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ECONOMIC RESEARCH

NATIXIS China M&A Monitor 2019: Clear slowdown, but with Europe as a main target for big transactions from Chinese state-owned companies

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Objectives of the report

Bi-yearly tracker of China's overseas Mergers and Acquisitions (M&A)

External environment	Analysis	Ownership analysis
Global and China's macro trends	General trends	State-owned enterprises
Regulatory constraints	Regional analysis	Private-owned enterprises
	Sectoral analysis	
	Region & Sectors	

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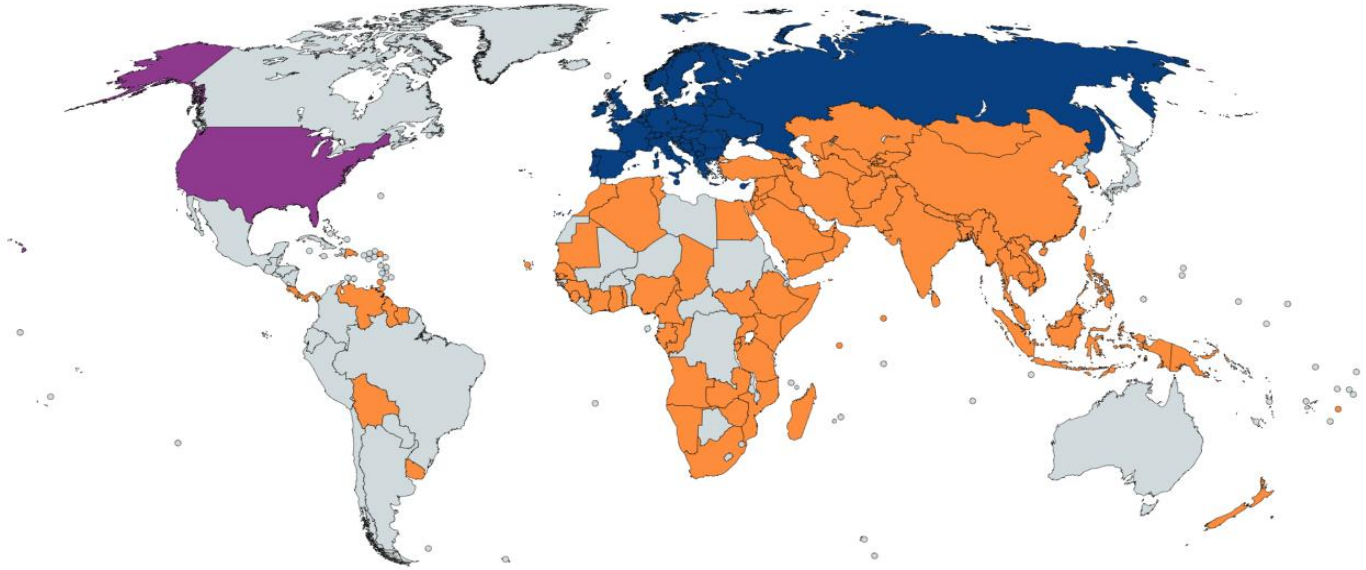
Coverage



Key regions

- United States
- EU
- Asia Pacific

Sectors

- Agriculture
- Consumer
- Health Care
- Real Estate
- Entertainment
- Financials
- Utilities
- Chemicals & Materials
- Energy
- ICT
- Industrial

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Key messages

Chinese economy experienced a challenging 2019 due to strenuous negotiations with the US. This, together with the continuous clampdown on the shadow banking, leads to negative sentiment. As if this were not enough, since early 2020 China has taken another unprecedented hit from the coronavirus outbreak.

Because of the economic vulnerability and strengthened overseas screenings on China-oriented biddings, large-scale overseas mergers and acquisitions in 2019 have clearly slowed down. However this is only true for the value of transactions but not for the number (for both announced and completed transactions). This signals that smaller-sized transactions are becoming increasingly popular among Chinese investors in the overseas acquisition market.

The EU-27 and Asia Pacific continued to be the most important targets of China's overseas M&A but with clear differences between the two regions. Asia Pacific received a larger number of deals than the EU, but the total value was significantly smaller. This means that, against the backdrop of declining average deal size, the EU remained the most important target for big acquisitions. At the country level, Netherland was China's biggest target in 2019 due to Wingtech's acquisition of the semiconductor firm Nexperia. Russia also moved up as the second largest targets for China in 2019 because of the 20% acquisition of the Arctic LNG project in the first half of 2019.

In terms of sectors, consumer, ICT and industrial sectors were the focus of China's overseas M&A, accounting for nearly 70% of the total value. In the industrial field, the EU, an important manufacturing hub of global production chain and high-technology supplier, continued to be the biggest target for China. However, Asia Pacific stood out for the consumer and ICT transactions in terms of deal number, showing the Chinese corporate's target to expand market access to the region. Still, Europe have shown larger deal value in the latter two sectors, signaling the contribution of larger-sized transactions.

There has been an improvement in the participation of Chinese privately-owned companies (POEs) as regards cross-border M&A market, especially in the key strategically important sectors, i.e. consumer and industrial. This partly reflected the easing of restrictions by the Chinese government to encourage POEs to take part in the related activities. Still, while the number of SOEs relatively decreased, the SOEs gained more exposure in the larger-sized deals. At the country level, the EU remained the most important target for Chinese SOEs.

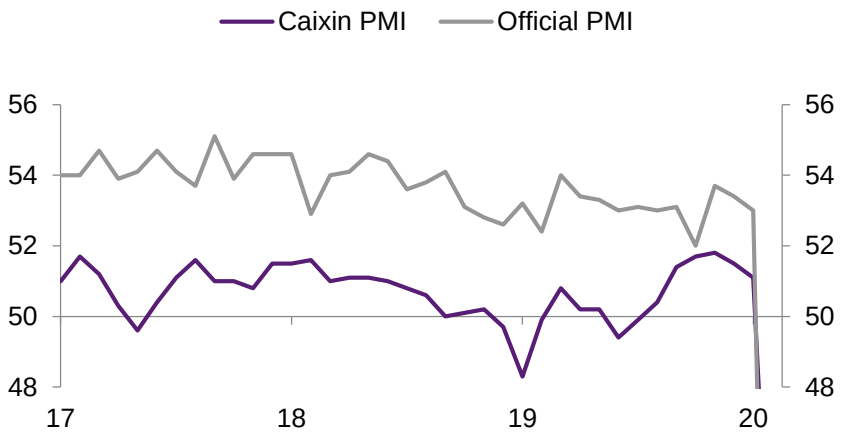
1 Global and China’s macroeconomic environment

While the incentive for overseas investment is still strong because of lower domestic growth and cheaper foreign financing, the overall international environment continued deteriorating and regulatory restrictions to China’s M&A have also been reinforced

Image source: Freepik

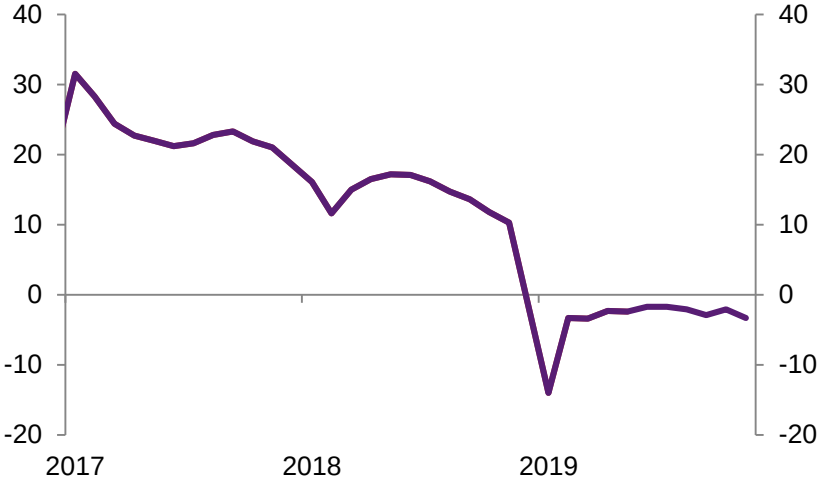
The Chinese economy did quite poorly in 2019 but the situation has worsened much in early 2020 after the outbreak of coronavirus, denting corporates profits

Purchasing Manager Index



Sources : PBoC, Natixis · WIND

China's industrial profits cumulative growth rate, %



Source: NBS, Natixis

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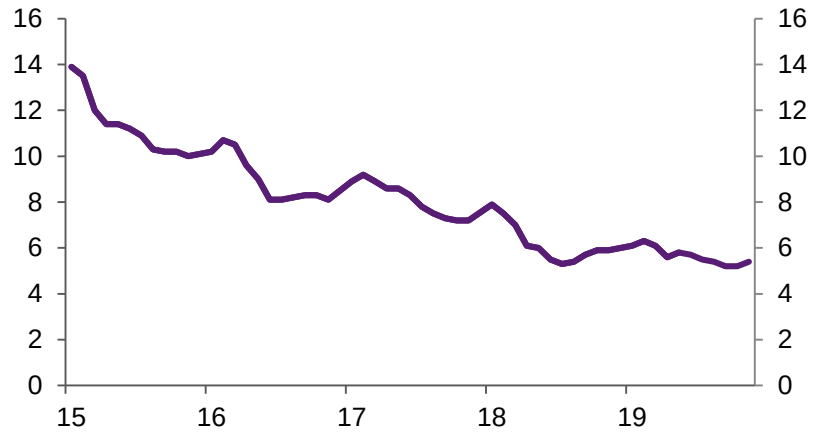
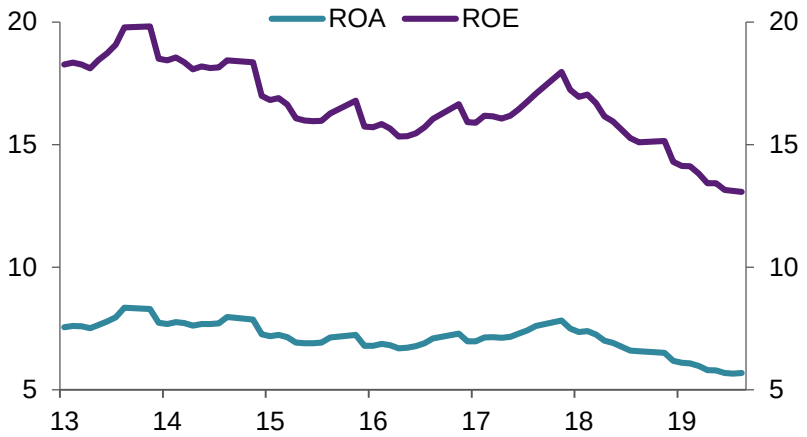
Chinese corporates' return on capital has continued to come down, so did the domestic investment

Fixed Asset Investment (%YoY, cumulative)



Source: Natixis, CEIC

Rate of return for industrial corporates (%)



