PRIVATE EQUITY AND A RESURGENT CHINA TO BOLSTER ASIA PACIFIC M&A

19 March 2018 | Asia Pacific
Firm news

Strong private equity activity and an uptick in Chinese transactions will bolster Asia Pacific M&A in 2018, according to a new report by legal M&A powerhouse Herbert Smith Freehills.

The global firm's fifth annual *Asia Pacific M&A Review*, released today, analyses the 2017 M&A performance of countries across the Asia Pacific region and previews market trends for 2018.

Australian partner Tony Damian commented: "Strong buy-side activity on the part of hungry, cashed-up private equity players, fuelled by record levels of dry powder and buoyant market conditions for funding will substantially invigorate Asia Pacific M&A activity this year."

China partner Karen Ip said that deal volumes will also benefit from a rebound in Chinese outbound M&A activity.

"Last year China's outbound investment slumped by almost 30 percent due to tighter controls on capital outflow. However, there are already signs of a resurgence, with growth late last year following the implementation of new government policies which have had the effect of reviving appetite and freeing up capital."

"We're expecting to see a targeted focus on investment, particularly in countries covered by the Belt and Road Initiative, and in the energy and infrastructure sectors."

The Review also found that the technology sector is ripe for M&A activity this year and will bolster deal volumes.

“Technology M&A was abundant in 2017, with funding for Southeast Asian start-ups in particular hitting record levels, like Singapore ride hailing platform Grab’s US$2 billion fundraising, and fintech and e-commerce companies attracting extensive interest across the region,” said Ms Ip.

Mr Damian added: “The technology sector will continue its hot streak in 2018 as companies in a number of sectors focus on the strategic acquisition of tech assets to gain a competitive edge. The ongoing focus on emerging technologies like blockchain will also stimulate M&A across the region.”

Review findings by jurisdiction

Australia

Australian public M&A activity was mixed, with deal volumes largely consistent with 2016 levels.

Tony Damian said: “There are a number of positive indicators for Australian M&A in 2018. These include capital availability, strategic imperatives, and most importantly a desire for companies to not be left behind. I expect to see significant M&A activity in renewables, financial services, healthcare and infrastructure.”

China

Reported M&A deal value and deal numbers plummeted in the first half of 2017 (340 deals compared to 419 deals in H12016), but climbed back gradually in the second half of the year, almost reaching the figures in the first half of 2016.

This rebound stemmed from renewed confidence in the China market following the release of a series of measures to encourage foreign investment, and increased clarity on policy after the 19th National Congress of the Communist Party of China in October 2017.

Karen Ip said: “We can expect continued resilience in China inbound investment in 2018, and we’ll see fresh opportunities for foreign investors in newly-opened and less restricted industries.”

“Given China’s mixed regulatory environment, foreign investors will continue to rationalise their Chinese businesses through restructuring, divestiture and M&A.”

Hong Kong

The value of reported M&A activity in Hong Kong radically increased in 2017 with a marked jump in the second half of the year driven by a raft of high value transactions.

Whilst deal numbers in the first half of 2017 were lower compared to the previous six months, deal flow was generally strong and increased in the second half of 2017. Overall there were 111 public M&A deals in 2017 worth US$56.9 billion (compared to 118 deals worth US$19.2 billion in 2016).

There was keen interest in the consumer sector in 2017 and the Review predicts this will continue in 2018. There will also be significant interest in the healthcare, education, technology and energy sectors. And Hong Kong's regulatory backing for fintech development will encourage M&A appetite for fintech start-ups in particular.

Japan

2017 was stable for Japanese M&A in terms of volume compared to 2016, but there was a sharp decline in deal value to US$40.1b from US$63b in 2016, partly due to the absence of mega deals.

Despite this overall decrease in value, Japanese inbound activity saw its best year since before the financial crisis, accounting for 51.3 percent of deal activity. Outbound M&A activity increased, with a total of 336 transactions, but again deal value dropped 36.7 percent to US$59.1b.

With the upcoming 2019 Rugby World Cup, 2020 Olympics and a generally more optimistic outlook, business confidence should increase and pave way for more inbound and outbound investment. In fact, driven by continued growth of the economy globally, both the value and volume of M&A is likely to increase in 2018 as Japanese companies look abroad for new growth opportunities.

Malaysia

While low oil prices, soft consumer spending and multi-year lows in the Ringgit tempered investor confidence in 2017, the market still performed pretty well.

There were 408 deals valued at US$17.6b (against 375 deals valued at US$14.3b in 2016) - the highest level in five years.

Looking ahead, confidence in the Malaysian economy, buoyed by predictions for improved consumer spending, improved oil prices, and a stabilisation of the Ringgit will bolster investment activity.

The outcome of long-awaited elections due to be held in 2018 is also likely to release pent-up appetite amongst investors.

Singapore

M&A activity in 2017 exceeded that for the previous year, both in terms of deal value and volume. Public M&A witnessed a massive jump in the second half of 2017, with a total value of US$20.7b - just under three times that in the corresponding period in 2016.

Despite a number of potential global and regional risks, M&A activity is expected to continue to rise in 2018 with a stronger second half, in line with previous years.

In terms of sectors, here too there will be a continued focus on tech, particularly in start-ups. Logistics investment, big in 2017, should also continue.

For more information or to get a copy of the Asia Pacific M&A Review 2018, please visit https://www.herbertsmithfreehills.com/latest-thinking/asia-pacific-ma-review-2018

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