



ASIA PACIFIC M&A REVIEW 2020

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Welcome

Welcome to the Herbert Smith Freehills Asia Pacific M&A Review for 2020.

In this edition, now in its 7th year, we review the trends and developments in M&A across a wide range of countries in the Asia Pacific region throughout 2019, and discuss our thoughts on the anticipated market trends for 2020 and beyond.

Should you have any questions in relation to M&A in the Asia Pacific region, please contact our partners across our network.

The Herbert Smith Freehills M&A Team

Herbert Smith Freehills

2019 was another exceptional year for Herbert Smith Freehills. Our M&A highlights include being ranked first by deal value in Asia Pacific for completed deals and first by deal count in Australasia for announced deals.

In 2019, Herbert Smith Freehills once again acted on the largest, most complex and most high-profile M&A transactions in the Asia Pacific. In particular, we achieved 'deal of the year' recognition in numerous jurisdictions and sectors including Australia, Indonesia, the Energy sector and the Asia Pacific region at large (see page 56 for more details).

Asia Pacific M&A in 2019

Key themes across the 2019 Asia Pacific M&A market include:

- 1 Resilience amidst tough global conditions**

Although M&A activity globally was softer in 2019 compared to prior years, we have continued to see resilience in a number of markets in the Asia Pacific region despite various challenges (including the impact of the US-China trade war). Deal momentum across the region picked up towards the end of 2019, with over 1000 deals totalling US\$165bn recorded for Q4 2019, the highest quarterly deal value and count in the year. Several jurisdictions, especially Singapore and Thailand, also flourished. In particular, Thailand deal value was US\$3bn higher than 2018 and M&A activity in Singapore increased 125.6% compared to 2018.
- 2 Distressed M&A strengthens**

In line with the broader global economic environment, 2019 saw the rise of distressed M&A transactions. The year saw interest from a number of strategic buyers, in particular financial institutions and funds.
- 3 Private Equity reigns supreme**

As with 2018, private equity and venture capital activity continued to build in 2019 throughout the region. Borrower friendly conditions generated greater opportunities and increased investment yields, attracting strong private equity activity across Australia, Indonesia, India, Singapore, South Korea and Vietnam. Larger funds and also newer funds (eg BGH) cemented their place in the market and showed themselves to be active players in the space. Technology remained the largest sector for private equity buyouts and exits, both in terms of deal value and deal count (US\$17.7bn across 133 deals and US\$8.1bn across 38 deals, respectively), consistent with the trends we observed for this sector in last year's edition.

Asia Pacific M&A in 2020

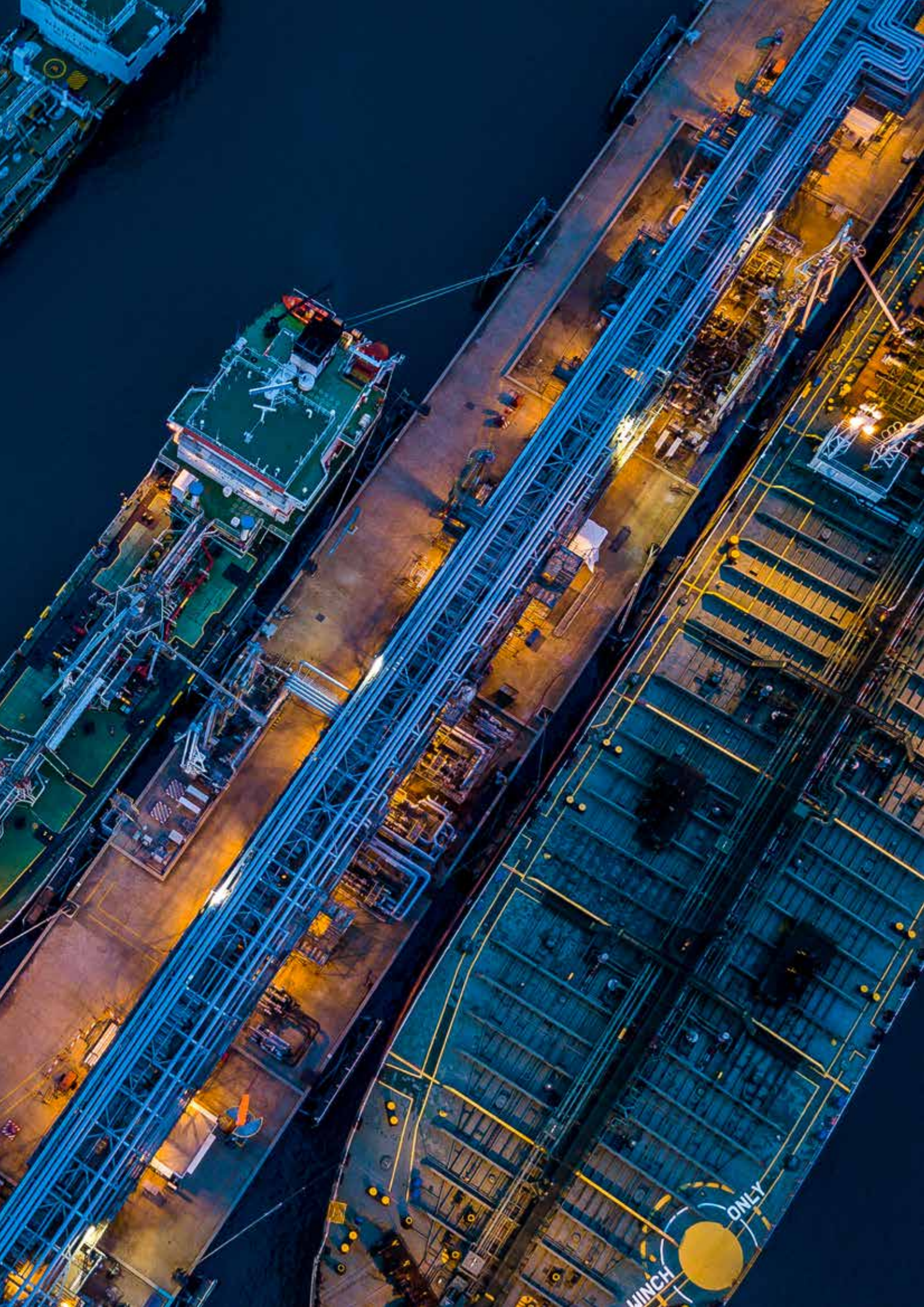
Predictions for the broader Asia Pacific M&A market for 2020 include:

- 1 High-performing markets and sectors continue to gain strength**

There are indicators to suggest that 2020 will be a good year for M&A in the Asia Pacific region, building on the upturn seen at the end of 2019. We expect a number of complex public M&A deals and private trade sale processes to occur, with jurisdictions like Singapore continuing to lead the surge in activity. We also expect 2020 to be a breakout year for Australian M&A. A key driver of this activity will be the diversity of sectors experiencing strong performance. Energy, Infrastructure and Technology will continue to attract interest while we expect Financial Services will remain a breakout sector.
- 2 Environmental, Social and Governance influences**

Environmental, Social and Governance (ESG) considerations have become a dominant theme in investment and portfolio decisions in the Asia Pacific area, and indeed globally. This has been particularly evident to date in the mining sector, particularly in thermal coal. There is increased pressure from activists, consumers and investors for companies to observe new ESG guidance and principles. Factors such as environmental policies, safety and innovation are likely to continue to feature prominently in due diligence and strategic planning for M&A transactions in 2020.
- 3 China: a key market**

Geopolitical tensions caused by the US-China trade war hampered China deal activity in 2019, and the onset of the novel coronavirus in early 2020 will bring a new set of challenges. However, we expect the Chinese M&A market to prevail later this year. China remained the largest recipient of foreign direct investment globally in 2019, and with China's new Foreign Investment Law having come into effect on 1 January 2020, we expect China will continue to attract strong foreign investment interest from the Asia Pacific region and beyond, once current challenges are navigated.





Australia

Australian M&A poised for breakout 2020



2019 Highlights

- While some initial political uncertainty and a toughening regulatory stance led to ostensibly lower deal volumes in 2019, the tail end of the year saw signs of renewed levels of M&A activity which we expect will continue in 2020.
- Super funds cemented their status as active M&A participants in 2019, with this new state of affairs evidenced by the BGH-AustralianSuper consortium's involvement in multiple bids over the year.
- The Australian competition regulator (the ACCC) and the Australian foreign investments regulator (FIRB) continue to actively scrutinise M&A deals.



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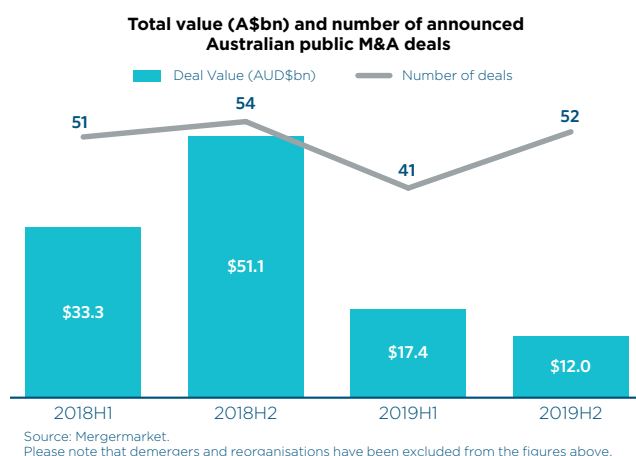
The state of the market

Despite outwardly lower deal volumes in 2019, with confidence returning to global markets the year ahead for Australian M&A looks to be a busy one, with the potential to be one of the most active years for some time.

Overall settings

The overall economic-political situation in Australia has not dampened M&A activity. While the economy has not enjoyed particularly high rates of growth over the last few years, it has been relatively stable and confidence levels remain high. The 2019 general election also saw the Coalition Government returned to office as well as increasing revenues improving the budgetary position.

Against that backdrop, Australian companies have faced the continuing question from investors as to where growth and value is coming from, leading to boards actively considering domestic and outbound M&A opportunities. A good example of recent sizeable outbound M&A activity is industry superannuation owned IFM Investors A\$14.6bn purchase of US oil pipeline business Buckeye Partners.



This has also led to a heightened level of portfolio review by companies and private equity firms, driving a number of M&A processes as assets are sold as a consequence of those reviews. Portfolio review has also been a consequence of the financial services Royal Commission, with banks selling large parts of their wealth management arms.

Predictions for 2020

Our key predictions for Australia M&A in 2020 are as follows:

- 2020: A breakout year for Australian M&A**

There are a number of indicators to suggest that 2020 will be one of the busiest years for M&A that we have seen in some time. Expect a number of large public M&A deals and private trade sale processes to drive a very buoyant outcome. But 2020 should be a breakout year. The main risk to this outcome will be a reversal of political tailwinds back into headwinds.
- Political tailwinds emerge**

In recent years, political headwinds, both domestic and foreign, have hindered M&A markets, depriving deal decision makers of the most vital ingredient of all: confidence. There are suggestions that this may reverse. A decisive UK election victory and talk of US-China trade progress may be markers of a changing tide. So too could the 2019 Australian election result. But all of this can change quickly and so this variable remains the most critical one to the Australian M&A market in 2020.
- Many sectors active: Infrastructure, health, energy and mining key ones to watch**

Another key driver of a strong 2020 result will be that activity will be across a range of sectors. Infrastructure continues to attract interest, as does energy and health. These sectors will attract interest across a range of players, both traditional and new. Some pockets of the mining sector should also see heightened activity. We expect gold to be an area of focus in 2020.
- Demergers give way to break-up deals**

The last few years has seen much demerger activity to unlock shareholder value. Some of this will continue. The commercial dynamic is usually the question of whether a particular set of businesses ought to be housed together. That dynamic can however be addressed in a number of ways, including with bids from third parties and consortia. Expect to see more of this in 2020.
- Return of the restructuring deal**

In an interesting moment in the economic cycle, one area of interest will be distressed M&A. Often attracting fund buyers, 2020 should see an array of these sorts of deals. It is a difficult area of deal-doing with many technical rules that do not appear on the non-distressed M&A radar. But being able to navigate those rules can lead to value-enhancing transactions and we expect to see a healthy deal flow in this part of the spectrum this year.

An example is last year's A\$4.3bn sale of CFS Global Asset Management by Commonwealth Bank to MUFG.

Australian companies themselves considering M&A opportunities continue to be in the crosshairs of foreign corporates. Australia remains a popular inbound M&A destination for foreign companies looking to establish or grow in the Asia Pacific region. The A\$9bn approach by Alimentation Couche-Tard to Caltex towards the end of last year is a good example.

Also relevant to the balance of the M&A market is the role played by funds. In this category, private equity remains a vital part of the equation. The role of BGH in the A\$4.3bn Healthscope situation as well as its A\$2.1bn acquisition of Navitas and its recently announced proposed A\$770m acquisition of Village Roadshow provides a good example of a relatively new PE entrant making its mark.

But non-PE funds are also increasingly active. As shareholders, they are now playing a lead role in public M&A situations. More importantly, their time on the bidder side of the equation has arrived. They have significant funds to deploy and are ready, willing and able to drive M&A deals. This will add significantly to the demand side of the ledger.

The bidder-target dance

Aspiring acquirers in listed M&A deals have continued to confront boards prepared to actively pursue the best outcome for shareholders by some combination of rejecting proposals, developing value-enhancing alternatives or finding alternate bidders.

This, combined with rising equity markets, has seen some bidders unable to land their deals. It has meant that bidders need increased sophistication and thought beyond the usual deal playbook to ensure a successful outcome.

Sometimes this plays out in public, but sometimes it does not. While it is the case that a good number of listed change of control proposals are disclosed to the market, equally a good number are not.

The regulatory state of play

There are two key points to call out in relation to the regulatory state of play for Australian M&A.

The first is a generally tougher stance taken by regulators. This to some degree is one of the many consequences of the financial services Royal Commission. Thus market participants can expect the Australian Securities and Investments Commission to play a more active role in listed M&A deals. Our competition regulator, the Australian Competition and Consumer Commission, continues to be an important player in the M&A landscape, with its role in the A\$15bn TPG-Vodafone merger a good example of that.

