DEAL #1: HONG KONG'S BIGGEST DEAL IN 2017 WAS ORIENT OVERSEAS (INTERNATIONAL) LTD, WHICH WAS ACQUIRED BY CHINESE SHIPPING LINE, COSCO SHIPPING.

DEAL #2: HONG KONG-BASED WHARF REAL ESTATE INVESTMENT, VALUED AT US$23.3B, WAS THE BIGGEST TRANSACTION FOR 2017.

Chinese firms' real estate buying spree boosts M&A activity in Hong Kong

Overall announced M&A activity in 2017 rose by nearly half from the year-ago period whilst Hong Kong-targeted M&A volume posted its second-highest level on record.

M&A activity gained momentum in 2017, driven by acquisitions in Hong Kong property and insurance companies, said **Elaine Tan,** senior analyst, deals intelligence at Thomson Reuters. Overall announced M&A activity involving Hong Kong totaled $211.0b in 2017, up 46.7% from a year ago, and the highest annual period since deal value reached a record high of $269.4b in 2015. Real estate emerged as the top sector in deals involving Hong Kong based on market share, followed by industrials and financials.

Tan noted that Hong Kong's property tycoon Peter Woo has completed its plan to spin off six properties of Wharf Holdings into a new commercial entity, Wharf Real Estate Investment Company Limited, in a deal valued at $23.3b. "Like Li Ka-shing's reorganisation in 2015, an increasing number of corporate divestitures were witnessed in the region this year to enable companies to focus on core businesses," she said.

Hong Kong-targeted M&A volume amounted to $68.3b in 2017, the second-highest full-year volume on record after $129.7b in 2015, said **Chunsek Chan**, head of M&A research at Dealogic. Real estate was the most promising sector, accounting for $32.5b via 32 deals, or roughly half of all Hong Kong-targeted deals last year, including four

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of the ten largest deals, such as the $19.5b acquisition of Wharf Real Estate Investment, he said. "Domestic acquirers were spurred back into action following a dip in 2016" with US$47.6b via 321 deals, up 160% from the previous year, he noted.

The total Hong Kong deal value was $69b in 2017, up 46% from 2016, whilst average M&A deal size jumped from $61m to $98m, said **Harsha Basnayake,** managing partner for the Asia Pacific transaction advisory services practice of EY. "The increase in deal value was driven by mainland firms buying into Hong Kong companies, as well as Hong Kong companies expanding overseas," he said. "The most popular investment destinations for Hong Kong investors in 2017 were China, Australia, and Canada."

Cross-sector deals dominated

2017 was a year dominated by cross-sector deals, with 82% of Hong Kong investors looking cross-sector to transact, said Basnayake. He noted that aside from two deals by Li Ka-shing — a joint venture backed by the Hong Kong business magnate acquired Germany's Ista International GmbH for US$6.5b in July 2017; he also acquired Reliance Home Comfort, which leases and services water heaters, furnaces, and air conditioning units in Canada — there was also Chow Tai Fook Capital's investment of US$3b into Australia's power and utilities sector.

Deal values for business services, automotive and transportation, and insurance skyrocketed on previous years, according to Basnayake. The average value of Hong Kong inbound insurance deals rose 185% on 2016, for example, driven by mainland companies investing in Hong Kong players as part of their overseas expansion.

The most notable deal in insurance was an outbound play by AIA HK, which acquired the Commonwealth Bank of Australia's life insurance business for $3.05b. "Insurance products that are available in the mainland and those in Hong Kong are different, making the ability to own a Hong Kong operation very appealing to mainland investors," said Basnayake.

2017 notable deals

Basnayake said Hong Kong's biggest deal in 2017 was Orient Overseas (International) Ltd, which was acquired by Chinese shipping line, COSCO SHIPPING Holdings Co Ltd, and the Shanghai International Port (Group) Co Ltd for $8.4b."The deal will set COSCO to become the world's third largest shipping operator. It reflects ongoing consolidation in the global shipping industry, which has been in turmoil since the 2008 global financial crisis," he said. "However, now rates are recovering, it may be the industry's last major M&A for a while."

Meanwhile, Tai said several notable M&A deals in Hong Kong stood out in 2017, including the one with the highest value: Wharf Holdings' spinoff of the entire share capital of Wharf Real Estate Investment to $23.3b, private investors snapping up China Unicom (Hong Kong) for $11.26b, and the acquisition of the Centre tower in Hong Kong for $5.15b.

