CHINA RESEARCH Vol. 2/ Q1 2020

Post-Corona China - Resilient, Strong & Adaptive

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Welcome, China 2.0

IMPACT OF CORONAVIRUS ON GLOBAL ECONOMY

ORIGINATING IN CHINA, THE CORONAVIRUS HAS SPREAD OUT and turned into a global topic – not just regarding growing numbers of daily new infections but also regarding the impact on the world economy. At the end of February, the Coronavirus and its fallout led to a loss of USD 1.7tn on the US stock markets in only two days.[1] Finishing on Friday, February 28th, Europe has experienced a historic week of losses: Britain's FTSE 100 lost 3.7%, France's CAC 40 index was down 4%, Germany's DAX fell 4.5% and global stocks are set for their worst week since the financial crisis in 2008.[2] The impact of the Coronavirus affects the global supply chain as well as most of the consumer markets.[3] However, the outlook is not irreversible as we can already see in China. The outbreak of the Coronavirus in early January this year has been hitting China's economy hard, but this is likely to be only temporary.

"The economic impact will be temporary and will not change the positive foundations of China's economy"

Lian Weiliang, Deputy Director of the National Development and Reform Commission[4]

CHINA WILL BECOME MORE RESILIENT & REINVENT ITSELF

DUE TO THE TEMPORARY CLOSING of businesses, factories and manufacturing sites to prevent a further spread of the Coronavirus, we see an impact on nearly all industries; some of which will not be able to recover or even disappear. Some industries are already feeling the pain of the outbreak, from tourism and hospitality to airlines to pretty much everything offline. In contrast, all business models which support non-physical interactions have seen an increasing level of demand since the start of the outbreak.[5] From a pure technology perspective, the regulatory directive of people staying at home to avoid human contact **will further speed up this development** in the market. During the SARS virus outbreak more than 17 years ago, Liu Qiangdong, Founder of JD.com, one of China's largest online retailers today, moved its physical stores to an online platform. In addition, Jack Ma saw the increasing demand for e-commerce back then and set up Taobao (Alibaba's B2C commerce platform).[6]

Sources: [1] CNBC - Feb 2020, [2] CNBC - Feb 2020, [3] CNN - Jan 2020, [4] South China Morning Post - Feb 2020, [5] IEG – Research Team - Feb 2020, [6] "China 2.0 is coming" by Fionn Wright - Feb 2020

Tech
vs.
Virus

FROM GAMING TO DELIVERY – THE CORONA BENEFICIARIES

Healthtech: Healthcare intelligence platforms such as Tencent, Alibaba Health, Ping An Good Doctor and Ding-xiang Doctor provide online consultation services to reduce the risk of cross-infections. They have proved to be rather valuable in simple remote medical diagnostics and virtual prescriptions. However, pharmaceutical companies and medical equipment players are seeing mixed reactions depending on their applications and product relevance to Coronavirus diagnoses and treatment needs.[7]

Enterprise Collaboration: Driven by a "work-from-home" initiative, that was requested by the central government, work collaborative applications from the main tech giants such as Alibaba's DingTalk, Tencent's WeChat Work, and ByteDance's Lark, saw a sharp surge in demand. App rankings compiled by Sensor Tower show that all three apps experienced significant year-over-year growth in downloads in the last four weeks.[8]

China – App Downloads Growth (Last 4 Weeks)[9]

+1,500% Alibaba DingTalk

+600% Tencent 腾讯 WeChat

+6,000% ByteDance LARK

Online Food and Grocery Delivery: Many Chinese cities have banned eating in restaurants during the epidemic, putting additional pressure on food and grocery delivery services. To ensure safety, delivery companies have devised ways to avoid human interaction, such as Meituan-Dianping's "contactless" solution, which is a self-served cabinet to temporarily store food orders awaiting customer pick-ups. In the past, this vertical did not prove to be successful. Potentially this will be the renaissance for this sector.[10]

Sources: [7,8,10] IEG – Research Team - Feb 2020, [9] Sensor Tower - Feb 2020

Tech vs. Virus (cont.)

