

FINANCIAL INSIGHT: MERGERS AND ACQUISITIONS



DEAL #1: GOODWIN GAW, MANAGING PRINCIPAL AND FOUNDER OF GAW CAPITAL PARTNERS



DEAL #2: GOLDMAN SACHS, SEQUOIA CAPITAL AND BOYU CAPITAL THAT ACQUIRED TRAVEL BOOKING SERVICES PROVIDER KLOOK TRAVEL TECHNOLOGY

Hong Kong M&A activity slumped in 2018

Mergers and acquisitions deals fell to 1,050 transactions with a combined value of US\$87.93b in 2018, down from 1,252 transactions with a combined value of US\$108.28b in 2017.

M&A activity in Hong Kong suffered both in volume and value as geopolitical and regulatory headwinds weighed on dealmaking interest. Mergers and acquisitions where Hong Kong financial firms were targets fell to 1,050 transactions with a combined value of US\$87.93b in the first eight months of 2018, from 1,252 transactions with a combined value of US\$108.28b in 2017, according to Thomson Reuters data.

However, analysts have ruled out a steeper decline in 2019 and instead forecast a mostly steady performance as private equity interest, amongst other factors, look to provide a substantial lift in the coming year. The megadeals in the telecoms sector that bolstered dealmaking value in 2017 may have dissipated, but China's technology giants have gone on an acquisition spree and sectors such as real estate have seen greater activity which has mitigated the slowdown as firms and investors adopted a more careful approach.

"In the private sector, as boardrooms contemplate sky high multiples and a possible correction in the global markets, nervousness is translating into fewer strategic deals. Deal volumes have slightly declined this year as compared to 2017," said **Bryan Koo**, partner at Clifford Chance. "That said, this year we saw a more stable flow of M&A activities across the year and, from the third quarter of 2018 onwards, we are seeing more activity in the Hong Kong public M&A space, including takeovers of

Nervousness is translating into fewer strategic deals.



Hong Kong-listed companies," he added, citing GuoLine Overseas Limited's proposed privatisation of Hong Kong-listed Gupco Group Ltd and Swire Pacific's \$9.4b privatisation of HAECO, Swire Pacific's subsidiary that operates an aircraft maintenance business.

Most notable deals

Some of the most notable M&A deals in the Hong Kong market in 2018 included various venture capital-style pre-IPO investments dominated by or linked to Chinese technology giants Baidu, Alibaba and Tencent, according to Koo. GIC, Temasek, Warburg Pincus, Khazanah Nasional Berhad, Carlyle, Canada Pension Plan Investment Board and others have acquired an undisclosed stake in a subsidiary of Ant Financial, in a funding round estimated at US\$14b, valuing Ant Financial at US\$150b.

Meanwhile, Tencent-led group comprising Chinese banks, Chinese private equity and venture capital firms acquired an undisclosed stake in UBTECH Robotics, the China-based humanoid robots manufacturer, for US\$820m. There was also Ant Financial's strategic partnership with and 20% stake investment into OpenRice, Hong Kong's most popular online restaurant database and review service, for an undisclosed amount.

"These deals demonstrate that investors remain willing to deploy into the Chinese tech and fintech sectors," said

FINANCIAL INSIGHT: MERGERS AND ACQUISITIONS

Koo, further noting that private equity investors have been increasingly banding together in deploying their capital.

A couple of notable deals tracking this trend include a private equity consortium comprising Goldman Sachs, Sequoia Capital and Boyu Capital that acquired Hong Kong-based travel and tour booking services provider Klook Travel Technology for \$200m, and a consortium led by Hong Kong-based Gaw Capital Partners that acquired a property portfolio that includes 17 Hong Kong shopping centres for \$23b from Link REIT.

Koo also highlighted a reorganisation drive amongst state-owned enterprises as a key driver for M&A transactions in 2018, as seen in COFCO Property's proposed acquisition of a 64.18% stake in Joy Hong Kong-based listed City Property from COFCO Corporation, as well as Shenzhen Chiwan Wharf Holdings' proposed acquisition of 38.72% of Hong Kong-based listed port operator and investor China Merchants Port Holdings from China Merchants Investment Development.

The most active sectors in 2018 have been telecommunication, media and technology, property and construction, and transportation and logistics, according to Koo, with such deals as Lai Sun Development's voluntary general cash offer to acquire eSun Holdings, JD.com's investment in China-based warehousing infrastructure and facilities development solutions provider ESR, and Carlyle and Tiger Group's disposal from Greater China Intermodal Investment to Seaspan.