Source: Natixis, NBS

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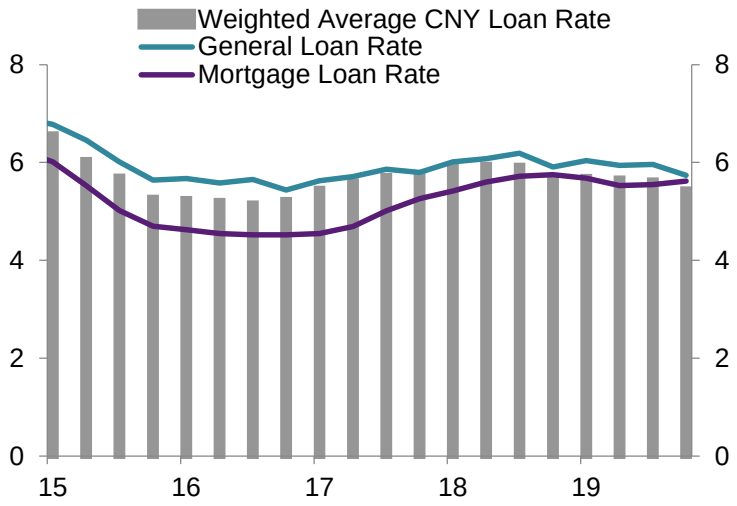
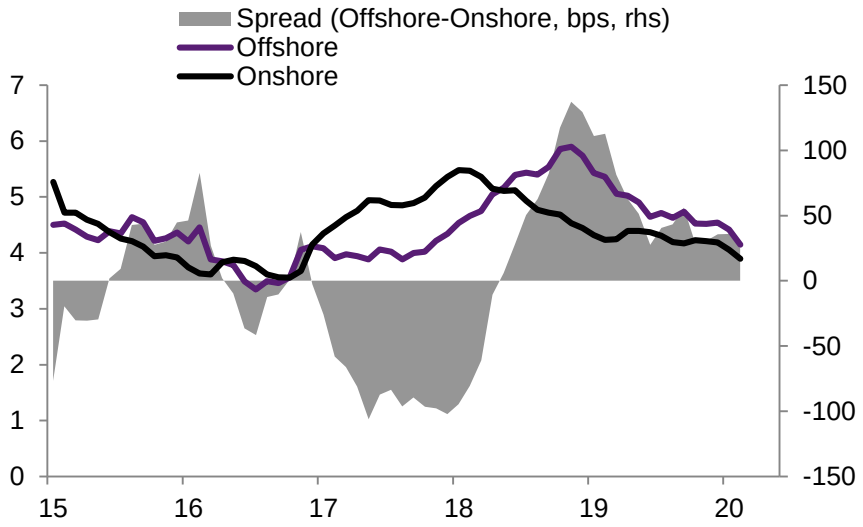
Domestic funding costs have not come down as fast as those overseas, thanks to a dovish FED

Weighted Average CNY Loan Rate (%)



Source: Natixis, WIND

Aggregate (Offshore – Onshore,%)



Source: Natixis, Bloomberg

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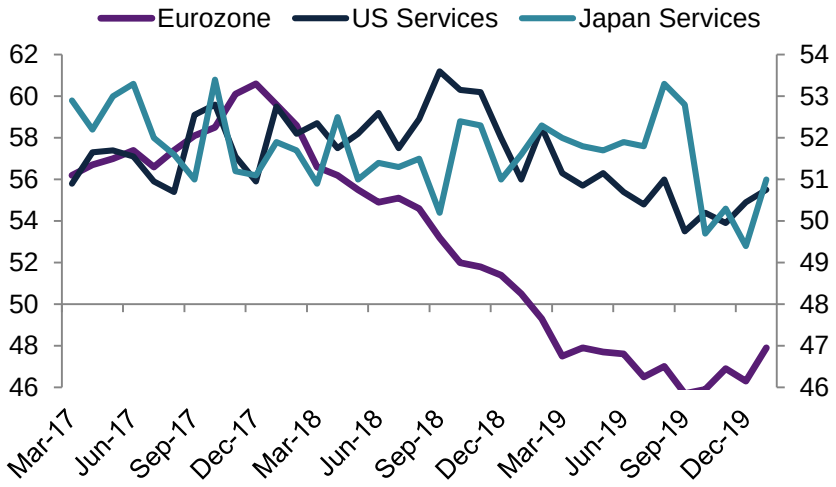
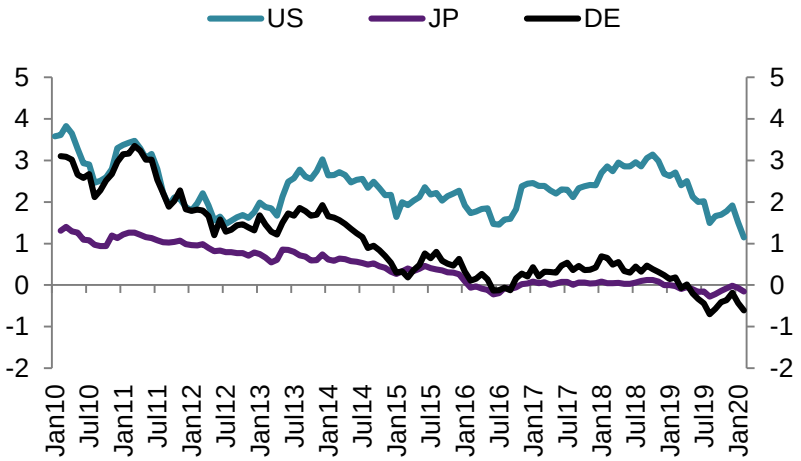
The deterioration in the global economic environment should in principle reduce the interest of Chinese bidders, especially those interested in market expansion. However, it has also lowered valuations, making acquisitions more attractive

Global activities are slowing



Source: Bloomberg, Natixis

10Yr Treasury Bond Yield (%)



Source: Bloomberg, Natixis
N.B. We use Germany 10Yr Treasury bond yield as proxy for EU 10Yr Treasury bond Yield

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China's own regulation on foreign acquisitions has remained tight and only open for the sectors encouraged by the leadership

SAFE & PBoC	CBRC	State Council	Supreme People's Court	State Administration for Market Regulation
Domestic firms to apply for approval if foreign transactions exceed $5 mn; Restriction on domestic firms fund overseas companies	Big SOE banks to check their loans to key companies, i.e. Wanda, Anbang, HNA, with massive overseas investment	State Council issues guideline No 47 on China's OFDI dividing investments into prohibited, restricted and encouraged	Supreme People's Court announced juridical interpretation for illegal foreign currency transactions	Issued the Foreign Investment Law to facilitate foreign investment outside sensitive list but still forbidding foreign investment in sensitive areas
Nov 2016	Jun 2017	Jul 2017	Feb 2019	Mar 2019

Based on State Council recommendation, NDRC's issues sensitive list for China's OFDI (2019)

	Negative List
1	Agriculture: wheat and coin seed cultivation
2	Mining: rare earth and radiant mines
3	Manufacturing: publisher, Chinese herbs and wholecar manufacturing
4	Utilities: Nuclear electricity and metropolitan water supply
5	Retail & Wholesale: Tabacco & cigarette sales
6	Transport: Public aviation, airport and air traffic management
7	Information Techonology: Telecom, online news & publishing
8	Rent & Commercial Services: Law firms
9	Science & Research: Stem cells, geographical surveying
10	Education
11	Publich Health and Social Work
12	Culture, Sports & Entertainment: News, broadcasting etc.

Following the US' reform of the CFIUS, both the European Union and Japan tighten foreign investment screening

USA

- The US has expanded the use and the scope of the Committee on Foreign Investment in the United States (CFIUS), with the particular aims to
- ***cover all possible deals****, including the non-controlling transactions*
- *oversight* ***real estate transactions near the sensitive facilities***

European Union

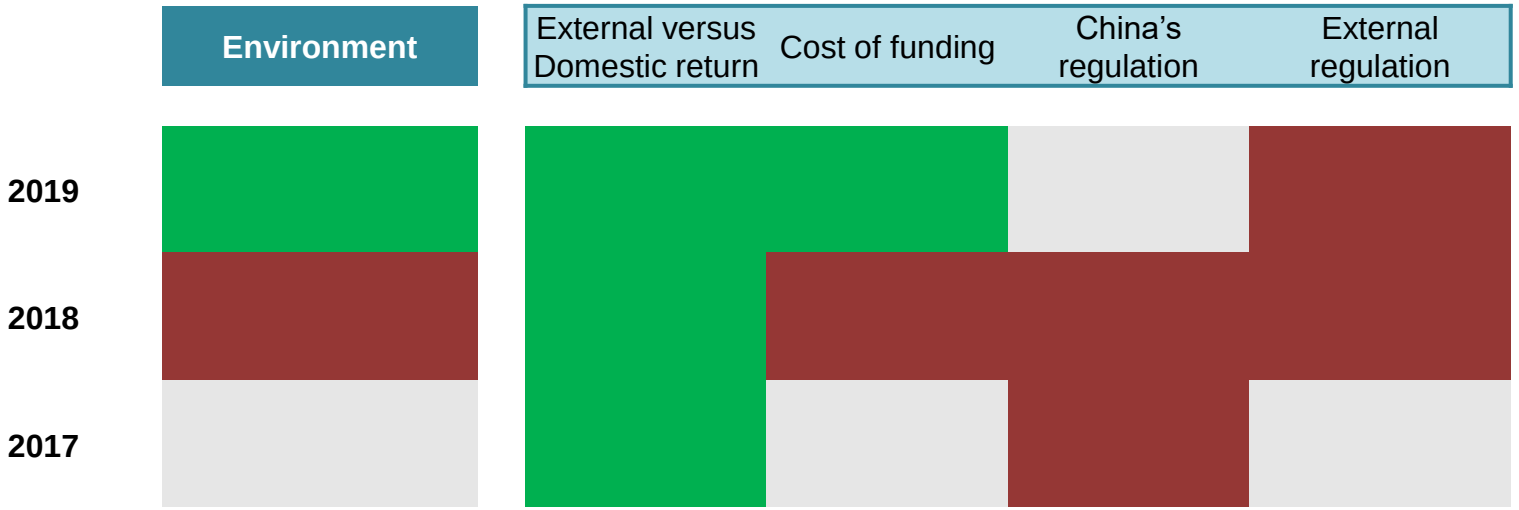
- The new EU framework for the screening of foreign direct investments has officially entered into force on 10 April 2019. The new framework will:
- *create cooperation mechanism for member states to share information*
- *allow the Commission to issue opinions when necessary*
- *encourage international cooperation on investment screening*
- *set certain requirements for those who wish to screen investment*
- *take into account of the urgency of conducting business*
- *But the* ***Member States still keep the last word*** *whether a specific investment operation should be allowed or not in their territory.*

Japan

- Japanese government tightens foreign investment into domestic high-technology manufacturers through an amendment to the Foreign Exchange and Foreign Trade Act, adding 20 more sectors including integrated circuits and semiconductor memory devices (for above 10% of the targeted company). Also it is reported to be considering lowering the 10% ownership threshold to better monitor Chinese investment

The macroeconomic environment for China's cross-border acquisitions continued worsening in 2019, and the regulation remains tight from the targeted countries, but the offshore funding cost was lower thanks to the dovish Fed

