ASIA INVESTMENT RESEARCH

Tracking Global Investment Flows Into China & Asia

· January 2022 Issue ·

Transforming Chinese SOES to private companies via Asian, North American and European investors. Six unique case studies of how China's SOEs are changing to allow greater transparency, privatization and foreign investment.

AIR

HOW CHINA IS REFORMING ITS SOES TO BECOME MIXED HYBRID GLOBAL BUSINESSES WORTH TENS OF BILLIONS OF DOLLARS

We provide the background to China's SOE reforms and showcase six unique case studies of the larger, more visible mixed-hybrid reforms, four which involved public markets and two major domestic mergers. These will likely result in internationally significant IPOs. We examine this new trend and show where new Chinese corporate thinking is gradually changing red chips to blue chips - and where the investment opportunities exist.

A Publication From China Investment Research Ltd.

TABLE OF CONTENTS

INTRODUCTION

We continue to hear critics complain about large Chinese SOEs, with most of the charges centered around a lack of transparency and/ or lack of progress in privatization. However, it has been our experience that when confronted with push back very few people seemed to have much data to argue their opinions. We explain the real situation as concerns SOE reforms and illustrate this with case studies.

Data & Case Studies: Henry Tillman, China Investment Research

In this issue of AIR, the independent research we provide tracks the progress made since Q4 2020 on six of the larger, more visible mixed-hybrid reforms, four which involved public markets and two major domestic mergers-which will likely result in large IPOs . It should be noted that this progress has been achieved in very turbulent Chinese equity markets and international political uncertainty.

Between 2013-2020, China completed than 4,000 cases of mixed-ownership reform involving more than RMB 1.5 trillion (US$235 billion) of non-State capital. (Source: SASAC - The State-owned Assets Supervision and Administration Commission of the State Council, a special commission of the PRC, directly under the State Council). In H2 2020, China undertook moves to upsize these to larger SOEs both to sharpen competitiveness and spur longer term growth by injecting these SOEs with private capital. Specific measures, which remain in effect include:

* Major SOEs are encouraged to sell significant stakes to outside strategic partners during a three-year action plan for SOE mixed-ownership reform, and

* The launch of a "big ticket" national fund, with initial capital of RMB 70.7 billion, (US$11 billion) raised from 20 shareholders to facilitate such reforms. China Chengtong Holdings Group Ltd, a State-owned asset-operating company, is leading the fund (under SASAC).

We provide the historical background to these new initiatives and give six case studies to illustrate how China is opening its SOEs through the "3-step" reform journey (equity transfer, capital increase and listing) in a beyond-expectation manner and grown them into public companies.

These steps include international investment, increasing transparency, and accepting senior global management expertise - with some spectacular returns looking very much on the cards.

CHINA'S SOE REFORMS: THE HISTORICAL PERSPECTIVE

The reform of Chinese state-owned and state-holding enterprises (SOEs) has taken place for over four decades. It remains the core element of China's economic reform process, but the official thinking regarding how they should be implemented has changed over time.

As China's SOEs are some of the biggest players in both the domestic and international markets, it is essential for foreign investors to gauge the strategic shifts brought about through the latest round of reforms. In this article we discuss China's SOE reform process, current policies, and what they mean for the market.

SOEs in China

Chinese SOEs contribute to around 30 percent of the country's GDP. The proportion far exceeds that of developed countries. SOEs in China can be divided into four groups based on their regulators:

Central industrial SOEs supervised by the central SASAC;
Local industrial SOEs supervised by local SASACs;
Financial institutions controlled by Central Huijin Investment Co., Ltd (Huijin); and
Entities supervised by the Ministry of Finance (MOF).
Central and local industrial SOEs are overseen by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), a special commission directly under the State Council.

State-owned financial institutions are usually controlled by the Central Huijin Investment Co., Ltd (Huijin), an investment company owned by the Chinese government.

Besides these, the Chinese Ministry of Finance (MOF) also regulates certain enterprises subordinate to central administrative institutions, some financial enterprises, and the SOEs having financial relations with MOF.

