

SE Business
HD **China** eyes infrastructure deals
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CHINA is set to be a major player in state government privatisation **sale** processes as the booming nation eyes stable infrastructure assets delivering returns that outpace those on offer in other nations.

Hansong Zhu, who runs Goldman Sachs's natural resources division for Asia-Pacific with the Melbourne-based rainmaker Richard Phillips, also flagged that **China** might selectively use the falls in commodity prices to its advantage and snap up assets on the cheap.

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Morgan Stanley's head of investment banking in Australia, Richard Wagner, last month told The Australian it was "nearing that point in the cycle" when **China** would pounce on buying opportunities. Ahead of state elections in Victoria, NSW and Queensland next year, Mr Zhu said **China** was increasingly seeking infrastructure assets generating long-term returns and Australia was a "very attractive" place to deploy capital.

In the past year, **Chinese** state-owned **company** State Grid bought 19 per cent of electricity supplier SP AusNet and 60 per cent of **energy** infrastructure **company** SPI Australia, while **China** Merchants **Group** joined forces with Hastings Funds Management to **buy** Port of Newcastle.

Infrastructure has dominated the Australian mergers and acquisitions market, helping push announced deal flow up 55 per cent in the first nine months of the year compared with last year, according to Thomson Reuters.

Mr Zhu said the "serious issue" of overcapacity in many industries in **China** weighed on opportunities to deploy capital in the Asian nation.

"Definitely it will attract interest from the **Chinese**," Mr Zhu said of the potential raft of government assets coming to market, such as ports and electricity poles and wires.

"If you compare the infrastructure opportunities in **China** like transmission distribution grids, actually Australia would provide a better return for the investment." Despite waving several foreign investments through, the federal government's blocking of Archer Daniels Midland's \$3.4 **billion** takeover of GrainCorp soon after taking office created uncertainty for offshore buyers.

West Australian Premier Colin Barnett has claimed Clive Palmer's public legal battles with **Hong Kong's** Citic Pacific have damaged the relationship with **China**.

Debate has also raged about **China's** role in Australia's soaring **residential property** prices, an issue being explored in a federal inquiry.

Mr Zhu said **Chinese** investors were aware of Mr Palmer's spat with Citic, but mostly viewed it as a one-off rather than highlighting a "big risk".

Mr Phillips added there was greater "stability" in the government's position. "Overall, I think compared to other mature markets, the **Chinese** still feel Australia is a relatively friendly hosting country to accept **Chinese** inbound investment," said Mr Zhu.

He said **Chinese** investors had learned from prior investments that developing greenfield projects was difficult, and they were “more and more interested” in mines nearing production or already pumping out resources.

Baosteel teaming up with Queensland-based Aurizon for the \$1bn **purchase** of West Australian miner Aquilla Resources also showed **China**'s increasing desire for local partners.

Mr Phillips said despite the dour mood in the **mining** sector in recent months as the **iron ore** price fell to \$US80 a tonne, **China**'s interest in some assets and commodities had increased. “There is a fundamental strategic need for those underlying assets and in some ways they become more attractive, particularly as the Aussie dollar weakens,” he said. “I think **coal** and **iron ore** will continue to be really interesting areas ... and we'll continue to see things happen in that space.”

CO spauen : AusNet Services | sinpow : Singapore Power Ltd | tmasek : Temasek Holdings Pte Ltd

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NS ccat : Corporate/Industrial News

RE austr : Australia | china : China | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

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