Change over time (2019 versus 2018, and before)



Source: Natixis

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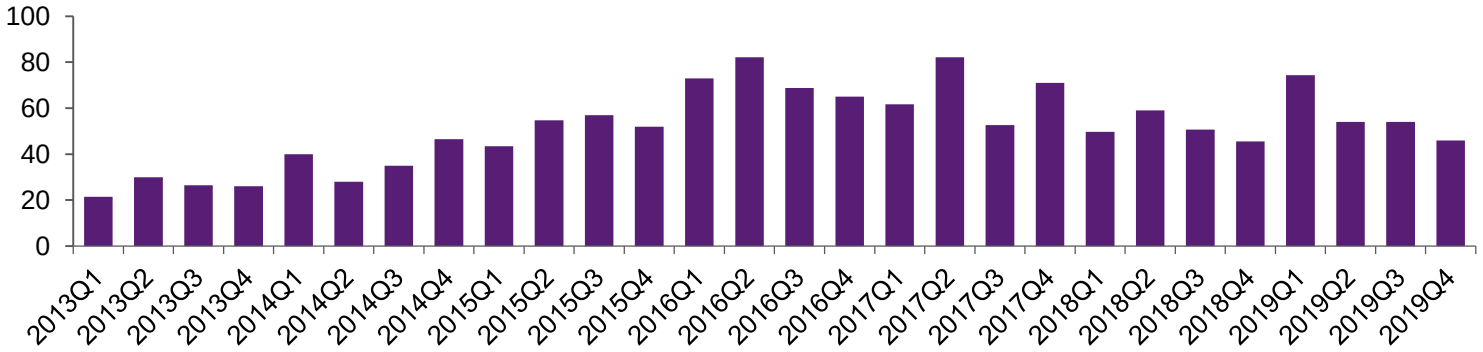
2 General trends in Chinese acquisitions

The number of both announced and completed cross-border M&A deals increased, but their total values decreased significantly, signaling that small-sized deals became more popular

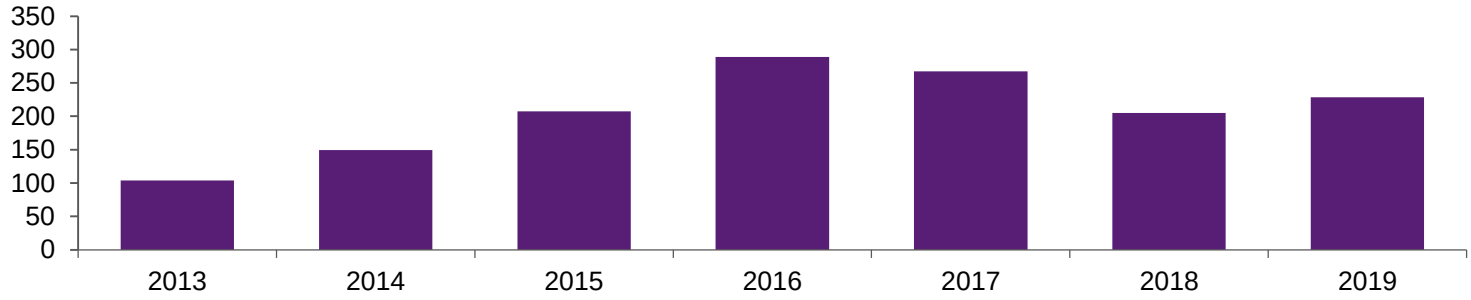
Image source: Freepik

The total number of the announced deals continued to decline in H2 2019, but that for the whole year slightly increased from 2018 thanks to the temporary peak in Q1

China's announced overseas mergers and acquisitions
Number of deals: 2013Q1 to 2019Q4



China's announced overseas mergers and acquisitions
Number of deals: 2013 to 2019



Source: Mergermarket, AEI, NATIXIS

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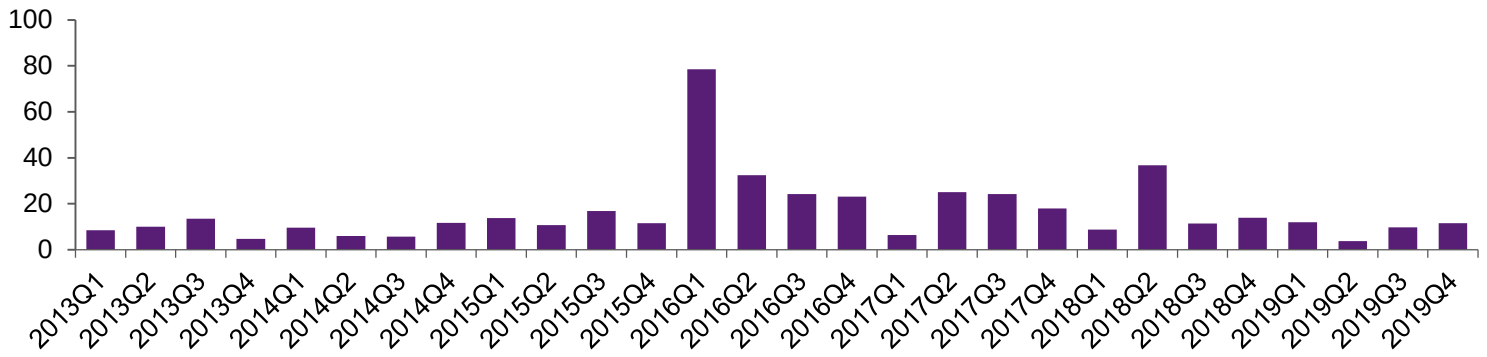
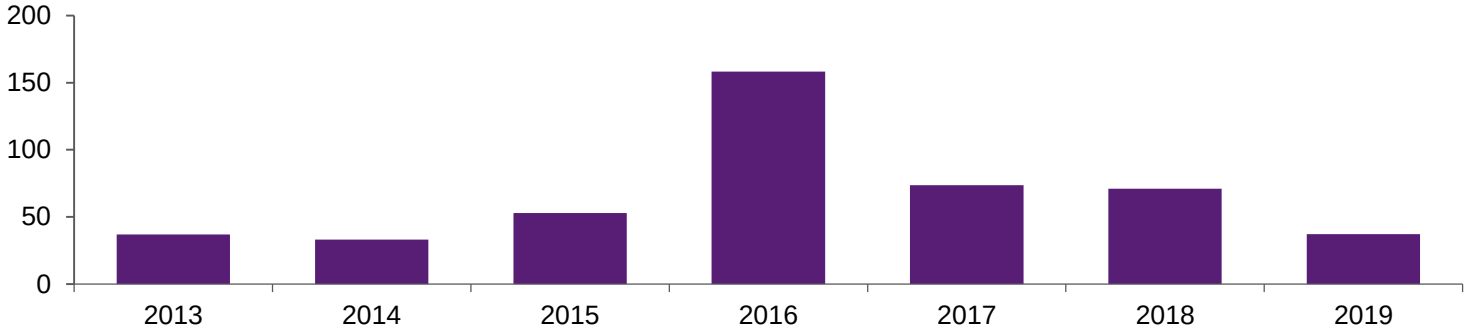
However, the total value of the announced deal values in 2019 remained low and was only half of that in 2018

China's announced overseas mergers and acquisitions (bn)
Deal value: 2013Q1 to 2019Q4



China's announced overseas mergers and acquisitions (bn)
Deal value: 2013 to 2019



Source: Mergermarket, AEI, NATIXIS

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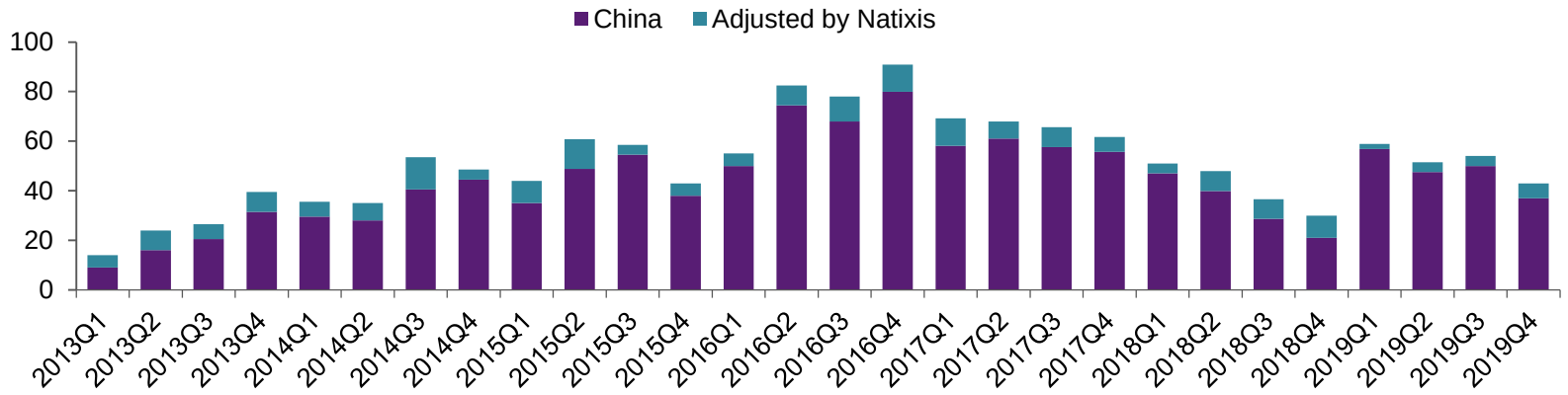
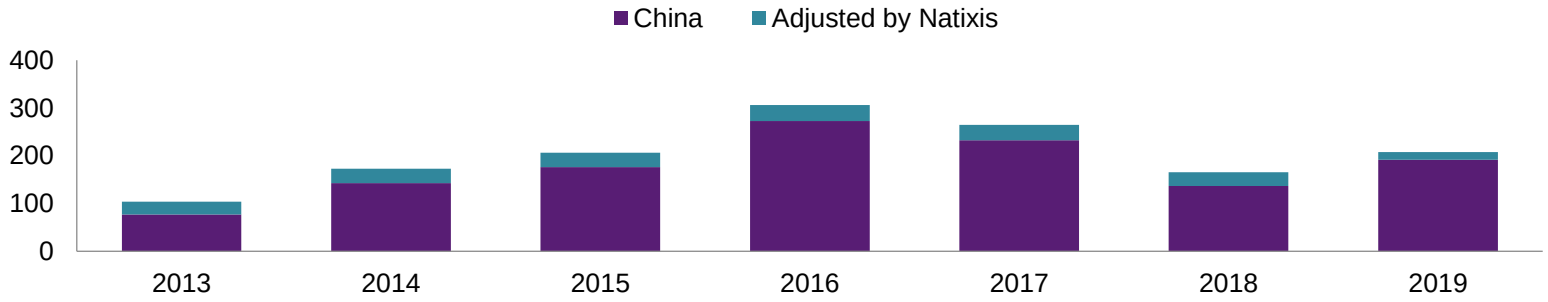
The number of completed deals has decreased in H2, especially during the fourth quarter, but the total number for the whole year still edged higher compared with 2018