"In terms of industry sectors, we have seen strong interests in power and utilities, natural resources such as petroleum and natural gas and, consumer products" in the first nine months of 2018, said **Bernard Poon**, transaction advisory services leader, Hong Kong & Macau Region at EY. He reckoned investors spent the year focusing on companies with strong technology capabilities, such as in analytics, artificial intelligence and instantaneous data gathering, to improve decision making and boost company performance. "We observed that the transactions activities in the Hong Kong financial services sector has been very active in 2018, with a number of M&A deals covering areas such as asset management, banks, alternative financial investments, credit institutions, insurance companies," he said, adding that for investors from Greater China, Europe was the most popular investment destination, in terms of investment amount. There has also been significant growth in investment activities in Australasia.

Domestic and cross-border deals

Domestic M&A deal activity fell during the period, with deal volume sliding to 331 transactions with a combined value of US\$21.85b from 417 transactions with a combined value of US\$29.77b. Cross-border M&A deal activity also declined, with deal volume dropping to 719 transactions with a combined value of US\$66.08b from 835 transactions with a combined value of US\$78.51b.

Cross-border inbound M&A deal activity, which includes targets in Hong Kong and acquirers outside the island, fell to 235 transactions with a combined value of US\$20.76b in the first eight months from the same period last year. The financials sector saw the highest number



Bryan Koo



Bernard Poon



Tracy Wut

and value of cross-border inbound M&A deals at 55 transactions with a combined value of US\$4.52b, after the same period last year saw six telecommunications deals with a combined value of US\$13.12b dominate the category. Acquirers from Mainland China continued to lead the pack, accounting for 136 deals with a combined value of US\$12.51b, although down from 161 deals with a combined value of US\$20.84b the prior-year period, according to Thomson Reuters data.

The top cross-border inbound M&A transaction so far was the Netherlands' L'Arche Green NV's pending acquisition of CRH (Beer) Ltd with a value of US\$3.10b inclusive of net debt, followed by China's Shanghai RAAS Blood Products' pending acquisition of Tiancheng International Investment Ltd with a value of US\$2.52b.

Cross-border outbound M&A deal activity, which includes acquirers from Hong Kong and targets outside the island, likewise decreased to 484 transactions with a combined value of US\$45.32b in January to October from the same period in 2017. The real estate sector saw the highest number of transactions by volume at 72, while the energy and power sector recorded the largest value at US\$18.40b across 57 deals. Transactions targeting Mainland Chinese firms continued to represent the lion's share in terms of volume at 280 with a combined value of US\$14.99b, but deals targeting Australian firms accounted for the highest combined value of US\$18.61b, more than doubling from the year-ago period, Thomson Reuters data showed.

The top cross-border outbound M&A transaction was the Investor Group's pending acquisition of Australia's APA Group with a value of US\$16.83b, by far the largest in the first eight months of 2018. The next biggest deal was CK Hutchison Holdings Ltd's acquisition Italy's Wind Tre SpA with a value of US\$2.85b.

"The escalating US-China trade tension and heightened regulatory scrutiny is weighing down on deal making. Given such economic uncertainty, it is no surprise that there has been a general slowdown in deal activities," said Tracy Wut, an M&A partner in Baker McKenzie's Hong Kong office.

Analysts expects risks on both geopolitical and regulatory fronts to persist in 2019, with the former

M&A Deal Activity in Hong Kong

*Includes domestic and cross-border deals

	Jan-Oct 2017	Jan-Oct 2018
Deal volume	1,252	1,050
Deal value (USD mn)	108,280	87,927

*Deals are domestic when the target is located in the same nation as the acquirer's ultimate parent.

	Jan-Oct 2017	Jan-Oct 2018
Deal volume	417	331
Deal value (USD mn)	29,774	21,852

Source: BakerMcKenzie

FINANCIAL INSIGHT: MERGERS AND ACQUISITIONS

constraining Hong Kong's economic growth and consequently curb dealmaking activity. However, Mainland China and private equity should lead the charge in firing up deals, helping offset such headwinds. "Investment sentiment will be cautious in light of the trade war between China and the U.S., the uncertainty and geopolitical tensions and we expect M&A activities in HK to remain at a steady level in 2019," said Poon.

Koo, meanwhile, expects big data and solutions to continue being a key driver for M&A deals, after a year which saw large deals in the space such as Tencent's acquisition of New Classics, HKBN's acquisition of Hong Kong-based cloud-powered solutions provider I-Consulting, and CITIC Capital's acquisition of CEIC Data.

