DEAL #1:HUTCHISON TELECOM, THE SECOND-LARGEST MOBILE NETWORK OPERATOR IN HONG KONG, SOLD ITS FIXED-LINE NETWORK BUSINESS FOR US$1.9B

DEAL #2: CHOW TAI FOOK ENTERPRISES AGREED TO BUY ALL OF THE AUSTRALIAN ENERGY GROUP ALINTA ENERGY FOR US$3B

Private equity gets meaner and leaner

Analysts reckoned that funds now seem more willing to get their skin in the game, and this has resulted in heated rivalries, record-high valuations, and a keener interest in tech-powered efficiency.

Whilst 2017 saw private equity (PE) funds in Hong Kong follow the same trend last year of amassing higher amounts of dry powder, or funds raised but not invested, there is a distinct difference in attitude this year: it's leaner and meaner as funds now seem more willing to get their skin in the game, according to analysts, and this has resulted in heated rivalries, record-high valuations, and a keener interest in tech-powered efficiency.

Competition for deals, which has exceeded $6b in Hong Kong and grown 50% over the previous five-year average, is getting tighter. With PE firms also now having more money to spend, this has led to larger valuations. Sovereign wealth funds and Chinese technology giants are also attempting to grab a piece of the deal pie, which further complicates an already highly contested deal environment.

"There is still a vast amount of dry powder at the disposal of PE funds, which they are actively looking to deploy," said **James Parker,** partner at Norton Rose Fulbright, Hong Kong. "However, all this dry powder is fuelling competition between PE firms, thus driving up prices. We are seeing that competition, particularly for the biggest deals, is being further increased by new entrants into the market like sovereign wealth funds, pension funds, and large Chinese corporations such as Alibaba and Tencent," he said.

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Parker warned that with valuations recently hitting record levels, there is a danger of PE funds overpaying for assets and struggling to achieve the levels of exit multiples desired by investors.

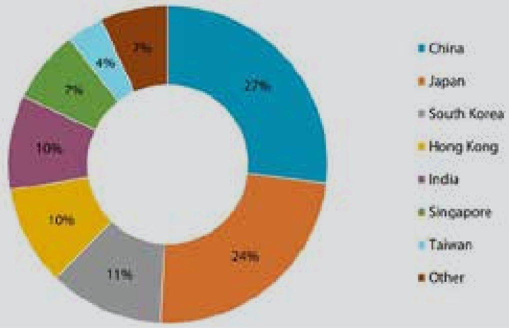
More risk

In response to the rising competition for deals, some fund managers have begun to look at deals in the earlier stage, taking on more risk than usual, said **Denis Tse** of the Hong Kong Venture Capital and & Private Equity Association. But as an alternative strategy to this risk-focused approach, he recommended that funds should focus more on specialising in their value-adding proposition in sourcing deals.

"Some of the investment opportunities are actually created. They're not necessarily readily available," he said. "There can be more of such opportunities going forward. With more companies disposing assets and more companies wanting to expand beyond their own industry lines, there will be more corporate actions going forward just like in the West. Asia is no exception," he added.

Tse said PE managers are becoming increasingly interested in some of the larger corporate disposal activities Hong Kong groups, building on a trend that started last year. He pointed to two headline-grabbing exits of two telecommunications operators: Hutchison Telecom in July and Wharf T&T in 2016.

Asia-based privated equity & venture capital investors by location



Source: Preqin

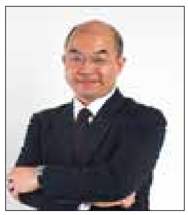
Hutchison Telecom, the second-largest mobile network operator in Hong Kong, sold its fixed-line network business for US$1.9b (HK$14.5b) to Asia Cube Global Communications, which is wholly-owned by a fund managed by I Squared Capital. Late last year, on the other hand, a consortium of PE firms MBK Partners and TPG Capital agreed to acquire Hong Kong telecommunications company Wharf T&T for US$1.2b (HK$9.5b).

"There will be continued activities going on from corporate divestitures by Hong Kong-based large family groups," said Tse. "It's a very salient observation already that PE is getting into the mainstream." He reckoned that alongside disposing domestic assets, large family groups in Hong Kong are showing increased interest in outbound investing.

In March, the Cheng family's Chow Tai Fook Enterprises agreed to buy all of the Australian energy group Alinta Energy for US$3b (AU$4b). Meanwhile, in July, Li Ka-Shing agreed to acquire CVC Capital's German smart-metre business Insta for around US$5.3b (€4.5 billion).