China's completed overseas mergers and acquisitions
Number of deals: 2013Q1 to 2019Q4



China's completed overseas mergers and acquisitions
Number of deals: 2013 to 2019



Source: Mergermarket, AEI, NATIXIS

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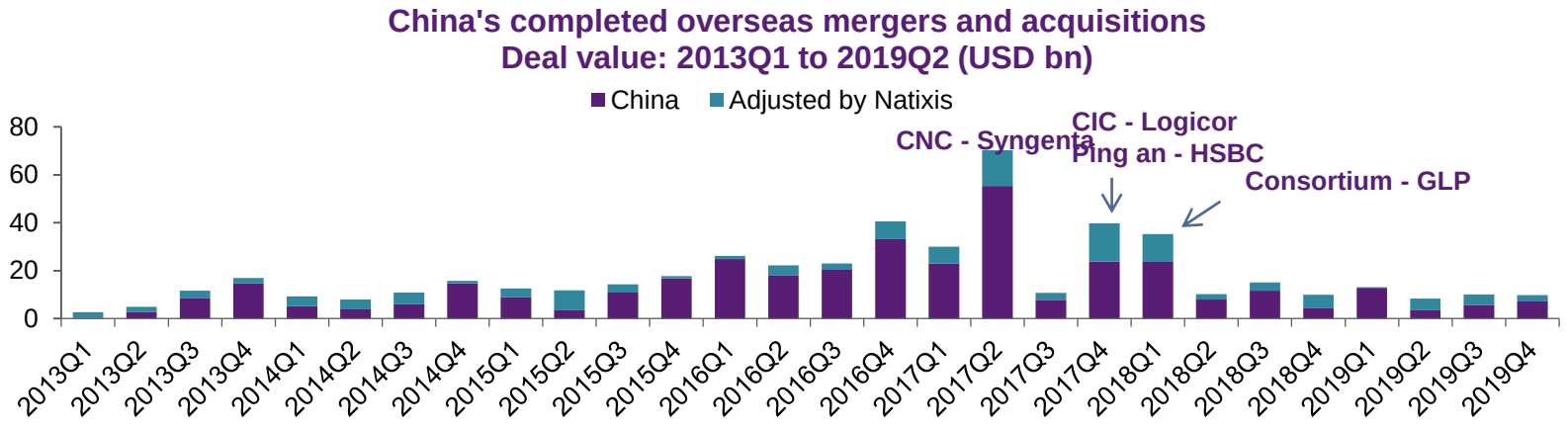
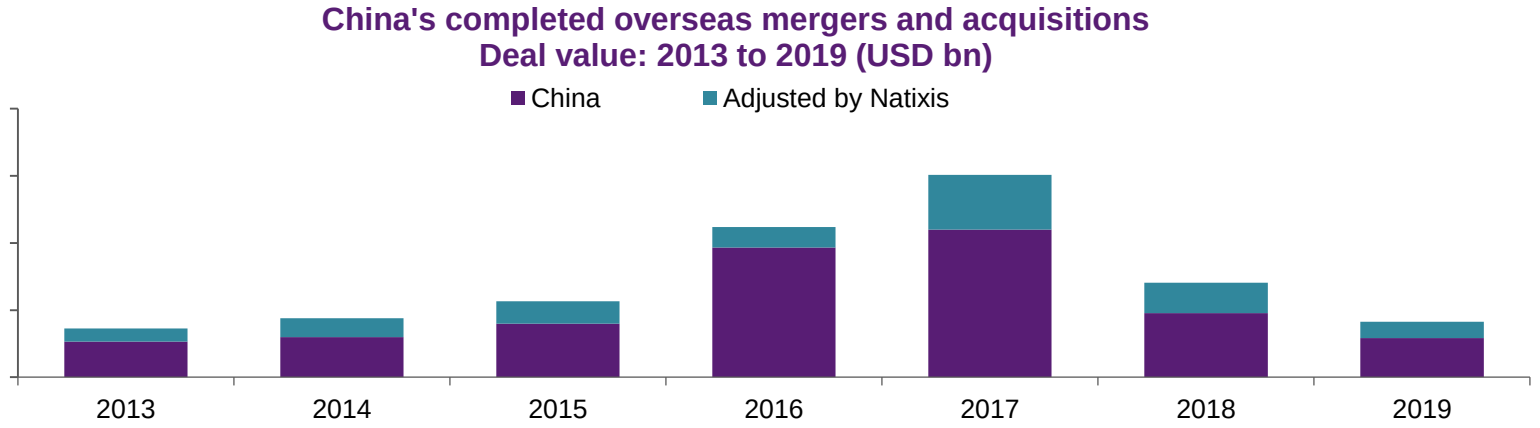
The value of the total completed deals also became significantly lower in 2019

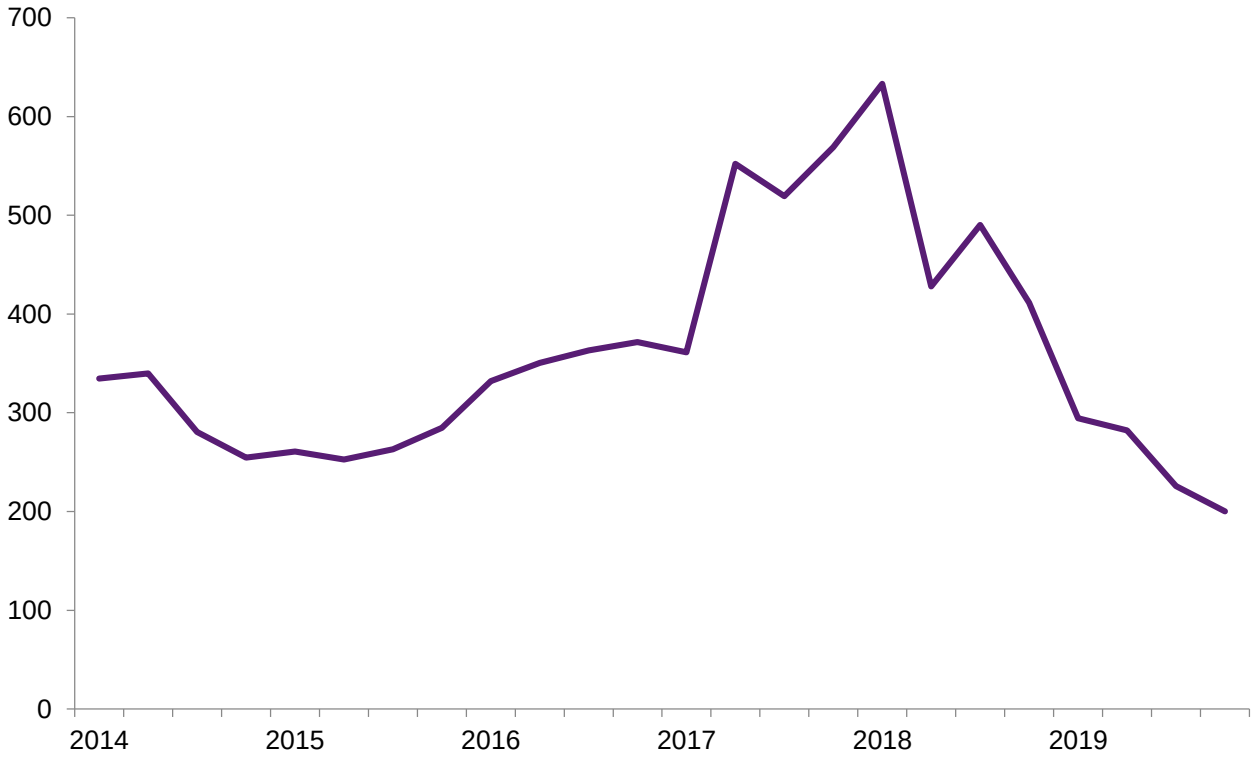




Source: Mergermarket, AEI, NATIXIS
Note: * Indicates predicted value for the year based on H1

The average size of the completed deals continued to decrease rapidly throughout 2019

Average size of the completed deals (million USD, 12-month moving average)