The second is that our foreign investment regulator, the Foreign Investment Review Board, continues to place a very significant emphasis on the role of data in M&A deals. This can have a broader application than many think, and is a material issue to be addressed for many foreign acquirers.

Early engagement with the regulators in appropriate cases can be critical to the success of M&A deals.

2019 Key deals

- **Healthscope** - a novel dual scheme and takeover structure saw Brookfield succeed against rival bidder BGH-AustralianSuper consortium, with a deal value of A\$4.3bn.
- **TPG-Vodafone merger** - the proposed A\$15bn merger between telecommunication companies TPG and Vodafone was initially blocked by the ACCC in May 2019. The ACCC decision was overruled by the Federal Court in February 2020.
- **Sale of CFSGAM** - Commonwealth Bank's A\$4.2bn sale of its global asset management business, Colonial First State Global Asset Management, to MUFG.
- **Aveo scheme** - Canadian asset manager Brookfield struck again, acquiring Aveo Group via concurrent schemes of arrangement which valued the retirement living company at A\$1.3bn.

Herbert Smith Freehills is acting on, or acted on, each of the transactions listed above.



Mainland China

Investors embrace new normal



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2019 Highlights

- 2019 has seen China-related M&A fall by both deal volume and value.
- Despite the overall decline, industrial, consumer, high technology and financial services sectors remained active.
- With China's new Foreign Investment Law coming into effect on 1 January 2020, we expect China will further level the playing field for foreign investors and attract foreign investment.
- Whilst continuing to participate in emerging markets, Chinese companies are increasingly looking at investment opportunities in developed markets.

The state of the market

The deal value of China-related M&A deals in 2019 fell to US\$294.5bn, a drop of 27.6% compared to 2018. 2019 deal volume declined 17.2% compared to 2018 with 1735 transactions.

Decline in M&A transactions

2019 has seen China-related M&A activity fall significantly in both deal volume and value. The drop in outbound M&A and domestic PE deals were the major factors in what has been the lowest year for deal values since 2013. Increased foreign investment scrutiny in the US and Europe has been a key driver for the decline in outbound M&A. The prolonged and unpredictable US-China trade war has also been an important factor.

Opportunities still existed

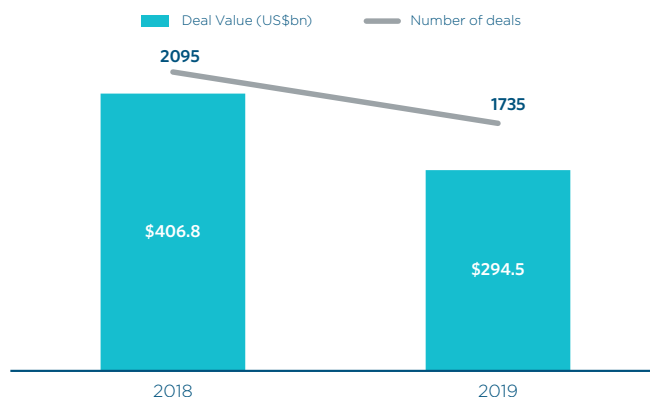
Despite the overall decline, M&A in the industrial, consumer, high technology and financial services sectors remained active. High profile deals include Beijing Auto's acquisition of a 5% stake in Daimler, Chubb Ltd.'s US\$1.5bn acquisition of shares in Huatai Insurance Group and JPMorgan's establishment of a majority-owned Chinese securities joint venture.

Multinational companies operating in China continued to explore restructuring plans, new business models and co-operation with local players to either strengthen their competitiveness in the Chinese market or adjust their regional strategies. High-profile deals included Metro China's cooperation with Wumart and Carrefour's partnership with Suning.

Further opening up of foreign investment

China remained the second largest recipient of foreign direct investment globally in 2019. China Ministry of Commerce data shows that foreign direct investment into China in 2019 topped US\$137bn, a 5.8% year on year increase and the biggest rise since 2017.

Total value and number of China-related M&A deals (with deal value over US\$5m)



Source: Mergermarket

On 1 January 2020, China's new Foreign Investment Law came into effect, which overhauled the decades old regime for foreign investment in China. The new law demonstrates China's efforts to level the playing field for foreign investors and will have a profound impact on foreign investors' investment strategies and structures in China. The Chinese Government has also passed new rules and reaffirmed its determination to open up more sectors, including automobile and financial services, to foreign investment.

The Belt and Road Initiative continues to expand

Chinese companies have increasingly invested in South East Asia, the Middle East, Europe, Africa and South America following the Belt and Road Initiative. Whilst continuing to participate in the emerging markets, more Chinese companies have begun looking to invest in infrastructure and major projects in developed markets. Key market players are still mainly Chinese State-owned contractors but other players such as private companies, financial investors and funds are becoming more active.

2019 Key deals

- **Hengfeng Bank** – a group of state and foreign investors purchased an undisclosed stake in the troubled lender for US\$14.3bn.
- **Carrefour China** – Suning acquired an 80% equity stake in Carrefour China for EUR620m.
- **UK power storage project** – a Chinese consortium acquired a 100MW greenfield power storage project in the UK.
- **Inchcape** – London-listed automotive distributor Inchcape PLC sold its China retail business to China Yongda Automobiles Services Holdings Limited.

Herbert Smith Freehills is acting for, or acted for, the Chinese consortium and Inchcape on the deals listed above.



Predictions for 2020

Our key predictions for China M&A in 2020 are as follows:

- 1 Investors to embrace “new normal”**

Trade tensions, geopolitical uncertainties and protectionist policies still loom in 2020. The outbreak of the novel coronavirus at the beginning of 2020 will also have a significant impact on China's economy. Nonetheless, investors are beginning to embrace the “new normal” and are adjusting their investment strategies to overcome these challenging conditions. Further, US and China have signed the phase one trade deal which should have a positive impact on investment and M&A activity in 2020.
- 2 Key sectors for growth**

We expect that the financial, TMT, consumer and industrials sectors will continue to be key growth sectors for M&A in China in 2020. China's trillion dollar financial sector will attract worldwide investors as foreign investment restrictions are lifted in 2020. A return to reasonable valuations of high-tech companies will help boost investor confidence. We are also optimistic that consumer-related industries will continue to boom in the medium term amid the rising demands of China's massive middle-class population.
- 3 Outbound investment in APAC countries to pick up**

CFIUS's expanded jurisdiction in the US and the tightened FDI regime in Europe will continue to create headwinds for China's outbound investment into these regions. Outbound M&A targeting APAC countries in 2020 is expected to pick up as China focuses more on promoting balanced regional geopolitics.

Industry Focus: Mining

Investment and supply-driven growth

2019 Highlights

- 2019 was another strong year for mining M&A – particularly in gold and iron ore, underpinned by strong prices for these commodities.
- Investment-led transactions focussed on diversification (across both commodities and geographies) and ensuring continued supply growth.
- Environmental, social and governance (ESG) considerations have become a dominant theme in investment and portfolio decisions and ESG factors are likely to continue to influence mining M&A throughout 2020.



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The state of the market

Following a number of years of mining M&A being driven by divestment and portfolio re-balancing, 2019 saw a shift back to investment-driven M&A with a number of key transactions focussed on growing and diversifying commodity portfolios and ensuring continued security of supply. Alongside large-scale transactions such as the takeovers of Kidman Resources and Riversdale Resources, 2019 saw a significant number of smaller transactions involving listed exploration and mining companies focussed on gold, iron ore, base metals and battery materials. The largest transaction in Australia was Albemarle's A\$1.3bn acquisition of a 60% share of Mineral Resources' Wodgina lithium project – although the completion announcement coincided with mine operations being idled until market conditions improve.

2019's focus on exploration and development also triggered renewed M&A activity in the mining contracting sector and interest in associated infrastructure projects. Notably, Flinders Mines Limited entered into binding agreements with BBI Group Pty Ltd in relation to the development of its flagship Pilbara Iron Ore Project¹.

1. The transaction remains subject to shareholder approval. Herbert Smith Freehills is advising BBI Group Pty Ltd.



A new gold rush?

Geopolitical tensions – including the US-China trade war and tensions between US and Iran – pushed the gold price 19% higher in 2019. In response, gold investments dominated mining M&A in Australia. We expect this trend to continue into 2020 as junior explorers seek new sources of funding and majors look to shore up sources of supply.

ESG-driven investing

ESG considerations increasingly influenced investment decisions in 2019. In mining, this influence was most apparent in thermal coal, where divestments continued and major investors such as BlackRock looked to reduce their exposure. More broadly, ESG factors such as environmental policies, safety and innovation increasingly featured in the due diligence and strategic planning for M&A transactions.

2019 Key deals

- **Sale of KCGM Super Pit** – Barrick Gold Corporation sold its 50% interest in Kalgoorlie Consolidated Gold Mines (KCGM) for US\$750m (A\$1.1bn) to Saracen Mineral Holdings Limited. This transaction was followed by Newmont Gold Corporation's sale of its 50% stake in KCGM to Northern Star Resources Ltd – making the Super Pit 100% Australian-owned.
- **Hancock Prospecting takeover of Riversdale Resources** – Hancock Prospecting Pty Ltd completed an off-market takeover of Riversdale Resources Limited in a transaction that valued the company at approximately A\$600m and enabled Hancock to implement its strategy of diversifying its resources operations and expanding into a new jurisdiction.
- **Wesfarmers Limited acquisition of Kidman Resources** – Wesfarmers Limited acquired Kidman Resources Ltd (an ASX-listed Lithium explorer and developer) in a scheme of arrangement that valued the share capital at approximately A\$770m.

Herbert Smith Freehills acted for Barrick Gold Corporation on the sale of its interest in KCGM.

Predictions for 2020

Our key predictions for M&A in the mining industry in 2020 are as follows:

- 1 M&A driven by growth in battery technology and electrification**

Although lithium demand softened in 2019 (partially due to lower subsidies on electric vehicles in China), we expect continued M&A activity in lithium, copper and other battery materials in 2020 as the long term trend toward electrification continues.
- 2 A new era of consolidation**

As mining companies continue to seek new sources of supply and the costs and risks associated with developing greenfield projects increase, we expect to see more consolidation and joint ventures as a way of increasing production to take advantage of strong commodity prices. This trend will likely be most apparent amongst gold miners, but is not commodity-specific.
- 3 Coal sector M&A**

Overall, we expect M&A activity in coal to remain slow in 2020. This is due to a combination of coal price volatility and the limited availability of high quality coal mines for sale. Transactions are likely to focus on continued thermal coal divestments by the majors, hard coking coal opportunities and smaller consolidation plays (such as Whitehaven's acquisition of a further 7.5% interest in the Narrabri Mine, which completed in January 2020).
- 4 Focus on automation and new technologies**

We anticipate M&A activity in automation, innovation and emerging clean energy technologies will increase. This trend will be driven by a combination of the mining industry's increasing commitment to combatting climate change as well as the need for producers to increase margins in a high cost operating environment. Although we expect deal numbers to increase, deal size is likely to remain small as investors hedge their exposure and wait for new technologies to be proven commercial.



Hong Kong

An overall challenging year

2019 Highlights

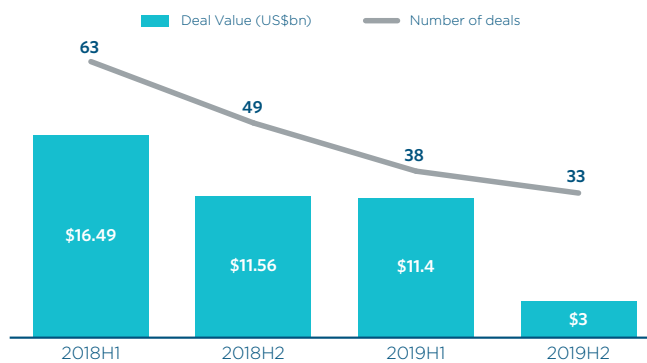
- The impact of the US-China trade war extends to Hong Kong with a more cautious approach to deals.
- Hong Kong M&A activity was down amid a difficult social and political climate.
- Hong Kong privatisations by Mainland parents on the rise.

The state of the market

The ripple effect of the US-China trade war coupled with the prolonged anti-government protests resulted in a drop in M&A activity in Hong Kong in 2019, with deal values falling to a six-year low.

The overall number of Hong Kong M&A deals fell, particularly in the second half of the year. Whilst deal values held up in the first six months of 2019 in line with levels in the latter half of 2018, there was a significant drop in deal size in the second half of 2019.

Total value (US\$bn) and number of announced Hong Kong public M&A deals



Source: Mergermarket



A difficult year for Hong Kong M&A

Hong Kong M&A activity fell to a six-year low in 2019 amid the ongoing US-China trade war which has dampened M&A activity in the region, with investment decisions being delayed and transactions being put on hold. In addition, Mainland companies which may look to structure outbound M&A through their Hong Kong entities are facing greater scrutiny on national interest grounds. Outbound M&A has targeted Europe, with CK Asset Holdings' US\$2.7bn acquisition of the UK pub and hotel chain Greene King amounting to one of the largest deals in 2019. Another factor impacting Hong Kong has been the city's prolonged social unrest and political difficulties causing uncertainties in valuations and a more cautious approach.

Tightening regulation contributes to challenges

Following a number of regulatory amendments in 2018 which tightened M&A-related regulations, in 2019 the Hong Kong Stock Exchange revised the Listing Rules to strengthen restrictions on backdoor listings and continuing listing criteria. Whilst the latest changes were aimed at combatting listed company shell activities which have been the subject of regulatory scrutiny in recent years, the enhanced regulatory environment creates additional hurdles for listed companies contemplating significant transactions.

Privatisations by Mainland China parent companies

In 2019 we have seen a number of privatisations by Mainland-based parent companies of their Hong Kong-listed subsidiaries for a number of different reasons. For example, in light of PRC regulations standardising the restructuring of State-owned enterprises which had restricted equity capital fund raisings, China Huaneng launched a privatisation bid for Hong Kong-listed Huaneng Renewables. Similarly, Harbin Electric's state-owned parent made a voluntary cash offer for the H shares, to simplify its corporate structure and reduce compliance costs from the listed status.