Real estate PE managers are also interested in some of the activities coming out of Hong Kong, said Tse, and several are aiming to raise bigger funds. Indigenous managers like Primavera, he said, are all aiming to raise US$3 billion in capital. He said that there are more capital competing for assets which has led to more deals, with larger deals remaining open to PE. "That's the changing landscape—not just valuation but also the scope of involvement of PE has become broader and more significant," he noted.

James Parker



Denis Tse

Tony Tsang

Creating efficiency

The forecast for intensified fundraising efforts will follow 2017, a year which, so far, has shown a double-digit increase in fundraising for Asia-focused funds, said Norton Rose Fulbright's Parker. The funds raised amounted to US$35b in the first six months alone, or about 25% higher from the average for the last five years. But Parker reckoned PE firms are facing increased scrutiny that puts an additional layer of pressure on top of the expectation to deliver returns on the billions of funds they have raised. To get some breathing room, some firms have turned to technology.

"Firms are facing increased scrutiny and dealing with new challenges—they are spending significant time and resources to comply with increased regulation, for instance, in regulatory and investor reporting. They are also experiencing increased focus on returns from their investors and a squeeze on the fees they charge," said Parker. "Correspondingly, many funds are investing in new technological solutions in order to create efficiencies, although the benefit of these investments have not yet been apparent," he said.

China effect

As PE firms address the competitive and regulatory threats in Hong Kong, they are also seeking opportunities beyond the city—and mainland China is the obvious first place to look for those, according to analysts. "Although Hong Kong has many global and regional private equity firms, it is still a very small mergers and acquisitions market for them compared to the mainland China market," said **Tony Tsang**, private equity leader, transaction advisory services, Greater China at EY.

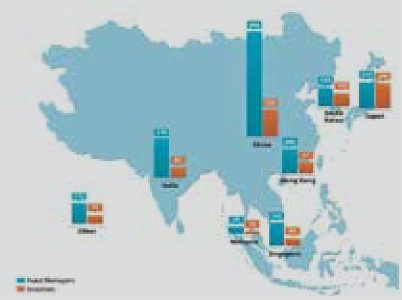
"Most of these firms are using Hong Kong as their management offices and their deals generally originate in mainland China. Accordingly, the private equity market in Hong Kong does depend on the Chinese market significantly," he noted.

Tsang said he sees more distressed opportunities in China and noted many private equity firms in Hong Kong have set up distressed and credit funds to respond to the market needs. "I think Hong Kong will continue to play a significant role in attracting private equity firms to set up offices here and attracting more new funds to set up due to the tax and legal competitiveness, as well as its proximity to mainland China," he said. "Also, the PE firms will continue to use Hong Kong for their portfolio exits via the Hong Kong Stock Exchange."

Vinit Bhatia, partner at Bain, reckoned there is a very strong deal momentum in Greater China, with the total as of the third quarter of 2017 already higher than the whole of 2016. "Mainly, China is the powerhouse of this growth, but we are also seeing sustained levels of activity in Hong Kong," he said, estimating about $6b for 2017 year-to-date, which is already higher than the last 5-year average of $4b.

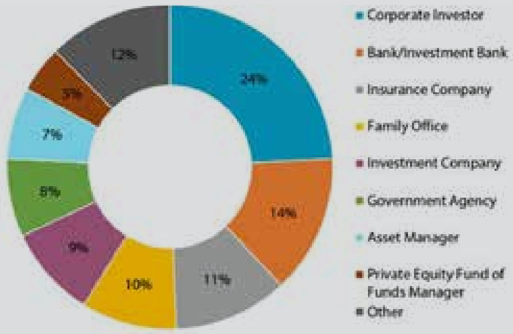
Unsurprisingly, large deals in Hong Kong originated

Location of Asia-based private equity & venture capital fund managers and institutional investors



Source: Preqin

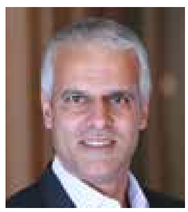
Asia-based privated equity & venture capital investors by location



Source: Preqin

from the financial and property sectors, two sectoral pillars of the city's economy, according to Tsang. This includes a deal in April which saw Permira announce the completion of Tricor, the leading provider of integrated business, corporate, and investor services in Asia Pacific, acquired from the Bank of East Asia for nearly $838m (HK$6.5b).

