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M&A in APAC – 2022

Corporate and Investment Banking Practice

February 2023

Inflation, geopolitical tensions and resurgence of COVID-19 in China weighed on global economic activity in 2022

M&A activity decreased both in APAC & global markets

- Deal volumes in the APAC⁽¹⁾ markets declined and aggregated US\$910bn in 2022 (down 31% Y-o-Y), marking the slowest full year for deal-making since 2019
- Global deal-making decreased to US\$3.6tn in 2022 (down 37% Y-o-Y), the largest Y-o-Y decline (in % terms) since 2001
 - The number of deals declined by 17% Y-o-Y (to 54,954) in 2022, as the overall sentiment across M&A markets remained bearish
- Growth in deal volumes in India (up 42% Y-o-Y) and Southeast Asia (up 43% Y-o-Y) emerged as the silver lining in an otherwise subdued market
 - The financial and industrial sectors were the leading contributors to deal activity in APAC and accounted for ~40% of the total deals
 - Deal volumes in China plunged by 30% (Y-o-Y) to \$362bn, which significantly dragged the overall growth
- In 2022, ~55,000 deals were announced globally. Out of these, the EMEA accounted for 37%, while the Americas and APAC accounted for 33% and 30%, respectively

Amid the waning effects of the pandemic, the APAC region faces new headwinds from global financial tightening and an expected slowdown

- As per the IMF, APAC's annual economic growth is expected to moderate in 2022 amid an uncertain global environment
 - The balance of risks remains tilted to the downside, while further geopolitical fragmentation could hurt the region's economic progress
- Resurgence of COVID-19 in China dampened growth in 2022, but the recent reopening could pave the way for a faster-than-expected recovery
 - Japan also struggled with a record number of deaths due to COVID-19 in 2022
 - With no fresh wave of mass infections, the COVID-19 situation in India remained under control
- Based on IMF's latest forecast, APAC's GDP is expected to grow by 3.6% in 2022, led by India (6.8%). However, the growth is expected to slow down to 3.2% in 2023 (down from 3.3% in October 2022)

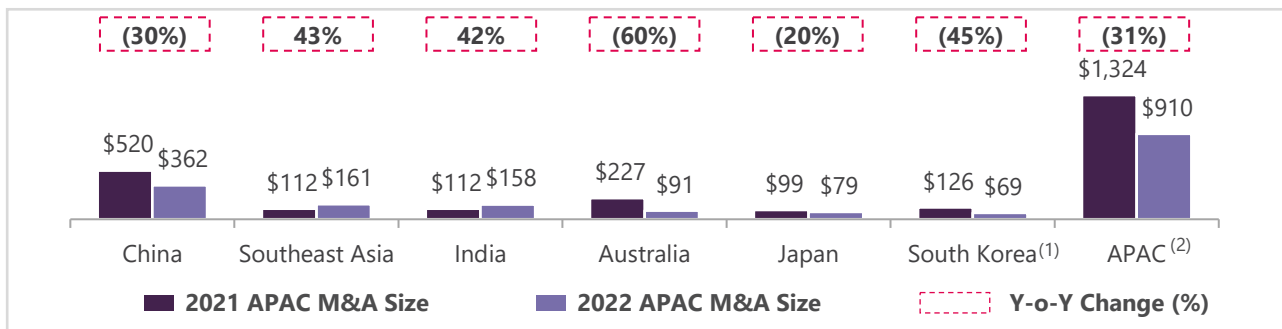
Source: Refinitiv; Data as of December 31, 2022; Figures in USDbn, World Bank and IMF

