

China M&A Briefing – Q1 2010

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Nancy Lu and Xu Feng contributed to this report



Outbound M&A

Based on SmithStreetSolutions' M&A data for Q1 2010, there were a total of 23 announced outbound deals, a jump of 53% from the same quarter last year. Of those, 21 deals disclosed their M&A value, which amounted to a total of USD 9.0 billion. Overall deal volume is expected to continue increasing in 2010 as cash rich Chinese firms prepare to expand globally.

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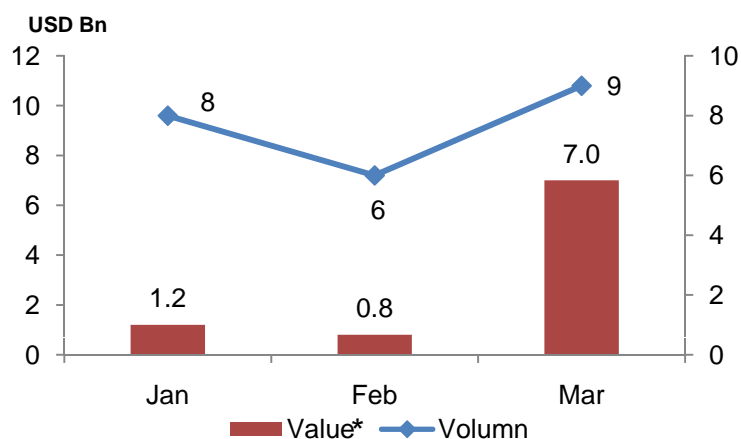
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The technology, media, telecommunications (TMT) sector saw a significant amount of outbound deal flow since the beginning of the year. Most of the deals were technology-driven, due to the release of a number of critical central government policies last year that have quickened the approval process for transactions that involve foreign R&D acquisition and integration. There were also two deals targeting online gaming companies, which is an indicator of the strong growth in China's online entertainment market.

China's thirst for natural resources is still the main force behind the larger deals this quarter. The energy sector continues to dominate the outbound M&A market with a total of 6 deals valued at USD 6.8 billion. Most noteworthy were the USD 3.2 billion acquisition of the Australian firm Arrow Energy by PetroChina and Royal Dutch as well as the USD 3.1 billion purchase for a 50% stake in Argentina-based Bidas Corp. by China National Offshore Oil Corp. (CNOOC).

The majority of the deals in the first quarter targeted firms in the Asia Pacific region, namely 11 transactions or 48% of the total. Australia was the primary destination for oil and mineral needs, which accounted for a large part of the M&A activity in the region. North America came in second in terms of volume, 7 transactions or 30% of the total, primarily consisting of technology acquisitions in the US.

