

M&A in China gathers steam

The China story continues to attract corporate investors from around the world with companies more willing to buy and acquire Chinese companies than ever before. But its not just one way, Chinese companies are also looking to acquire in foreign markets. And as mergermarket reports, this is just the start.

The sale last year of Fujian Sedrin Brewery, China's largest regional brewery, stirred fierce competition among domestic and foreign brewery giants. In the end, Belgian brewer Inbev outbid Heineken, Anheuser-Busch, China Resources and Yanjing, with a price of US\$750 million, the highest offer ever for a Chinese brewery. The transaction is expected to take Inbev's market share to 12%-13% in China.

The deal demonstrates how favourable Chinese consumer companies are now as merger and acquisition (M&A) targets. The consumer sector is expected to be the hottest for M&A activity in China in 2006.

Both foreign and Chinese companies want to expand production and make acquisitions to increase market share. However, there are a limited number of good targets, which inevitably drives up the price.

M&A levels in China made headlines last year, although it was only the third most active country by volume in the Asia-Pacific region (20%), after Japan and Australia. In 2003, M&A in China accounted for only 12% of deal activity in Asia-Pacific by volume. This grew to 15% and 20% respectively in 2004 and 2005, catching up with the most active countries in the region. This year it will be a fierce contender for the top spot.

With more consolidation expected in sectors such as steel, cement, aluminium and beer, plus progressing non-tradeable share reform, China is poised for a sharp increase in M&A activity. With increased competition, many industries need consolidation for further growth. Meanwhile, rising raw material and energy prices have cut business profits. However, foreign companies still see huge market potential and anticipate handsome profit margins. For example, Arcelor bought 38% of Laiwu Steel for US\$260 million in late February, inevitably bringing the battle between the world's top two steelmakers to China. Last year Mittal, the world's largest steelmaker, acquired 37% of Hunan Valin Steel Tube & Wire. Mittal has also approached other Chinese steelmakers such as Baotou Iron & Steel and Kunming Iron & Steel.

Chinese government reform allowing non-tradeable shares to be floated on the market may drive M&A activity. Regulations passed earlier this year allow foreign strategic investors to purchase at least a 10% stake in listed companies that have completed shareholding reform. As of March 21 2006, 728 listed companies had begun reform proceedings and 456 had completed reform, accounting for 53% and 33% of all Chinese listed companies respectively. The remaining companies are expected to complete reforms this year.

The financial services industry has also been very hot for M&A recently, as foreign financial institutions try to enter the market before China fully opens the sector by year-end. With three of the big four Chinese state-owned banks and many of the 13 national joint stock banks having already introduced foreign strategic investors, few large deals are expected this year, though the sec-

FINANCIAL ADVISOR - ASIA (excluding Japan)

01 January 2006 to 28 March 2006

RANK	HOUSE	VALUE (US\$M)	DEAL COUNT
1	Goldman Sachs	25,081	7
2	JPMorgan	16,550	10
3	Merrill Lynch	12,515	9
4	UBS	10,675	5
5	Macquarie Bank	10,327	3
6	Grant Samuel & Associates	9,995	7
7	Citigroup	5,632	2
8	Credit Suisse	5,378	5
9	PT. Danatama Makmur Securities	3,200	1
10	Rothschild	2,784	6

FINANCIAL ADVISOR - JAPAN

01 January 2006 to 28 March 2006

RANK	HOUSE	VALUE (US\$M)	DEAL COUNT
1	Citigroup	20,676	3
2	UBS	20,003	4
3	Deutsche Bank	15,289	1
4	Rothschild	5,595	3
5	KPMG Corp Fin	5,400	1
=6	JPMorgan Cazenove	4,233	1
=6	Lazard	4,233	1
7	Nomura	1,734	11
8	GCA Co	1,248	2
9	Goldman Sachs	1,154	1

SOURCE: MERGERMARKET

tor will remain very active by volume. Recent headline deals include the Industrial and Commercial Bank of China's strategic partnership with a Goldman Sachs-led consortium, with the latter investing US\$3.78 billion for a 10% stake. Bank of China has introduced Temasek, Royal Bank of Scotland, the Asian Development Bank and UBS as strategic foreign investors. China Construction Bank sold strategic stakes to Bank of America and Temasek before its Hong Kong IPO. Only Agricultural Bank of China, some national joint stock banks and city commercial banks remain for foreign investors.

An increasing number of Chinese companies are buying overseas for resources, technologies and brands. Meanwhile, the central bank plans to promote outward investment as a means to readjust its excessive forex reserve growth, according to its vice-governor Wu Xiaoling. ▲