Online Education: To prevent a further spread of the Coronavirus, China's Ministry of Education has postponed the start of schools for at least 2 months which forces schools to implement online educational methods.[11] This novelty will lead to lasting changes within the Chinese educational system. So far online education was used to supplement offline schooling.[12] Despite Alibaba's DingTalk which is hugely benefitting from its application for schooling, specialist such as VIPKID, TAL, Zuoye Bang are working to integrate national, local and school-related teaching resources to provide rich, selectable and high-quality online teaching that covers all regions in the country.[13] Another massive benefit that will solve one of the core problems in the Chinese educational system is: High-quality education will become widely accessible throughout the entire country. Teachers can now reach thousands of students rather than a couple of dozens.[14]

Online Entertainment & Leisure: To escape boredom and ease forced home cocooning, the entertainment business increases their digital offerings. The most recent movies launch on mobile apps rather than in movie theaters and the gaming industry experiences a huge boom. Driven by improved digital infrastructure and high-speed internet access, streaming of video games will see a breakthrough within 2020. In addition, online fitness has grown tremendously as physical health became a key driver for fighting the Coronavirus.[15]

Manufacturing Tech and Robots: There is noticeably a shortage of labor which drives companies to accelerate adopting automations. Industrial robotics, sensors, visual technologies, industrial internet and AI will all be expected to see growth and acquisition interests. In addition, robots have joined the battle against the Coronavirus outbreak. At hospitals in Shanghai, Wuhan and Beijing, robots – deploying 5G and cloud computing - support the medical staff in initial inquiries, diagnoses, ward nursing, disinfection, cleaning, etc. Moreover, JD.com contributes its autonomous delivery robot technology and DJI's drones have been used to patrol the streets to enable contactless surveillance and safety.[16]

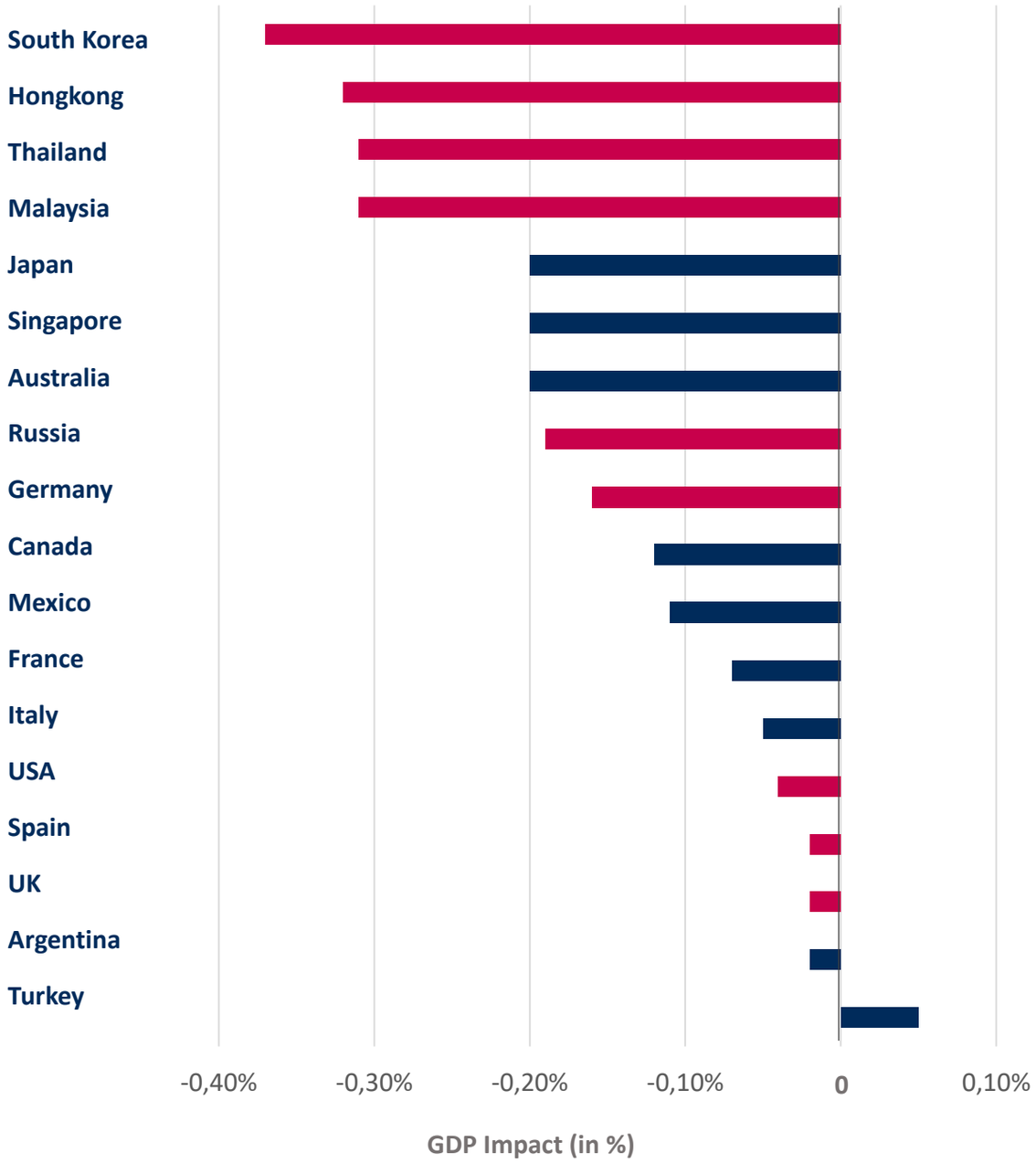
Sources: [11,13,15,16] IEG – Research Team - Feb 2020, [12] Tech in Asia - Feb 2020, [14] South China Morning Post - Feb 2020