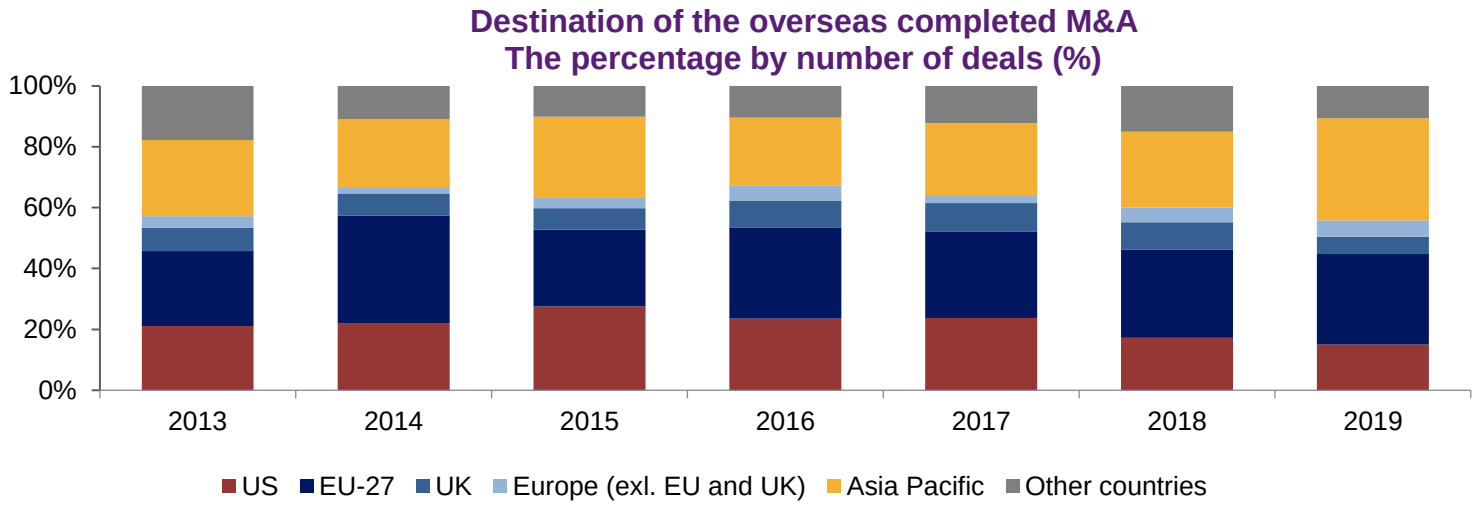


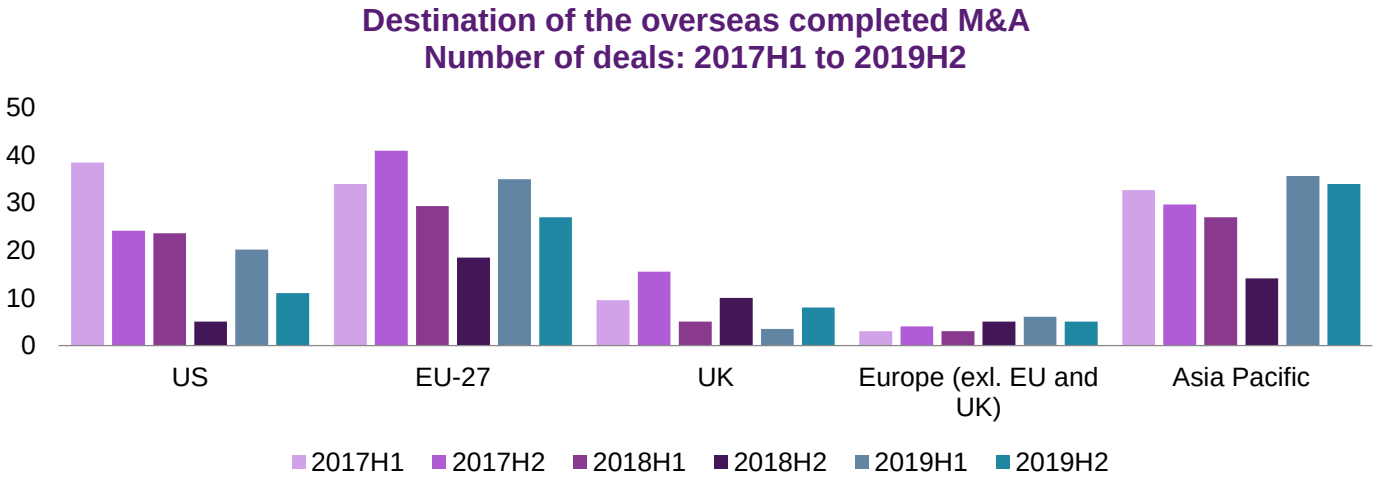
Source: Mergermarket, AEI, NATIXIS

3 Regional analysis

Chinese M&A activities continued to focus on Europe and Asia Pacific. There were more deals in Asia Pacific but Europe is clearly largest in total value of deals.

There were more deals pivoted towards Asia Pacific compared with 2018 followed by Europe





Source: Mergermarket, AEI, NATIXIS

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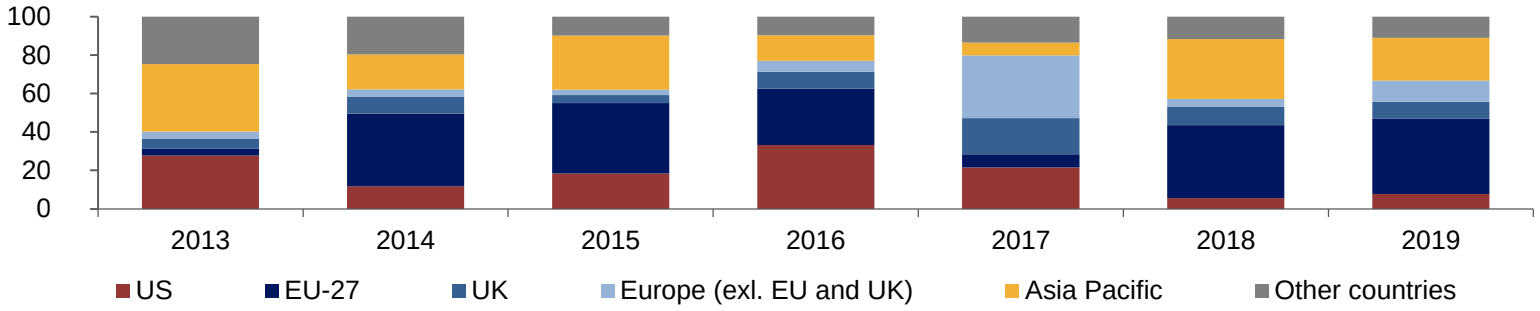
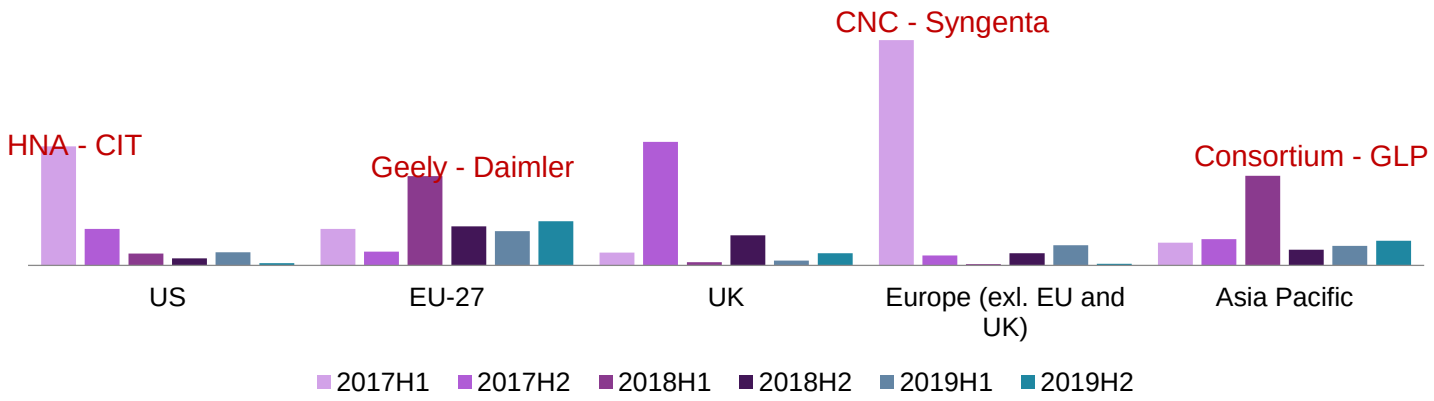
But in terms of deal value, the share of Asia Pacific decreased whereas the role of the Europe remained the most important

Destination of the overseas completed M&A
The percentage by deal value (%)



Destination of the overseas completed M&A
Deal value: 2017H1 to 2019H1 (USD bn)



Source: Mergermarket, AEI, NATIXIS

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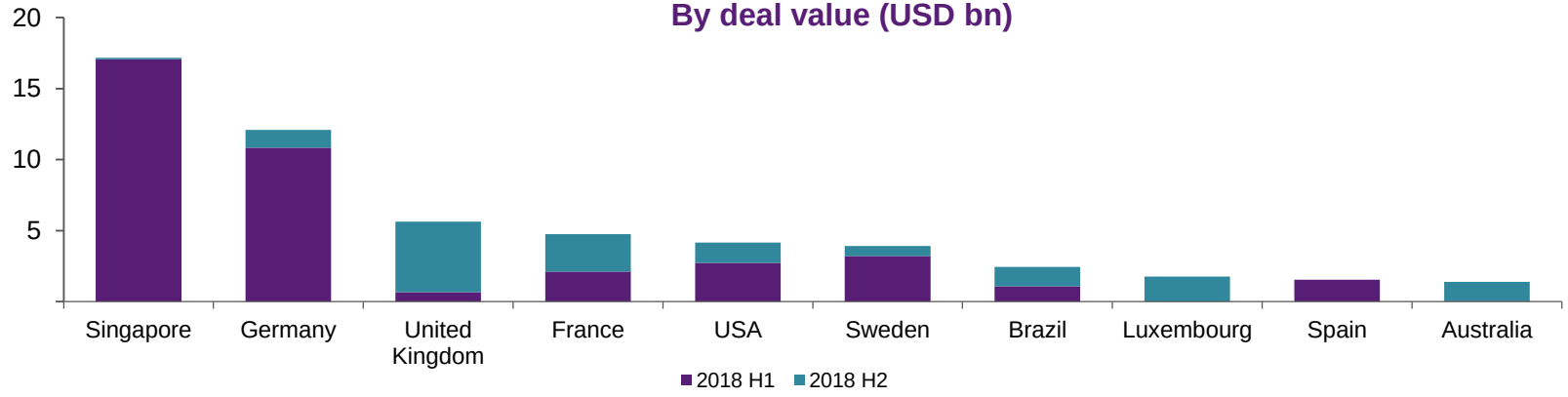
Netherlands tops China's M&A list in 2019 thanks to Wingtech's acquisition of the semiconductor firm Nexperia. Russia was second thanks to the 20% acquisition of the Arctic LNG project in the first half of 2019

The most targeted countries in 2019 H1
By deal value (USD bn)

The most targeted countries in 2018
By deal value (USD bn)



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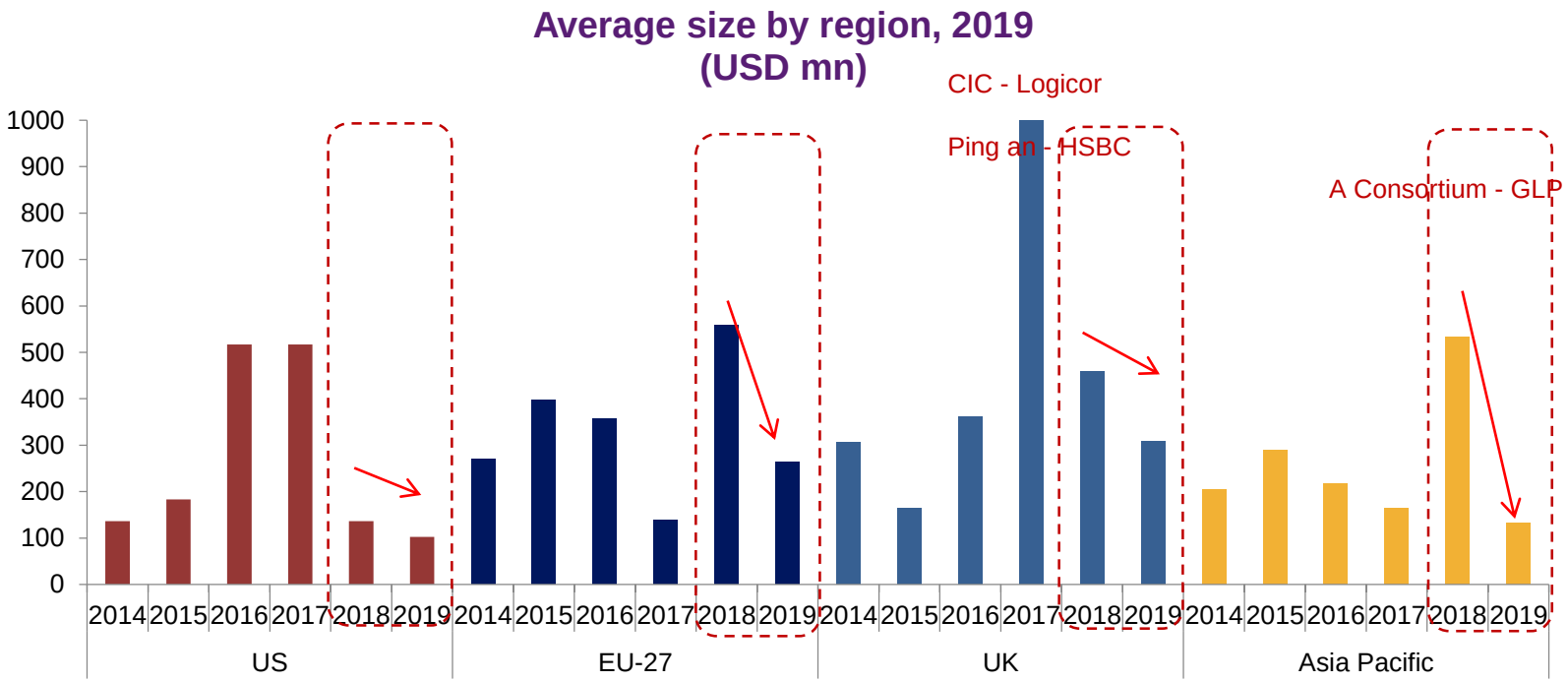
Average size of deals decreased across the board of all regions, especially in Asia Pacific



