Outlook for 2017 is mildly optimistic

Hong Kong M&A to pick up pace

Figures for Hong Kong's mergers and acquisitions in 2016 were higher than the historical average, and 2017 is looking to be a good year, albeit with speed bumps, amidst rising global uncertainties.

Hong Kong's centrality and position as a financial and corporate hub for Asia and the Pacific played a huge role in the consistent sustainable showing of the territory's mergers and acquisitions (M&A) activities over the past year. Primary reason for this remains the increasing transactions of mainland Chinese companies upping their stakes and deals in putting their interest in the Special Administrative Region.

With the rest of the Asia and the Pacific maintaining a cautiously positive outlook towards growth in economic deals and acquisitions in 2017, it's expected for Hong Kong to remain as one of the region's bastions for financial deals and transactions. This is despite several factors including the looming increases in policy rates internationally, policy reforms in major markets like mainland China, and the rise in protectionism that's currently creeping in international financial and trade markets. 2016 was a good one for Hong Kong's M&A activities, but experts are saying 2017 may well be better if the right precautions are taken as various uncertainties abound.

2016 was a relatively positive year for M&A activities in Hong Kong despite a decline in actual growth rate compared to figures in 2015. According to **Elaine Tan**, senior analyst, deals intelligence, Asia-Pacific, Thomson Reuters, overall announced M&A activity involving Hong Kong-based companies totalled US$152.4b in 2016, down 44.2% after coming from a record high in 2015 at US$272.9b. But the 2016 figures, according to Tan, remain positive and elevated when compared to historical M&A activity in Hong Kong. In terms of average M&A deal size for disclosed deals, Tan shares that numbers also declined year-on-year to US$99.7m compared to the US$218.8m recorded in 2015 as fewer transactions above US$1b were witnessed involving Hong Kong-listed companies.

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In absolute terms, the Special Administrative Region only saw 24 deals above the billion-dollar mark with only two breaching upwards the US$5b threshold compared to 2015's stellar figures with 33 deals announced above the billion-dollar mark, three of which were "jumbo deals" above US$10b, according to Tan.

Interest from the mainland and abroad

Psyche Tai, partner at Norton Rose Fulbright's Hong Kong office, echoes this sentiment, saying "2016 saw a high level of cross-border M&A deals in Hong Kong," what with the flurry of interest from mainland Chinese investors looking to set foot and increase their corporate footprint in the territory. Some of the reasons why Hong Kong remains to be a lucrative and attractive destination both for inbound and outbound M&A activities is its centrality as a financial and trading hub not just of the region but also of the world, favourable conditions involving large corporations as well as a conducive environment for trade and financial transactions to happen, and, partly, due to its cultural and geographic link from mainland China.

Tai shares that a big trend over the rally of M&A activities last year was the rapidly increasing interest of mainland Chinese investors in acquiring listed companies in Hong Kong. "Mainland Chinese companies buying listed companies in Hong Kong and using the listed status for further fundraising [is a big trend]," she says. "In many cases, the companies inject their businesses into the listed entity and use that to tap the capital markets."

Another trend fuelling the numbers registered for M&A activities in Hong Kong in 2016, adds Tai, included an "increasing number of companies going outbound to invest around the world in Europe, Africa, Australia, and other destinations." **Patrick Yip**, national M&A leader for Deloitte China, says that Hong Kong, with its currency pegged to the US dollar, "has increasingly become attractive to mainland-based investors who are concerned with the depreciation of the renminbi."

Notable 2016 deals

Driving the relatively positive figures in 2016 were the most notable deals involving Hong Kong-listed companies, with some of them acting as spillovers from the stellar activities in 2015. Thomson Reuters' Tan shares that the 2015's M&A deal flurry, which was driven by Hong Kong billionaire Li Ka-shing's flagship companies' – Cheung Kong (Holdings) Ltd and Hutchison Whampoa Limited – listing of two new companies as part of the reorganisation of his diversified conglomerate, continued its positive momentum in 2016.

The investor group led by Cheung Kong Infrastructure Holdings Ltd's bid to acquire the entire share capital of Australia's DUET Group for certain key energy assets for a total deal value of US$9.8b (including net debt) is the biggest M&A deal involving Hong Kong in 2016, according to Tan. The bid looks likely to push through as shareholders of Li Ka-shing expressed approval of the planned acquisition early in March.

Norton Rose Fulbright's Tai, meanwhile, notes that another significant deal over the last 12 months for Hong Kong included the China Overseas Land and Investment Limited's acquisition of a property portfolio from CITIC Group for US$4.8b. "The transaction is the largest M&A in China's property sector, and a major consolidation between two large-scale state-owned enterprises," she says.

China outbound M&A

Source: Dealogic

The property sector took 26.49% of the overall share of all M&A activities

Elaine Tan

Patrick Yip

Psyche Tai

In terms of the trend in Hong Kong's M&A over the past year, the real estate and property sector reigned supreme, taking 26.49% of the overall share of all M&A activities in the territory and toppling holding companies from the number one spot, according to latest data from Dealogic. It is followed, in terms of overall share, by finance, construction/building, computers and electronics, and professional services in the top five.

2017 outlook

Outlook for M&A activities in Hong Kong for the next 12 months is mildly optimistic as the territory remains host to a number of companies seeking expansion regionally and globally. Some of the sectors that will likely see an upsurge in the next months, with a generally quite good outlook, according to Deloitte China's Yip, include real estate, consumer products, and restaurant sectors or food and beverage.

Despite this, there will still be challenges along the way for Hong Kong's M&A growth activity. Challenges facing M&A deals in Hong Kong include capital outflow restrictions in China. Deal flow may be impacted by the regulatory challenge that Chinese companies have to contend with.