Europe - Collateral Damage?

DEPENDENCY ON CHINA

ACCORDING TO THE FINANCIAL TIMES RESEARCH the impact of the Coronavirus on China's Gross Domestic Product (GDP) will create a measurable collateral damage throughout the world's economies. The Top 4 "victims" of China will be South Korea, Hongkong, Thailand and Malaysia with an estimated negative GDP impact of more than -0.3% p.a. In Europe, the impact of the Chinese Coronavirus outbreak hits Germany (-0.12% p.a.) and Russia (-0.16% p.a.) the most. Interestingly, the USA (< -0.05% p.a.) as well as Spain and the UK (both < -0.03% p.a.) are expected to experience only minimal collateral damage impact from China. Overall, the large China exporting and/or sourcing nations will need to fight the impact of the Coronavirus the most.[17]

Impact of China's Slower Economic Growth on the GDP of Selected Countries (in Percent)[18]



Sources: [17,18] Financial Times - Feb 2020

China's New Focus Abroad

FOREIGN TALENT TO LEAVE CHINA

ALTHOUGH VENTURE CAPITAL INVESTMENTS IN CHINA have decreased due to Coronavirus, most financing rounds face challenges and capital supply remains bumpy particularly from abroad, overall consolidation will accelerate, including mergers and acquisitions. As most foreign companies in China have withdrawn their non-Chinese executives and are faced with foreign talent's inability to return to China in the short-term and the difficulties of working effectively off-site, European companies are actively seeking solutions for local assistance to interim manage their Chinese operations.

"In this very delicate moment, IEG has extended its offering with the 'IEG China Task Force' staffed with local and highly qualified executives to interim manage and support investments in China. The 'IEG China Task Force' deploys local interim CFO or portfolio management services on-site to bridge the lack of operations and governance for the upcoming months in China."

Mirko Heide, Managing Director,
IEG – Investment Banking Group

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CHINA'S NEW HUNGER FOR INTERNATIONAL M&A DEALS

AMPLIFIED BY THE CORONAVIRUS CRISIS and coupled with the ongoing trade wars, Chinese companies rush to diversify their interest in developing countries and Europe. Especially Chinese companies with less financial power and executional resources as Huawei and DJI will focus their operations on Europe and developing markets. **85% of the world population** lives in developing countries, representing **99% of global growth** and a disposal income that is steadily growing.[19] Transsion, a Chinese mobile phone manufacturer based in Shenzhen, China, directs all its efforts to Africa, not selling in China at all and by doing so the company has captured 54% of the feature phone market and is second to Samsung and before Huawei in smartphone sales.[20]

Sources: [19] "China 2.0 is coming" by Fionn Wright - Feb 2020 , [20] Techcrunch - Sep 2019

China's New Focus Abroad (cont.)

