

OPTIMISM AHEAD FOR ASIA PACIFIC M&A AFTER SOLID 2016

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Firm news

Asia Pacific's M&A markets enjoyed a solid 2016 with record-breaking activity levels in a number of countries including several emerging markets that exceeded expectations to become significant players in the region, according to Herbert Smith Freehills' fourth annual *Asia Pacific M&A Review*.

The Review, released today, analyses the 2016 M&A performance for countries across the Asia Pacific and discusses the expected market trends for 2017.

[Andrew Pike](#), Herbert Smith Freehills' Head of Corporate, Australia, said: "2016 presented Asia Pacific's dealmakers with a range of challenges including low commodity prices, volatile capital markets in some parts of Asia, a new US administration, along with the global shock of Brexit."

"Despite 2016 being less active in terms of deal volumes, Australian deal values were high and the outlook remains promising. We expect to see continued inbound interest, particularly from North America and China."

"Inspired by the Asciano mega-deal last year, there are also strong prospects for more consortium bids this year, especially at the big ticket end, which will boost both deal volumes and values."

[Lewis McDonald](#), Regional Head of Corporate, Asia, said: "Despite softening in some areas, M&A activity continued to be healthy across the region, with exceptional growth in China, India and Thailand," said Lewis McDonald, Regional Head of Corporate, Asia

"We see three key trends for deal making in Asia in the year ahead. First, the scramble for technology assets and skills will only increase, from tech infrastructure through apps and fintech to renewables/hard technologies. Second, we expect a number of domestic markets to rebalance, as Asia continues to mature from a heavy/primary industries focus to consumer goods, tech and services. Thirdly, continued commodities price volatility will sustain M&A across the mining, oil, gas and energy sectors as companies shuffle the assets in their portfolio."

Key findings by region:

Australia

The market value of Australian public M&A was steady in 2016 compared to previous years. In total, 85 public M&A deals were announced, which was broadly consistent with 2015.

A number of significant private M&A mega deals, such as the A\$16.4 billion sale and long-term lease of Ausgrid, helped to raise total deal value but disguised softer mid-market activity levels.

China

Chinese outbound M&A surged to record highs in 2016, with 554 announced deals generating a total of US\$240.3 billion (up from US\$141.6 billion in 2015).

Reflecting China's shift from export-driven manufacturing towards high-end R&D and domestic consumption, the outbound investment mix moved beyond the traditional primary industries and into technical industrial and consumer sectors in 2016.

Inbound M&A activity remained commensurate with total deal count and value in 2015, while domestic M&A activity softened somewhat from 2015.

Chinese outbound investment is expected to be more modest in 2017 following the government's decision to address currency depreciation and capital outflows by increasing regulatory scrutiny of overseas deals and significant forex transactions.

Hong Kong

The surge in outbound Chinese activity saw Hong Kong companies feature as both acquisition targets and platforms for outbound investment in 2016.

However, the reported M&A activity in Hong Kong, excluding transactions structured through Hong Kong but with a dominant geography elsewhere, was significantly lower in 2016 compared to 2015.

There were a number of privatisations driven by perceptions of undervalued companies, and the restructurings of state owned enterprises and Hong Kong conglomerates was also a key theme.

Singapore

2016 saw an increase in public M&A deal volumes to 48 deals (up from 42 in 2015), however, total deal value was down year on year (US\$12.9 billion compared to US\$14.3 billion).

Outbound activity continued to dominate, with Singapore remaining a strategic hub for outbound deals across the Southeast Asia region.

Japan

Japanese M&A activity edged ahead 2.3% by value from 2015, making it the highest level for four years. Japan's outbound activity experienced its fourth consecutive increase in yearly deal value with 309 deals worth US\$92.1 billion.

We see Japan Inc continuing to make waves and become increasingly involved in outbound deal making next year, as the country's cash-rich firms continue to seek growth opportunities overseas. We also expect an increased focus on M&A activity in the financial services (particularly insurance), healthcare, and food and beverage sectors. The key sectors of interest for inbound investments will include fintech, an industry with expected annual growth of 22% until 2020, as well as e-commerce. Renewable energy, particularly solar and wind, is likely to be another attractive sector.

India

Indian M&A activity surged in 2016 with a total of 388 public and private M&A deals worth US\$64.5 billion – an increase of 90.5% by value compared to 2015. Domestic M&A grew by 126% to US\$33.7 billion as a result of much-awaited consolidation on capital intensive sectors such as cement and power.

After a record breaking 2015, there was a relative slowing down of private equity exits in 2016 (down 22% to US\$6.3 billion). However, buyouts increased by 40% to US\$126 billion and seven out of every ten deals involved an international private equity player.

Prospects for 2017 remain incredibly strong as India's economic fundamentals remain positive. The chemicals, infrastructure, civil aviation and telecommunications sectors will be very active.

Thailand

2016 saw Thailand emerge as a dominant player in the Southeast Asia region. Total deal volume rose significantly from 2015 and 2014 levels, with a total of 71 announced deals.

There was also a surge in public M&A deals in Thailand in particular, with the number of announced public M&A deals double that of 2015 and deal value reaching \$10.1b, three times that achieved in 2015.

As the ASEAN Economic Community continues to integrate and the Thai appetite for outbound investment is sustained, Thai companies will be increasingly willing to pursue cross-border acquisitions in Southeast Asia as well as into Europe, the US and beyond.

For more information or to get a copy of the *Asia Pacific M&A Review 2017*, please visit: <https://www.herbertsmithfreehills.com/latest-thinking/asia-pacific-ma-review-2017>

MEDIA CONTACT

For further information on this news article, please contact:

**KELLY MURRAY, EXTERNAL
COMMUNICATIONS LEAD**

SYDNEY

Tel: +61 2 9322 4472

Email: kelly.murray@hsf.com

**SALLY GREIG, HEAD OF
COMMUNICATIONS, ASIA**

HONG KONG

Tel: +852 21014624

Email: sally.greig@hsf.com