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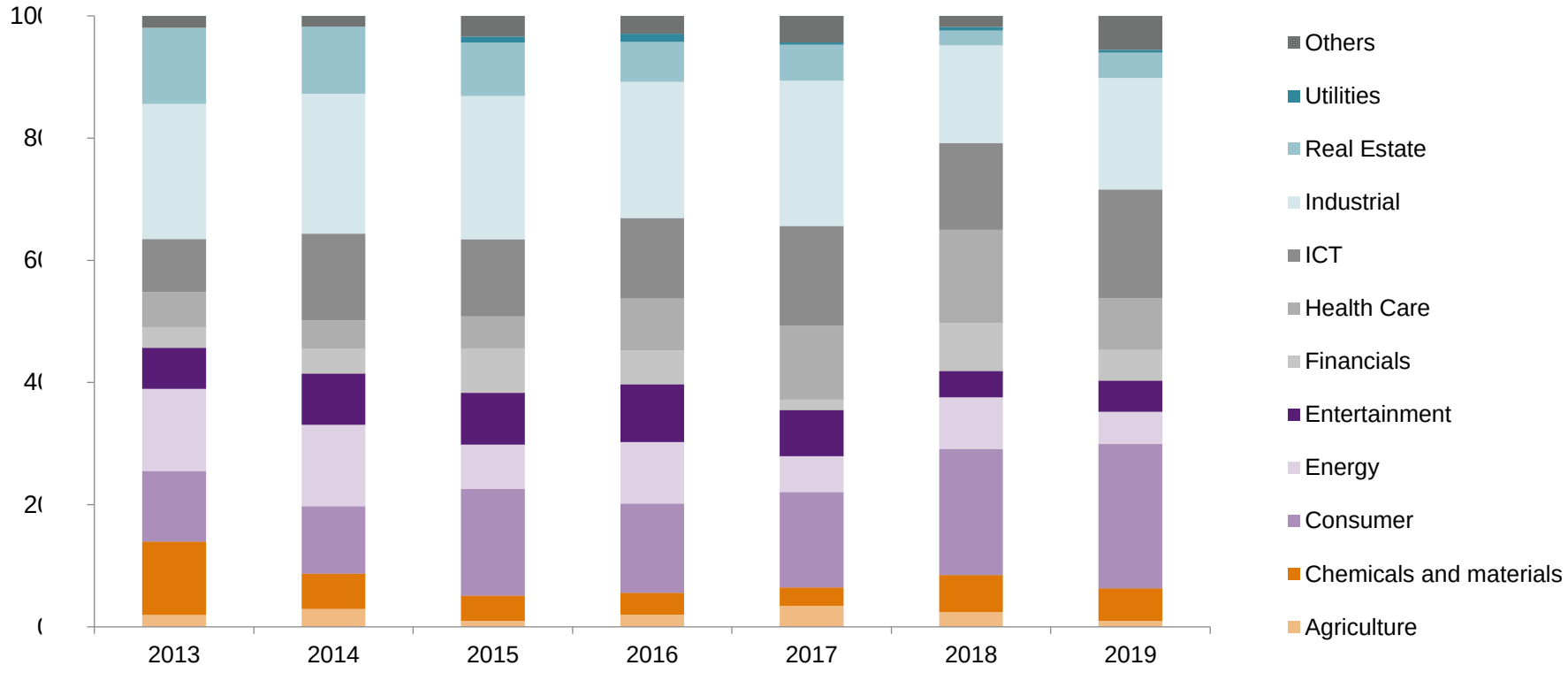
4 Sectoral analysis

Chinese companies overseas acquisitions continued to focus on government's announcement of strategic sectors, including the consumer, industrial and ICT sectors.

The consumer sector attracted the largest number of Chinese M&A, followed by the industrial and ICT sectors

Sectoral distribution of the overseas completed M&A
The percentage by number of deals (%)



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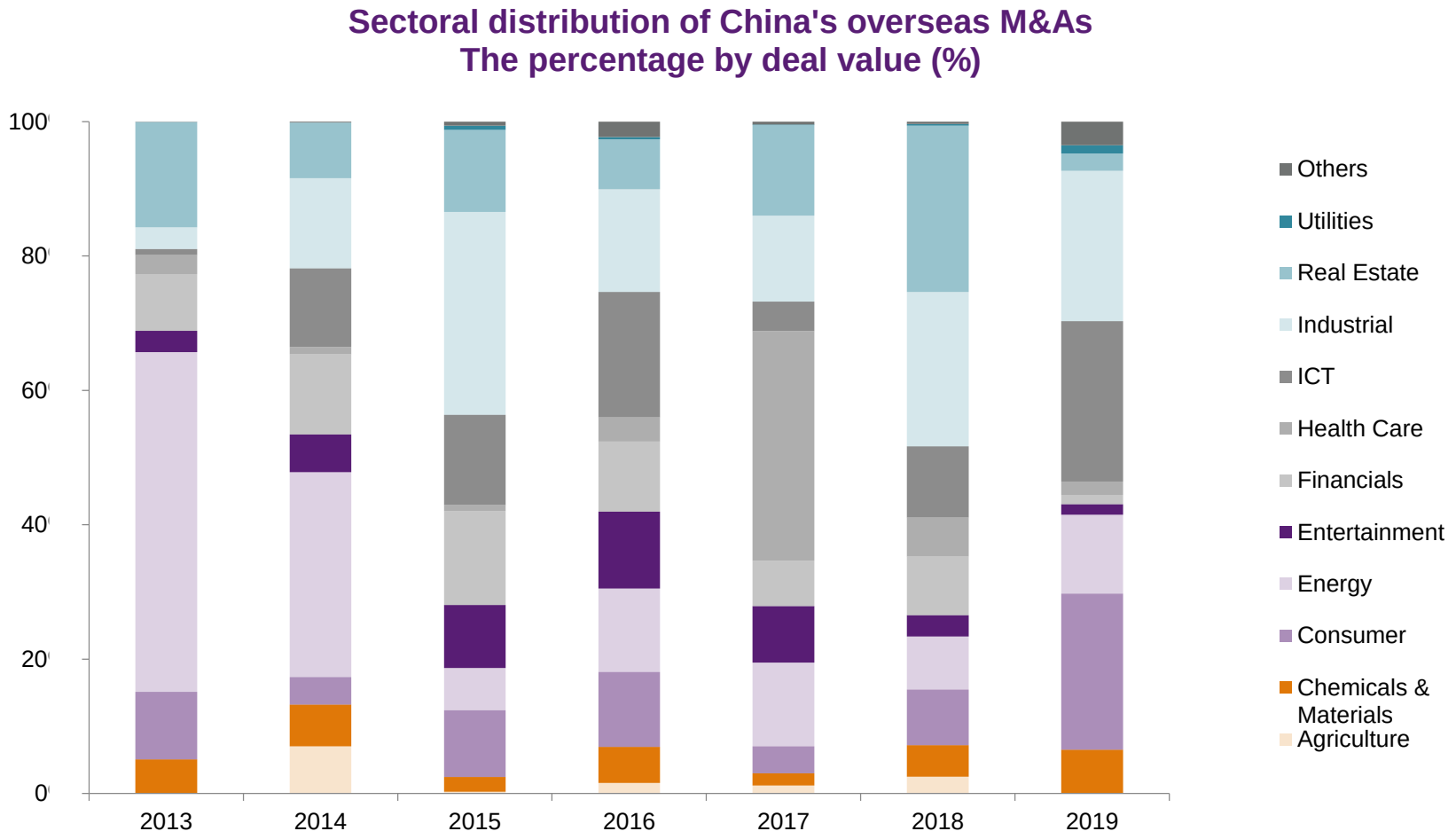
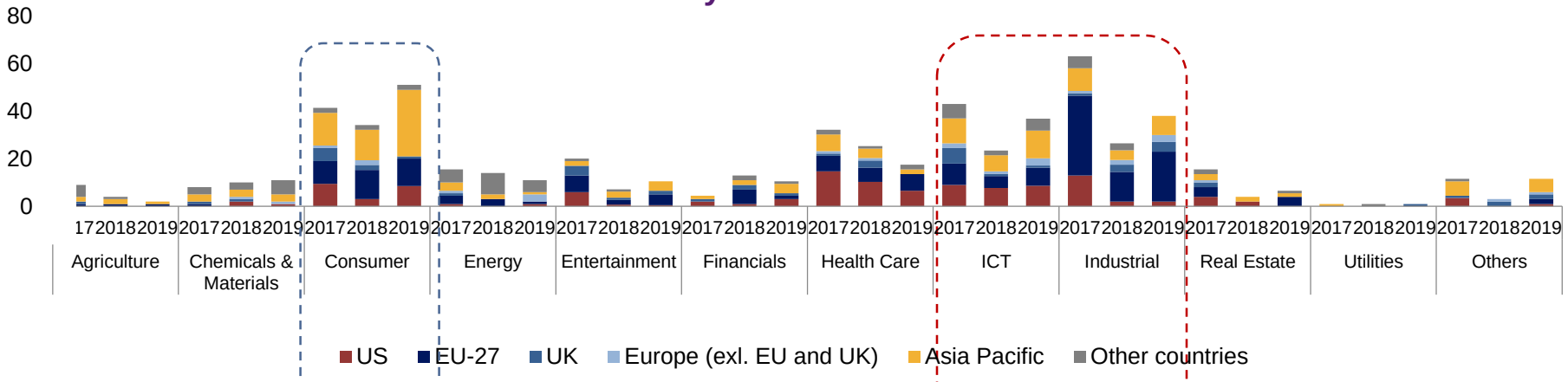
In terms of value, ICT, consumer and industry sectors were the top targets in 2019, constituting 70% of China's total overseas M&A