Meanwhile, the International Financial Law Review for Hong Kong's M&A outlook in 2016 detailed strong activities due to the increasing attractive valuations following recent market corrections, with "foreign investors continuing to see Hong Kong as an attractive target market for companies with underlying China businesses. Chinese companies continue to see Hong Kong as a useful platform on which to expand regionally and globally."

These, according to Yip and Tai, will be a good indication on where M&A activities for Hong Kong could head in the next 12 months. The outbound M&A deals from Hong Kong-listed companies – with deals covering a range of sectors including real estate, mining, energy, and technology – along with increasing interest from mainland China will likely continue throughout 2017, notes Tai.

Asia Pacific (ex Japan and ex Fairness Opinion) M&A volume ranking - announced deals

Rank	Advisor	Value $bn	Deals	% Share	FY 2015
1	Goldman Sachs	150.4	92	13.7	1
2	JPMorgan	133.8	57	12.2	5
3	UBS	131.4	64	12.0	6
4	China International Capital Corp	129.8	46	11.8	8
5	Credit Suisse	117.0	75	10.6	10
6	Morgan Stanley	106.4	70	9.7	2
7	HSBC	72.9	27	6.6	3
8	Citi	62.0	64	5.6	9
9	Macquarie Group	59.6	72	5.4	12
10	Bank of America Merrill Lynch	58.6	49	5.3	4

Source: Dealogic

For Deloitte China's Yip, Hong Kong's strategic location as a gateway of the rest of the world to the Asia-Pacific region and a platform for mainland Chinese firms for regional and global expansion, as the IFLR report shows, will remain a major selling point for the territory. "The more mature businesses with steady cash flows in Hong Kong would continue to be attractive targets for mainland investors," he says.

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Offshore deal flow

Meanwhile, a report released by offshore law firm Appleby notes that the number and value of offshore M&A deals fell in 2016 when compared to a record 2015. **Cameron Adderley**, Hong Kong managing partner and global head of corporate at Appleby, says, "It was clear from the start of 2016 that offshore deal activity was going to struggle to keep up with the phenomenal levels of M&A volume and value generated in 2015."

But Adderley comments further, "Nonetheless, Hong Kong was a standout story for the offshore market as one of only two jurisdictions to see an increase in deal volume over 2015. And though China's growth may have slowed after many years as the rocket propelling international deal volumes forward, the market continues to be highly active, with the offshore world a prominent beneficiary."

According to the report, the volume of acquirer deals involving offshore-incorporated buyers has increased steadily over the last five years and is now at the point where more transactions are flowing out of offshore jurisdictions than are flowing in. The past year recorded 3,127 such deals worth a cumulative US$339b.

What's interesting to note is that the majority of offshore acquirers hail from Hong Kong, "whose companies led 969 outbound deals in 2016 worth a combined US$82.4b," says Hong Kong-based Appleby partner **Judy Lee**. "The offshore region allows dealmakers to establish holding companies in a jurisdiction with technical, legal, and regulatory advantages, and those companies can then be used for acquisitions," she explains. The report says Cayman continued to be home to the largest number of deals, but Hong Kong and the British Virgin Islands – the second and third most active – were the only two offshore jurisdictions to see an increase in activity.

SINGAPORE VIEW

M&A is about cautious deal-making

The past year saw a relative revitalisation of Singapore's mergers and acquisitions (M&A) activities as firms entered into multiple transactions in the last quarter of 2016 that saw the highest increase in the sector's activity since 2014. Figures have also increased on both deal value and volume.

With the rest of the Asia Pacific region poised to grow at a steady pace in 2017, deals involving Singaporean companies are expected not only to comprise the bulk of activities but also lead the way in dealing with fluctuations as policy changes loom. Analysts share that apart from big-ticket deals, there's room for opportunities for relatively smaller but more realistic transactions.

Gaining momentum

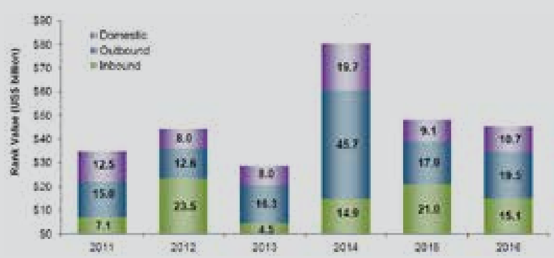
Deal-making activity in Singapore gained momentum in 2016 when M&A transactions hit a record high worth US$93.4b, says Elaine Tan, senior analyst, deals intelligence, Thomson Reuters. She described 2016 as the "best annual period" of the sector in the last two years with the stream of deals that included sizeable increase in acquisitions involving sovereign wealth funds, amongst others. This is on top of the increase in outbound and domestic acquisitions.

Overall M&A activity in Singapore in 2016 grew 14% year-on-year (yoy) compared to 2015, reaching an overall value at US$71.3b, according to a Thomson Reuters report. This is on the back of the surge in deals closed in the fourth quarter as the value of announced M&A involving Singaporean companies reached US$25b, a 38.8% sequential increase from Q3 2016 and 41.5% yoy increase from Q4 2015.

Preliminary findings from the report further stated that the average M&A deal size for disclosed deals in Singapore grew to US$126.2m, compared to the US$105.6m in 2015, as more transactions above US$1b were witnessed by Singaporean companies. "In the past year, Singapore companies and funds were active in outbound Singapore M&A as compared to previous years and this particularly dominated the market last year," says Sheela Moorthy, partner at Norton Rose Fulbright's Singapore office.

Total cross-border deal activity, meanwhile, amounted to US$34.5b in 2016, an 11.3% decline from the same period in 2015 (US$38.9b).

Singapore cross-border & domestic M&A annual volume comparison



Source: Thomson Reuters