France and Italy have all initiated a series of EU laws, now pending approval, that aim to tighten rules allowing foreign acquisitions of European firms<sup>6</sup>. As stated previously, CFIUS has frequently intervened and rejected deals initiated by Chinese enterprises. Such moves foreshadow a choppy trade outlook for 2018.

## Expanded Scope of CFIUS

The US Congress is proposing a new Foreign Investment Risk Review Modernization Act (“FIRRMA”) which would increase CFIUS’s authority by enhancing the reviewing process and expanding the covered transaction scopes<sup>7</sup>. FIRRMA is expected to add more constraints

on future transactions. The possible implementation of FIRRMA is raising increased concerns in the market. Due to intervention by CFIUS, a total of five Chinese enterprise acquisition attempts of US targets came to a premature end in the first quarter of 2018 alone<sup>8</sup>:

Date	Chinese Buyer	US Target	Proposed Deal Size (\$mm)	Industry
March 2018	China National Heavy Duty Truck Group	UQM Technologies	~12	Automotive
March 2018	Da Bei Nong Group	Waldo Genetics	~16	Farming
February 2018	Hubei Xin Yan	Xcerra Co	~580	Semiconductor
February 2018	BlueFocus	Cogint	~382	Entertainment
January 2018	Ant Financial	MoneyGram	~1,200	Finance

Historically CFIUS’s main focus has been on reviewing national security risks associated with foreign investment, mostly in the semiconductor industry. However, in recent years, the review coverage has expanded dramatically. An example of such extended reach is

CFUS’s opposition to the proposed transaction between Da Bei Nong Group, an agricultural group engaged in feed processing and crop breeding, and Waldo Genetics, a US family owned swine raising company. The deal was deemed a “national security risk”.

<sup>5</sup> <http://www.dealogic.com/insight/china-outbound-ma-round-up-2017/>

<sup>6</sup> <http://www.dealogic.com/insight/europe-puts-brakes-chinese-outbound-acquisitions/>

<sup>7</sup> <https://www.lexology.com/library/detail.aspx?g=a98ba907-25cc-4729-bff4-ff6e0b091337>

<sup>8</sup> <http://www.morningwhistle.com/da/40705.html> (in Chinese)



## A looming China-US Trade War

On 22 March 2018, President Trump issued a Presidential Memorandum directing his administration to take several actions in accordance with Section 301 of the US Trade Act of 1974, opening an investigation into China's laws, policies, practices or actions related to technology transfer, intellectual property and innovation. As a result, the US Trade Representative has been directed to raise tariffs on imported goods from China and appeal to the WTO to dispute settlements with China. In addition, the Treasury Secretary has been requested to propose restrictions on Chinese investment in the United States<sup>9</sup>.

As we know, the move was promptly opposed in China, where it drew strong dissatisfaction. A spokesman for China's Ministry of Commerce remarked, "We hope the

US Trade Representative could respect the facts and act prudently." He further added, "China will certainly take all necessary measures to resolutely defend its legitimate rights and interests"<sup>10</sup>.

A trade war may be right around the corner. Meanwhile, we are waiting for further progress reports from the US Treasury Secretary. An escalation of the conflict would impact the future landscape of investment between the two countries. From any point of view, China and the US are tied so closely together that any economic sanctions or retaliation would result in a loss for both sides. One cannot overstate the crucial role that foreign direct investment plays in bringing expertise and an infusion of capital into the economy of both countries.

<sup>9</sup> <https://www.whitehouse.gov/presidential-actions/presidential-memorandum-actions-united-states-related-section-301-investigation/>

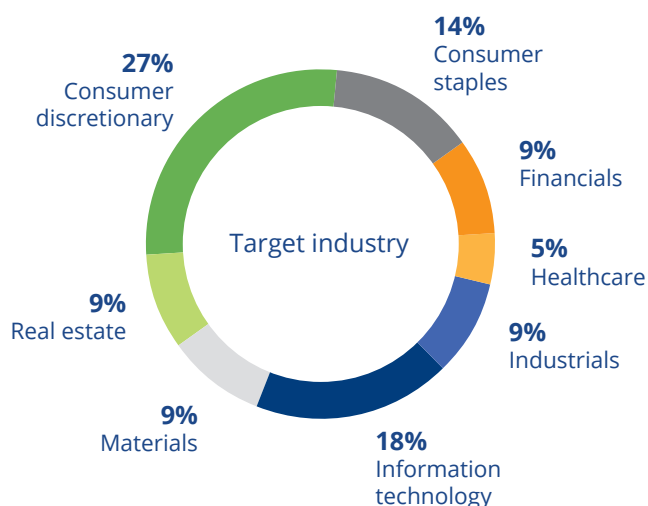
<sup>10</sup> <http://www.bioworld.com/content/china-responds-pending-us-trade-investigation-0>



