

Regional Overview

China & Hong Kong | Trend Report

In association with

iDeals 

FY 2021

Foreword

Mixed messages have been coming out of the region in 2021. M&A records were broken, but against a background of sociopolitical issues that could yet affect China's position in the world as well as future dealmaking prospects.

The good news is that the region saw an 8.1% growth in GDP, with a record number of M&A deals, as well as the second-highest value total in Mergermarket's history.

However, there are rumblings amid the rejoicing. The biggest issue to threaten China's continuing economic growth is the real estate crisis. With three-quarters of China's spare cash invested in this sector, the threat of the bubble bursting has been with us for a while now. Starting with Evergrande, the market has become destabilized — developers are going bankrupt, confidence has fallen and property investment has sunk to its lowest level in seven years. The government's determination to eliminate COVID-19 means that we are still seeing lockdowns and other measures to contain outbreaks of the variants. And while these are strictly enforced and having minimal impact on investor confidence, the same cannot be said for consumers with retail sales falling.

Another cause for concern is that while GDP growth in 2021 was 8.1%, this was almost entirely in Q2 – the pace of growth fell to 0.7% in Q3 and only reached 1.6% in Q4. The IMF is now forecasting only 4.9% growth in China for 2022.

Fortunately, the pattern for M&A was quite different with the booming domestic activity staying consistent throughout the year. Indeed, there were actually more domestic deals in the second half of 2021 than in the first.

There have been three notable drivers for domestic activity. First, consolidation in certain sectors, notably infrastructure and technology, media and telecommunications (TMT). Second, a steep rise in PE buyouts. And, finally, the government's new Five-Year Plan is very focused on boosting the domestic market and moving away from its traditional dependence on heavy industry and toward a high-tech, high-skills economy. As well as strengthening internal supply chains and reducing dependency on foreign ones, there is tighter regulation in several industries, especially digital ones.

Meanwhile, inbound and outbound deal numbers were also both up significantly. However, the same cannot be said for value. The total for inbound was 10% down on 2021, mainly due to continuing travel restrictions and issues with acquiring high-tech companies. And the US\$64.6 billion value for outbound M&A falls well short of the US\$200 billion reached in 2016.

Sectorwise, there were differences between those recording the highest value and volume. The highest value came in the infrastructure and construction space (US\$139 billion) –

and included the year's second-biggest deal as Xinjiang Tianshan Cement bought four other cement companies.

As for numbers, industrials and chemicals took the top spot with 560 deals. TMT was second, followed by energy, mining, and utilities.

The other big story was the record number of PE buyouts in China last year. With piles of cash and pressure from their partners to spend it, PE will play an increasingly important role in the next few years.

So, while there are concerns about the ongoing impact of the pandemic; continuing US-China tensions; and the economic impact of the slowdown in the real estate market; it does look as if the drivers for M&A successes in 2021 are still there and may even be escalating.

China will be expanding its high-tech manufacturing and there will be opportunities for foreign investors, especially in subsectors such as semiconductors, renewable energy, and electric vehicles.

We expect to see additional consolidation in certain sectors and PE becoming even more of a force with which to be reckoned. The capital markets are strong and government policies will help to attract foreign investment into high-tech manufacturing and schemes to reduce carbon emissions.



John Yuan
Country Manager of China & South East Asia, iDeals

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2,381

China & Hong Kong M&A deal volume in 2021 – the highest annual total on record (since 2006)



26%

The construction sector's share of M&A value (US\$139bn) in 2021, the most active sector by value



+107

The increase in the number of tech deals announced in China and HK in 2021 versus 2020

€542.5bn

Deal value announced in 2021 in the China & Hong Kong region – the highest annual total on record

372

Number of private equity deals in 2021

US\$98.2bn

A record-breaking upswing in private equity buyouts

Home comforts replace foreign adventures in record-breaking M&A market

Despite headwinds blowing in the face of the Chinese economy in 2021 – including a major downturn in the real estate market, continued, if sporadic, COVID outbreaks and falling retail sales and consumer confidence – the M&A market withstood the buffeting.

Last year, volume hit a record 2,381 deals – an 18% increase on 2020 and the highest on Mergermarket record. Value stood at US\$545.2 billion, a year-on-year increase of 13% and the second highest total since records began. Encouragingly, Q3 and Q4 saw the highest deal figures (625 and 718 respectively), indicating that confidence in the M&A market has not wavered, despite a sharp slowdown in GDP growth in the second half of 2020.