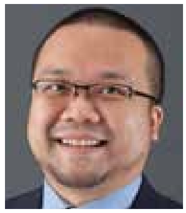
On the insurance front, one notable deal was the $1.7b acquisition of insurer MassMutual International's Hong Kong unit by a consortium led by Yunfeng Financial Group, an affiliate of Alibaba, according to Koo. There were also high-profile disposals such as that by LINK REIT of a portfolio of 17 real properties in Hong Kong to a consortium led by Gaw Capital and Goldman Sachs for $23b, whilst CK Asset Holdings unloaded certain units in The Center, a commercial building in Hong Kong, to a consortium of PRC and Hong Kong investors for $40b.

Two aspects

"The trend of M&A activity in Hong Kong can be characterised by two aspects, amongst others," according to **Psyche Tai,** head of Hong Kong at Norton Rose Fulbright. "Activity was driven by Chinese firms buying into Hong Kong real estate and insurance companies, as well as internal restructuring of big companies; and policy changes by the Hong Kong Stock Exchange to boost M&A, particularly in the tech space." Considering deals that either involved a Hong Kong buyer or seller, Tai said the dominant sectors were real estate and insurance, with notable activity in financial services and technology.

"Hong Kong M&A activity was fairly strong in 2017, as debt financing was readily available and the Hong Kong economy remained stable," said **Bryan Koo,** consultant, at Clifford Chance in Hong Kong. Deal volume in 2017 focused on the real estate, insurance and telecom sectors, largely driven by the appetite of mainland Chinese companies for assets in these sectors in Hong Kong, although a strong performance in the Hong Kong stock market in the second half of 2017 kept stock prices high and tempered activity in the public M&A space for Hong Kong listed companies.

Koo noted that whilst mainland China outbound investment into Hong Kong assets remains a key driver, M&A activity for Hong Kong targets are more focused on selected sectors rather than showing strength across the board. Private equity firms were also seen chasing after assets not only in Hong Kong but also across Asia Pacific.


Chunsek Chan


Harsha Basnayake


Elaine Tan


Bryan Koo


Patrick Yip


Psyche Tai

The quest for juicier targets

The M&A landscape in Hong Kong continues to be stable because of rising optimism and the fact that Hong Kong dollar is tied to the U.S. dollar, which has attracted mainland Chinese companies that want to diversify their risk from a currency perspective through overseas asset acquisitions, said **Patrick Yip**, national M&A leader at Deloitte China.

Yip said even if the U.S. promises juicier targets, mainland Chinese companies "feel a lot more comfortable" coming to Hong Kong. "And there wouldn't be the kind of regulatory obstacles like in the U.S. about national security. So it would be a lot easier to do deals in Hong Kong."

Property remains a key sector in terms of M&A activities in Hong Kong, according to Yip, pointing to the acquisition of The Centre tower. Aside from high prices, the transaction was notable for its completion in spite of China issuing a circular on new rules governing outbound investments. "That kind of shows Hong Kong has a unique position as far as outbound M&A is concerned," added Yip.

Yip said mainland Chinese firms prefer bigger-sized targets because of the cash flow they provide given the goal of diversifying currency risk, but a key challenge is the relative scarcity of such opportunities in Hong Kong. "If you buy a small business or a startup in Hong Kong, that would not give you the kind of benefit," he said, but

Hong Kong targetted M&A

Filing Date by Year	Deal Value USD (m)	No.
2008	25,596	537
2009	16,542	483
2010	33,667	561
2011	18,352	377
2012	16,482	312
2013	25,316	357
2014	35,417	437
2015	129,676	461
2016	31,972	529
2017	68,292	445
2018	2,817	55

Sources: Dealogic

acknowledged that "it's easier to find bigger deals in the U.S. but it's quite hard to find deals in Hong Kong."

Despite a blowout year for M&A deals, regulation and competition remain key challenges for the Hong Kong market. "At a more micro-level, one of the key challenges are foreign currencies restrictions in Mainland China that effectively put quite a number of potential cross-border deals on hold," said Tai.

Challenges and outlook

Tai reckoned Hong Kong's traditional role as a gateway to international markets will continue to be threatened as Chinese companies grow more sophisticated and Singapore continues to upgrade its professional service offering and dispute resolution facilities, and develop new industries such as financial technology. "In order to sustain that role, Hong Kong must become more adept at developing new industries and technology that can attract fresh investment to drive deal flow," she said. "This requires ample funding and institutional support from both the public and private sectors."

Koo, meanwhile, said the market is grappling with high valuation, especially in the real estate, financial services, and insurance sectors. Many sectors and industries in Hong Kong such as retail and consumer, trading and logistics, shipping and ports, and utilities have become mature with relatively limited growth prospects.

