

Chinese outbound bidders stimulated by market volatility, say Alvarez & Marsal MDs

Analysis

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- Bidders eye investment opportunities arising from trade tensions and falling markets
- CFIUS still presents a problem but non-sensitive US assets are still being targeted
- China's capital controls have reduced both competition for assets and price bubbles

Chinese interest in purchasing assets in the US and other overseas markets remains undiminished despite, and maybe because of, trade tensions, said US and Chinese based managing directors at restructuring and advisory firm Alvarez & Marsal.

Returning from a recent tour of China, Hong Kong and Singapore, the advisors said the Chinese investors they met are undeterred by trade tensions and actually welcome the market volatility it causes because it brings down asset valuations in regions they are looking to invest in such as the US.

Paul Aversano, managing director in private equity services practice of US-based financial advisor Alvarez & Marsal and global head of the firm's transaction advisory group, said he had not "seen a time when there are so many different variables impacting the public equity market around the world".

He added that the "vortex of volatility", which is being spurred on by trade tensions between US and China, is being viewed by the firm's clients in China and other Asian regions as potentially aiding their effort to deploy capital.

"None of the investment firms, private equity fund, sovereign wealth, and family offices we spoke to are overly concerned from an M&A perspective about the trade war activities. Their concerns are much more centred on regulatory risks particularly with regard to The Committee on Foreign Investment in the US (CFIUS)", he said.

Trade frictions between the two countries and CFIUS scrutiny has resulted in Chinese investors shifting their focus to potential targets in non-US regions especially Europe, but nevertheless some Chinese investors still consider it achievable to buy US companies, he said.

Mergermarket deal data shows that Chinese companies remain steadfast in their efforts to do deals in the US. In 1Q18 Chinese businesses announced 18 acquisitions of US companies worth a combined USD 2.5bn compared to 21 deals worth of USD 2bn in 1Q17. Meanwhile, Europe received 24 bids from Chinese companies worth USD 4.5bn in 1Q18 compared to USD 3.3bn worth of deals in 1Q17.

As has been well documented CFIUS has stalled and blocked a host of planned Chinese acquisitions in the past 18 months although the national security agency did this week surprise investors by approving on 9 June the protracted USD 2.8bn purchase of US-based Genworth Financial [NYSE:GNW] by China Oceanwide.

“While the flow of Chinese M&As into the US has come down in no way has it dried up despite the regulatory risks,” said Xuong Liu, a Shanghai-based managing director with Alvarez & Marsal's transaction advisory group. “We have a client who is looking at restaurant related acquisition in the US. It is very hard to see a link between that and national security.” He added that there are a lot of Asian brands that could be brought to a market the size of the US.

The ongoing potential for successful Chinese deals into the US was endorsed by an executive at a Chinese A-share listed LED company which early last year gained CFIUS approval for an acquisition of a Europe-based peer that had a US asset. The executive said that although the US has escalated its scrutiny of Chinese investments, his company remained on the lookout for potential targets in both the US and Europe. The executive said he even believed it was still possible for Chinese acquisitions of US technology companies, which has been an area particularly restricted by CFIUS. Successful deals require expertise in screening suitable targets and experience in addressing regulators' concerns, said the executive.

Liu said another boon for investors comes from China's capital controls which have reduced price bubbles by curbing the amount of capital leaving China solely for the purpose of getting RMB offshore. “Much of the capital flight that had been distorting underlying asset prices has been stymied, and this means less competition and lower pricing pressure for those Chinese strategic investors that have access to offshore financial resources,” he said.

Trade tariff announcement could change attitudes

Liu did, however, offer one note of caution that could affect Chinese investors' appetite for US assets. He said a finalized list of trade tariffs due to be announced Friday (today) might change how some of their clients think about certain sectors. The Trump administration has set 15 June as the deadline for announcing the updated tariffs list and 30 June for the announcement of new restrictions on Chinese investments.

As the tariff deadline looms both the Chinese A-share market and US stock futures fell on concerns about the uncertainty that might arise from the imposition of tariffs on USD 50bn in imports from China.

It is probably impossible to tell whether these developments will lead to an all-out trade war. But based on what we are seeing, “I don’t think it will”, Aversano said. Being unpredictable is part of President Trump’s strategy. He is just leveraging his known unpredictability in negotiations.

For its part China has responded to CFIUS and the tariffs in part by using its ability to hold up major M&A deals via its regulators, said Aversano. “China is, deliberately in my opinion, slowing down or delaying approval of certain transactions as a negotiation tactic for a broader purpose”.

The comment is a clear reference to the ongoing USD 44bn sale of NXP Semiconductors [NASDAQ:NXPI] to Qualcomm [NASDAQ:QCOM], which has today been at the centre of seemingly conflicting reports about whether or not China has finally granted the deal approval.