Deal drivers

Dealmaking was driven by a number of factors including consolidation in certain sectors – including infrastructure and technology, media and telecommunications (TMT) – as well as a record-breaking upswing in private equity (PE) buyouts and the government's domestic policy agenda.

The new five-year plan for 'common prosperity' put growth at home under the spotlight and focused on boosting domestic consumption, strengthening internal supply chains (while reducing dependency on foreign ones), enhancing regulation in a variety of industries including financial services and education.

Domestic bliss

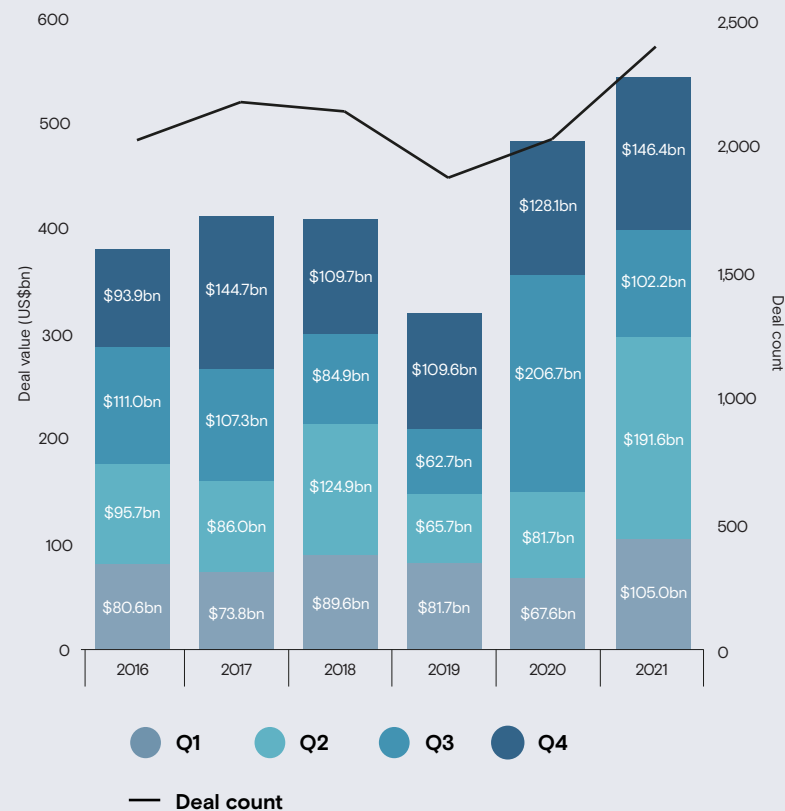
And it was domestic activity that spurred the increase in transactions in 2021. There were 2,179 domestic deals worth US\$503.5 billion (the highest and second-highest figures on record, according to Mergermarket). The largest deal saw the Sichuan Railway Investment Group consolidate with the Sichuan Transportation Investment Group for US\$111.5 billion – this was also the top deal globally last year.

As John Yuan, Country Manager of China & South East Asia for iDeals, says: "Despite market turbulence and regulatory risk concerns, the Chinese domestic market is booming. And many multinational companies are developing a China-to-China strategy and acquiring Chinese targets to reshape supply chains and make them more local."

In and out

Inbound deal volume also saw an increase last year – up 26% year-on-year with 202 deals. Value, however, was down 10% at US\$41.7 billion. Yuan attributes this drop in value to "travel restrictions, high valuations for certain companies and issues with acquiring high tech companies. Also, the government has launched several regulatory actions in sectors such as online education." The largest inbound deal saw A.P. Moller - Maersk acquire LF Logisti Holdings Limited for \$3.8 billion.

China & Hong Kong M&A activity 2016-2021



Data analysis continued

In terms of outbound M&A, there was a definite pick-up with 271 deals totalling US\$64.6 billion but this is far from the heady days of 2016 when 451 transactions took place, worth over US\$200 billion. “While there was an uplift, travel limitations are still in place and with crackdowns on the M&A process across the world, as well as geopolitical issues, I think outbound activity may stay quite weak in the short term,” says Yuan. “Companies will have to look much longer term.”

Sector watch

The Sichuan Railway deal, along with the second biggest transaction of the year (Xinjiang Tianshan Cement’s US\$15.2 billion takeover of four other cement companies including the China United Cement Group), pushed the infrastructure/construction section into top spot in the value table with US\$139 billion in total.

However, given these two outliers, the figure is somewhat misleading. The volume chart paints a very different picture – industrials and chemicals topped the table with 560 deals followed by TMT (338) and energy, mining and utilities (283).