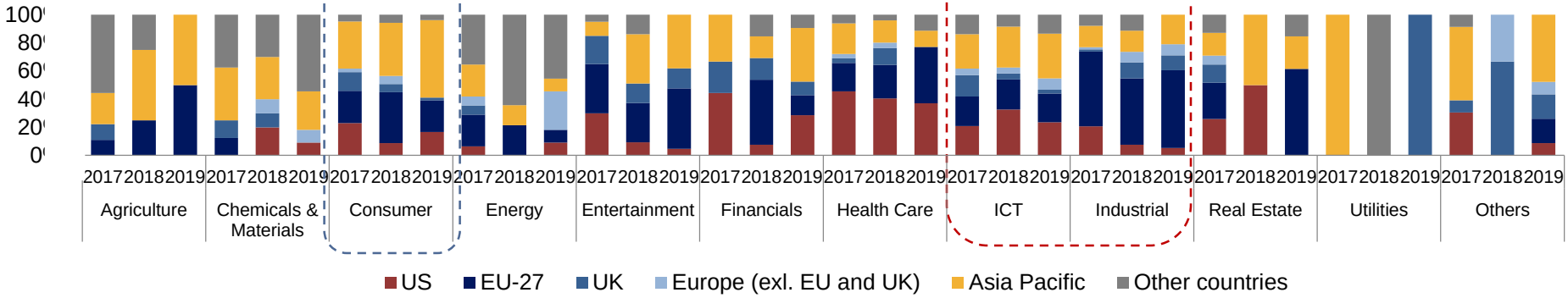


The EU still attracted the largest number of China's M&A in the industrial sector, whereas Asia-Pacific countries have become the largest target for the ICT deals in 2019

Regional and sectoral distribution China's overseas M&As
By number of deals



Regional and sectoral distribution China's overseas M&As
By number of deals (%)



Source: Mergermarket, AEI, NATIXIS

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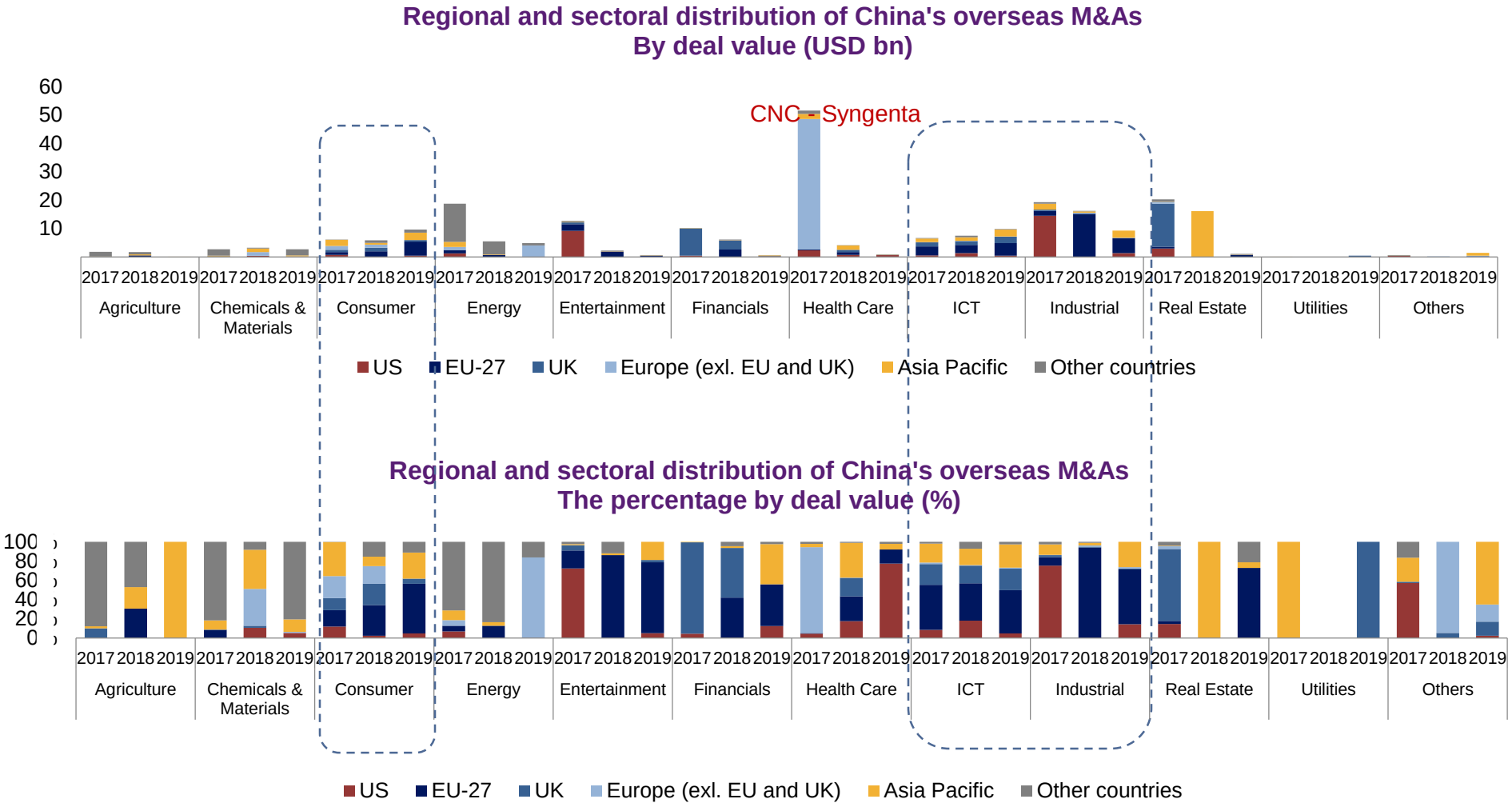
As regards deal value, Europe received significantly higher share of M&A in the consumer, industrial and ICT sectors than the other regions in 2019



Source: Mergermarket, AEI, NATIXIS

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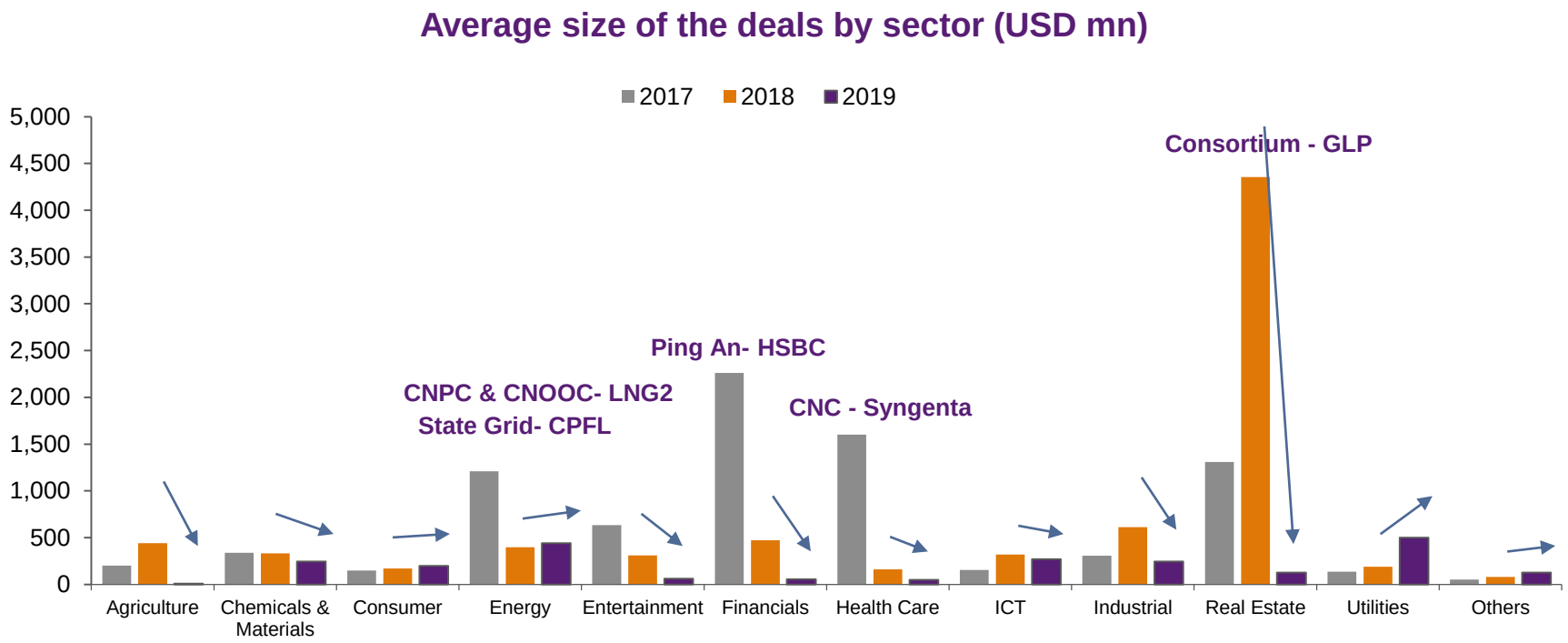
Average sizes of the M&A deals in most sectors have decreased, but the average sizes for two key sectors, namely, consumer and ICT sectors largely remained sable

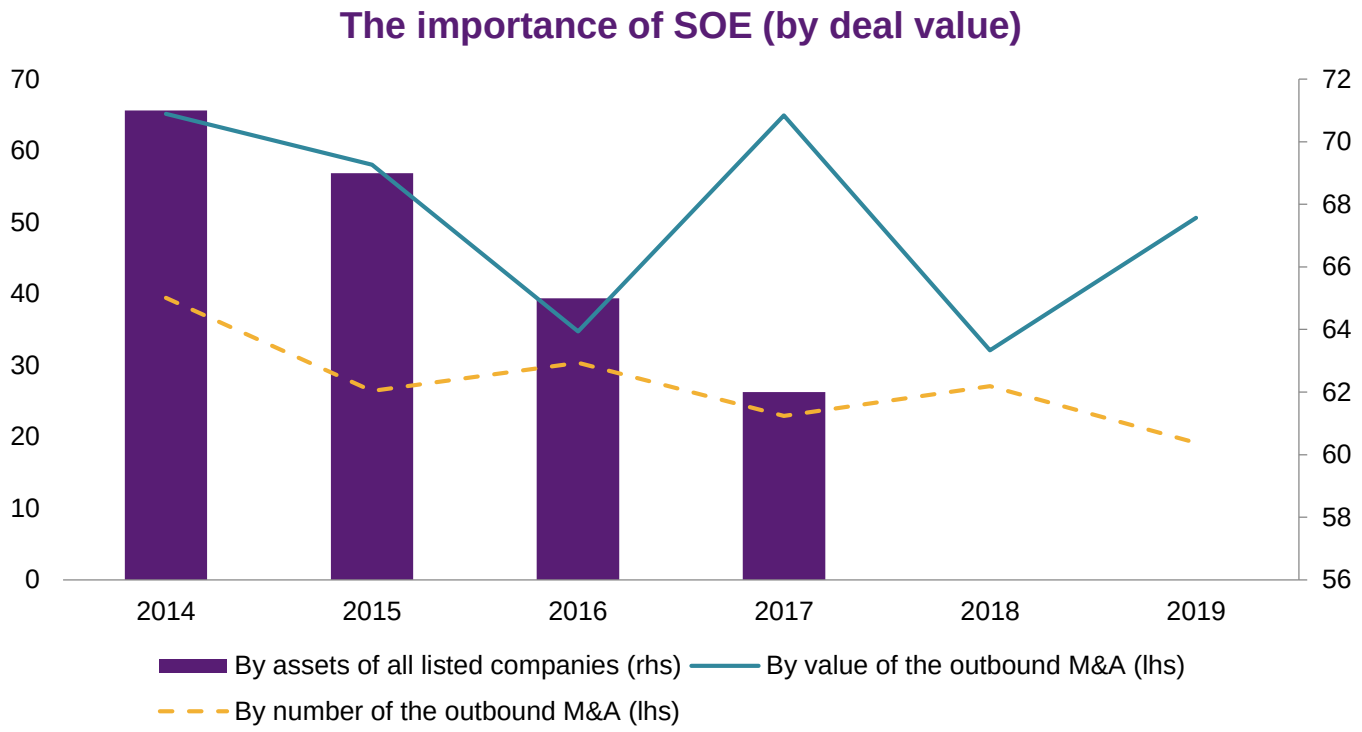


Source: Mergermarket, AEI, NATIXIS

5 Relevance of SOEs in overseas acquisitions

Increasingly more private enterprises (POEs) participated in the M&A, but the state-owned enterprises (SOEs) are still responsible for the larger-sized deals. This is particularly true for Europe