1) Includes Japan

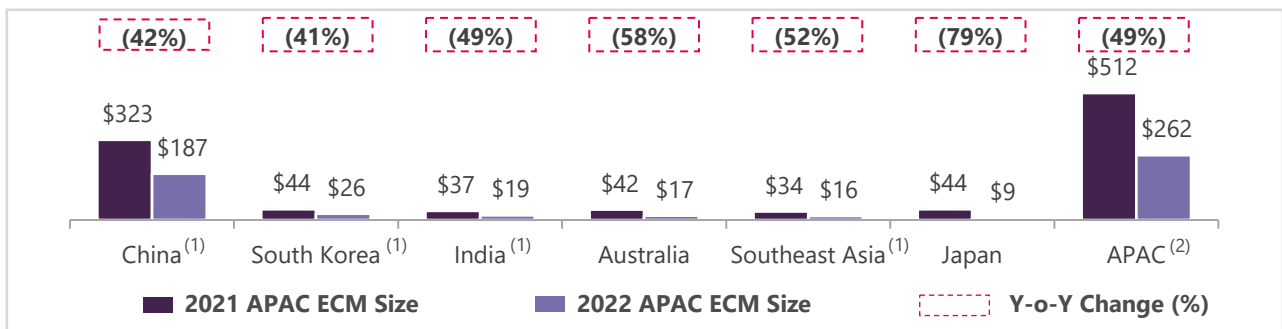


Pace of deal activity in APAC markets dropped significantly in 2022 compared to last year

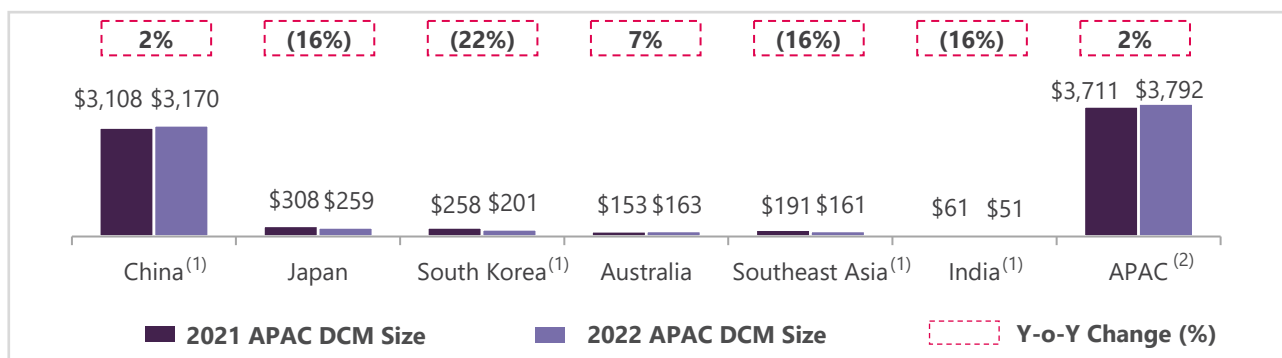
- M&A in APAC⁽¹⁾ was marred by cautious market sentiment, as deal volumes declined by 31% in 2022 (on Y-o-Y basis)
 - M&A volumes in Australia and South Korea decreased by 60% and 45%, respectively



- Deal volumes in the equity capital market (ECM) in APAC⁽¹⁾ declined by 49% in 2022



- Deal volumes in the debt capital markets (DCM) in APAC⁽¹⁾ grew by 2% in 2022. APAC accounted for ~64% of the global deals, and Asian local currency bond offerings aggregated US\$3.4tn (up 4% Y-o-Y)



Source: Refinitiv; Data as of December 31, 2022; Figures in USDbn

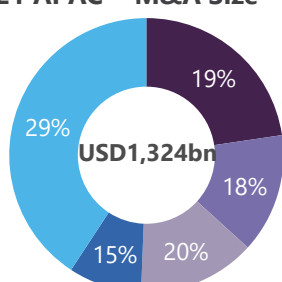
1) Extrapolated figures using data as of December 15, 2022

2) Includes Japan

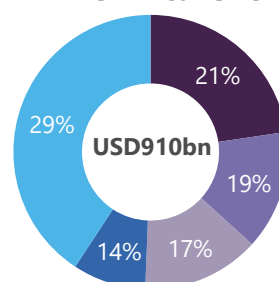
Financial sector witnessed the highest Y-o-Y growth in M&A deal-making in 2022

- The financial sector emerged as the biggest contributor to M&A deal-making in the APAC markets, accounting for 21% of total deals⁽¹⁾ in 2022
 - The industrial sector was the second largest contributor to the APAC M&A market and accounted for 19% of the total deals⁽¹⁾
 - Following a surge in M&A activity in the first quarter of 2022, deal-making in the technology sector slowed significantly through the remainder of the year, accounted for 17% of total deals⁽¹⁾

