HERBERT SMITH FREEHILLS

DEMAND FOR TECH AND RENEWABLES TO FUEL ASIA PACIFIC M&A IN 2019

13 March 2019 | Australia, Asia Pacific
News

Strong investor appetite for technology and green energy will bolster Asia-Pacific M&A in 2019, according to a new report by global law firm Herbert Smith Freehills.

Australian M&A partner Tony Damian commented: “2018 was one of the strongest years on record for Asia Pacific’s technology, media and telecommunications sector, with 1,813 deals worth a combined value of US$183 billion, accounting for 18% of all M&A transactions in the region.

“M&A activity will be strong across the region in 2019. We expect continuing significant activity in technology, as well as energy and financial services.”

The global firm’s sixth annual *Asia Pacific M&A Review*, released today, found that despite a slight overall regional downturn in deal volumes compared to the previous year, 2018 was a record-breaking year for several countries in Asia Pacific, including Australia, Japan and South Korea. China and Indonesia also saw considerable increases in deal value.

Mr Damian explained that prevailing market conditions in the Asia-Pacific region were ripe for a positive 2019 across the board.

“On the demand side, there are record levels of dry powder, borrower friendly conditions and a continued increase in private equity deals with listed companies. These factors will all contribute to an ongoing surge of private equity and venture capital activity in 2019,” he said.

“Recent government reforms intended to attract greater inbound foreign investment, such as the new Foreign Investment Laws in Mainland China, the unified business licensing system in Indonesia, the new Companies Act in Myanmar, along with the relaxation by the Vietnamese government in approving overseas investment, will also drive deal activity in the region.”

Review findings by jurisdiction

Australia

2018 was a bumper year for M&A activity in Australia, the strongest in seven years, with announced deals totalling over A$230 billion, a 40% increase from 2017. Mining was the standout sector in the public M&A arena with 37 deals and healthcare was a hot sector for number of deals in the private equity space.

Tony Damian said: “Looking ahead, property, financial services and healthcare are likely to continue to shine. However we expect that investors’ focus will also shift towards greenfield projects and expansions of existing facilities, as well as infrastructure-like sectors. The changing nature of our energy and transportation networks, and developments in waste and recycling sectors, will all provide opportunities.”

Mainland China

The number of reported M&A deals targeting China in 2018 was broadly consistent with 2017 with a slight jump of nearly US$30 billion in total value. China's outbound investment focus was significantly impacted by US trade tensions, with Chinese acquisitions of US companies plunging 94% but climbing 81% in Europe.

Mainland China partner Karen Ip said: “Looking ahead, the Chinese government’s efforts to attract more foreign investment and its pledge to improve both market access and the investment environment should see a rise in M&A and joint venture activities involving foreign investors in 2019. In terms of sectors, high tech, financial services and infrastructure will continue to dominate and, as China shifts its economic focus from export to consumption, investors will also be attracted by the ample opportunities in the booming consumer goods market.”

Hong Kong SAR

The overall M&A deal count involving Hong Kong listed targets in 2018 was on par with 2017. However, the value of this M&A activity was lower than in 2017 (US$28.05 billion compared to US$56.9 billion).

Deals involving assets with a technology focus were increasingly prevalent across a wide spectrum of sectors including e-commerce, telecoms and data services. This trend is expected to continue, and private equity-led deals will also remain active over the next 12 months given the large amounts of capital available and ready to deploy in the region.

Japan

2018 was a record year for Japanese outbound M&A, with the total deal value of announced transactions reaching US$171.8 billion - an increase of 116.4% from 2017.

Increasing corporate confidence, low domestic growth, and a need for innovation within the Japanese market is likely to continue this trend of outbound M&A. 2019 will also see M&A transactions driven by advances in technological capability. Japanese companies are looking for transformational acquisitions, including in artificial intelligence, the internet of things, and wireless connectivity, and companies in all sectors are building technology deals into their growth strategies.

South Korea

In the midst of increasing global political and regulatory uncertainty, 2018 was a relatively stable year in South Korea. While a slowdown in the domestic economy is expected in 2019, the strategic need for large Korean conglomerates to stay ahead in a rapidly-changing technological environment, along with large cash reserves and committed capital to deploy for acquisitions, will sustain strong M&A activity.

In particular, we expect to see ongoing interest and investment in the Korean renewables sector, with the transition to renewables supported by concerns over the nation's air quality and the Korean government's commitment to achieve 20% of domestic generation from renewables by 2030.

Singapore

2018 saw a decrease in deal value compared to 2017, with only US$6.7 billion in total deal value recorded in 2018 compared to US$25 billion in 2017. Deal volumes were also down by 10 transactions year on year. The tech sector dominated inbound deals by value, whilst financial services and real estate sectors dominated outbound deals by value.

Despite the dip in activity levels in 2018, Singapore retains its position as a strategic hub in Southeast Asia, especially with regard to the tech sector.

For more information or to get a copy of the Asia Pacific M&A Review 2019, please visit:

https://www.herbertsmithfreehills.com/latest-thinking/asia-pacific-ma-review-2019

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