Bryan Koo



Vinit Bhatia

Sectors and trends

Bryan Koo, consultant at Clifford Chance, Hong Kong, said that with asset prices remaining high and combined with the ample dry powder of PE funds in Asia Pacific, it is "very difficult for PE funds to find the right assets and the right price to deploy money." Commenting on the China market, he said China outbound investments have slowed and could pose a challenge for international PE sellers who "thought there would always be some Chinese outbound investors who's willing to outbid everyone else for an asset."

Bhatia, for his part, said the largest deals were in a range of sectors, from traditional to technology, although interest in Internet and consumer-focused sectors have notably driven deal activities recently. He noted that even though the internet sector has slightly slowed down, it remains a big focus area, which together with TMT and Consumer, now account for more than 70% of deal volume for 2015 to 2017 YTD.

"The big question which people are asking is how sustainable the growth is and this will partly depend on how the macro story of Greater China unfolds," said Bhatia. Koo said other key trends this year include an increasing number of secondary deals, such as CVC's sale of the Content Solutions business of SPi to PE fund Partners Group, active deal flow in Southeast Asia, and tendency for deals to be minority investments rather than buyouts. He also noticed a slowdown of privatisations of Hong Kong-listed companies in the past three to four months with the Hang Seng index reaching a 10-year high. For the Hong Kong Venture Capital and Private Equity Association, PE firms need to find better debt financing solutions, given the expensive prices of high quality assets in deals in order to survive and thrive. There is also heightened concerns in adopting a specialisation strategy, focusing on key sectors based on your size and strengths."If you're a big manager, you're a small manager, you play a different angle. But you can still originate deals in a relatively proprietary basis—obviously not for all your investments in your portfolio, but selectively," said Tse.

SINGAPORE VIEW

A tale of two private equity markets

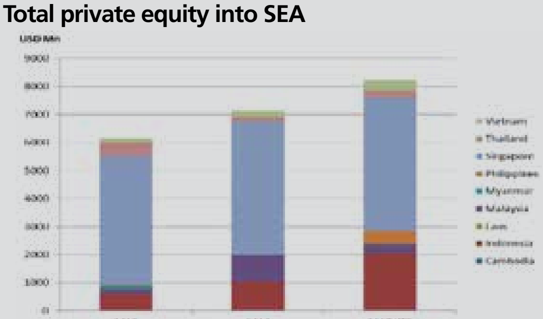
It was the best of times for Singapore's private equity landscape with an influx of funds funnelled into the market. But it was also the worst of times for private equity firms who grappled with fewer deals to clinch. Doris Yee, director of the Singapore Venture Capital & Private Equity Association, noted that there has been robust growth in terms of capital deployed in Southeast Asia. PE transactions in the first nine months of 2017 reached US$8.2b, surpassing the whole of 2016, with investment activity rising most strongly in Singapore, Indonesia, and Vietnam in the past 12 to 18 months. Some notable transactions from the city-state such as SEA, Grab, and ARA Asset Management at transaction values "well above what is commonly found in our region," she noted.

Notable deals

One of the recent notable deals in the Singapore market is the private bid by way of scheme of arrangement for Global Logistic Properties by a consortium comprising of HOPU, Hillhouse Capital, SMG, which is owned by GLP's CEO Ming Mei, Bank of China Group Investment, and Vanke, said Bill Jamieson, partner at Colin Ng & Partners LLP. This transaction is poised to be Asia's largest private equity buyout."The transaction values GLP at S$16b and shows the buyout market is alive and well in Singapore, although the trend in buyouts in Asia generally may be down on previous years," he said. Jamieson also cited the acquisition of additional shares in e-commerce firm Lazada by Alibaba for close to US$1b to raise its stake in Lazada from 51% to 83%, which he said shows Southeast Asia's ability to attract attention as a growth market in online services. Singapore should continue to flourish as a nexus for the management of PE deals in the region, especially as the Monetary Authority of Singapore announced its move towards a lighter touch regime for venture capital fund managers in Singapore, said Jamieson.

Another factor that is driving up deal interest and activity in the region is the large stock of dry powder amongst PE firms, which they are now itching to deploy, said Chunshek Chan, global head of M&A and Financial Sponsors Research at Dealogic. "PE firms have been sitting on top of billions of dollars of committed but undeployed capital for years, and it seems like this year, everyone has decided that they can't wait anymore," he said. "We are seeing a record high amount of capital being deployed into leveraged buyouts (LBOs), even though the number of LBO deals has fallen to a multi-year low."

Total private equity into SEA



Sources: Preqin, Singapore Venture Capital Association