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2019 Key deals

- **Huaneng Renewables Corporation** – a voluntary conditional offer by China Huaneng Group and H share delisting, one of the first large scale H share privatisations since the rules were tightened in 2018.
- **CK Asset Holdings** – US\$2.7bn recommended cash acquisition of the UK pub and hotel chain Greene King plc by way of a Court-sanctioned scheme.
- **Shunfeng International Clean Energy** – a RMB\$3bn sale of its solar power module manufacturing and plant management businesses to Asia Pacific Resources Development Investment and RMB\$641m sale of solar power generation plants to a subsidiary of China National Nuclear Corporation.

Herbert Smith Freehills is acting for Huaneng Renewables Corporation on the first deal and acted for Shunfeng International on the deals listed third above.

Predictions for 2020

Our key predictions for M&A in Hong Kong in 2020 are as follows:

- 1 Challenging outlook for Hong Kong M&A**

We expect the continued political and social unrest in Hong Kong and the challenges presented by the novel coronavirus to affect M&A activity in the year ahead, with difficulties for sellers in achieving valuations. However, potentially lower values will present opportunities for buyers, with interest from Mainland China likely to continue.
- 2 Outbound focus on non-US regions**

Due to the continued trade tensions between China and the US and US national interest impacting China, Hong Kong buyers will likely continue to focus on non-US regions, in particular Europe and opportunities in South East Asia and Japan.
- 3 Continued role as connector between Mainland China and rest of world**

We expect that Hong Kong companies will continue to be used as platforms for investments into and out of Mainland China. PRC businesses are likely to continue to conduct their overseas expansions through their Hong Kong entities. Similarly, Hong Kong is expected to remain a strategic post for inbound investment into China.
- 4 New opportunities from the Greater Bay Area initiative**

The ramping up of the Greater Bay Area initiative will likely create investment opportunities for Hong Kong companies, as well as international players structuring transactions through Hong Kong, to invest in the wider Greater Bay Area.
- 5 Sectors of interest: Financial services and healthcare**

We anticipate the continued regulatory support for fintech and the issue of virtual banking licenses will create opportunities for investment and joint ventures in those sectors. We also expect maintained interest in biotech and healthcare sectors.



India

Strong year despite headwinds



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2019 Highlights

- M&A activity continued to be buoyant in 2019, recording the second best year for deal-making after 2018 and since 2001.
- Legacy and latent issues, including over-leveraged companies, corporate governance and certain policy decisions, had an adverse belated impact on the economy and M&A.
- Distressed situations and India's Insolvency and Bankruptcy Code (IBC) will continue to be significant drivers in 2020.



The state of the market

India recorded M&A transactions worth US\$67bn in 2019, a decline from over US\$100bn in 2018. However, 2019 still remained the second best year for deal-making since 2001.

Inbound M&A dominated the Indian M&A market, making up US\$38bn in value, and outbound M&A (at US\$2bn in value) was at its lowest since 2014. The US, Canada and Japan continue to dominate foreign investment into India.

PE buyout deals increased in value from US\$17.6bn in 2018 to US\$19.6bn, but PE exits decreased from US\$35.8bn in 2018 to US\$7.9bn (although PE exit figures in 2018 were inflated by the US\$16bn acquisition by Walmart of Flipkart).

2019 Key deals

- **Aramco-Reliance** – Saudi Aramco's minority investment of US\$15bn in Reliance Industries' Oil-to-Chemicals business.
- **ArcelorMittal-Essar** – ArcelorMittal's and Nippon's acquisition of Essar Steel.
- **Brookfield-Reliance Tower Infrastructure** – Brookfield's acquisition of Reliance Tower Infrastructure Trust for US\$3.7bn.
- **InterGlobe-K+K Hotels** – InterGlobe's acquisition of the K+K hotel portfolio from Goldman Sachs and Highgate.
- **Nanomi-Unison Capital Partners** – Nanomi's sale of its stake in its Japanese subsidiary to Unison Capital Partners.
- **Strides-Arrotex** – Strides Pharma Science's sale of its entire Australian business, including Arrow Pharmaceuticals, to Arrotex.

Herbert Smith Freehills acted for InterGlobe, Nanomi and Strides on the deals listed above, and has previously acted for Reliance Communications on its proposed towers acquisition by Brookfield (aborted).

Key themes for 2019 and outlook for 2020

Election year, and economic outlook in India and internationally

Political uncertainty preceding the 2019 parliamentary elections made the Indian market less attractive to foreign investors in the first half of the year, and the economy remained sluggish in the second half of the year as a result of a number of domestic factors, including implementation issues with GST and the continued after-shock of demonetisation, which has led to liquidity crunch and a demand slump.

Between 2014 and 2018, India's economic fundamentals remained strong, but 2019 saw a slower growth rate with an estimated growth rate of 5% (this has been 7-8% in recent years), higher inflation in excess of 7% (this has been 2-4% in recent years), an increase in the fiscal deficit to 3.8% (this has been 3.5% in recent years) and higher unemployment.

The government announced various measures in the second half of 2019 in an effort to reenergise the economy, including reducing corporate tax rates from 30% to 25% (and a lower tax of 17% for manufacturing companies registering after 1 October 2019), divestment of its stakes in a number of public sector undertakings (eg Bharat Petroleum, Air India and CCI) and further relaxation of certain Foreign Direct Investment (FDI) regulations (eg 100% FDI now permitted in contract manufacturing and eased sourcing norms for single-brand retailers).

Global economic uncertainty was also a contributing factor, with inbound investors choosing to adopt a go-slow approach until the uncertainties of the US-China trade war are addressed.

Credit crunch

The crisis among Non-Banking Finance Companies (NBFCs) which began with the collapse of IL&FS due to non-payment of debt in 2018 left the already sluggish economy in shock. This has led to a domino effect as multiple companies (eg Altico Capital and Dewan Housing Finance Corp) have struggled to refinance their existing debt and, consequently, defaulted on loans. NBFCs form an important part of the Indian economy as they lend to those who do not have access to the traditional banking systems and in particular play an important role in the realty sector.

Weak corporate governance structures, which have led to corporate distress and allegedly the collapse of Jet Airways and Cox and Kings, have worsened the liquidity crunch.

Distressed M&A: India's new and popular investment class

In light of the economic outline above, as was the case in 2018, distressed M&A (in particular M&A arising out of IBC governed resolution processes) continued to be a very strong theme in 2019 (eg Reliance Industries-JM Financial's proposed acquisition of Alok Industries and Patanjali's proposed acquisition of Ruchi Soya) and there is no doubt that the IBC has been a major catalyst for M&A in relation to other distressed assets that have not entered into a formal IBC process (eg Brookfield Asset Management's acquisition of Hotel

Leelaventure and Lotus One's (Singapore) investment in HNG).

While in 2018 IBC driven M&A was largely confined to domestic strategic buyers, as we had anticipated last year, there has been increasing interest from overseas strategic buyers and financial investors. ArcelorMittal-Nippon's acquisition of Essar Steel for US\$5bn which completed in December 2019 following approval from the Indian Supreme Court has paved the way for other overseas buyers and investors.

The continuing rise of private capital

Private capital, led by sovereign wealth funds, PE sponsors and family offices, has held a prominent place in the international and Indian M&A market over the last few years with significant investments in companies like Oyo, Paytm, Ola and Zomato. The Indian start-up ecosystem has witnessed the emergence of over 100 unicorns in less than five years (up from about 20), most of which have achieved US\$1bn plus valuations in the last 12-24 months.

If this trend were to continue, we are likely to see significant consolidation either led by or involving the acquisition of significant Indian start-ups as is currently the trend in the international M&A market (eg Uber's US\$31.bn acquisition of Careem or Amazon's investment in Deliveroo).

Technology

We expect fintech deals will continue to be a feature of the M&A landscape, especially as companies in the US, China and Japan expand into the Indian market. The TMT sector as a whole has also seen significant growth, driven by renewed emphasis on digital payments and e-commerce.



Private Equity and Venture Capital

Strong momentum into 2020



2019 Highlights

- The PE market saw strong competition for quality assets in 2019 as sponsors sought to deploy record levels of dry powder raised by the industry. Public to privates are likely to remain a key feature of the 2020 landscape as funds seek to deploy significant capital on cornerstone investments.
- Fundraising activity remained strong throughout the year, with managers poised to come under focus to deploy capital throughout 2020, resulting in high levels of deal flow.
- Venture capital (VC) fund investment activity continued to grow in 2019 off the back of the growth of 2018. Superannuation and family held funds continued to increase their presence in the market with a particular interest in growing their exposure to the tech sector.
- The trend of strong borrower-friendly conditions continued through 2019 as a result of high levels of liquidity and the availability of a number of alternative debt products from a growing list of institutions.



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2019 Key deals

- **Archer Capital** – exited its investment of Craveable Brands to PAG Asia Capital for circa A\$500m.
- **SPC** – the iconic Australian SPC fruit packaging and processing was acquired by a PE consortium from Coca-Cola Amatil.
- **KKR** – acquired Arnott's from Campbell Soup Company for A\$3.2bn.
- **CSR** – sold its Viridian glass business to Crescent Capital Partners for A\$155m.
- **2XU** – an Australia-based activewear business, was sold by its founders and Tanarra Capital to L Catterton.
- **Culture Amp** – successfully raised US\$82m through its Series E fundraising round.
- **Potentia Capital** – successfully closed its first fund, Potentia Capital Fund I, and acquired a majority stake in Education Horizons Group amongst other investments.
- **The Growth Fund** – acquired The Guest Group.
- **CHAMP Ventures** – sold Sea Swift to QIC for circa A\$300m.
- **TPG** – acquired Greencross for A\$669m.

Herbert Smith Freehills is acting for, or acted for, Archer Capital, Perma Funds Management, CSR, 2XU, Culture Amp, Potentia, The Growth Fund and Champ Ventures on the deals listed above.

The state of the market

Private Equity – Asia Pacific

The demand for high quality assets from institutional investors across Asia resulted in solid deal flow and fundraising successes in 2019. A number of private equity houses have closed Asia-focused funds with large amounts of dry powder. Consequently, transactions have become increasingly more competitive with diverse private capital chasing the same assets. In some instances, competitive auction processes have resulted in private capital co-investing in clubs to secure the right prices with the right risk tolerances. This is leading to an intersection of LP-GP investment relationships: there are now a number of sovereign wealth funds and pension funds making direct investments or co-investments, sometimes together with general partners, sometimes even independently.

Asia has also started to shift its focus towards Environmental Social and Governance (ESG) and impact investing. One such example is a US\$4.25bn fund raised by Warburg Pincus which is focused on scalable and sustainable growth companies in China and across Asia. We expect that the increasing trend of greater pressure being placed on investors to anchor their investment decisions to environmentally, socially and ethically sustainable outcomes will continue. Over the coming years, impact investments with a clear focus on renewables, waste to energy, healthcare and equality are expected to increase across Asia.

The increasing focus on venture capital is another important trend in the region. Many PE firms and even traditional Japanese trading houses are now focusing on emerging businesses and start-ups. Examples include TPG into PropertyGuru, Equinas into MediExpress, Temasek into each of Zilingo and Sociolla and KKR into each of aCommerce and Voyager. There are similar trends from Marubeni's active venture arm and other investors from Japan and Korea. We are also seeing many of Asia's "unicorns" (including Grab in Singapore, Go-Jek and Traveloka in Indonesia, and VNG Corporation in Vietnam) competing directly for deals.

Private Equity - Australia

Sponsors remained active in 2019, both in terms of fundraising and deal activity, with the consumer, leisure and healthcare sectors recording a lot of competitive interest manifesting in several significant sized transactions. The software industry also received

a lot of interest from the smaller end of the market, with PE houses finding value in high growth companies with solid value propositions. Few transactions occurred in the agriculture and media sectors but with relatively high cheques, while the energy sector was relatively quiet with a focus on renewables for the few investments that were made.

Overall, Australia saw a strong pickup in activity from the mid-point of the year, after a slower start to 2019. Fundraising by sponsors continued strongly throughout the year, driving the record levels of dry powder witnessed in recent years to continue. We expect fund managers to come under increasing pressure to deploy their sizeable capital reserves throughout 2020 and for this to drive high deal volumes and competition for quality assets.

There was strong interest in 2019 from PE houses in the larger end of the market in particular, as sponsors looked for opportunities to deploy their significant reserves of dry powder on cornerstone investments. The competitive auction for Arnott's which eventually sold for A\$3.2bn to KKR demonstrated that managers are willing to write big cheques for iconic assets. The mid and large funds are also likely to keep their eye on the public markets in the face of an increasingly competitive private arena, and a further uptick in public to private bids in 2020 can be expected as a result. There were 9 bids announced by PE for listed Australian companies in calendar year 2019, mostly coming in the form of schemes, showing a continuing upward trend over the previous 5 year running average of 6 bids. Continued strong demand from offshore funds is also likely to continue as sponsors are attracted to the relatively stable investing environment in Australia.

Venture Capital

VC fund investment activity continued to grow in the Asia Pacific region during 2019, building on the growth of 2018. VC funds have been investing significantly in start-ups and other early stage companies, particularly in the ICT sector and emerging industries as well as increasingly in other sectors such as agriculture, healthcare, energy and mining services. We are seeing continued interest from overseas based VC funds as well as corporates, superannuation funds and family funds which are becoming a significant player in the Australian market and are growing their exposure to the tech sector.



The heightened interest in the sector from diverse funding sources has fuelled a positive environment for high quality growth companies with solid value propositions to meet their funding requirements, and we expect this trend to continue as interest rates remain low and liquidity remains high.

Debt

Key themes in 2019

Strong borrower-friendly conditions continued in 2019, driven by high levels of liquidity and the availability of alternative debt products from a growing list of institutions.

Traditional bank debt and unitranche financing continue to be the main sources of funding leveraged buyouts, followed by some lengths by term loan B financings.

Depending on the asset, desired leverage and business plan, dual-track debt processes remained a popular option for sponsors (at least in the early stages of a transaction) to ensure the borrower obtains the most appropriate debt package for the asset. Sponsors balance leverage, pricing, amortisation (or lack thereof), financial covenants and the need for operational flexibility to determine the most appropriate debt product for a particular asset. Competitive processes help to ensure that the best pricing and terms for a particular product are achieved.