"As the competitive pricing in the public market continues, we are seeing a lot of privatisation and takeovers of listed companies in the pipelines and growing interest of private equity players on listed assets," added Koo, citing PAG's hostile conditional voluntary general offer for all the outstanding units in Hong Kong-listed Spring REIT and the proposed merger between WTT HK and HKBN.

M&A dealmakers in Hong Kong will also have to navigate tightening regulation. Koo cited the Hong Kong Stock Exchange's intent to clamp down on what it perceives as abuses related to reverse takeovers, or RTOs, to circumvent requirements for new applicants under the bourse's listing rules. He said the exchange will look to consolidate and fortify the RTO rules to prevent backdoor listings, with modifications to enhance the anti-avoidance effect as well as to tighten the continuing listing criteria for listed issuers to deter the manufacturing and maintenance of listed shells.

Another key regulatory challenge is compliance with the General Data Protection Regulation, or GDPR, which came into force May 25 and covers all firms with establishments in Europe or provide goods and services to individuals in the region. "Its extraterritorial application means that Asia Pacific-based companies with no presence in the EU will be caught by the GDPR if they provide services into the EU or where personal data is obtained in the EU and transferred outside." He noted recent studies which show many companies within the GDPR's scope will not be compliant by the end of 2018, and reckoned "the compliant aspects of M&A targets and any integration will need to be thoroughly considered."

Koo also flagged the potential impact of U.S. export controls on M&A targets which historically export to the U.S. "Any such impact on valuation of the business may slow down M&A deals involving such targets," he said, noting that the U.S. enacting the Foreign Investment Risk Review Modernisation Act will require mandatory declarations of transactions of certain nature and increased compliance risks, especially for companies dealing with leading-edge technology. "Regulations in China such as the restrictions of funds coming out from the mainland had a negative impact on the M&A activities in HK. In addition, it has become more difficult for investors from the mainland to identify investment opportunities in HK given the size of the market and the relatively smaller scale of operations of the potential target companies in HK when compare to the western countries," said Poon.

SINGAPORE VIEW

M&A deal activity stutters In 2018

Whilst acquisitions by Chinese companies in Singapore continued to dominate in 2018, the trend has slowed compared with recent years, possibly due to an overall decline in outbound investments by China enterprises, said Tan Chee Yang, head of mergers and acquisitions, group investment banking at UOB. Analysts traced the decrease in outbound investments from Chinese firms to the tighter regulatory regime surrounding such deals. Foreign acquisitions, remittances, money exchanges and other outbound transactions of more than US\$5 million became subject to mandatory pre-screening by regulators which started November of 2016.

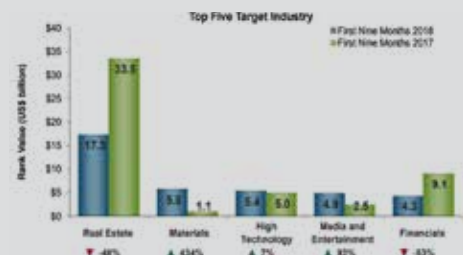
"China's capital controls are taking a visible toll on its companies' investment activity abroad and discouraging foreign multinationals from pumping money into the world's second-largest economy," said Matthew Gorman, partner at Reed Smith LLP.

"We understand that regulators have also indicated that real estate, hotel, entertainment, film, sports club and other 'irrational' overseas investments would be tightly monitored making acquisitions in fields other than high-tech manufacturing difficult. This would have an effect on Singapore," Gorman added, citing Jones Lang LaSalle's China Outbound Cities Connectivity Index, where Singapore topped the rankings in 2018 as the city that is most connected and impacted by China's internationalisation.

The JLL report noted that a new wave of Chinese corporates led by technology firms such as Huawei, ZTE, Alibaba and Tencent is making inroads in global markets via acquisitions and venture capital investments. China's Alibaba Group Holding planned to raise its interest in Singapore-based online retailer Lazada for US\$2.0 billion, in a privately negotiated transaction. This pushed China to become the most active acquirer country in Singapore in terms of deal value, clinching 40.7% of Singapore's inbound activity.

As Singapore's inbound M&A activity plummeted, outbound M&A activity rose 13.7% to US\$17.7 billion in the first nine months from the year-ago period, and was the highest first nine months period since 2014, according to Thomson Reuters. Singapore has had a strong 2018 so far, driven by outbound M&A activity, according to Satbir Walia, partner in the Singapore M&A team at Clifford Chance, led by sovereign wealth funds GIC and Temasek Holdings, who were part of a group of investors that injected about US\$14 billion in China's Ant Financial.

Any Singapore Involvement Announced M&A



Source: Refinitiv