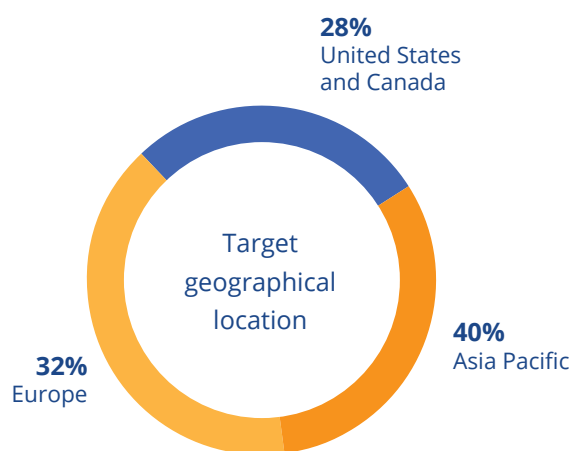
# RECENT M&A TRANSACTIONS

Compared to 35 closed transactions in the last quarter of 2017, 25 Chinese outbound transactions were closed in the first quarter of 2018<sup>11</sup>. Chinese outbound M&A activities continue to experience a downturn as a result of the government's persistent regulatory effort to rationalize Chinese enterprises' investment overseas.

- In this quarter, Consumer Discretionary (27%) is the top sector that Chinese investors are keen to invest in, followed by investments in Information Technology (18%) and Consumer Staples (14%).



- The top 3 geographic regions Chinese buyers are seeking to invest in are Asia/Pacific (40%), Europe (32%) and the US and Canada (28%).



- 15 out of the 25 closed outbound transactions disclosed transaction value, with the largest deal being US\$20.84 billion (as noted in the second table):

## Q1 2018 disclosed transactions by value

Transaction size (US\$m)	Number of transactions
< 50	7
50 – 100	1
100 – 250	3
250 – 500	1
500 – 1,000	1
1,000 – 2,000	0
> 2,000	2

Similar to the fourth quarter of 2017, in general the majority of outbound M&A transactions remain small in size.

<sup>11</sup> Source: S&P Capital IQ

Six transactions disclosed the valuation multiples:

Target company	Target country	Target industry	Buyer company	Transaction value (US\$m)	Implied EV/Revenue	Implied EV/EBITDA
NSM Packtec GmbH	Germany	Industrial Machinery	Ningbo Lehui International Engineering Equipment Co.,Ltd. (SHSE:603076)	4.7	0.603x	7.09x
KORRES S.A. - Natural Products (ATSE:KORRES)	Greece	Personal Products	Morgan Stanley Private Equity Asia Limited; Profex, Inc.	93.73	1.71x	62.87x
Toshiba Visual Solutions Corporation	Japan	Consumer Electronics	Hisense Electric Co., Ltd. (SHSE:600060)	113.77	0.31x	N/A
erae Automotive Systems Co., Ltd.	South Korea	Auto Parts and Equipment	Shanghai Aerospace Automobile Electromechanical Co., Ltd. (SHSE:600151)	340.32	0.41x	13.96x
Brassica TopCo S.A. and PPN Management SAS	France	Packaged Foods and Meats	Beijing Sanyuan Foods Co., Ltd. (SHSE:600429); Fosun International Limited (SEHK:656)	734.69	4.84x	N/A
GLP Pte. Ltd.	Singapore	Real Estate Operating Companies	Bank Of China Group Investment Limited; Vanke Real Estate (Hong Kong) Company Limited; Hillhouse Capital Management, Ltd.; HOPU Jinghua (Beijing) Investment Consultancy Co., Ltd.	20,940.86	22.62x	27.6x



# SPOTLIGHT ON AN ACQUISITIVE CHINESE BUYER



ANTA brand was established in 1994 and listed on the Main Board of the Hong Kong Stock Exchange in 2007. Through years of effort and development, ANTA Sports has become one of the leading sportswear companies in China. ANTA has primarily engaged in the design, development, manufacturing and marketing of ANTA sportswear series to the mass market in China with professional sporting products including footwear, apparel and accessories.