In terms of market participants, there has been strong fundraising activity in the Australian alternative debt fund sector and private equity credit funds. European banks are also returning to the Australian leveraged finance market. At the top end of town, unitranche providers have eaten into the traditional bank debt market. However, traditional banks remain the dominant source of funding in the mid-market.

Although debt terms remain borrower-friendly, terms for unitranche and term loan B products are more restrictive than their equivalent European and US debt products. Unlike the US market, a leverage covenant remains a core requirement in Australian debt financings but transfer restrictions remain relatively tight. The growth of these alternate debt products has placed pressure on traditional bank debt pricing and terms with banks accepting looser terms around permitted baskets, financial covenants and their definitions, mandatory prepayment requirements and amortisation (lowering and back-ending).

Outlook for 2020

We anticipate growth in non-bank financings will continue in 2020. On the supply-side, funds continue to be well-capitalised and with the generally greater suite of lender protections available in the Australian market, the market remains an attractive proposition for investors. On the demand-side, alternative debt providers have developed relationships with sponsors in the Australian market and their product offering is now well understood. Traditional bank debt will continue to be used to some degree (remaining most popular in the mid-market) with their terms continuing to converge with those applicable to the other available debt products.

We expect sponsors will continue to broaden their horizons and pursue other asset classes such as infrastructure services. As a result, bespoke financing packages to cater for the needs of these investments will likely continue in 2020.

Predictions for 2020

Our key predictions for Private Equity and Venture Capital in 2020 are as follows:

- 1 Back to the Future**

Tech and venture are back! We expect that sponsors will continue to focus on developing within their portfolio or acquiring tech solutions for their portfolio to ensure they future proof their investments, avoiding disruptors in the markets in which their portfolio assets operate. 2019 saw BGH fund CyberCX and an increase in levels of private equity funds co-investing with venture capital on assets in particular when heading to listing.
- 2 Continued growth in non-bank lending space**

The fundamentals for continued growth in non-bank financings remain strong. On the supply-side, funds continue to be well-capitalised, and the hunt for yield appears undiminished. This coupled with the generally greater suite of lender protections available in the Australian market means the Australian market should continue to see this growth.

On the demand side, non-bank financiers have now developed relationships with a lot of the sponsors and the product offering is now well understood.
- 3 Public-to-privates continue to increase**

The conditions are ripe for continued sponsor activity in public-to-private transactions. The high levels of capital to deploy, quality of targets and competition in the private market we expect will continue to drive the number of public to private transactions in 2020.
- 4 2020: the year of trade sales**

We predict 2020 will be the year of trade sales. As the micro and macro-economic conditions continue to be uncertain, trade sales will likely be the preferred option for exits to help increase the value on assets.
- 5 Join forces!**

We expect 2020 will bring an intense level of co-investment activity from a combination of traditional private equity buyers: general partners, sovereign wealth funds, super/pension funds; and family offices (both domestic and international).
- 6 The old and the new... aged care and renewables**

As the Royal Commission continues in Australia, we expect see quite a lot of activity in the form of M&A, divestment and consolidation in the aged care space.

We also expect to see renewables - an exciting and rapidly expanding asset class which has matured to the point where basic technology has now been proven to be a growth sector in which to deploy capital.

Indonesia

M&A remains buoyant despite challenges



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2019 Highlights

- Reported Indonesian M&A deal activity by total value and number of deals in 2019 decreased compared to 2018 (particularly during the first half of the year) due mainly to uncertainty surrounding the Indonesian presidential election, and the impact of the US-China trade war.
- The continued growth of the middle class and consumer spending in Indonesia increased consumption and pushed e-commerce and fintech to new heights attracting significant investment from both foreign and local investors, making Indonesia one of the most important online markets in Asia.
- Since being re-elected in 2019, President Jokowi has continued to encourage reduction in red tape and bureaucracy and acceleration of growth and foreign investment. The Online Single Submission (OSS) system introduced in 2018 has greatly simplified and streamlined the business licensing process for investors.

The state of the market

By number of deals, M&A market activity in Indonesia fell in 2019 due to investor uncertainty surrounding the presidential election and the US-China trade war. However, the overall value of these deals increased significantly, primarily due to transactions such as the US\$3bn acquisition by Bangkok Bank of an 89.12% stake in Bank Permata from Astra International and Standard Chartered Bank.

Fintech and financial services were the top sectors for completed M&A transactions. We are advising Bank Permata on the takeover by Bangkok Bank and also acted for Bank Danamon on the sale of its US\$414m (70%) stake in Asuransi Adira Dinamika to Zurich by competitive auction.

We also acted for Indosat, one of Indonesia's largest telecommunications providers, on the US\$452m sale and lease back of 3,100 telecommunication towers.

Given the huge potential of the large emerging consumer base across the archipelago, Indonesia's digital economy and fintech sectors continue to attract significant interest from industry, private equity and other investors. Unicorn online platforms like Gojek, Tokopedia and Bukalapak continue to grow and evolve rapidly. There is also significant interest in Indonesia's start-ups, with private equity involvement in the US\$100m funding round of HaloDoc (a healthcare platform), led by UOB Venture Management, and the US\$420m funding round in online travel aggregator Traveloka, led by GIC.

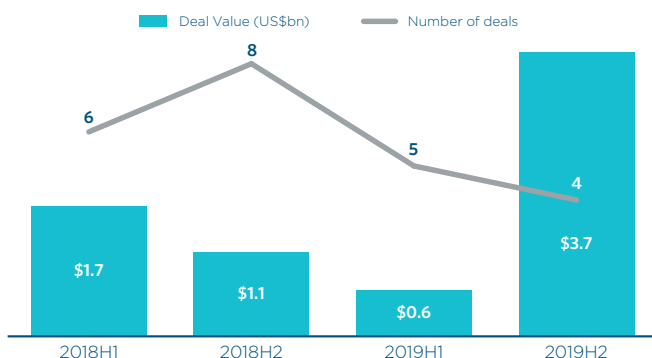
Three key factors have together made Indonesia more attractive to foreign investors:

- the appreciation of the Indonesian Rupiah against the US dollar towards the end of 2019;
- investor concerns regarding the impact of trade tensions between the US and China; and
- the smooth mid-year completion of Indonesia's presidential and parliamentary elections, accompanied by a well-regarded and balanced cabinet supporting President Jokowi's continued push to simplify and streamline foreign investment into Indonesia.

We therefore expect to see increased capital inflows in 2020.



Total value (US\$bn) and number of announced Indonesian public M&A deals



Source: Mergermarket

REFORMS TO WATCH

THE NEWLY ESTABLISHED ONLINE SINGLE SUBMISSION (OSS) BUSINESS LICENSING SYSTEM IS EXPECTED TO STREAMLINE THE OPERATION OF INDONESIA'S FOREIGN INVESTMENT REGIME.

2019 Key deals

- **PT Bank Permata** – US\$3bn acquisition by Bangkok Bank Public Company Limited of 89.12% in PT Bank Permata Tbk from PT Astra International Tbk and Standard Chartered Bank.
- **PT Indosat Tbk** – US\$452m sale and lease back of 3,100 telecommunication towers.
- **Bank Danamon** – sale of its US\$414m (70%) stake in PT Asuransi Adira Dinamika to Zurich by competitive auction.

Herbert Smith Freehills is acting for, or acted for, Bank Permata, Indosat and Bank Danamon on the deals listed above.

Predictions for 2020

Our key predictions for M&A in Indonesia in 2020 are as follows:

- 1 Private equity activity to increase**

We expect increased private equity activity in 2020 driven by greater opportunities and increased investment yields – particularly in fintech and e-commerce. We also expect to see private equity exits from now mature investments made soon after Jokowi was first elected president in 2014.
- 2 Fintech & financial services to boom**

We anticipate that the financial services and fintech sectors, buoyed by increased spending by the burgeoning middle class, combined with the exponential increase in the number of internet users, will continue to drive M&A activity in the financial services, fintech and general technology sectors. Major Asian banks and insurance companies see huge potential in the financial services market. In late 2019, Indonesia's Financial Services Authority (OJK) issued a new regulation on Indonesian bank M&A and foreign bank branch corporatisation which is expected to further promote consolidation of Indonesia's banking sector by broadening the options available to parties controlling more than one bank, and to foreign banks with branch offices in Indonesia. We expect to see bigger and more frequent deals in the financial services (particularly banking) and fintech sectors in 2020.
- 3 Fundraising on the rise**

With an increase in local start-up incubators and the number of unicorns in Indonesia, we expect funding round activity to continue in 2020. However, with the market maturing, we predict that funding will become tighter as cautious investors focus on profitability over hype, especially following the unsuccessful WeWork IPO.
- 4 Local cash flow outlook**

As has been emerging over the last year or two, we expect local conglomerates to continue to undergo significant generational changes in 2020, leading to ownership stake divestments and a refocus on their core businesses as they streamline their organisations to improve profitability. These changes will see a move away from a traditional 'Indonesian' model of doing business as modern management and global business practices become the norm. This change is being driven by rapidly aging senior family leaders and increased competition, especially from foreign investors using more efficient business models, and the high debt-to-equity levels faced by local conglomerates.
- 5 Resource nationalism**

We anticipate the recent trend towards localisation of ownership of energy and mineral businesses will continue, encouraged by nationalistic government policy in these sectors. While foreign participation in these businesses will not disappear, the form it takes is likely to evolve.
- 6 Investment structures become fund-focused**

We expect to see more fund or fund-like structures in various sectors, particularly in real estate, as local managers pool funds from institutional foreign investors to finance large scale acquisitions in Indonesia.



Industry Focus: Energy

Activity in Energy heats up

2019 Highlights

- M&A activity in the Energy sector was up across the region in 2019.
- Continued investment and interest in renewables and alternate energy across the Asia Pacific region, although slightly dampened by political uncertainty across much of the region in 2019.
- “Energy transition” is taking centre stage on energy company agendas evidenced by Shell’s acquisition of ERM Power to enter the Australian power market.
- LNG is continuing to drive activity in the oil & gas sector.



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The state of the market

Oil & Gas

The oil & gas industry continues to face substantive change. Under increasing social and political pressure to transition to cleaner fuel sources, and with complex geopolitical forces at play, activity in 2019 was driven largely by continued rationalisation/portfolio optimisation, a boom in LNG demand across the region (and globally), and a need to transform businesses. Most notable in 2019 was China's shift to an inbound focus. The associated regulatory changes are anticipated to be implemented in 2020 which will see substantive changes to China's oil and gas industry. Interest in hydrogen across Asia Pacific has risen substantially in 2019, with many key industry players looking at hydrogen seriously. The midstream and downstream sectors continue to attract interest from investors.

A spotlight on LNG

Across South East Asia, South Asia and on the East Coast of Australia, plans for/development of LNG import terminals readies more markets for increased LNG imports in 2019. This presents a shift in traditional LNG trade flows, with historic top LNG importers like Japan and South Korea expected to import less. However, both countries remain active in outbound investment in the LNG market. For example, Japanese private and public investors are expected to invest a further US\$10bn in the LNG industry. While China is slowing down its pace of "going out", there is still interest in high quality assets with geopolitical importance. For example, China National Oil and Gas Exploration and Development Company (CNODC), a subsidiary of CNPC, and China National Offshore Oil Corporation (CNOOC), each acquired a 10% stake in Novatek's Arctic LNG 2 project.

Activity in the Australian oil & gas industry was focused largely on optimising LNG and LNG infrastructure arrangements, however there were a few significant transactions in 2019 – most notably, Santos' acquisition of ConocoPhillips' Northern Australia business with operating interests in Darwin LNG, Bayu-Undan, Barossa and Poseidon. LNG infrastructure assets remain highly attractive to investors, including funds and foreign investors, and we expect to see increased activity in this space in 2020 with the QCLNG "common facilities" sell down process expected to gain momentum in Q1 2020.

Renewables & Power

Transition to renewables dominates government agendas. Activity is balanced between outbound investment and the development of domestic renewables generation. While South East Asia's renewables sector is booming, enabled by governments' increased efforts to expand infrastructure and stimulate investments, policy uncertainty in other jurisdictions like China, South Korea and Australia has dampened growth activity.

Solar in South East Asia was the star of the show. For example, Vietnam saw the addition of 4GW across a mixed portfolio and Malaysia held its third large scale solar bidding round. We have seen large-scale floating solar projects make a long-awaited launch onto the market as well. One remarkable characteristic of the sector's successes this year was the shake-up of tariff schemes, with a number of South East Asian governments trialling reverse

auctions for the first time. For example, Cambodia's first solar auction resulted in a historically low solar PPA price in the region. Greenfield development activity in South East Asia has not yet translated into a commensurate boom in M&A activity, however, we expect to see an uptick in M&A activity in this space in 2020.

While solar has seen the greatest levels of growth, offshore wind is gaining momentum in a number of jurisdictions including Japan and South Korea. We continue to see outbound investment by Japanese and South Korean companies in this space but are also seeing international companies invest in offshore generation in Japan and South Korea. For example, RWE announced in 2019 that it is looking to invest in offshore wind projects in Japan – we anticipate others will follow.

Growth in wind and solar within China has slowed as government subsidies for green energy falter and needed upgrades to transmission infrastructure lag. However, power and renewables are "hot sectors" in the Belt and Road initiative and, as such, Chinese investors are investing in all types of power and renewables projects across the world. Like its oil & gas sector, China's power sector is also undergoing substantive reform, especially around efficient and feasible nation-wide electricity trading systems and tariff regulation.

Australian market challenged by domestic energy "crisis" but upgrading energy infrastructure and "new energy" presents opportunity

Regulatory uncertainty remains a key blocker to activity in the power and renewables sectors in Australia, particularly on the East Coast. Power prices and reliability remain key as Australia looks to transition away from coal to cleaner energy sources. The 2019/2020 Australian bushfire crisis has placed even more political pressure on the Australian Government to implement solid climate change policies. While greenfields renewable activity has boomed in previous years, connection bottlenecks and ageing grid infrastructure has slowed activity. We anticipate substantial investment in modernising and further developing transmission and distribution networks in 2020.

