Chinese investments bring immediate benefits to Italian SMEs - World

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The foreign investment topic is gaining momentum in Italy, in light of the benefits that these investments can bring to support the fragile recovery of the domestic economy. A growing role is being played by the emerging economies that have shown, in recent years greater dynamism in terms of foreign investments. Among these, the People's Republic of China certainly represents the lion's share, as it became for the first time in 2015 a net investor, thanks to the significant growth of investments flowing out the country that exceeded the foreign investments in China.

Following the United Kingdom and Germany, Italy is the third European country in terms of Chinese investments, with investments reaching 12.8 billion euros in 2016. The targets of the Chinese groups' strategies are not only large corporation like Pirelli, recently re-listed on the Milan capital market through the largest Initial Public Offering (IPO) realized in 2017 in Western Europe. Interestingly, the scope of Chinese investments has progressively extended to many small and medium enterprises (SMEs) that represent the backbone of the Italian economy. Most of the acquired Italian SMEs belong to the manufacturing sector, mirroring the long-term investment policies suggested by the Chinese government. The involved sub-sectors are the instrumental machinery, robotics and auto components.

The Chinese investments for the acquisition of majority stakes in Italian SMEs seems to impact positively on their financial profile. The remarkable benefits on the financial and capital structure of the Italian companies are already clear one year after the entry of the new Chinese majority shareholders; these are the main results coming from analysis carried out on a sample of Italian SMEs acquired by Chinese groups. These companies experienced a reduction of their financial leverage (measured by the ratio net financial debt (NFD) to EBITDA) down to 1.9x one year after the acquisition year from 5.7x in the pre-acquisition year. Likewise, the NFD to equity ratio improved to 0.5x from 1.9x. The financial benefits stemming from the entry of Chinese investors into Italian SMEs are primarily attributable to the injection of new financial resources that enabled the strengthening of the companies' equity and the simultaneous reduction of the financial debt.

At the same time the benefits in operating profitability were not evident one year after the acqusition: EBITDA margins remained substantially flat compared to the acquisition year aog and were lower compared to the previous year. This is consistent with the medium- to long-term horizon required to achieve the industrial and commercial synergies. Given that large part of the Chinese acquisitions in Italy have happened recently, the coming years will be decisive to assess the impact of these operations both in terms of Italian production structure and ability to create value and profits.

Likewise, there are no significant changes to the companies' investment policies one year afterthe acquisition: the ratio capital expenditures to turnover, an indicator that measures the firms' attitude to invest, remained flat around at 4 percent, in line with the pre-acquisition year. The majority of the investments focused on tangible assets, while intangibles had a marginal role. Chinese investors seem not to be purely focusing on patents, trademarks, licenses, and concessions when choosing their targets among Italian SMEs. They tend to look for a know-how across the Italian SME universe, made up by professionalism and experience, that cannot be easily coded and booked as an asset into the companies' balance sheets.

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