ANTA has been continuously seeking high-end international sportswear brands with the purpose of filling the gaps between different sportswear market segments. The successful acquisition of FILA's business in China, Hong Kong and Macao from BELLA International in 2009 was recognized as ANTA's first step towards globalization. In recent years, ANTA has tapped into the outdoor sports market, starting with the acquisition of the UK outdoor sports brand, SPRANDI, in 2015. Soon afterwards, in 2016, ANTA gained exclusive sales right of DESCENTE

(a well-known Japanese brand of skiwear) in China through a joint venture cooperation. More recently, in 2017, ANTA announced another acquisition, this time of KOLON, a Korean Brand specialized in climbing gear.

As outdoor sports become increasingly popular, ANTA is actively looking to acquire well-established sportswear brands engaged in the area of climbing, hiking, outerwear, skiing, snowboarding, and the like. In selecting potential targets, sportswear brands from the Asia-Pacific region would be a more preferable fit to improve the user experience of ANTA's main customer base, who are mostly from this area.

Notably, ANTA raised approximately \$3.79bn HKD through subscription of new shares early in 2017. As they announced, "the use of proceeds is intended to finance business opportunities such as acquisition of, and cooperation with, international sportswear brands"<sup>12</sup>.

<sup>12</sup> ANTA Sports Products Limited (SEHK: 2020): Announcements and Notices - [Placing/Issue of Shares under a General Mandate] (2017-03-22)



# KEY OUTBOUND M&A CASE STUDY

On 31 January 2018, Shanghai Aerospace Automobile Electromechanical Co., Ltd. ("SAAE") completed the acquisition of a 51% stake in a Korea-based auto parts manufacturer and supplier, erae Automotive Systems Co., Ltd. ("erae AMS"), with an option to acquire an additional 19% stake after 6 months.



## About the buyer

SAAE was established in 1998 and listed on the Shanghai Stock Exchange the same year. As a state-owned enterprise, it is the first listed company to be named "Aerospace" in China. The company has mainly engaged in three industrial landscapes: new energy PV, high-end auto parts and new materials applications.



## About the seller

erae AMS was founded in 1984 in Daegu, Korea, and formerly known as part of Delphi Corporation. The company researches, develops, manufactures, and sells core automotive components and modules in Korea and internationally.

## Market trends and transaction drivers

SAAE's initial core was auto parts. However, these sales declined in recent years due to a shift of strategic focus towards the PV industry. In order to ensure the mutual prosperity of both its PV and auto parts business lines, SAAE started seeking overseas acquisition opportunities aimed at achieving leapfrog development to boost its auto parts business. In 2016, SAAE completed a series of acquisitions of Shanghai Delphi Automotive Air-Conditioning System Co., Ltd., acquiring an 87.5% stake in total. The transaction put SAAE one step closer to becoming a leading supplier of thermal systems for mainstream cars in both domestic and global markets. SAAE focused on the development of auto thermal systems and established a growth strategy through joint venture and overseas M&A to capture opportunities. Eventually, erae AMS was selected as the right target because of the full-scale auto parts sets and technical expertise in autothermal systems erae AMS possesses.

Relying on each company's respective global market layouts, the combined business in autothermal systems is poised to become extremely competitive worldwide.

As the general manager of SAAE, Mr. Zhang Jiangong has said, "The acquisition of erae AMS is of important significance to facilitate SAAE's process of globalization in the auto parts industry. It will contribute to SAAE's goal to be ranked as the top five global automotive thermal system suppliers".

The cooperation has also gained great support from the municipal government of Daegu, and the Mayor of Daegu has expressed a strong welcome to Chinese enterprises interested in investing in Daegu in the future, according to media reports<sup>13</sup>.

<sup>13</sup> <http://kr.mofcom.gov.cn/article/jmxw/201712/20171202680751.shtml> (in Chinese)