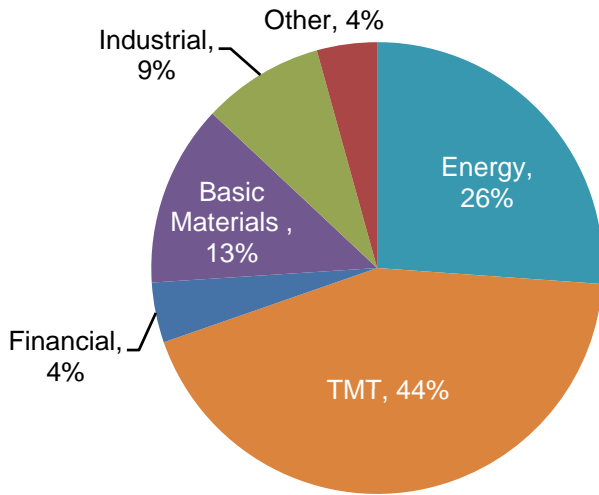
2010 1Q Outbound M&A



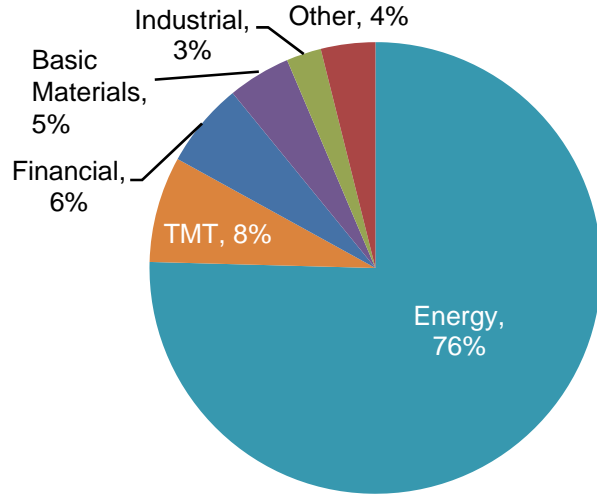
* Based on announced deal size

Q1 2010 Outbound M&A Activity

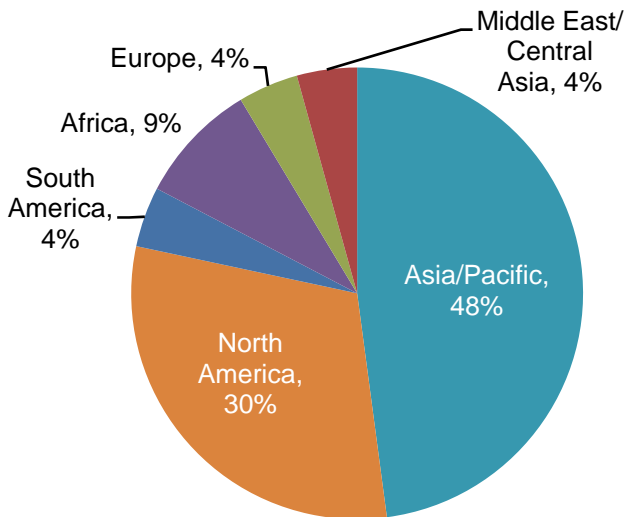
Industry Breakdown by Volume



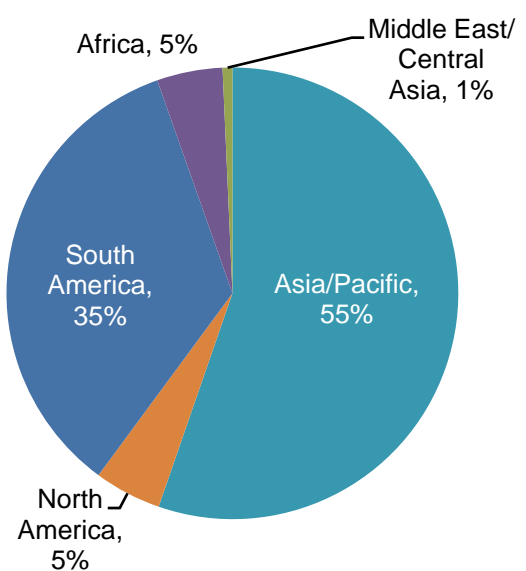
Industry Breakdown by Value



Regional Breakdown by Volume



Regional Breakdown by Value



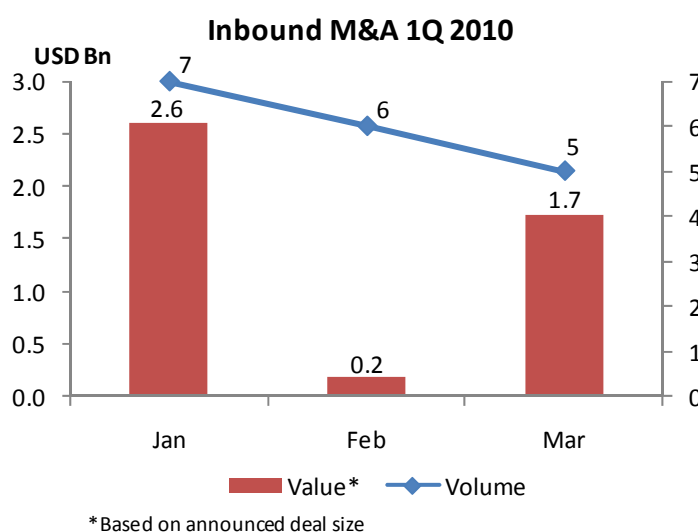
Inbound M&A

According to SmithStreetSolutions' M&A data, there were a total of 18 announced inbound deals in Q1 of 2010, a decrease of 14% from the same quarter last year. The drop in inbound M&A volume is the effect of tightened credit to foreign buyers that began last year. However the average deal size has increased over the same period. A total of 8 deals or 44% of all inbound transactions disclosed their M&A value, which amounted to USD 4.5 billion, or a 1.5 fold increase from Q1 2009.

In terms of numbers, inbound M&A deals are evenly distributed amongst industries that have been experiencing relatively strong growth, namely consumer discretionary, TMT, industrials and healthcare.

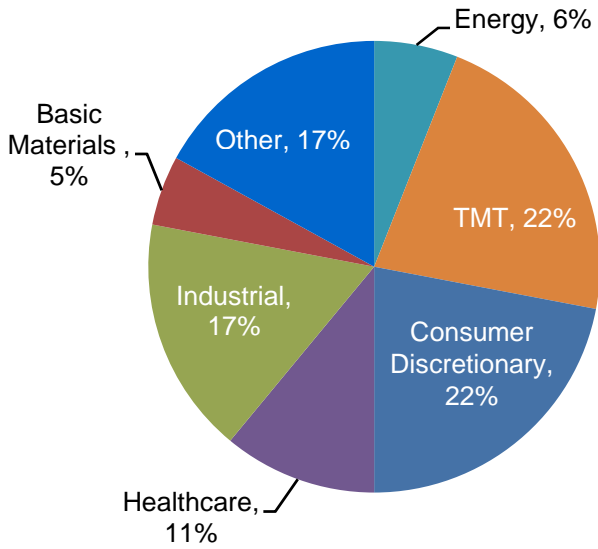
With new government policies and the expected recovery of the global economy, inbound deals are expected to pick up in these key sectors later in the year.