The Classification of SOEs in China	
SOEs	**Examples**
Central SOEs	Aluminum Corporation of China Limited, China Minmetals Corporation, China Nonferrous Metal Mining (Group) Co., Ltd., etc.
Local SOEs	Bailian Group, Jinjiang International Holdings Co., Ltd., etc.
Entities supervised by MOF	China Publishing Group Corp, China Arts and Entertainment Group Ltd, China Railway, etc.
Financial institutions controlled by Huijin	Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), China Construction Bank (CCB), Bank of China (BOC), etc.

Central and local SOEs account for around 40% of the total number of enterprises. They are the main targets of SOE reform, especially those in electricity, oil and gas, and railway industries.

State capital is mostly located in industries considered to be the lifeblood of the national economy – coal, nonferrous metals, steel, electricity, and construction industries. Some of these, however, have been the hardest hit by overcapacity.

Multiple reasons account for why SOEs do not function efficiently and are seen elsewhere as a drag on the economy. In the case of China, unclear property rights between the government and enterprises and laggard company management systems can mean that SOEs are generally not as productive and innovative as private firms. Consequently, many suffer from over-capacity and debt.

As of June 2018, the average return on assets among SOEs was 3.9%, compared with 9.9% for private firms. They accounted for 28% of China's industrial assets but contributed only 18% of total profit. Additionally, they racked up RMB 100 trillion (US$15 trillion) in debt by the end of 2017, equivalent to 120% of the national GDP at the time. This is why China SOE reform has become a hot topic and why new structuring across many industrial in addition to national and world-wide SOE businesses is a key part of China's reforms.

SOE reforms in China

While it is recognized that SOEs should be more marketized to boost their productivity in the long run, the Chinese government instead focuses on how to balance the commercial and political objectives of its SOEs.

China's SOE reforms have gone through several stages over the last 40 years.

From the 1970s to 1990s, SOEs were state-controlled factories, who were directly controlled by the governments to accomplish the state-assigned production quotas; gradually these entities were converted to become modern corporates.

Since the late 1990s, large SOEs have gone through mergers and reorganization but remain the dominant type of entity in strategic industries.

In 2003, the SASAC was set up to act as the funder and regulator of non-financial SOEs on behalf of the state. In 2006, the Chinese leadership divided industries into three groups and readjusted the allocation of state assets. The thinking being that state-owned assets should maintain absolute control over key industries that are vital to national security and the lifeblood of the national economy, maintain strong control over in pillar industries, which has strategic linkage to national economic development, and maintain the necessary influence in normal industries.

Key industries: Defense, electricity, oil and gas, telecom, coal, shipping, aviation, and rail.
Pillar industries: Auto, chemicals, construction, electronics, equipment manufacturing, nonferrous metals, prospecting, steel, and technology.
Normal industries: Agriculture, pharmaceutical, real estate, tourism, investment, professional services, general trade, and general manufacturing.
The more recent stage of reforms dates to 2013, when President Xi Jinping outlined his ambitious reform plans at the Third Plenum meeting.

Consistent with previous policies, the meeting reemphasized the transformation of SOEs into modern corporations by introducing mixed ownership, hiring professional managers, establishing boards of directors, and authorizing them to make market decisions.

Xi also proposed to shift the role of the government from the management of state enterprises to the management of state capital. This meant that the government could allocate state capital towards strategic industries while reducing direct intervention within the day-to-day operations of SOEs.

In 2015, a major SOE reform policy document, the Guiding Opinions of the Central Committee and State Council on Deepening the Reform of SOEs, was released and elaborated on familiar messages from the 2013 plans. However, the document classified SOEs as "public class" and "commercial class". Different types of SOEs were to have different supervision mechanisms, mixed ownership reform plans, and corporate governance mechanisms, etc.

But these opinions no longer mentioned the "decisive role for markets in resource allocation". It seemed that, following China's 2015 stock market turmoil, the leadership in Beijing was reluctant to withdraw the "visible hand" of the state. Today, the government's agenda for SOE reforms combines SOE corporate governance with the institutionalization of Party leadership within SOEs.

Currently, the predominant view is that Chinese SOEs should lead the country's economic and technology catch-up.

At the 19th National Congress of the Communist Party of China, Xi pledged further reforms to make SOEs "stronger, better, and bigger," and turn them into "world-class, globally competitive firms." That has been implemented. In 2021, 143 SOEs made the list of the Global Fortune 500 up from 48 in 2018 and from just six in 2003.