Stringent ACCC monitoring of market share of the major Australian gentailers means that many of Australia's energy companies are looking at alternate growth strategies, including in the tech space. This is largely driven by the increased movement towards "connected" energy as part of the overall "energy transition" disrupting the industry. In 2019, AGL looked at (but withdrew) the acquisition of Vocus Group Limited. While "energy transition" is driving the gentailers to look to technology companies, it is also driving substantial evolution within the oil and gas majors who are rapidly transforming their businesses to meet increased community demand for cleaner fuels. The most audacious example of this in the Australian market is the acquisition by Shell of ERM Power Limited to enter the power market.

"New energy" is gaining momentum across the region. As such, we are seeing associated M&A activity between energy and technology players and the emergence of the "energy tech" company.

2019 Key deals

- **Chevron** – divestment of its upstream interests in the Philippines to Udenna Corporation.
- **Shell** – acquisition of ERM Power to enter the Australian market.
- **China National Oil and Gas Exploration and Development Company (CNODC), a subsidiary of CNPC** – acquisition of a stake in Novatek’s Arctic LNG 2 project.
- **Eneco Group** – Mitsubishi Corporation and Chubu Electric have been selected as the preferred bidders for Eneco Group, a Dutch energy company. Eneco Group is the second largest player in the Dutch energy market, with renewable assets constituting a sizeable portion of its portfolio. The acquisition price is set to be EUR4.1bn.
- **Korea National Oil Corporation** – sale to Premier Oil of a 25% stake in the Tolmount upstream gas project in the North Sea.
- **Samtan and Shinhan Alternative Investment Management** – acquisition of 100% of the 2 onshore wind projects in Korea (the 61.5MW Yeoung Yang wind project and the Youngduk wind projects) from Macquarie Korea Opportunities Fund No. 2.
- **Santos** – acquisition of ConocoPhillips’ northern Australia business with operating interests in Darwin LNG, Bayu-Undan, Barossa and Poseidon for US\$1.39bn.

Herbert Smith Freehills acted for Chevron, ERM Power and CNODC in the deals listed above.

Predictions for 2020

Our key predictions for Energy M&A in 2020 are as follows:

- 1 M&A expected to maintain momentum, despite headwinds – buoyed by clean fuels**

We expect overall M&A activity in the region’s energy sector to be steady over the coming year. While headwinds in the form of geopolitics, continued volatility in oil prices, and regulatory uncertainty continue to create caution amongst investors, investments in LNG and gas infrastructure, renewables and new energy/energy technology will be buoyed by the unstoppable social and political momentum behind climate change.
- 2 Energy regulation will remain a critical influence across most regions**

Energy policy remains a critical issue in the Australian market. We anticipate that government intervention in securing new generation and updating networks will drive activity. As noted above, substantial reforms in China will shift the inbound/outbound dynamic and conceptually see more foreign investment into China. We anticipate that investors will proceed with caution.
- 3 A substantial focus on “energy transition” and “new energy”**

We expect to see a number of new and innovative projects and deals come to market in 2020. We see strong interest in hydrogen, demand side technologies, behind the meter/disaggregated generation, batteries and retail innovation as companies implement decarbonisation strategies. We anticipate increased M&A activity in the technology space as well as interesting diversification from the oil and gas majors.



Japan

Return of outbound M&A

2019 Highlights

- After a slow start to 2019, Japanese outbound M&A has begun to pick up, with an increase in deal value of 50% from the first half of the year to the second half.
- There was a record level of Japanese investment into Australia, making it the second most attractive market for Japanese investors after the US.
- Industries that enjoyed the biggest increases in deal activity were technology, industrials & chemicals, real estate, and pharmaceuticals, medical & biotechnology.



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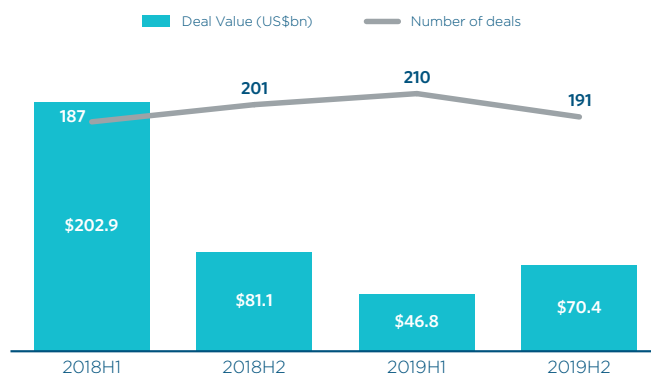
The state of the market

Despite the Japanese outbound M&A market seeing a slow start to 2019, it began picking up with total announced deal value rising from US\$46.8bn in the first half of the year to US\$70.4bn in the second half, an increase of 50%. The total number of deals announced increased from 388 in 2018 to 401 in 2019. Against the backdrop of decreased deal activity within the wider Asia Pacific region as a result of the US-China trade war, the Japanese market showed its resilience and has continued to be both an attractive target for foreign investment and an active investor in markets overseas.

Asahi Group's takeover of Carlton & United Breweries for US\$11.3bn was the largest Japanese investment into Australia on record. This heavily contributed to 2019 becoming a record breaking year for Japanese investment in the Australian market, making it the second most desirable market after the US for Japanese investors.

2019 also saw a three-fold increase in M&A activity in some key areas of the Japanese economy, namely the technology, industrials & chemicals, and real estate sectors. There was also a dramatic boom in activity in the pharmaceuticals, medical and biotechnology sector.

Total value (US\$bn) and number of Japanese outbound M&A deals



Source: Mergermarket

2019 Key deals

- **Carlton & United Breweries (CUB)** – Asahi Group acquired a 100% interest in CUB for US\$11.3bn. The deal was announced in July 2019.
- **Bank Danamon and Bank BNP** – MUFG's acquisition of additional shares in both PT Bank Danamon and PT Bank Nusantara Parahyangan, making them both consolidated subsidiaries of MUFG and MUFG Bank. The total acquisition amounts were US\$3.51bn and US\$0.21bn respectively.
- **Arctic LNG 2** – Japan Arctic LNG, a consortium of Mitsui & Co and JOGMEC, acquired a 10% stake in the Arctic LNG 2 project for US\$3bn.
- **Kyowa Pharmaceutical** – Unison Capital acquired Kyowa Pharmaceutical for US\$527m, which contributed to the increased inbound deal activity seen in the Japanese pharmaceutical sector.

Herbert Smith Freehills acted on the Bank Danamon and Kyowa Pharmaceutical deals mentioned above.

Predictions for 2020

Our key predictions for M&A in Japan in 2020 are as follows:

- 1 Continued strength in Japanese outbound M&A**

Although the value of outbound M&A deals decreased in 2019 from 2018, the level of outbound investment remains very significant as Japanese corporates continue their push for growth offshore amidst shrinking demographics at home. We expect the level of outbound M&A to remain strong, with activity likely to increase in the event political uncertainty abroad subsides. Japanese investors continue to be seen as attractive investors and joint venture partners overseas.
- 2 Environmental, Social and Governance (ESG) considerations will play an important role in future investment**

ESG considerations are becoming increasingly important in M&A transactions globally. There is increased pressure from activists, consumers and investors for corporations to observe new ESG guidance and principles. Japanese investors need to be aware of these developments, particularly when exploring outbound M&A opportunities but also the impact of the increasing awareness in Japan. The guidance and principles that exist are likely going to inform future law and regulation.
- 3 Domestic M&A activity: the outlook**

Despite record highs for domestic M&A activity with a spate of high-profile sell-offs of non-core assets and business realignments, there are a number of factors emerging to suggest that these levels won't remain in 2020 (although the 2020 Summer Olympics in July and August is likely to have at least a short-term positive effect on the economy more generally). Some are suggesting the corporate governance changes have not resulted in the level of reform expected for Japan Inc., which combined with increased regulation and scrutiny for inbound investment will see some of the momentum from potential suitors of the previous year lost.

Malaysia

Slower 2019 with optimism for 2020




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2019 Highlights

- Buyers remained cautious in 2019 pending further clarity on economic policies and legal and regulatory changes following the 2018 elections.
- Private M&A activity involving government-linked companies remained relatively buoyant.
- Continued consolidation trends in certain industries such as energy, industrial, education and healthcare.
- Private equity / venture capital space in Malaysia remained vibrant, with M&A activity largely focused on internet and e-commerce sector funding rounds.

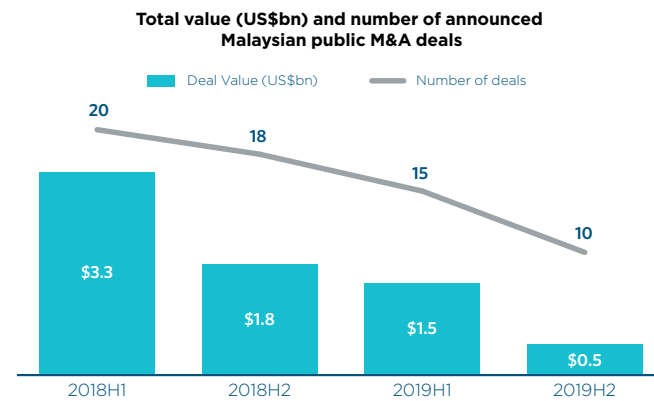
The state of the market

Malaysian M&A activity remained in decline in terms of both volume and value of deals following the 2018 elections, as would-be buyers continued to maintain a wait-and-see approach on the new governing party's (Pakatan Harapan) policies.

Consistent with the trends across the rest of Asia Pacific, the slowing global economic outlook and US-China trade war also weighed on Malaysia-related M&A activity.

Duff & Phelps recorded a total of 253 corporate deals with a total deal value of US\$8.9bn from December 2018 to November 2019, down from 2018 and 2017 levels of US\$11.4bn and US\$17.6bn respectively.

Activity in public markets also saw a retreat in line with a 6.1% year-on-year decline in the FBM KLCI, with Mergermarket reporting 25 public M&A deals worth US\$2.0bn in 2019, compared with 38 deals valued at US\$5.1bn in 2018 (representing a 34% decrease in deal volume year-on-year).



2019 Key deals

- **PT Lintas Marga Sedaya** – UEM Group Berhad's disposal of its 55% stake in PT Lintas Marga Sedaya, the concession holder of the Cipali toll road in Indonesia to Astra Infra and CPPIB.
- **Murphy Sabah Oil and Murphy Sarawak Oil** – Murphy Oil Corporation's sale of its Malaysian units, Murphy Sabah Oil and Murphy Sarawak Oil, to Thailand's PTTEP.
- **Lafarge Malaysia** – YTL Corp's acquisition of Lafarge Malaysia, which saw the combination of Malaysia's two largest cement manufacturers.
- **Columbia Asia Hospitals** – Hong Leong Group and TPG's acquisition of Columbia Asia Hospitals in South East Asia.

Herbert Smith Freehills acted for UEM Group Berhad and Hong Leong Group on the deals mentioned above.

Predictions for 2020

Our key predictions for M&A in Malaysia 2020 are as follows:

- 1 Expected increase in deals in 2020**

M&A activity in 2018 and 2019 was disrupted by the historic 14th General Election, which brought about the first change in power in the country's history and led to a number of key national projects being cancelled or postponed. M&A activity picked up in the latter part of 2019 and this momentum is expected to continue into 2020. Research and analysis consultancy Oxford Economics has reported that it is expecting the number of M&A transactions in Malaysia to increase in 2020.
- 2 A deeper understanding of regulations will be required**

Continued efforts to restore public finances and build confidence in good governance by the new government may have a greater impact on deal strategies. Such efforts involve a variety of measures, including the implementation of anti-money laundering and countering financing of terrorism regulations, and the introduction of amendments to Malaysian competition law that would enable the Malaysian Competition Commission to approve or reject mergers and acquisitions, or to impose conditions on potential deals. As these measures are rolled out, dealmakers will need to deepen their understanding of the legal and regulatory regime governing M&A activity in Malaysia.
- 3 Malaysia's aim to be a preferred investment destination**

Malaysia's Budget 2020 outlines various initiatives aligned with the intention to make Malaysia a preferred investment destination. These various initiatives include:

 - the introduction of customized tax incentive packages for mega investments as a strategic push to attract, amongst others, Fortune 500 companies and global 'unicorns' in high technology, manufacturing, creative, and new economic sectors to Malaysia;
 - budget allocations to improve infrastructure and digital connectivity; and
 - provision of various grants for R&D and innovation.

Applications in respect of these incentives will be considered by the Malaysian Investment Development Authority from 1 January 2020 until 31 December 2021. We can generally expect these initiatives to have a positive impact on M&A activity in Malaysia in 2020.

Myanmar

TMT drives M&A activity



2019 Highlights

- M&A activity in Myanmar has weakened considerably in the face of a tense political climate and commensurately slow pace of economic liberalisation.
- Most of the M&A activity in Myanmar in 2019 was in the TMT sector, with around 10 deals announced in 2019.
- A number of regulatory changes were introduced in 2019, including changes to the tax laws, trademark and patents regime and continued liberalisation of the banking and insurance sectors.

The state of the market

Myanmar's economy continued to grow over 6% in 2018-19 and is expected to maintain the growth rate in 2020. However, M&A activity in Myanmar has weakened in the face of a tense political climate and commensurately slow pace of economic liberalisation.

Despite a stable growth rate, the M&A activity in Myanmar has remained tepid. There has been very little activity in the oil and gas, renewables, power and mining sectors, with the M&A activity driven by investments into the TMT, financial services and healthcare sectors.

Continued growth in the TMT sector

Most of the M&A activity in Myanmar was in the TMT sector, with around 10 deals announced in 2019. In November 2019, Sojitz (a Japanese general trading company), acquired a 12.5% stake in edotco Myanmar, which was seen as a strategic investment by Sojitz to capture a slice of a market where demand for faster and more reliable connectivity is expected to surge.

A number of upcoming major deals in the telecoms / telecoms infrastructure space in Myanmar have been rumoured.

Liberalisation of the insurance sector

A number of regulatory changes were introduced in 2019, including changes to the tax laws, trademark and patents regime and continued liberalisation of the banking and insurance sectors.

The Ministry of Planning and Finance's (MoPF) announcement on 2 January 2019 (Announcement) to liberalise Myanmar's insurance sector has paved way for foreign insurers to enter into the largely untapped insurance market. The Announcement set out three potential market entry routes for foreign insurers in both the general and life insurance sectors, including by way of an 100%



wholly-owned subsidiary or a local joint venture arrangement. While Myanmar's insurance market still lacks maturity given the acute lack of penetration, this may assist market players to become more client-centric as product creation must ensure it meets the needs of individuals and policies priced accordingly.