Curiously, reports from western media saying the updated tariffs list is imminent have not elicited the usual criticism from Chinese media. Political blog Trivium has noted that the stakes are higher now that China does not have an opportunity to affect the outcome. It also said it expects China to come out with a strong, coordinated message and retaliatory tariffs once it has seen the exact details of the finalized tariff list.

by George Shen in Shanghai

Grade: Strong evidence

Countries

China
Hong Kong
USA

States

Sectors

Agriculture
Automotive
Biotechnology
Chemicals and materials
Computer services
Computer software
Computer: Hardware
Computer:
Semiconductors
Construction
Consumer: Foods
Consumer: Other

Consumer: Retail
Energy
Financial Services
Industrial automation
Industrial products and
services
Industrial: Electronics
Internet / ecommerce
Leisure
Manufacturing (other)
Media
Medical
Medical:
Pharmaceuticals
Mining
Other
Real Estate
Services (other)
Telecommunications:
Carriers
Telecommunications:
Hardware
Transportation
Utilities (other)

Sub-Sectors

Accommodation
Advertising
Aerospace
Aggregates
Agri processing/ cereals
Agricultural/animal
biotechnology
Agrochemicals
Airlines
Airports
Alternative energy
Aluminium raw material
production
Analytical and scientific
instrumentation
Animal husbandry
Apparel
Application software
products
Automotive
components
Baby food
Baked goods
Banking

Batteries and Power
supplies
Beer
Biotechnology
production equipment
Biotechnology related
research
Bottling/ canning
Browsers
Building
materials/DIY/Garden
Building suppliers
(trade)
Buses
Business products
Business support
services
Cable equipment
Cable telecom carriers
Cement
Chemists/health
Clothes
Coal related
Commodity chemicals
(non-petrochemical)
Computer mainframes
Computer peripherals
Concrete
Conglomerates
Construction chemicals
Construction services
Consulting services
(excl. IT consulting)
Cosmetic/care
chemicals
Crop cultivation
Dairy products
Data processing
Department stores
Distributors
Drug development
Drug manufacture
Drug supply
Educational & Training
Services
Electrical appliances
Electrical components
Electrical power
generation

Electrical power
transmission
Electronic components
Energy conservation
related
Engineering services
Exploration and drilling
services and equipment
Fibre optics and electric
cabling
Fine chemicals- other
Fine chemicals-
pharmaceuticals
Fish/ meat/ poultry
Fishing
Fixed line telecoms
Flavours and fragrances
Food additives/
ingredients
Food ingredients
Food-others
Forestry
Freight and other
transportation services
Fresh produce
Frozen and chilled foods
Fund management
Furniture
Glass
Handicap aids and basic
healthcare supplies
Hardware and plumbing
supplies
Hardware maintenance
Health institutions
Heavy construction
Hospital management
Household electrical
appliances
Household products
ISPs
IT consulting
IT training
Importers and
wholesalers
Industrial Services
Industrial
biotechnology
Industrial equipment
and machinery

Industrial gases
Industrial measurement
and sensing equipment
Inorganic chemicals
Insurance related
Integrated utilities
Investment banking
Investment broking
Iron and steel
production
Laptops
Lifestyle including
sports/music/books etc
Luxury goods
Machine vision systems
Mail and package
shipment
Manufacture and
supply of other
consumer products
Manufacture of pre
fabricated buildings and
system
Media houses
Medical equipment &
services
Metal ore
Minicomputers
Mobile/satellite
network equipment
Mobile/satellite
telecoms carriers
Non-metallic ores
Numeric and
computerised control of
machine tools
Office and household
furniture
Oil and gas exploration
and production
Operating systems and
systems-related
software
Optical scanning
equipment
Other entertainment
Other heavyside
materials
Other lightside
materials

Other metal products
Other mining activities
Other retailing of
consumer products and
services
Other services
Others utilities
PDA/hand-held devices
PVC Windows
Packaging products and
systems
Paints and chemicals
Personal care
Petrochemicals- base
Petrochemicals-
derivatives
Plastics
Pollution and recycling
related
Portals
Principal finance
Printing and binding
Process control
equipment
Publishing
Pulp and paper
Pumps and compressors
Radio broadcast
Rail stock and parts
Railways
Real estate
Refrigeration
equipment
Rental and leasing
Residential builders
Restaurants/Pubs
Robotics
Search engines and
other internet enabling
technol
Securities and
commodities brokers
Security & safety
systems
Semiconductor
fabrication equipment
Semiconductors
Ship Building and parts
Shipping
Soft beverages

Software development
Sovereign Wealth Fund
Specialities -
intermediates
Speciality-other
Sugar and
confectionery
Supermarkets (food
chains)
Systems integration
TV broadcast
Textiles
Tobacco
Toys
Trading / procurement
systems
Travel/ holidays/tour
operators
Vehicle manufacturing
Vehicles
Ventilation/heating/air
conditioning
Venture Capital/Private
Equity
Voice and data
communication
equipment
Voice
synthesis/recognition
equipment
Water, sewage and
other systems
Website
design/consultancy
Wine/spirits
e-retailing

Topics

Analysis
Cross Border
Macro Drivers
Regulatory issues

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