The biggest deal this quarter was the USD 2.2 billion acquisition of Orient Overseas Developments, Ltd. by Singapore-based CapitaLand. Interestingly, the real estate purchase came shortly after the Chinese government implemented measures to cool the mainland property market. However, asset deals of this scale will unlikely be repeated this year due to increased government restrictions. Other notable transactions include Blackstone's USD 600 million investment for a 30% stake in China Shouguang Agricultural Product Logistic Park, one of the largest agricultural market operators in the country. This is the first pre-IPO type deal for Blackstone and will likely be followed by others as the PE firm is currently raising a Yuan-denominated fund purely for China deals. Other companies are expected follow suit since the government has been pushing for the establishment of local currency funds to improve China's capital markets.

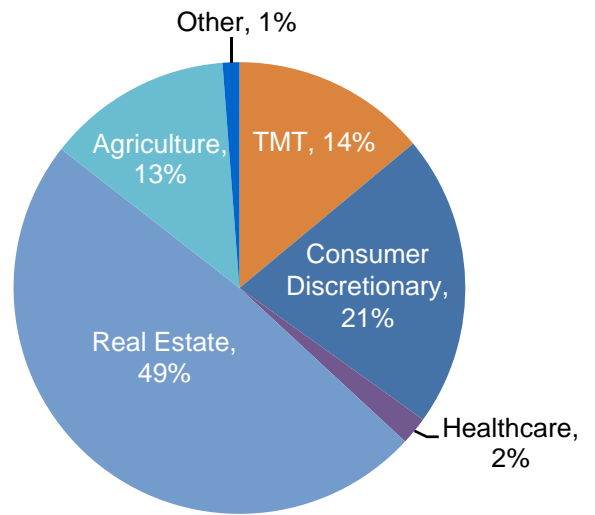


Q1 2010 Inbound M&A Activity

Industry Breakdown by Volume

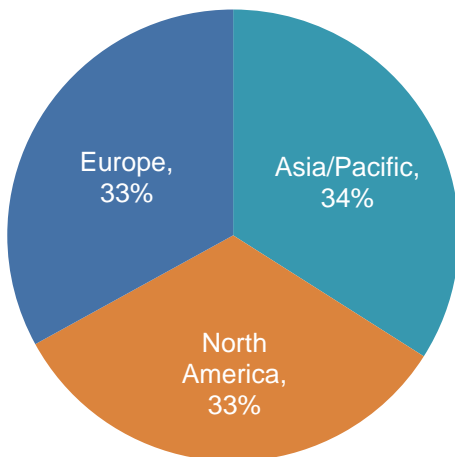


Industry Breakdown by Value

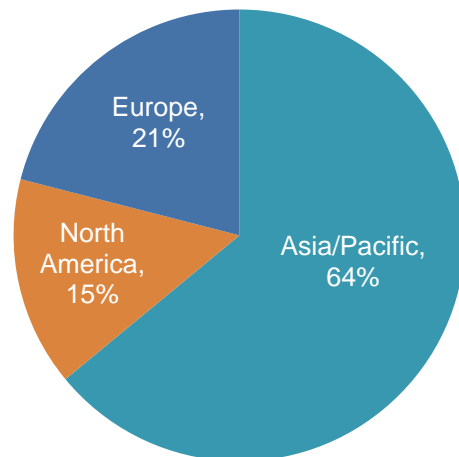


Notes: "Other" in this chart also includes one real estate case (USD 2.2bn) and one agriculture case (USD 0.6bn).

Regional Breakdown by Volume



Regional Breakdown by Value



About the Author

Steven Lee, CFA, is the Principal, Investment Research and Analytics at SmithStreetSolutions and is responsible for the strategy and operations of SmithStreetSolutions' financial advisory business. Steven has over 13 years of experience in investment analysis, structured products, and portfolio management. Steven's insights into M&A in China have been featured by NHK News and in the China Daily US edition. He has also been a speaker at a China Institute.



Corporate Lecture: The Effects of the US and Chinese Stimulus Packages, and is the author of the white paper on the same topic. Prior to joining SmithStreet, Steven served as Managing Director for an opportunistic, multi-strategy hedge fund in New York focusing primarily on private investments. Previously, he was the Head of Structured Products at Refco Alternative Investments, where he was responsible for the creation, distribution and management of Principal Protected Notes and Total Return Swap structures. Steven has also formerly worked at Asset Alliance Corporation, Bear Stearns investment banking, and James D. Wolfensohn, Inc. Steven received a B.A. in Economics, with Distinction, from Yale University and is a CFA Charterholder.

About SmithStreetSolutions

SmithStreetSolutions is a China-based consulting and financial advisory firm with offices in Shanghai and New York. By bringing global best practices to China and unlocking China's value, it provides clients with the knowledge and insights they need to make sound business decisions. Since its founding in 2007, it has provided its clients with strategic consulting, market research, due diligence, and financial advisory solutions across a wide range of industries.



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