By mid-2019, the MoPF had granted five foreign companies – Prudential, Dai-ichi Life, AIA, Chubb and Manulife, provisional licences to sell life insurance products through their wholly-owned subsidiaries. In addition, a number of Japanese insurance companies entered the Myanmar market in the second half of 2019 through the acquisition of minority stakes in local insurance groups, including Tokyo Marine Holdings acquiring a 15% stake in a non-life insurance joint venture with Grand Guardian Insurance Public Co. Ltd., Sompo Japan Nipponkoa Insurance acquiring a 15% stake in AYA Myanmar General Insurance Company Limited, Mitsui Sumitomo Insurance Co. acquiring 10% stake in IKBZ Insurance Co. Ltd., Nippon Life Insurance Company acquiring a 35% stake in Grand guardian Life Insurance Company Limited and Taiyo Life Insurance Company acquiring a 35% stake in Capital Life Insurance.

With foreign players entering the Myanmar market, there are expectations that they will bring expertise, capital and vision to help revitalise the local insurance industry.



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Predictions for 2020

Our key predictions for M&A in Myanmar in 2020 are as follows:

- 1 Foreign investment outlook**

Overall, the foreign investment outlook for the next year remains cautious owing to upcoming elections and continued geopolitical instability.
- 2 Favourable regulatory changes**

The Securities and Exchange Commission of Myanmar has allowed foreign entities to invest up to 35% of the shares in Myanmar companies listed on the Yangon Stock Exchange. We expect the regulatory regime to develop and facilitate foreign investments following the upcoming elections.
- 3 Technology and Financial Services: key sectors**

Technology and financial services sectors are likely to remain the key drivers for M&A activity in Myanmar in 2020.
- 4 Uptick in oil and gas M&A**

Whilst there has been little recent M&A activity in the oil and gas, renewables, power and mining sectors in Myanmar, interest continues in offshore exploration activities and we hope to see an uptick in M&A activity in the future following high profile investments in offshore gas by Total and Woodside.

2019 Key deals

- **Yoma Siloam Hospitals Pun Hlaing Limited** – acquisition by OUE Lippo Healthcare Limited of a 40% stake in Yoma Siloam Hospitals Pun Hlaing Limited from PT Lippo Karawaci Tbk for a reported consideration of US\$17.6m.
- **Edotco Myanmar** – acquisition by Sojitz of a 12.5% stake in edotco Myanmar.
- **AXA Myanmar General Insurance Company Limited** – acquisition by Sompo Japan Nipponkoa Insurance of a 15% stake in AYA Myanmar General Insurance Company Limited for a reported consideration of US\$59.08m.

Herbert Smith Freehills is acting on a major transaction in the telecoms sector.



Singapore

Singapore takes the lion's share



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2019 Highlights

- Substantial increase in M&A activity in 2019 compared to 2018 – Singapore was the largest M&A market in South East Asia.
- Singapore's wealth fund Temasek spearheaded 2019 as both buyer and seller in two giant real estate and infrastructure transactions (being the third and fourth largest M&A transactions in APAC excluding Japan).
- New regulatory incentives (VCC framework and grand scheme) are likely to drive investment growth in Singapore.
- Tech and real estate continue to be the most active sectors for M&A activity.

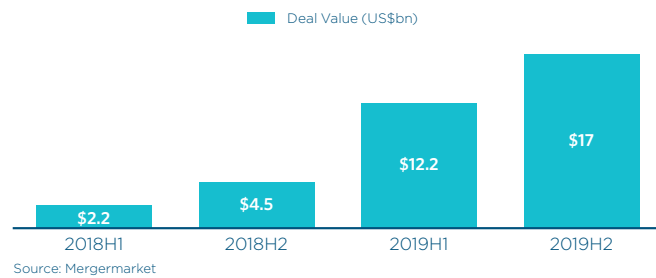
The state of the market

Singapore was the largest M&A market within the South East Asia region in 2019. The level of M&A activity observed was substantially higher (US\$35.5bn in deal value), a 125.6% increase in deal value, compared to 2018.

Despite regional and global geopolitical uncertainties, we saw that Singapore outperformed and resisted the overall downtrend of M&A activity in the Asia Pacific region.

A wave of privatisations hit Singapore in 2019 with over 30 PE acquisitions launched in 2019, highlighting PE's continuous hunt for attractive investments in the region.

Total value (US\$bn) of announced Singaporean public M&A deals



2019 Key deals

- **OUE Commercial REIT (OUE C-REIT) and OUE Hospitality Trust (OUE H-Trust) merger** – OUE C-REIT and OUE H-Trust have merged to create an enlarged REIT of S\$6.9bn, one of Singapore's largest REITs by assets.
- **Temasek's acquisition of 30.55% stake in Keppel Corp** – in October 2019, Temasek proposed the US\$9.5bn acquisition of a stake in Keppel Corp, a Singapore-based diversified group.
- **Temasek's sale of Ascendas and Sinbridge** – in January 2019, Temasek sold Ascendas and Sinbridge to Capitaland, the Singapore-listed real estate giant for US\$8.1bn.
- **Yanlord's acquisition of UE** – Chinese real estate developer, Yanlord Land Group's S\$1.72bn takeover and de-listing of United Engineers.



Predictions for 2020

Our key predictions for M&A in Singapore in 2020 are as follows:

- 1 Private capital and venture capital growth**

Singapore continues to serve as the leading global financial hub for asset managers and private capital, supporting investors worldwide to tap into the region's growth opportunities. Geopolitical uncertainties have highlighted Singapore's status as a safe haven for international investors. The Singapore Government continues to support and incentivise venture capital managers. With the launch of the Variable Capital Company framework and grant scheme in January 2020, this new flexible corporate structure is likely to encourage investment funds to domicile in Singapore and enhance Singapore's position as an international fund management center.
- 2 Focus on tech**

Tech is a key sector driving M&A activity and we expect this to continue in 2020. The regulatory environment in Singapore continues to fuel growth in e-commerce, digital technology and fintech. Just one example is YY, China's livestreaming social media network's US\$1.45bn acquisition of Bigo, a Singapore-based social media start up (which has debuted in over 100 countries worldwide). The growing demand for tech infrastructure is also seen in Brookfield's US\$272m acquisition of DCI Data Centres, a Singapore-based wholesale data centre provider, from Blackstone.
- 3 Growth in real estate**

REIT managers have been strategically increasing their own assets under management and market capitalisation which we anticipate will be a continuing trend in 2020. Capitaland's acquisition of Ascendas and Sinbridge and the merger of the OUE C-REIT and H-Trust indicate that Singapore's real estate investment trusts will continue the consolidation trend, driving both M&A and capital market activity in the region. Takeovers will likely continue with some SREITS trading under NAV. HSF acted on the recent IPO of Lendlease Global Commercial REIT's S\$1.4bn portfolio, being the fourth largest SGX Mainboard IPO of the Year.
- 4 Increased activity by Singapore state-linked funds**

We expect that Singapore's state-linked funds will continue to drive the largest inbound and outbound transactions in 2020.

This is likely to be a continuation of what we saw in 2019, which included:

 - GIC backed Abertis Infrastructure's US\$4.5bn acquisition of 70% stake in Mexico-based Red de Carreteras de Occidente, the largest buy-out in Latin America.
 - GIC partnered with Brookfield in the US\$6.4bn acquisition of US freight railroad owner Genesee & Wyoming Inc.
 - It was announced in August that GIC-backed financial information firm, Refinitiv will be sold to the London Stock Exchange for US\$27bn. Blackstone's consortium, which includes Canada Pension Plan Investment Board and GIC Special investments Pte Ltd, holds 55% of Refinitiv.
 - Back in Singapore, Temasek led two of the largest deals in Singapore in 2019 - the US\$9.5bn acquisition of a stake in Keppel Corp, and the US\$8.1bn sale of Ascendas and Sinbridge.
- 5 Privatisations to continue**

We expect PE and other private capital funds to continue looking to invest and buy-out companies with attractive returns in 2020. In 2019, a total of 35 exit offers and partial offers were launched for Singapore-listed companies - this surpassed the number of privatisations in previous years. Reverse takeovers are also on the rise as a mechanism to redomicile or improve regional corporate structures.

South Korea

PE funds spur on another strong year for M&A



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2019 Highlights

- Coming off a record year for Korean M&A in 2018, Korea-related M&A activity in 2019 continued to be strong despite a slow start to the year, with 405 announced domestic deals (up from 401 in 2018), 51 inbound deals (up from 48 in 2018) and 78 outbound deals (slightly down from 90 in 2018).
- Private equity firm involvement in large-scale M&A transactions is continuing to increase and becoming mainstream, with Asia-based private equity firms especially becoming common names on transactions across a wide range of sectors.

The state of the market

In 2019, increasing uncertainty relating to North Korea relations, trade tensions between the US and China, China's slowing economic growth, and increasing domestic labour costs adversely affected general economic conditions in South Korea. In addition, factors such as higher borrowing costs and stagnation in the automotive and semi-conductor sectors led to a relatively slow start for M&A activity in 2019.

Despite a softer beginning to 2019, private equity firm and financial buyer activity (especially by those based in Asia) in transactions in a variety of sectors spurred on a strong second half of the year, resulting in overall numbers (deal count and value) being about the same as the record M&A year in 2018.

For strategic corporate transactions, headline deals included assets with a technology focus across a spectrum of sectors including e-commerce, telecommunications and data services. For example, Delivery Hero acquired Woowa Brothers, a Korean company that operates the largest food delivery application "Baedal Minjok", and SK Broadband, the wireline telecom service provider under South Korea's

top mobile carrier SK Telecom, gained a conditional approval to merge with cable TV operator T-broad. Further, LG Uplus is expected to acquire a majority stake in cable TV operator CJ Hello in 2020 subject to relevant regulatory approvals. The latter two are examples of "divestment of non-core business lines" and "consolidation" that is continuing to occur in the TMT industry.

On the energy and resources side, Korea is also undergoing a shake-up to its energy mix with a strong push by the government to reduce reliance on coal and nuclear power in favour of 'cleaner' energy sources such as solar, wind and LNG. This will continue to drive the restructuring and rationalisation efforts by Korean corporates of their domestic and overseas energy and resources asset portfolio giving rise to M&A opportunities for such assets for Korean and international investors alike. In the Korean renewables sector, we also expect to see increased partnering between Korean developers and foreign investors for co-development of greenfield renewables projects.

In 2019, Herbert Smith Freehills represented clients in each of these types of transactions, including conglomerates and private equity firms in relation to outbound investment into the TMT and other sectors.

2019 Key deals

- **Woowa Brothers Corp** – Delivery Hero, the Berlin headquartered global food delivery company, agreed to acquire Woowa Brothers, the South Korean company that operates the country's largest food delivery application "Baedal Minjok", for approximately US\$4bn.
- **Asiana Airlines Inc.** – a consortium of Hyundai Development Company and Mirae Asset Daewoo acquired a controlling stake in Asiana Airlines through a purchase of existing shares from Kumho Industrial and the issuance of new shares in a deal valued at approximately US\$2.2bn.
- **Daesung Industrial Gases Co.** – Australian private equity fund Macquarie Infrastructure and Real Assets (MIRA) agreed to acquire South Korea's Daesung Industrial Gases, a supplier of industrial gases, from private equity firm MBK Partners for approximately US\$2.1bn.

Predictions for 2020

Our key predictions for M&A in South Korea in 2020 are as follows:

- 1 Continued divestment of non-core units and consolidation by Korean conglomerates**

We anticipate Korean conglomerates will continue to reorganise their businesses through carve-out deals (including divestment of their non-core business units) while simultaneously seeking to strengthen their core business areas for future growth through targeted acquisitions.
- 2 Robust private equity activity**

We expect that private equity-led deals will continue to dominate the M&A market over the next 12 months given the availability of large amounts of uninvested capital as well as firms looking to exit investments for their funds nearing maturity. We are also seeing signs of increasing private equity activity in the information technology industry, in addition to more traditional industries such as consumer and manufacturing.
- 3 New technology driving M&A**

Korean conglomerates' appetite for investment in proprietary technologies we expect will grow in 2020, with a particular interest in smart vehicles and associated automotive car technologies, artificial intelligence, internet of things and big data. We therefore expect to see a rise in M&A and joint venture activities by Korean conglomerates in technology-focused deals.
- 4 Sectors to watch: TMT and renewables**

Continuing on from the trends seen in 2019 we expect TMT and renewables to remain increasingly active sectors in 2020.

Industry Focus: TMT

A tech correction?

2019

Highlights

- 2019 proved a challenging year for the APAC region as a whole, with decreases in TMT M&A by deal volume and deal size.
- In India, TMT M&A decreased 69% by deal value, but still remained one of the busiest sectors. India was also the second largest market for TMT M&A in Asia-Pacific.
- In China and Hong Kong, TMT M&A experienced a 62.4% decline in deal value. Nevertheless, China remained the biggest market for TMT M&A in the region, with more than double the number of deals than the next largest, India.
- Japan proved to be an exception, with TMT M&A rising 146% in terms of deal value. It was one of the most active sectors in Japan, constituting 28.5% of all M&A deals. Japan was also the third busiest country in Asia-Pacific for TMT deals by volume.
- In South East Asia, technology M&A remained fairly flat by deal value. Technology was the third most active sector by value. South East Asia as a block was the third busiest region in APAC for TMT deals by volume.
- Australia was also a busy market for TMT M&A, the fifth largest in the region by deal value.

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The state of the market

Whereas 2018 was one of the best years on record for TMT M&A in Asia-Pacific, in 2019 technology M&A in the region (excluding Japan) declined 49.8% by deal value (from US\$115.9bn in 2018 to US\$58.1bn), the lowest deal value since 2013 and the smallest deal count since 2014.

While there was a decrease in overall M&A activity in the region, the decline in technology M&A was much more pronounced. The reduction was also steeper in APAC than elsewhere – globally technology M&A reduced by 15%, broadly in line with the overall market. It was one of the top sectors by value globally, but in APAC it slipped to number five.

