The Nation

The Nation
Circulation: 68,200
Ad Rate: 1,150

Section: CHINA DAILY/China Business
Date: Friday 7 November 2014
Volume: 2 No: 44 Page: 12(Center)
Col.Inch: 49.12 Ad Value: 56,488 PRValue (x3): 169,464 Clip: Black/White
Headline: New chapter of China M&A activity begins SLOWING ECONOMY PRESENTS OPPORTUNITIES,...

New chapter of China M&A activity begins

SLOWING ECONOMY PRESENTS OPPORTUNITIES, MAKING VALUATIONS OF TARGET COMPANIES MORE ATTRACTIVE

By **XIE YU** in Hong Kong
xieyu@chinadaily.com.cn

A slower economy and the government's determination to squeeze out overcapacity are offering great opportunities for merger and acquisition activity in China, according to industry experts.

"The end of the 'China growth' story is bringing the valuation of target companies down to relatively reasonable levels," says David Brown, partner and Greater China private equity leader with PricewaterhouseCoopers (PwC).

The valuations of Chinese companies have been inflated for many years because they always forecast strong organic growth. But now that GDP growth is slowing to about 7.5 percent and growth at the company level is often falling amid intense competition and overcapacity, things have changed.

"It is a good time for investors like us," says Humbert Pang, managing principal and head of China at Gaw Capital Partners, one of the biggest offshore private equity funds focused on the property segment.

"Price corrections will drive industry consolidation and lead to rational valuations for us to acquire good projects," Pang says. Although China's property market is under intense downward pressure, with some even forecasting a hard landing for the industry, more economists and industry insiders say they believe that opportunities and growth lie ahead in major cities and promising sectors such as logistics.

"There are too many developers in China, because getting land and making money were easy before. But more and more are struggling with sluggish sales, pressure from banks and stretched balance sheets this year," says Lee Shu Yin, managing director of Grand River Properties (China), adding that his company has received requests for co-investment.

A report from PwC says that inbound M&As in China reached a record high of $12.5 billion during the first half of the year, up from about $8.4 billion in the second half of 2013. Cross-border M&A volume carried by Chinese companies hit $40.8 billion in the first three quarters.

"Cross-border M&A is never easy in any market. As for China, the trickiest part is whether your target company has stable leadership and if the boss is determined to do the deal," says a senior partner with a Shanghai-based cross-border M&A firm, speaking on condition of anonymity.

The State Council, China's cabinet, and the China Securities Regulatory Commission issued guidelines in March and July, respectively, aimed at simplifying and supporting M&As.

The directives cut administrative procedures and barriers relating to M&As. The government also urged all parties involved in M&As to improve the conditions that affect those transactions, such as financing, taxes, land use and employee relocation.

The nation's leaders have repeatedly stressed their intention to pursue reform, which involves cutting excess capacity, forcing the transformation of State-owned enterprises and upgrading the industrial structure.

Declining producer prices signal just how much pressure industry is under. The Producer Price Index

The Nation

The Nation
Circulation: 68,200
Ad Rate: 1,150

Section: CHINA DAILY/China Business
Date: Friday 7 November 2014
Volume: 2 **No:** 44 **Page:** 12(Center)
Col.Inch: 49.12 **Ad Value:** 56,488 **PRValue (x3):** 169,464 **Clip:** Black/White
Headline: New chapter of China M&A activity begins SLOWING ECONOMY PRESENTS OPPORTUNITIES,...

contracted in September for the 31st consecutive month, an obvious sign that the economy is encumbered by excess factory capacity.

More than 200 companies listed in the A-share market, or almost 10 percent of the total, were involved in M&A or restructuring deals as of September, the *China Securities Journal* reported.

SOEs need to specialize, PwC's Brown says. Many have a very wide business portfolio, and outside of their core businesses there are numerous areas that are neglected or underperforming, he adds.

The SOEs need to spin off those operations, and "that's the driver for M&As, especially attractive to overseas investors. Because they see the opportunities of acquiring (targets) at reasonable prices and turning the underperforming businesses around," Brown says.

"The authorities are urging SOEs to diversify their shareholdings by introducing sophisticated shareholders. That will help transform the SOEs into more commercial, market-oriented entities," he says.

As of mid-August, 18 provincial-level governments, including Beijing, Shanghai and Guangdong, had announced mixed-ownership reforms. In Chongqing, authorities said they will allow two-thirds of the local SOEs to have mixed ownership.

"There is both a government drive and a commercial drive" for mixed ownership, Brown says.

"Private equity firms and foreign buyers are going to benefit from the economic transition and SOE reform due to their capital strength and business operation skills as more Chinese companies become available for buyouts," he says.

Michael Weiss, managing director and partner of Sailing Capital Advisors, based in Hong Kong, says: "The valuations are moving from an irrationally high level to a fair price."

"I don't think people are coming to China to buy things cheap, but they are buying things at a fair price nowadays," he adds. There are different reasons to buy assets in China, which offers a vast market, cheap labor and land, sufficient infrastructure, easy profits and dynamic growth.