"They are unlikely to attract M&A opportunities," he said. But Basnayake said "it is hard to envisage any major challenges for the M&A landscape" given the level of liquidity in the market, the relatively low cost of debt and the free-market environment in both Hong Kong.

Basnayake expressed bullishness on Hong Kong and expect deal volumes to remain steady or higher than last year, citing the market's health and attractiveness from both a macroeconomic and overall business environment perspective. Favourable policy change by the Hong Kong Stock Exchange will offer more flexible exit alternatives, which will boost M&A activities, according Tai.

"Domestic deals will continue to rise and outbound Hong Kong deals will target Southeast Asian markets like Indonesia and Thailand," she added, expecting technology assets to become one of the strategic drivers of global M&A deals. "A lot of that activity for Hong Kong will therefore be in the technology and fintech space. New tech has really infiltrated the global markets and for Hong Kong I believe this will very quickly spill or further penetrate into sectors like consumer, energy and mining, and biotech."

Koo, for his part, expects M&A activity to remain "fairly strong" in 2018, as long as debt financing remains available and interest rates remain low." He said M&A activity may increase in the real estate; banking, insurance and financial services, and healthcare sectors. But M&A deal volume in the Hong Kong broadband sector, which in the past two to three years has soared, may slow down this year as most of the viable targets in the sector have already been acquired.

Koo added that private equity funds in Asia Pacific continue to have record amounts of 'dry powder' and they will remain under pressure to deploy capital in the near future, despite high valuations. Should stock prices remain high, take privates and takeovers of HK listcos may be put on hold.

Despite a blowout year for M&A deals, regulation and competition remain key challenges for the Hong Kong market.

SINGAPORE VIEW

M&A deals reach an all-time high

It was a banner year for mergers and acquisitions (M&A) activity in Singapore last year, as estimated fees for completed M&A deals in 2017 totaled $236.8m, up 80.8% compared to a year ago, and the highest annual fee volume since records began in 2000, according to Thomson Reuters data. Notably, overall M&A activity involving Singapore reached an all-time high as deal value climbed to $95.3b in 2017, up 11.4% from a year ago, beating the 2014 record of $93.2b.

"Singapore-based organisations were targeted for M&A last year like never before, with record-high volume and the highest activity since the global financial crisis," said Chunsek Chan, head of M&A research at Dealogic, with such deals ring sharply to $50b across 481 deals, led by the Global Logistics Property (GLP) acquisition. The resulting volume saw a 36% increase over the previous record set in 2012 of $36.8b across 422 deals.

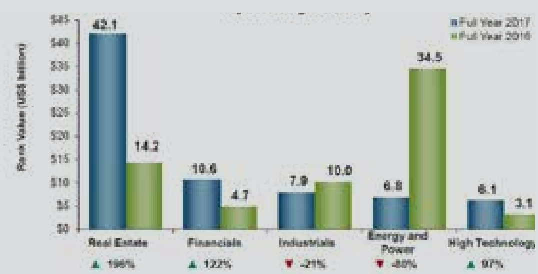
Total Singaporean deal value in 2017 rose to $36b in 2017, up 7% from a year ago, whilst average M&A deal size went up to $54m from $48m, said Harsha Basnayake, managing partner for the Asia Pacific transaction advisory services practice of EY, noting that deal values were driven by sizable transactions by investment funds GIC and Temasek Holdings.

Melissa Ng, partner at Clifford Chance, Singapore, noted that the market was dominated by several big ticket M&A transactions, with deal values far in excess of US$1b per transaction making 2017 a record for M&A transactions.

Real estate sector roared

Elaine Tan, senior analyst, deals intelligence at Thomson Reuters said that the real estate sector took the lead and accounted for 45.5% market share worth $43.4b in 2017, up 204.9% from 2016, the highest-ever annual period for the sector in terms of value, surpassing the 2014 record. Aside from the real estate sector, other major deals include Alibaba Group Holding Ltd of China raising its interest in Lazada South East Asia Pte Ltd, a Singapore-based online retailer for $1b. An investor group lead by Didi Chuxing Technology and SoftBank Group plans to acquire an undisclosed minority stake in Grab Taxi Holdings Pte Ltd, for an estimated $2.5b. Meanwhile, a much talked about deal in early 2018 is Grab's has acquisition of Uber's Southeast Asia operations. Uber will take a 27.5% stake in Grab and Uber CEO Dara Khosrowshahi will join Grab's board. Moreover, Grab is now backed by DiDi Chuxing and Uber, in addition to leading global investor SoftBank.

Top five target market industry



Source: Thomson Reuters