Nevertheless, technology M&A continues to be an important driver of M&A activity in the region, constituting 10.2% of all deals by value.

Telecommunications and media M&A were not significant areas in APAC during 2019.

Technology remained the largest sector for PE buyouts (deal value and volume) as well as PE exits.

A number of factors have contributed to the state of the market: the China-US trade and technology war, political or economic issues in some markets, and confidence in the technology sector with high valuations and increased scrutiny around some IPOs.

2019 Key deals

- **SoftBank's** – US\$4.2bn acquisition of a 31.75% stake in Yahoo Japan.
- **Delivery Hero's** – US\$4bn acquisition of an 87% stake in Woowa Brothers.
- **Yahoo Japan's** – US\$3.8bn acquisition of a 50.1% stake in Zozo.
- **Morgan Stanley Private Equity & China Nanshan Development Group** – investing US\$3.7bn in Tenglong Holding Group.
- **Brookfield-led consortium acquiring Tower Infrastructure Trust** – from Reliance Industries for US\$3.7bn.
- **Axiata** – US\$404million sale of a stake in Singapore's third largest mobile operator M1 Limited, in the context of a voluntary takeover by consortium formed by Keppel Corp Ltd and Singapore Press Holdings.

Herbert Smith Freehills acted for Axiata on the deal listed above, and has previously acted for Reliance Communications on its proposed towers acquisition by Brookfield (aborted).

Predictions for 2020

Our key predictions for TMT M&A in 2020 are as follows:

- Digital and technology assets a strategic driver for M&A activity**

We anticipate digital and technology assets will be key strategic drivers for pursuing acquisitions in 2020.
- US and China global technology tussle will bring a new geographical split in M&A**

We expect Japan, India, South East Asia, South Korea and Australia will continue to be attractive to investors looking to the region.
- Data management, analytics and artificial intelligence will continue to attract interest**

We anticipate that data management, cloud services, data analytics, cyber security and AI will continue to draw M&A interest in 2020.
- Interest in fintech will continue to grow**

We expect fintech activity to build, especially in markets with unbanked or underbanked populations.
- Computer software to dominate**

We expect the trend of computer software as the largest area for TMT M&A in 2019 by value, particularly in China, will continue.
- Activity continues in internet and e-commerce**

We anticipate that internet and e-commerce will continue the trend as the second largest area for TMT M&A in 2019 by volume, particularly in China and India.
- Digital infrastructure a key sector**

Interest from private equity and funds will likely continue, particularly in data centres, with 5G and IOT coming online.

Thailand

Domestic activity leads the way in 2019



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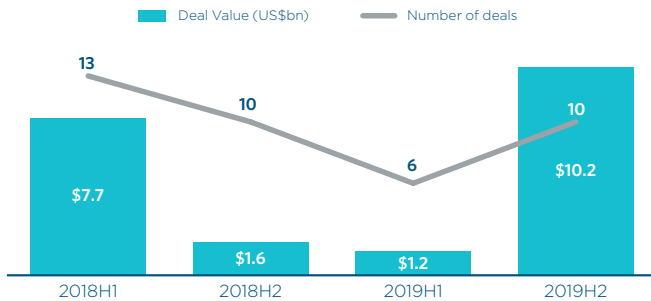
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2019 Highlights

- Despite the softer global economy, large domestic M&A deals in the banking and insurance sectors in the latter part of 2019 drove the annual value of M&A activity in Thailand to over US\$10 bn – US\$3bn higher than the overall M&A deal value in 2018.
- The Thai Government's Eastern Economic Corridor continued to attract interest from domestic and foreign investors to participate in mega-infrastructure projects that aim to connect major airports and ports in Thailand's Eastern Seaboard.
- Digital transformation actively took place for many businesses across the industries. This was aided by the government's issuance of data privacy and security laws to enhance transparency for sellers and consumers in the digital market.

The state of the market

Total value (US\$bn) and number of announced Thai public M&A deals



Source: Mergermarket

Strong M&A activity despite slow economic growth

After the surge in M&A activity in 2018, the Thai market experienced a decline in the first half of 2019. This was largely due to the weak global economy and the continued rise of the Thai Baht against the US dollar which deeply impacted and stunted the growth of businesses in the tourism and export industries, both being the main contributors to the country's GDP. But as the Thai Baht strengthened, Thai conglomerates took this the opportunity to acquire businesses overseas, focusing on countries in the South East Asia region such as Vietnam and Indonesia, which resulted in an increase of outbound M&A activity in the second part of 2019.

Despite this, the biggest driver of M&A activities in 2019 were from the domestic deals within the banking and insurance sectors. A merger between TMB Bank PCL and Thanachart Bank PCL, both prominent banks with a long-standing history in Thailand, was completed in December 2019. The deal, valued at over US\$5bn, is considered to be the highest value M&A deal of 2019 and the largest in the Thai banking industry. The second most-valued deal was led by FWD Ltd.'s acquisition of Siam Commercial Bank's life insurance business unit. The deal, which was worth over US\$3bn, was finalised in September 2019, highlighting the end of 2019 with significant M&A activity in the Thai market.



Eastern Economic Corridor continued to stir interest among investors

As predicted in our review from the previous year, infrastructure projects created under plans to build the Eastern Economic Corridor (EEC) continued to drive local and foreign investors to participate, as the EEC infrastructure projects are considered as some of the largest and most profound mass infrastructure projects in Thailand. In October 2019, there were two important events highlighting the progress of the EEC projects development. The first event was the signing of an agreement between a consortium led by the Charoen Pochphan Group – Thailand's largest conglomerate – and State Railway of Thailand to develop a high-speed train network connecting Suvarnabhumi, Don Mueang and U-tapao International Airports. The project, which is worth over US\$6.5bn, is expected to be completed within the next five years. The second event was the signing of a public-private partnership agreement between Gulf MTP LNG Terminal, a joint venture between a subsidiary of Gulf Energy Development PLC and PTT PCL, and the Industrial Estate Authority of Thailand to construct LNG terminals at Map Ta Phut deep-sea port. The project is worth over THB1.6bn and is expected to commence by 2025. These events demonstrate that the EEC projects are on track and we expect to see private commercial developments strategically placed along the EEC high-speed train line in the near future.

Digital transformation is taking place

Despite the country's stagnant GDP growth rates in 2019, the e-commerce and media sectors continued growing from strength to strength due to consumers' high demands in online media products and services. Behaviours of Thai consumers have changed rapidly over recent years. Given the country's high internet and smart phone penetration rates, over the years Thai consumers have increasingly placed more reliance on online products and services, which has forced many businesses to undergo significant transformation. This in turn has caused concerns over the deficiency of legal regulations over the digital market. In response, the government issued data privacy and cyber security laws to enhance the protection of personal data by restricting the collection, use and disclosure of personal data and reduce the likelihood of data breaches. The enactment of data privacy law in particular has prompted many businesses to ensure that they comply with the new data protection requirements. The passing of the data privacy and cyber security laws is in line with the Thai Government's 'Thailand 4.0' initiative to expedite the country's digital transformation by decreasing its reliance on agriculture for economic growth and increasing its capabilities in technological innovation.

2019 Key deals

- **TMB Bank PCL** – a US\$5bn merger between TMB Bank PCL (formerly Thai Military Bank PCL) and Thanachart Bank PCL is seen as the largest M&A deal in the Thai banking industry. The newly merged bank is now the sixth largest bank in Thailand.
- **FWD Limited** – in a US\$3bn acquisition, the global insurance company owned by Richard Li – Li Ka-shing's son – acquired a life insurance business unit from Siam Commercial Bank, one of the oldest commercial banks in Thailand. The acquisition was part of FWD's expansion into the Asian insurance market which has strengthened FWD's position as a leading insurer in Asia.

Predictions for 2020

Our key predictions for M&A in Thailand in 2020 are as follows:

- 1 More EEC projects will come to fruition**

The EEC consists of six projects: the development of U-tapao airport; the high-speed train linking all major airports in the Eastern Seaboard; becoming a centre to provide maintenance services for planes; and the development of Map Ta Phut port, Laem Chabang port and Digital Park Thailand. In 2020, these projects will enter into the next phase. It is expected this will attract more foreign investment into Thailand, contributing 1.5-2% per annum to Thailand's GDP.
- 2 Continued growth in the digital sector**

Given Thai consumers' ever increasing appetite for online products and services and the recent enactment of the relevant laws to enhance the transparency, safety and security of Thailand's digital market, businesses in Thailand's digital market are ready to enter into the next phase in 2020. We expect that growth will help build a better digital infrastructure to further enable the expansion of online products and services, whether it is e-commerce, mobile payment, online transport services, or online travel arrangements.
- 3 Increase in household debt becomes a challenge**

The downside of the increase in Thai consumers' appetite for online products and services is that it has induced a rise in households debt. In 2019, the rate of household debt to GDP was at 78%. The Office of the National Economic and Social Development Council believes that this is due to Thai consumers' easy access to online purchase and payment platforms, which in turn increased the levels of credit card debt and personal loans. It is expected this high rate of household debt will continue to hinder the country's overall economic growth and have an effect on M&A activity in 2020.

Vietnam

Hotspot for investment

2019 Highlights

- Private equity dominated investment into Vietnam in 2019.
- E-commerce platforms continue to pique investor interest.
- South Korea backs Vietnamese enterprises, ranking behind only the US in terms of South Korean outbound M&A deals for 2019.

The state of the market

In 2019, Vietnam recorded 47 inbound and domestic deals with a value of US\$4.5bn. This represented an increase in deal activity of US\$1bn from 2018 but did not reach the highs of US\$6.6bn in 2017. Although outbound deal value and volume for 2019 remains low for the region at US\$110m across 4 deals, this represents a steady improvement for Vietnam since 2016.

Vietnam's top 5 performing sectors in 2019 were:

- financial services (5 deals worth US\$1.3bn);
- real estate (2 deals worth US\$1bn);
- consumer (7 deals worth US\$578m);
- industrials and chemicals (8 deals worth US\$410m); and
- leisure (1 deal worth US\$303m).

PE houses make moves

Vietnam proved a popular market with private equity (PE) investors in 2019. By year's end, the value of Vietnam's PE buyouts increased 2.5x from 2018 to US\$1.1bn across 12 deals. A factor in this was the US\$500m acquisition of VCM Services and Trading Development Joint Stock Company, operator of the VinMart supermarket chain, by a GIC Private Limited consortium. PE investors played a large role in Vietnam securing US\$3.4bn of inbound M&A activity in 2019, its highest annual value on Mergermarket record. This has been in part attributed to the Vietnamese Government's relaxation of foreign investment requirements and a renewed focus on the privatisation of state-owned enterprises.

Technology and financial services remained active areas in 2019, while healthcare and education emerged as up-and-coming industries. In the healthcare space, ACA Investments Pte Ltd acquired a 63.7% stake in Ha Van Education & Healthcare Jsc, a company providing medical diagnostic outsourcing services. In the education sector, Navis Capital Partners Limited acquired Thanh Thanh Cong Education Joint Stock Company, a private school and English training centre operator, for an undisclosed amount.

E-commerce platforms continued to find favour with PE investors. In 2019, Warburg Pincus LLC acquired a stake in MoMo, an e-payment operator, for US\$100m and GIC Private Limited (in a consortium with SoftBank Group Corp) acquired an undisclosed stake in Vietnam Payment Solution Joint Stock Company for US\$300m.

South Korea interest dominates

South Korea was the top inbound investor into Vietnam in 2019 by a significant margin. South Korea has become a dependable source of Foreign Direct Investment in Vietnam with the country serving as a production base for Korean tech giants including Samsung and LG. South Korean investments totalled US\$2bn across 12 deals, followed by Singapore with 4 deals worth US\$636m, the US with 4 deals worth US\$473m and Japan with 10 deals worth US\$441m.

Vietnam's two largest deals for 2019 both involved South Korean investors. SK Holdings Co Ltd acquired a 6.15% stake in Vingroup Joint Stock Company for US\$1bn and South-Korea's Hana Bank acquired a 15% stake in Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV) for US\$876m.

Vietnam ranked behind only the US in terms of South Korean outbound M&A deals for 2019. The SK Holdings acquisition was South Korea's third largest outbound deal for 2019.

Rise of large deals

2019 continued the trend in Vietnam of increasingly large deals.

In addition to Hana Bank's acquisition of banking business BIDV for US\$876m and GIC's US\$500m investment into VCM Services, other major deals completed or announced in 2019 were:

- Warburg Pincus LLC's acquisition of a majority stake in Asian Coast Development Ltd for US\$303m; and
- Hong Kong-based FWD Limited's acquisition of Vietnamese insurance provider Vietcombank - Cardif Life Insurance Co., Ltd for US\$400m.



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2019 Key deals

- **Vingroup** – SK Holdings Co Ltd acquired a 6.15% stake in Vingroup Joint Stock Company for US\$1bn.
- **BIDV** – Hana Bank acquired a 15% stake in Joint Stock Commercial Bank for Investment and Development of Vietnam for US\$876m.
- **VCM Services** – GIC Private Limited led a consortium of bidders who acquired VCM Services and Trading Development Joint Stock Company for US\$500m.

Predictions for 2020

Our key predictions for M&A in Vietnam in 2020 are as follows:

- 1 Appetite for education**

We expect socio-economic factors and relaxed government regulations will help Vietnam's education sector gain traction as an attractive industry for overseas acquirers in 2020.

Vietnam's rapidly emerging middle class and rising income levels have led to a spike in demand for higher quality education, particularly from international providers. The government's introduction of tax breaks for foreign investors into the sector and the decision to ease enrolment caps is likely to attract the attention of acquirers in 2020.

We expect to see similar transactions in 2020 to Navis Capital Partners Limited's 2019 acquisition of a majority stake in Thanh Thanh Cong Education Joint Stock Company, an operator of 17 private schools and English training centres in Vietnam.
- 2 Demand for healthcare on the rise**

We anticipate that acquirers will back Vietnamese healthcare providers given changing population demographics driving demand.

Demand for quality healthcare services across Vietnam continues to grow on the back of rising per capita incomes and an increasingly urbanised and ageing population. As a result, Vietnam's healthcare sector is expected to enjoy increased M&A activity in 2020.