## Appendix: 25 outbound transactions closed between January and March 2018

No.	Date closed	Buyers/investors	Target/issuer	Headquarters - country [Target/issuer]
1	12-Mar-18	Tibet Summit Resources Co., Ltd. (SHSE:600338); NextView Capital	Lithium X Energy Corp.	Canada
2	9-Mar-18	Ningbo Lehui International Engineering Equipment Co.,Ltd. (SHSE:603076)	NSM Packtec GmbH	Germany
3	6-Mar-18	Tibet Huayu Mining Co., Ltd. (SHSE:601020)	Tajik Aluminium-Gold Industry Closed Stock Company	Tajikistan
4	5-Mar-18	Beijing Sanyuan Foods Co., Ltd. (SHSE:600429); Fosun International Limited (SEHK:656)	Brassica TopCo S.A. and PPN Management SAS	France
5	28-Feb-18	Hisense Electric Co., Ltd. (SHSE:600060)	Toshiba Visual Solutions Corporation	Japan
6	26-Feb-18	VCG Hong Kong	500px Inc.	Canada
7	22-Feb-18	Fosun Fashion Group	Jeanne Lanvin S.A.	France
8	14-Feb-18	Risen Energy Co.,Ltd. (SZSE:300118)	121-MW Yarranlea Solar Farm Of Yarranlea Solar	Australia
9	12-Feb-18	Anhui Anli Material Technology Co., Ltd. (SZSE:300218)	Anli Rus, LLC	Russia
10	6-Feb-18	TMSR Holding Company Limited (NasdaqCM:TMSR)	JM Global Holding Company	United States
11	31-Jan-18	Morgan Stanley Private Equity Asia Limited; Profex, Inc.	KORRES S.A. - Natural Products (ATSE:KORRES)	Greece
12	31-Jan-18	Bosotech Corporation	Allied Advantage Sdn Bhd	Malaysia
13	31-Jan-18	Shanghai Aerospace Automobile Electromechanical Co., Ltd. (SHSE:600151)	erae Automotive Systems Co., Ltd.	South Korea

Primary industry [Target/issuer]	Total transaction value (US\$m, historical rate)	% Sought	Implied Enterprise Value/Revenues (x)	Implied Enterprise Value/EBITDA (x)
Diversified Metals and Mining	200.96	100.0	-	-
Industrial Machinery	4.7	100.0	0.603	7.09
-	-	50.0	-	-
Packaged Foods and Meats	734.69	100.0	4.84	-
Consumer Electronics	113.77	95.0	0.31	-
Internet Software and Services	-	-	-	-
Apparel, Accessories and Luxury Goods	178.64	60.0	-	-
Renewable Electricity	-	100.0	-	-
Textiles	2.1	51.0	-	-
Asset Management and Custody Banks	-	100.0	-	-
Personal Products	93.73	57.13	1.71	62.87
Electronic Components	5.57	100.0	-	-
Auto Parts and Equipment	340.32	51.0	0.41	13.96

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14	29-Jan-18	Xiamen Lutong International Travel Agency Co., Ltd.	Highlight Networks, Inc. (OTCPK:HNET)	United States
15	23-Jan-18	China Tianying Inc. (SZSE:000035)	Groupama Seguros de Vida S.A	Portugal
16	23-Jan-18	Shandong Luxin-Rio Visual Technology Company Limited	Volfoni SAS	France
17	22-Jan-18	Feihe International, Inc.	Vitamin World (V.I.), Inc.	United States
18	19-Jan-18	Yantai Changyu Pioneer Wine Company Limited (SZSE:200869)	Kilikanoon Wines Pty Ltd	Australia
19	19-Jan-18	Public Sector Pension Investment Board; Global Infrastructure Partners; CIC Capital Corporation	Equis Energy Pte. Ltd.	Singapore
20	16-Jan-18	NAURA Technology Group Co., Ltd. (SZSE:002371)	Assets of Akrion Systems LLC	United States
21	12-Jan-18	China Southern Power Grid Co., Ltd	Edra Global Energy Bhd	Malaysia
22	11-Jan-18	Markor International Home Furnishings Co., Ltd. (SHSE:600337)	Jonathan & Richard	Vietnam
23	11-Jan-18	Genscript Biotech Corporation (SEHK:1548)	CustomArray, Inc.	United States
24	10-Jan-18	Bank Of China Group Investment Limited; Vanke Real Estate (Hong Kong) Company Limited; Hillhouse Capital Management, Ltd.; HOPU Jinghua (Beijing) Investment Consultancy Co., Ltd.	GLP Pte. Ltd.	Singapore
25	9-Jan-18	Million Cities International (UK) Limited	99 Gresham Street in the City of London	United Kingdom



Primary industry [Target/issuer]	Total transaction value (US\$m, historical rate)	% Sought	Implied Enterprise Value/Revenues (x)	Implied Enterprise Value/EBITDA (x)
Environmental and Facilities Services	0.449	98.0	-	-
Asset Management and Custody Banks	-	100.0	-	-
Electronic Components	-	90.0	-	-
Specialty Stores	28.0	100.0	-	-
Distillers and Vintners	3.11	80.0	-	-
Renewable Electricity	5,000.0	100.0	-	-
Semiconductor Equipment	15.0	100.0	-	-
Electric Utilities	-	100.0	-	-
Home Furnishings	-	-	-	-
Life Sciences Tools and Services	-	100.0	-	-
Real Estate Operating Companies	20,940.86	89.0	22.62	27.6
Real Estate Operating Companies	-	100.0	-	-

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