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GP firms from China are beginning to appear in other Asian markets

Another month, another outbound deal by a China-based domestic private equity firm. This time, it is in Australia. Hopu Investment Management Co. (厚樸基金)('Hopu') has earmarked A$80 million (US$69 million) for the Australia-listed Paladin Energy Ltd. ('Paladin'), a uranium mining operation. It is the first known investment in Australia by a China-based general partner firm. The deal came on the heels of Sailing Capital's (賽領資本) investment in Soneva Holdings Pte., Ltd., a luxury resorts developer in the Maldives. The investment marked the Maldives' single largest private commitment to-date by a China-based investor.

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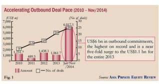
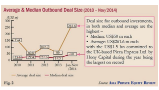
These outbound deals convey a new message that in addition to the outbound destinations favoured by Chinese investors, being the US and Europe, general partner firms from China are actively exploring new destinations in Asia that were not previously on their radar screens.

Deal Spree & Broadened Focus

In the first 11 months of the year, China-based general partner firms ('GP') participated in outbound deals worth over US$6 billion, the highest amount on record. The amount is a near five-fold surge compared with the US$1.1 billion in outbound commitment during 2013. While the number of outbound deals reached 25, compared with 21 in 2013, the escalation of outbound commitment indicates that investors are prepared to earmark substantially large sums for each deal (fig. 1).

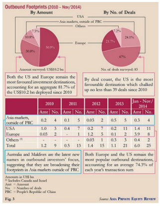


During the first 11 months of the year, the average and median outbound deal size consummated by China's GP firms stood at US$261.6 million and US$50 million respectively, both are the highest on record (fig. 2). In particular, the US$1.5 billion commitment to Pizza Express Ltd. by Hony Capital (弘毅投資) marked the largest deal consummated solely by a China-based general partner firm in the West.



Both the US and Europe remained the principal focus of outbound deals for China's home-grown firms. By number of deals, the US is the most favourable destination, chalking up no less than 39 since 2010. Yet Europe remains the magnet attracting an aggregate US$5.2 billion since 2010, surpassing the US$3.1 billion invested in the US in the same period.

While deals consummated in Asia continued to account for the minority portion of the pie, outbound investors have been tireless in expanding their footprints. Both Australia and the Maldives are the latest names added to **China**-based investors' geographic focus, in addition to Japan, Singapore, Vietnam, and Indonesia (fig. 3).



	2010		2011		2012		2013		Jan - Nov/ 2014	
	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.
Asia markets, outside of PRC	0.2	4	0.1	5	0.03	2	0.5	5	0.3	4
USA	1.0	3	0.4	7	0.2	7	0.2	11	1.4	11
Europe	0.03	2	-	1	1.2	5	0.1	2	3.9	8
Others (1)	-	-	-	-	0.03	1	0.3	3	0.4	2
Total	1.2	9	0.5	13	1.4	15	1.1	21	6.0	25

Comments

In response to the state's drive to internationalise its currency, **China**'s leading domestic private **equity** firms no longer run dedicated country-focused funds and they are no longer scouting for modestly prized assets, such as those in Europe and/or in the US. Instead they are prepared to pay premiums for their target companies. Hopu is paying A$0.42 for each of Paladin's shares, representing a 11% premium to the commodities **company**'s closing share price on 21st November, the day before Hopu's investment was announced.

The increasingly "look West" investment approach adopted by **China**'s domestic private **equity** firms, which is in alignment with the state's interest, foretells their frequent footprints in other Asian markets. The next pool of new boys on the block are those from **China**.

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