“Sub-sectors of larger industries such as semiconductors, renewable energy and electrical vehicles are ripe for investment,” says Yuan. “Given that technological innovation, renewables and the digital economy are priorities for the government, acquirers and investors should be focusing on high-tech manufacturing and emissions reductions projects.”

PE was also extremely busy in China last year with record-breaking buyout numbers – US\$98.2 billion-worth of dry powder was invested across 327 deals. And, given PE’s bulging coffers and limited partners’ desire to see that money spent, it is likely that private equity will become a growing force in China over the next few years.

The next stage

Looking ahead, it is difficult to judge how the M&A market will fare in 2022. On the one hand, the pandemic is by no means over and flare-ups of Omicron or even new variants could necessitate more stringent measures; US-China relations are still tense despite the change in the US presidential administration; and, even with government intervention, the real estate crisis is unlikely to be resolved in the near future.

On the other hand, the factors that drove a record M&A market in 2021 are all very much in place – a focus on high tech; consolidation in certain sectors; a rebalancing of the domestic agenda; a buyout-hungry PE sector; and strong capital markets.

And Yuan is optimistic about the year ahead. “A stable environment, the openness of the Beijing Stock Exchange and forward-looking government policies such as initiatives to drive technological independence will continue to make China an exciting place to invest,” he concludes.



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China & Hong Kong markets?
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Top deals

| Announcement date | Target company | Target dominant sector | Target dominant geography | Bidder company | Bidder dominant geography | Seller company | Seller dominant geography | Deal value (€m) |
|-------------------|--|----------------------------------|---------------------------|---|---------------------------|---|---------------------------|-----------------|
| 02-Apr-21 | Sichuan Transportation Investment Group Co., Ltd. | Construction | China | Sichuan Railway Investment Group Co.,Ltd. | China | | | 111,535 |
| 03-Mar-21 | China United Cement Group Co., Ltd.; South Cement Company Limited (99.93% stake); Sinoma Cement Co Ltd; Southwest Cement Co Ltd (95.72% stake) | Construction | China | Xinjiang Tianshan Cement Co., Ltd. | China | An investor group led by China National Building Material Co., Ltd. | China | 15,173 |
| 11-Dec-21 | Tsinghua Unigroup Ltd. | Industrial: Electronics | China | China Great Wall Asset Management Co., Ltd.; China Investment Corporation; Zhuhai Huafa Group Co., Ltd.; JAC Capital Management Ltd; Wise Road Capital LTD | China | | | 9,420 |
| 30-Apr-21 | Peking University Founder Group Co Ltd (73% stake) | Computer software | China | Ping An Insurance (Group) Company of China, Ltd.; Zhuhai Huafa Group Co., Ltd. | China | | | 8,177 |
| 17-Nov-21 | China Huarong Asset Management Co., Ltd. (48.87% stake) | Financial services | China | Industrial and Commercial Bank of China Limited; CITIC Group Corporation; China Cinda Asset Management Co., Ltd.; China Insurance Investment Co., Ltd. | China | | | 7,368 |
| 15-Sep-21 | Wanda Light Asset Commercial Management Co., Ltd. (21.43% stake) | Services (other) | China | Tencent Holdings Ltd.; Country Garden Holdings Co., Ltd.; CITIC Private Equity Funds Management Co., Ltd.; PAG Capital; Ant Group Co., Ltd. | Hong Kong (China) | | | 6,000 |
| 30-Sep-21 | Xugong Construction Machinery Group Co Ltd | Industrial products and services | China | XCMG Construction Machinery Co., Ltd. | China | Xuzhou Construction Machinery Group Co Ltd | China | 5,981 |
| 09-Dec-21 | Hainan Airlines Holding Co., Ltd. (12.63% stake); HNA Aviation Group Co., Ltd. (95% stake) | Transportation | China | Hainan Fangda Airline Development Co Ltd | China | | | 5,974 |
| 08-Mar-21 | Jardine Strategic Holdings Ltd (15.11% stake) | Other | Hong Kong (China) | Jardine Matheson Holdings Limited | Hong Kong (China) | | | 5,528 |
| 26-Nov-21 | CGN Wind Energy Limited | Energy | China | Industrial and Commercial Bank of China Limited; Bank of China Limited; China Construction Bank Corporation; State Grid Corporation of China; China Chengtong Holdings Group Company Limited; National and others | China | | | 4,775 |