More deals in the pharmaceutical sector are expected for 2020 following the 2019 acquisition of a 21.7% stake in pharmaceutical developer DHG Pharmaceutical Joint-Stock Company for US\$128m by Japan-based Taisho Pharmaceutical Holdings Co., Ltd.
- 3 More privatisations in the pipeline**

The Vietnamese Government announced in August 2019 that it plans to sell its interest in around 100 state-owned companies by the end of 2020, including its stakes in Agribank, Vietnam National Coal-Mineral Industries Holding Corp and MobiFone. We expect this to drive deal activity in the country in 2020.
- 4 Greater certainty around the New Law on Competition**

The consequences of the government's New Law on Competition, which took effect from 1 July 2019, will be better understood in 2020. The government is due to pass two further decrees to guide the New Law's implementation. The next decrees will provide acquirers with greater certainty surrounding Vietnam's competition regime and are expected to clarify issues including merger filing thresholds.



2019 Asia Pacific M&A achievements



1st

By value in
Asia Pacific
(ex Japan) completed deals
(Refinitiv)

1st

By deal value in completed
deals in
**Australia and
New Zealand**
(Refinitiv)

1st

By deal count in
Australasia
announced deals (Mergermarket)

1st

By deal value and count in
Australasia
completed deals (Mergermarket)

Herbert Smith Freehills held its reputation as the pre-eminent law firm for M&A across Asia Pacific last year, with the firm topping the region's key M&A Legal Advisor league tables for 2019.

Deals of the Year (2019)

AUSTRALASIAN LAW AWARDS

AUSTRALIAN DEAL OF THE YEAR (COLES DEMERGER FROM WESFARMERS)

FINANCEASIA ACHIEVEMENT AWARDS

BEST INDONESIA DEAL - MUFG BANK'S US\$5.9 BILLION ACQUISITION OF A 40% STAKE IN BANK DANAMON FROM FULLERTON FINANCIAL HOLDINGS

ASIAN-MENA COUNSEL

ASIA PACIFIC DEAL OF THE YEAR (MUFG BANK ACQUISITION OF 40% STAKE IN BANK DANAMON)

AUSTRALASIAN LAW AWARDS

ENERGY & RESOURCES DEAL OF THE YEAR (SANTOS ACQUISITIONS OF QUADRANT)

AUSTRALASIAN LAW AWARDS

INTERNATIONAL DEAL OF THE YEAR (SALE OF BHP'S US OIL AND GAS ASSETS)

"THE TEAM IS EFFICIENT, RELIABLE AND COMMERCIAL. THEY KNOW WHAT THEY ARE DOING AND DO IT VERY WELL, WITH GOOD DRAFTING AND NEGOTIATION SKILLS AND PROBLEM-SOLVING CAPABILITIES."

CHAMBERS ASIA PACIFIC 2020

"THE TEAM HELPS IDENTIFY ISSUES AND CONSIDERS ALL ASPECTS OF THE TRANSACTION RATHER THAN JUST GIVING ANSWERS TO SPECIFIC QUESTIONS. THEY ARE GOOD AT DRAWING THINGS TO YOUR ATTENTION WHEN NECESSARY, AND GIVING YOU THE WHOLE PICTURE."

CHAMBERS ASIA PACIFIC 2020

"THE TEAM IS RESOURCEFUL, BRINGS INNOVATIVE IDEAS AND PROVIDES QUICK RESPONSES TO OUR REQUESTS."

CHAMBERS ASIA PACIFIC 2020

"IN A VERY DISTINCT PROFESSIONAL CATEGORY - A TRUE TIER ONE IN TERMS OF DELIVERY ON TIME WITH CUTTING-EDGE ADVICE."

CHAMBERS ASIA PACIFIC 2020

"HERBERT SMITH FREEHILLS' PRESENCE IN OTHER JURISDICTIONS IS A PLUS FOR THEM, CO-ORDINATING WITH LAWYERS IN OTHER JURISDICTIONS IS VERY EASY. WE DON'T HAVE TO TALK TO SEVERAL FIRMS"

CHAMBERS ASIA PACIFIC 2020

"RESPONSIVE ALL THE TIME AND ABLE TO DEAL WITH TRICKY ISSUES IN A SUBTLE WAY THAT INNOVATES TO ACHIEVE COMMERCIAL OBJECTIVES WHILE ENSURING ALL LEGAL REQUIREMENTS ARE MET AS WELL."

CHAMBERS ASIA PACIFIC 2020

Asia Pacific M&A: rankings and recent awards

M&A Rankings

- **Band 1**, Australia: Corporate/M&A - Chambers Asia Pacific 2019
- **Tier 1**, Australia: Corporate/M&A - Asia Pacific Legal 500
- **Band 1**, China/Hong Kong: Corporate/M&A: Highly Regarded (International Firms) – Chambers Asia Pacific 2019
- **Band 1**, India: Corporate M&A (Desks Based Abroad) - Chambers Asia Pacific 2019
- **Tier 1**, Indonesia: Corporate and M&A – Asia Pacific Legal 500
- **Band 1**, Indonesia: Corporate/M&A (HBT) – Chambers Asia Pacific 2019
- **Tier 1**, Japan: International Firms and Joint Ventures: Corporate and M&A – Asia Pacific Legal 500

Industry Focus Rankings

- **Band 1**, Asia-Pacific Region: Energy and Natural Resources - Chambers Asia Pacific 2019
- **Band 1**, Australia: Energy & Natural Resources – Chambers Asia Pacific 2019
- **Tier 1**, Australia: Energy (Transactions and Regulatory) – Asia Pacific Legal 500
- **Tier 1**, Australia: IT and Telecoms – Asia Pacific Legal 500
- **Tier 1**, Australia: Natural Resources – Asia Pacific Legal 500
- **Tier 1**, Brunei, Leading Firms – Asia Pacific Legal 500
- **Tier 1**, China: Foreign Firms: Projects and Energy – Asia Pacific Legal 500
- **Band 1**, China/Hong Kong: Energy & Natural Resources (International Firms) – Chambers Asia Pacific 2019
- **Tier 1**, Hong Kong: Projects and Energy – Asia Pacific Legal 500
- **Band 1**, India: Projects & Energy (Desks Based Abroad) – Chambers Asia Pacific 2019
- **Tier 1**, India: Foreign Firms – Asia Pacific Legal 500
- **Tier 1**, Indonesia: IT and Telecoms – Asia Pacific Legal 500
- **Tier 1**, Indonesia: Projects and Energy – Asia Pacific Legal 500
- **Band 1**, Indonesia: Projects & Energy (HBT) – Chambers Asia Pacific 2019
- **Tier 1**, Indonesia: Foreign Firms – Asia Pacific Legal 500
- **Tier 1**, Japan: International Firms and Joint Ventures: Projects and Energy – Asia Pacific Legal 500
- **Tier 1**, Japan: International Firms and Joint Ventures: TMT – Asia Pacific Legal 500
- **Tier 1**, Malaysia – Asia Pacific Legal 500
- **Tier 1**, Singapore: Foreign Firms: Energy – Asia Pacific Legal 500
- **Tier 1**, Singapore: Foreign Firms: TMT – Asia Pacific Legal 500
- **Tier 1**, South Korea: Projects and Energy – Asia Pacific Legal 500
- **Band 1**, Malaysia: Projects, Infrastructure & Energy (Desks Based Abroad) – Chambers Asia Pacific 2019
- **Band 1**, Singapore: Energy & Natural Resources: International – Chambers Asia Pacific 2019
- **Band 1**, Singapore: TMT: International – Chambers Asia Pacific 2019
- **Band 1**, South Korea: Energy & Natural Resources: International – Chambers Asia Pacific 2019



Recent awards

LAW FIRM OF THE YEAR FOR MERGERS & ACQUISITIONS LAW

BEST LAWYERS 2019, AUSTRALIA

AUSTRALIAN DEAL OF THE YEAR

COLES DEMERGER FROM WESFARMERS
- AUSTRALASIAN LAW AWARDS 2019

M&A DEAL OF THE YEAR

COLES DEMERGER FROM WESFARMERS
- AUSTRALASIAN LAW AWARDS 2019

INTERNATIONAL DEAL OF THE YEAR

SALE OF BHP'S US OIL AND GAS ASSETS
- AUSTRALASIAN LAW AWARDS 2019

ENERGY & RESOURCES DEAL OF THE YEAR

SANTOS ACQUISITION OF QUADRANT
- AUSTRALASIAN LAW AWARDS 2019

ASIA PACIFIC DEAL OF THE YEAR

MUFG BANK ACQUISITION OF 40% STAKE
IN BANK DANAMON (INDONESIA)
- ASIAN MENA COUNSEL 2019

BEST INDONESIA DEAL

MUFG BANK ACQUISITION OF 40% STAKE
IN BANK DANAMON (INDONESIA)
- FINANCEASIA ACHIEVEMENT AWARDS 2019

PROJECTS & ENERGY FIRM OF THE YEAR

CHINA LAW & PRACTICE AWARDS 2019, CHINA

ENERGY & NATURAL RESOURCES FIRM OF THE YEAR

CHINA LAW & PRACTICE AWARDS 2019, CHINA

CROSS-BORDER M&A LEGAL ADVISER OF THE YEAR

MERGERMARKET AUSTRALIA AWARDS 2019

BORDER M&A LEGAL ADVISER OF THE YEAR

MERGERMARKET AUSTRALIA AWARDS 2019

CHINA INTERNATIONAL FIRM OF THE YEAR

EUROMONEY ASIA WOMEN IN BUSINESS
LAW AWARDS, 2019

ENERGY LAW FIRM OF THE YEAR

WHO'S WHO LEGAL AWARDS 2019, GLOBAL

INTERNATIONAL FIRM OF THE YEAR

ALB MALAYSIA LAW AWARDS 2019,
SOUTH EAST ASIA

HONG KONG LAW FIRM OF THE YEAR

THOMSON REUTERS ALB
HONG KONG LAW AWARDS 2019

AUSTRALIAN DEAL TEAM OF THE YEAR, M&A

AUSTRALIAN LAWYERS WEEKLY AWARDS 2019

ENERGY AND RESOURCES TEAM OF THE YEAR

LAWYERS WEEKLY
AUSTRALIAN LAW AWARDS 2019

*References to Mergermarket data regarding 'public M&A deals' in particular jurisdictions is, unless otherwise stated, limited to public deals announced during 2019 (being transactions that require approval either from the bidder, target or vendor shareholders in a public forum) in which the relevant jurisdiction represents the dominant target geography and deal geography.

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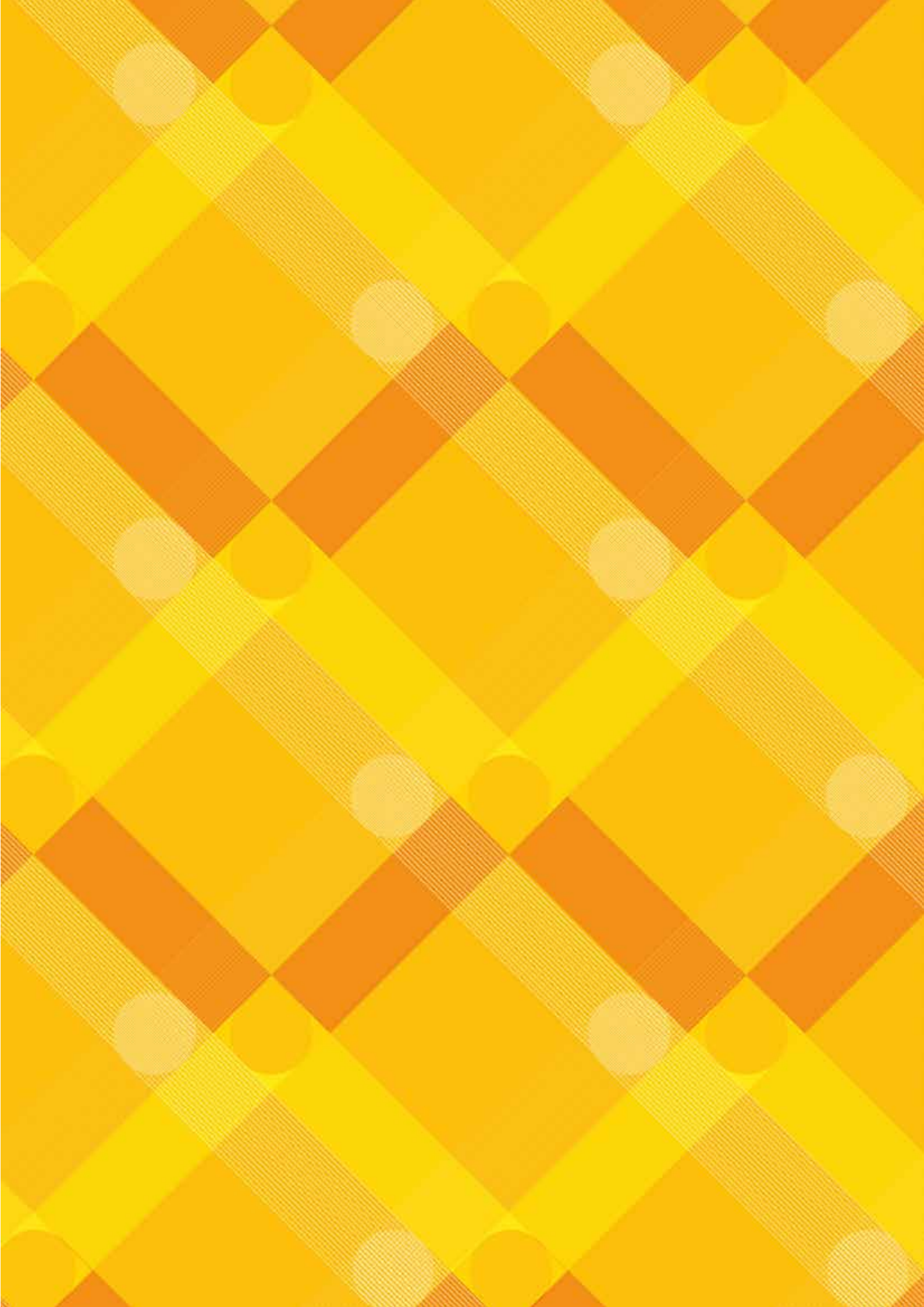
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