Outbound Chinese M&A to keep HK bankers busy

M&A and ECM activity should pick up in 2016 despite continued uncertainty and operational downsizing across the sector.

Deal activity remains high for investment banks

Most analysts view 2016 with optimism due to the opportunities and high deal activity expected to arise in the next 12 months. "More Chinese companies, particularly those in the financial sector, are set to raise funds through initial public offerings (IPO). We are also expecting to see more Chinese companies, particularly those in the technology and industrial sectors, to search for deal opportunities overseas," adds Lalwani.

One of the big trends in 2016 will be the continued expansion of outbound Chinese M&A, concurs Emma de Ronde, foreign legal consultant at Norton Rose Fulbright in Hong Kong. "I expect Chinese outbound M&A to continue to increase and a strong pipeline in the IPO market should mean deal activity remains high for the investment banks," says de Ronde.

"From a market perspective in Hong Kong, there has been record growth in outbound Chinese M&A and the expectation is that this will continue, particularly in the financial institutions and technology sectors. This will provide opportunities for banks to participate in increasing deal volumes, with Hong Kong being ideally placed to act as a hub for both outbound and inbound Chinese M&A," says de Ronde.

Insurance M&A surged in 2015

2015 saw ECM bankers take a beating amidst China’s economic slowdown and increased volatility in the equities markets, but a boom of insurance M&A served as a haven for the sector. "We are living in the ‘once-in-a-generation’ era of insurance M&A," says Douglas Chan, director, corporate finance advisory at Deloitte China.

A Deloitte analysis shows the total announced deal value of Asian outbound cross-border insurance M&A transactions in 2015 stood at US$28 billion. Japanese and Chinese buyers were the most acquisitive players in the arena, notes Chan, with seven deals involving Japanese insurers...
announced and an aggregate deal value of approximately US$24 billion. Chinese players, meanwhile, were involved in four transactions with an aggregate deal value of around US$3 billion.

“As such, investment banks with strong insurance knowledge, plus willingness to support clients with acquisition financing would be the natural beneficiaries,” says Chan.

2015 witnessed “one of most ground breaking transactions in the life insurance world,” according to Chan, through JD Capital’s US$1.4 billion acquisition of Ageas, the Belgian insurer’s business in Hong Kong.

“The sale marks not only the first ever Chinese private equity fund taking over a Hong Kong insurer, but also the second European insurer to exit from the Hong Kong market in recent years,” says Chan.

Bright spot in Asia-Pacific
Looking at the broader Asia-Pacific market, 2015 was a relatively challenging year as regional fees declined 14% to US$11.9 billion on a total of 9,047 deals, says Jan Bellens, leader of Asia-Pacific banking & capital markets and global emerging markets at EY.

But Hong Kong was one of the region’s bright spots, with deal values rising to US$106.6 billion in the first half of 2015 driven by a couple of mammoth deals with Hutchison Whampoa and Cheung Kong Property Holdings.

Bellens notes that one of the cornerstone transactions in 2015 was HSBC Holdings’ provision of GBP6 billion (US$9 billion) in loans to fund tycoon Li Ka-shing’s Hong Kong-listed conglomerate, Hutchison’s US$15 billion acquisition of one of Britain’s biggest cellphone operators, O2 from Spain’s Telefonica SA.

The deal was the largest purchase overseas by an Asian firm since Japan’s SoftBank Corp’s US$21.6 billion buyout of Sprint Nextel Corp in 2012.

“It marked the biggest Hong Kong billionaire’s biggest overseas investment to-date and cemented his telecommunications and infrastructure company as one of Europe’s top wireless providers,” says Bellens.

Hong Kong also regained its crown in 2015 as the top listing venue for IPOs globally in terms of proceeds, according to Elaine Tan, analyst at Thomson Reuters.

“This was driven by Chinese brokerage firms and banks seeking to strengthen their capital position to meet the demand for margin financing,” says Tan.

Nine Chinese mega IPOs (above US$1 billion) raised at least US$21.4 billion, accounting for more than half of the funds raised in Hong Kong’s IPO market in 2015 which totaled US$31 billion, up 24.3% over a year ago.

The pipeline of new listings in Hong Kong should remain strong in 2016, and one deal to watch out for is the upcoming jumbo IPO of state-owned Postal Savings Bank of China which Tan says could raise US$10 billion to US$15 billion at the end of the year, and likely to be one of the biggest IPOs globally.

SINGAPORE VIEW
A possible spike in defaults a new danger in 2016
If the Singapore investment banking(IB) sector is wishing for a brighter 2016 after the past year’s turbulence, then they may be in for disappointment since more of the same struggles can be expected.

Analysts warn that volatility and lacklustre interest will likely persist, the global economy may not be able to shake off its sluggishness, and defaults and regulatory pressure may even rise – all of which should dampen the sector’s prospects.

Singapore is coming off a dismal year for IB activity as weak market sentiment, the global economy slowdown, and depressed commodity prices curtailed capital markets and M&A activity in 2015, according to Elaine Tan, senior analyst, deals intelligence at Thomson Reuters.

“With the same factors that affected Singapore in 2015 expected to continue in 2016, the city-state’s equity capital markets could remain volatile and lacklustre with small initial public offerings (IPO) likely to dominate the market,” says Tan.

Singapore saw only one Mainboard listing in Singapore Exchange in 2015: BHG Retail REIT raising US$278.5 million (S$394.6 million) in proceeds, and was the city-state’s largest IPO that year. Tan attributes this IPO scarcity and smaller deal sizes to volatile market conditions, pushing companies instead to the Catalist board instead.

Tan says SGX struggled as it faced competition from other stock exchanges, lagging behind regional rival Hong Kong, and even neighboring Thailand in IPO activity.

Follow-on offerings in Singapore totaled US$1.9 billion, down 58.1% from over a year ago. Also, Singapore-listed equity offerings (combined IPOs and secondary offerings) sank 68.6% to US$2.20 billion in 2015, their lowest annual period since 2003 (US$2.16 billion), as the number of new issues fell 37% from 2014.

Danger of defaults
A new danger in 2016 is a possible spike in defaults, which already reared its head with the first default of Singapore dollar bonds since 2009, due to investors taking on more risk amid a low-interest environment.

“There is a second one looming on the horizon,” says Vicky Münzer-Jones, partner at Norton Rose Fulbright in Singapore.

“Following a slow year of new issuances, but also in terms of defaults, the sense seems to be that pressure will build in the early part of this year resulting in a glut of liability management exercises and possibly even defaults.”

“The low interest rates of recent years have led to investors chasing higher yields offered by local corporates, which may not be rated. There are several highly leveraged industries which have been hit hard by depressed commodity prices so some borrowers in, or connected to, the southeast Asian oil and gas sector will have to consider debt restructurings, including extending maturity or re-negotiating covenants, or face default,” adds Münzer-Jones.

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