LOCAL ADAPTIBILITY IS CHINA'S SUCCESS ABROAD

THIS METHOD OF LEVERAGING THE ADVANTAGES OF CHINESE TECH INFRASTRUCTURE and applying them to unmet needs of markets outside of China will become the quota for success for many Chinese companies.[18] This is essentially supported by **"One Belt, One Road"**, an ambitious program introduced by Chinese president Xi Jinping to connect Asia with Africa and Europe with the aim to increase trade and stimulate economic growth.[21] Transsion is performing remarkable well in Africa as they use Chinese technology and adjust it to the needs of local niche markets, i.e. Transsion improved camera settings to take better pictures of people with darker skin.

THE ABILITY OF CHINESE COMPANIES to quickly, easily and effectively transfer and adapt business models to other markets will ultimately be the key success factor to set China apart from its competitors. [22] Western companies lack speed-to-change and their regulatory governance will create a growing obstacle to compete with Asian companies.

HUAWEI'S INTELLIGENCE TO BUILD GLOBAL PARTNERSHIPS

HUAWEI, THE COMMUNICATIONS AND NETWORK SUPPLIER GIANT, holds **contractual relationships with 172 out of the 195 sovereign nations** worldwide, with the distinct goal to capture the developed world in 2020. The difficulty for Huawei's access to build the EU 5G infrastructure comes with a growing political opposition (security concerns), as opposed to an outright supplier ban in the US (plus 3 other countries - Australia, New Zealand and Japan). [23] Huawei can be politically banned to provide 5G technology, yet two facts need to be considered: 1) Huawei is the leading technology supplier for 5G networks in the world, outpacing Cisco, Nokia and Ericsson by years, and 2) Huawei has mastered establishing supplier, service provider, OEM and client partnerships which are deeply integrated, based on superior technology and unique skills of its engineering personnel.[24] First indicator of Huawei's strengths can be seen in the UK, who – against the clear wishes of the US – has partially granted Huawei the development of its 5G infrastructure.[25]

Sources: [21] EBRD - Feb 2020, [23,25] "China 2.0 is coming" by Fionn Wright - Feb 2020,
[24] IEG – Research Team - Mar 2020

What Else is New?

COMPLEX BROTHER | LANXESS TRANSACTION COMPLETED

Brother Enterprises China successfully completes the acquisition of the global chrome chemicals business of German chemicals group LANXESS.

THE ACQUISITION WAS ANNOUNCED IN AUGUST 2019 but was subject to the approval by the relevant antitrust authorities which has now been granted. Brother Enterprises takes over the production facilities in South Africa. Lawrence Wang, Director at IEG, states: "This Sino-German transaction is a great success and will bring Brother to the next level by becoming a true global player in its field. We are proud to have supported Brother on this complex acquisition."

IEG ACTED AS EXCLUSIVE FINANCIAL ADVISOR for Brother Enterprises during the entire transaction process. Brother Enterprises is a China-based company principally engaged in the research, development, manufacturing and sale of new fine chemical products, including food supplement and leather chemical products.

MEET AMANDA BAO – NEW VICE PRESIDENT AT IEG - CHINA

AMANDA BAO JUST RECENTLY JOINED IEG – China as Vice President. Amanda has graduated with a Master degree in Finance from Frankfurt School of Finance & Management in 2014. She then joined PwC in Frankfurt, Germany where she worked as Senior Consultant in the M&A China team from 2014 till 2017. In her role she gained extensive experience as buyside advisor working for Chinese companies acquiring European assets, i.e. SBS Group acquired Dürr Ecoclean. After PwC, Amanda joined ONEtoONE in Shanghai where she worked in Corporate Finance as Senior Associate. Amanda was born and raised in Shanghai, China. She is fluent in Mandarin and German and she also knows Japanese. In her free time, she likes to ski.

"I joined IEG – China because I strongly believe in the global reach and local strength of IEG."

Amanda Bao,
VP, IEG – China

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