League tables

Financial advisor league table by value – mid-market (€5m-€250m)

| Ranking | | | | |
|---------|------|-------------------------|------------|------------|
| 2021 | 2020 | Company name | Value (€m) | Deal count |
| 1 | - | Citi | 1,050 | 5 |
| 2 | 20 | Rothschild & Co | 1,020 | 7 |
| 3 | 8 | GCA Corporation | 933 | 8 |
| 4 | 7 | Goldman Sachs & Co | 739 | 4 |
| 5 | 19 | William Blair & Company | 518 | 4 |
| 6 | 12 | KPMG | 516 | 7 |
| 7 | 21 | PwC | 487 | 6 |
| 8 | 24 | Houlihan Lokey | 456 | 3 |
| 9 | 32 | Macquarie Group | 423 | 3 |
| 10 | 45 | Jefferies | 418 | 3 |

Financial advisor league table by deal count – mid-market (€5m-€250m)

| Ranking | | | | |
|---------|------|-------------------------|------------|------------|
| 2021 | 2020 | Company name | Value (€m) | Deal count |
| 1 | 25 | Carlsquare | 307 | 11 |
| 2 | 7 | GCA Corporation | 933 | 8 |
| 3 | 11 | Rothschild & Co | 1,020 | 7 |
| 4 | 10 | KPMG | 516 | 7 |
| 5 | 5 | PwC | 487 | 6 |
| 6 | - | Citi | 1,050 | 5 |
| 7 | 1 | EY | 292 | 5 |
| 8 | 8 | Lincoln International | 275 | 5 |
| 9 | 4 | Goldman Sachs & Co | 739 | 4 |
| 10 | 34 | William Blair & Company | 518 | 4 |

Legal advisor league table by value – mid-market (€5m-€250m)

| Ranking | | | | |
|---------|------|--------------------------------|------------|------------|
| 2021 | 2020 | Company name | Value (€m) | Deal count |
| 1 | 5 | Freshfields Bruckhaus Deringer | 2,206 | 14 |
| 2 | 3 | Hengeler Mueller | 1,265 | 11 |
| 3 | 8 | CMS | 1,068 | 19 |
| 4 | 44 | Weil Gotshal & Manges | 1,010 | 7 |
| 5 | 22 | Wolf Theiss Rechtsanwaelte | 1,003 | 8 |
| 6 | 16 | Taylor Wessing | 987 | 10 |
| 7 | 18 | White & Case | 954 | 10 |
| 8 | 1 | Baker McKenzie | 949 | 9 |
| 9 | 175 | Orrick Herrington & Sutcliffe | 928 | 7 |
| 10 | 12 | Hogan Lovells International | 891 | 9 |

Legal advisor league table by deal count – mid-market (€5m-€250m)

| Ranking | | | | |
|---------|------|--------------------------------|------------|------------|
| 2021 | 2020 | Company name | Value (€m) | Deal count |
| 1 | 1 | CMS | 1,068 | 19 |
| 2 | 12 | Freshfields Bruckhaus Deringer | 2,206 | 14 |
| 3 | 7 | DLA Piper | 800 | 12 |
| 4 | 26 | VISCHER | 587 | 12 |
| 5 | 9 | Hengeler Mueller | 1,265 | 11 |
| 6 | 15 | Taylor Wessing | 987 | 10 |
| 7 | 18 | White & Case | 954 | 10 |
| 8 | 77 | Willkie Farr & Gallagher | 776 | 10 |
| 9 | 4 | Latham & Watkins | 763 | 10 |
| 10 | 3 | Baker McKenzie | 949 | 9 |

The advisor league tables by value and volume have been run from 01/01/2021 to 20/12/2021 and exclude lapsed and withdrawn deals. The tables are based on advice to a China & Hong Kong bidder, target or vendor and cover all sectors.

Criteria

All data is based on transactions over USD 5m and is based on the Mergermarket's M&A deals database. Deals with undisclosed deal values are included where the target's turnover exceeds USD 10m. Deals where the effective stake acquired is less than 30% will only be included if the value is greater than USD 100m. Full deal inclusion criteria can be found [here](#).

Trend data: Based on the dominant geography of the target company and excludes lapsed and withdrawn bids. Sector trends based on the dominant sector of the target.

Top deals: Based on the dominant geography of the target company.

League tables: Based on the dominant geography of the target, bidder or seller, and excludes lapsed and withdrawn bids.

All values are in USD
M&A Trends and Top Deals correct as of 9am (GMT),
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