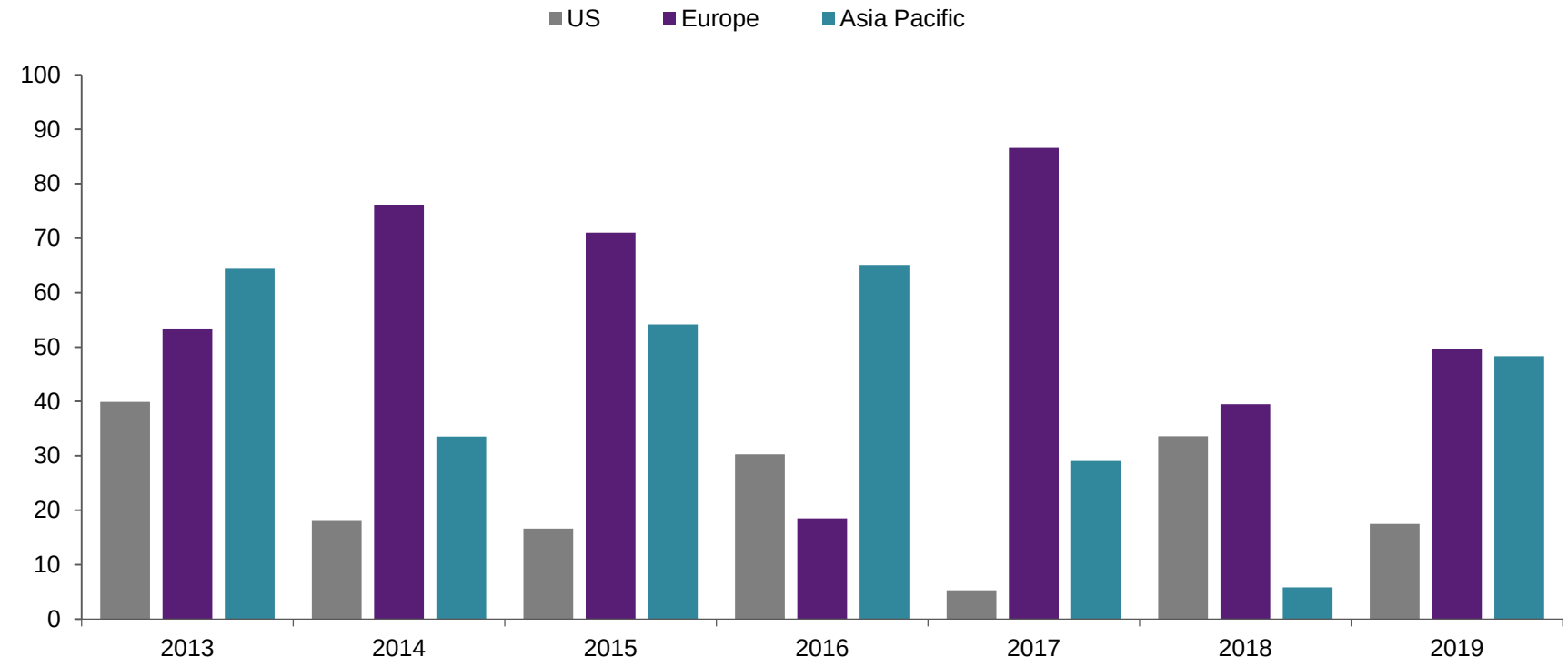
Chinese SOEs conducted relatively less overseas M&A in 2019, but the value of their transactions clearly increased. This is stark contrast with the reduced importance of SOEs as a percentage of listed assets



Source: Mergermarket, AEI, NATIXIS
Note: 2019* figure is based on the estimate of the first half of the year.

Although generally less important acquirers, this is not true for Europe and Asia Pacific, compared to 2019. SOEs have retreated from the US market though

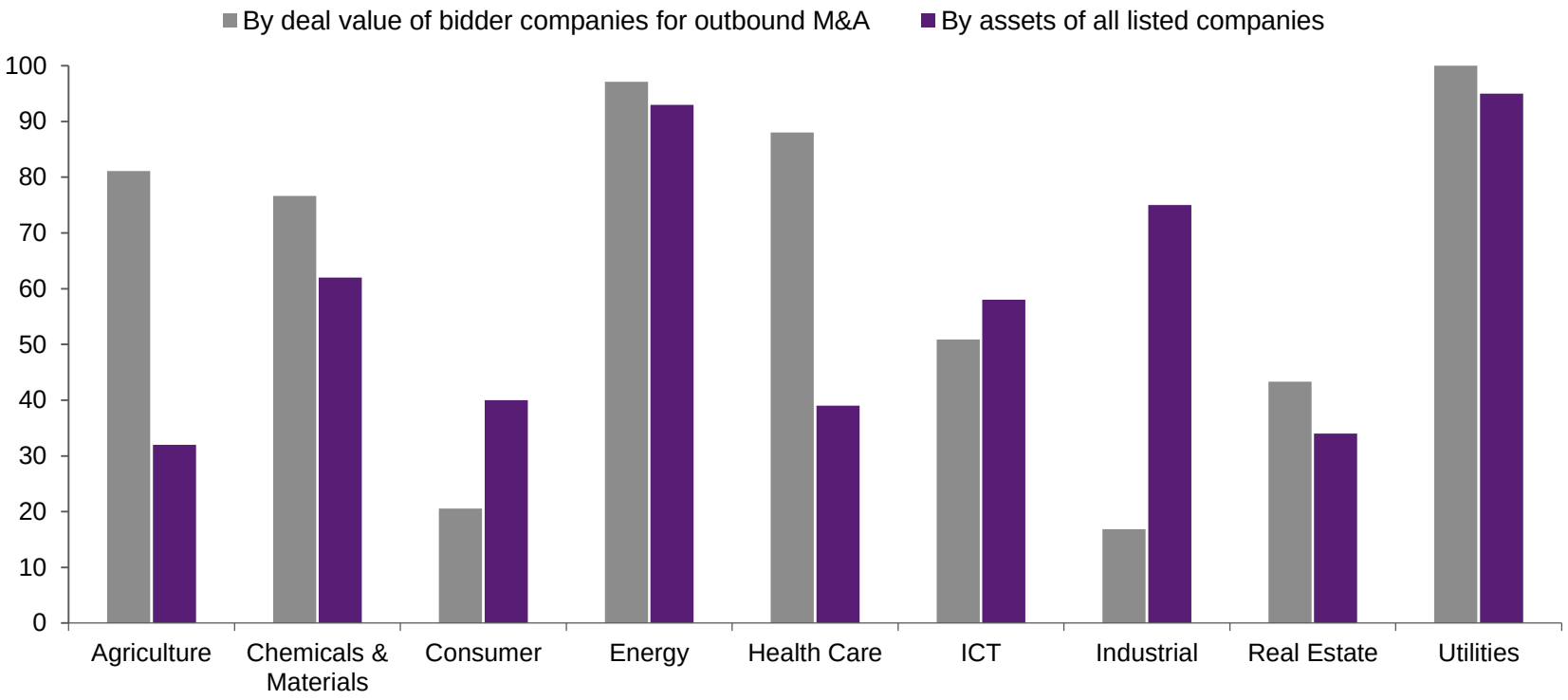
Share of SOE by region from 2013 to 2019
(%, in terms of deal value)



Source: Mergermarket, AEI, NATIXIS

SOEs have focused more on utilities, energy, health-care, chemical & material sectors, but POEs were more present on key strategic sectors such as the industrial and consumer ones

Share of SOE by sector (Average of 2017 to 2019, %)



Source: Mergermarket, AEI, NATIXIS

Appendix

Appendix A
Methodology

Databases

Mergermarket

American Enterprise Institute (AEI)

Bidder Coverage

Mainland China

Hong Kong

(Chinese companies account for 56% of HSI market capitalization)

Adjustment 1: Compare each transaction in Mergermarket with AEI to complement the deals not classified in Mergermarket as originating from Mainland China or Hong Kong.

Adjustment 2: Distribute deals with multiple bidder or targets to the specific country and sector, with the exclusion of the role of the offshore centers, i.e. Cayman Islands, BVI, Bermuda.

Appendix B
Deals by sector and region (2019)

Sector	US		Europe		Asia-Pacific	
	Deal value ($ billion)	Number of deal	Deal value ($ billion)	Number of deal	Deal value ($ billion)	Number of deal
Agriculture	0.00	0	0.00	1	0.01	1
Chemicals materials	0.14	1	0.03	1	0.35	3
Consumer	0.47	8	5.48	13	2.60	28
Energy	0.01	1	4.04	4	0.00	1
Entertainment	0.03	1	0.49	6	0.12	4
Financials	0.07	3	0.25	3	0.24	4
Health Care	0.64	6	0.12	8	0.05	2
ICT	0.47	9	6.74	12	2.41	12
Industrial	1.33	2	5.48	28	2.45	8
Real Estate	0.00	0	0.78	4	0.06	2
Utilities	0.00	0	0.50	1	0.00	0
Others	0.03	1	0.47	5	0.95	6

Source: Mergermarket, AEI, NATIXIS
Note: Europe includes the UK and the other non-EU countries in Europe.

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Appendix B
Deals by sector and region (2018)

Sector	US		Europe		Asia-Pacific	
	Deal value ($ billion)	Number of deal	Deal value ($ billion)	Number of deal	Deal value ($ billion)	Number of deal
Agriculture	0.00	0	0.54	1	0.39	2
Chemicals materials	0.35	2	1.34	2	1.34	3
Consumer	0.14	3	4.23	16	0.56	13
Energy	0.00	0	0.71	3	0.21	2
Entertainment	0.00	1	1.92	3	0.04	3
Financials	0.00	1	5.75	8	0.12	2
Health Care	0.71	10	1.84	10	1.48	4
ICT	1.35	8	4.31	7	1.26	7
Industrial	0.02	2	15.57	18	0.44	4
Real Estate	1.32	2	0.00	0	16.10	2
Utilities	0.00	0	0.00	0	0.00	0
Others	0.00	0	0.24	3	0.00	0

Source: Mergermarket, AEI, NATIXIS
Note: Europe includes the UK and the other non-EU countries in Europe.

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