2021 APAC⁽²⁾ M&A Size



2022 APAC⁽²⁾ M&A Size



- Financials
- Industrials
- High Technology
- Energy and Power
- Others

Top Announced M&A (By Transaction Value): 2022

Date of Announcement	Target	Target's Advisor	Txn. Value (USDbn)	Acquirer	Acquirer's Advisor
04-Apr-22	Housing Dvlp Fin Corp	Credit Suisse / Jefferies / Axis Bank	\$60.4	HDFC Bank	Morgan Stanley / Goldman Sachs
20-Apr-22	Ramsay Health Care	UBS	\$20.9	Private Group	Credit Suisse AG
15-Sep-22	Store Capital	Goldman Sachs / Evercore Group	\$13.8	Investor Group	Citigroup / Eastdil Secured
30-June-22	Three Gorges Jinshajiang	-	\$12.8	China Yangtze Power	Citic Securities / Huatai United
27-Mar-22	Natl Grid Plc-Gas Transmission	Barclays / Goldman Sachs	\$12.7	Investor Group	Macquarie Group

Source: Company Press Releases and Refinitiv; Data as of December 31, 2022, Figures in USDbn

1) In terms of deal value

(2) Includes Japan

Although investor sentiment remained skittish in 2022, the current market can still provide opportune moments for M&A plays

- The decline in Asia-Pacific is very much in line with the overall M&A market. ... Uncertainties are putting many M&A moves on hold... In addition, more M&A activity could be expected from asset managers actively looking for more diversified investment opportunities across the globe.

— Miranda Zhao, Natixis Corporate & Investment Banking (*Head of M&A, Asia Pacific*)

- China has lifted a series of restrictions that previously restricted foreign financial institutions from entering its domestic banking, asset management, and insurance fields enablers...Such changes may contribute to greater [Asia-Pacific] M&A activities in the financial services sector in 2023.

— Stephen Chan, Dechert LLP (*Partner, Hong Kong*)

- There has been all this demand for more M&A, particularly cross border M&A, because it's something that we haven't seen in the last three years...Despite the overall recession, "cross border M&A will pick up significantly in the second half of this year.

— Samson Lo, UBS Group (*Co-head of M&A, Asia Pacific*)

- Six months or one year before the deal, private equity firms would already start meeting potential buyers to try to warm up the interest and try to understand who could be interested...For them, certainty is very important, and they really need to meet buyers very early on. Because of opening up, we expect an uptick in overseas disposal of private equity to Chinese buyers.

— Bagrin Angelov, CICC (*Head of cross-border M&A, China*)

Source: Press search, Reuters

Outlook for 2023

Growth forecast

Despite the obvious challenges, there are still grounds for optimism as we head into 2023. Restructuring transactions are already on the rise and distressed M&A deals seem likely to follow. However, the global economic growth is projected to fall from an estimated 3.4% in 2022 to 2.9% in 2023, then rise to 3.1% in 2024. Much like the global markets, economic growth in the APAC is expected to slow down in 2023 and grow by 3.2% (compared to 3.6% in 2022)

Inflation – the big concern

Signs are apparent that monetary policy tightening is starting to cool demand and inflation, but the full impact is unlikely to be realized before 2024. In most economies, amid the cost-of-living crisis, the priority remains achieving sustained disinflation as global inflation is set to fall from 8.8% in 2022 to 6.6% in 2023

China's impact on global economies

Economic activity in China slowed sharply in the fourth quarter as GDP grew by 2.9%, amid multiple large COVID-19 outbreaks and lingering property market crisis. As consumer and business sentiment remained subdued in 2022, China's slowdown has reduced global trade growth and international commodity prices. However, with full reopening in 2023 and recent change to its policies, GDP growth in China is projected to rise to 5.2%, which should augur well for global growth prospects

A bounce back in technology sector

The technology industry faced significant headwinds in 2022 as global M&A in technology declined by 36% Y-o-Y. However, as volatility in valuations declines and interest rates eventually settle, we expect that technology will continue to be an active area of M&A in 2023. The need for speed in digital transformation across industries, accelerated by volatility, will keep deal-making hot with a wave of acquisitions in the AI and machine learning markets in 2023

India – the shining star

The most notable beacon of optimism in the APAC region is India, where GDP growth has stayed nearly at the 7% mark. The IMF has forecast that India will have the fastest growth amongst all major economies in 2023. While the Indian economy is expanding from a relatively low base, there is no doubt that India is now attracting international investment, which might have previously gone to China

Source: Press search, World Bank and IMF

About the Author



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