However, China's moves to redevelopment its SOEs sparked controversy and debate both at home and abroad. Internationally, the United States accused the Chinese government of implementing policies that directly favored SOEs thereby distorting the allocation of market resources and disrupting the level playing field. Domestically, public opinion asserted that as the Chinese state advanced, the private sector retreated.

In response to the disquiet over the direction of SOE reform, national leaders and officials proposed to treat SOEs with the governing principle of "competitive neutrality".

To achieve this, the Chinese Government Work Report in 2019 stated that "when it comes to access to factors of production, market access and licenses, business operations, government procurement, public biddings, and so on, enterprises under all forms of ownership will be treated on an equal footing".

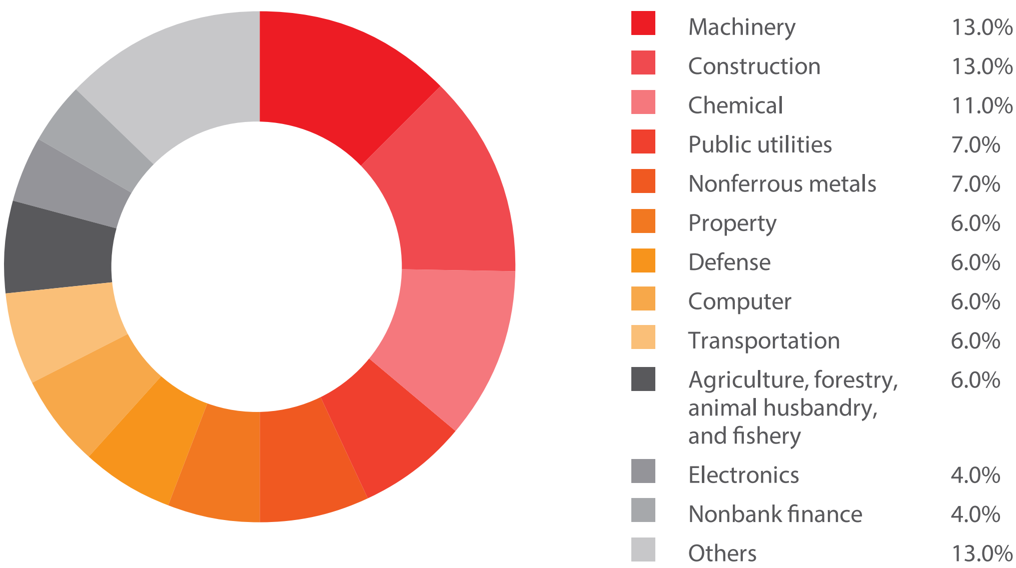
Current SOE reform policies

Following the 2015 policy document, a series of policy papers were released until 2017 and constituted the framework for the current SOE reform, also referred to as the "1+N framework". There were three main reform points within the 2017 round of SOE reforms.

Mixed ownership

In August 2018, SASAC launched the "Double hundred action" work plan for SOE reform, aiming to add a total of 404 pilot subsidiaries of central SOEs and local SOEs into the mixed ownership reform pilot program during the 2018-2020 period. The selected pilot central and local SOEs are mainly in competitive industries and industries with excess capacity, such as machinery, construction, chemical, nonferrous metals, and more.

Industries in Which Pilot SOEs for Mixed Ownership Reform are Distributed



Source: Wind Data

Pilot SOEs are required to actively introduce various investors to realize equity diversification through different means, such as restructuring and public listing.

By the end of 2019, four batches of pilot SOEs, totaling 150 enterprises, had joined the mixed ownership reform plan, with additions continuing to be made. These now represent significant opportunities for global investors, and especially from 2022 as China has just joined the Regional Comprehensive Economic Partnership (RCEP) - giving free trade access to Australia, the ASEAN bloc, Japan, New Zealand, and South

Korea. Another factor is that China's middle class consumer base is expected to reach 1.2 billion by 2030, while a third is along China's BRI - now extended to 142 countries who may seek mergers with subsidiaries of Chinese SOEs overseas and / or on their own stock exchanges to raise development capital and investment opportunities.

Merger and acquisition

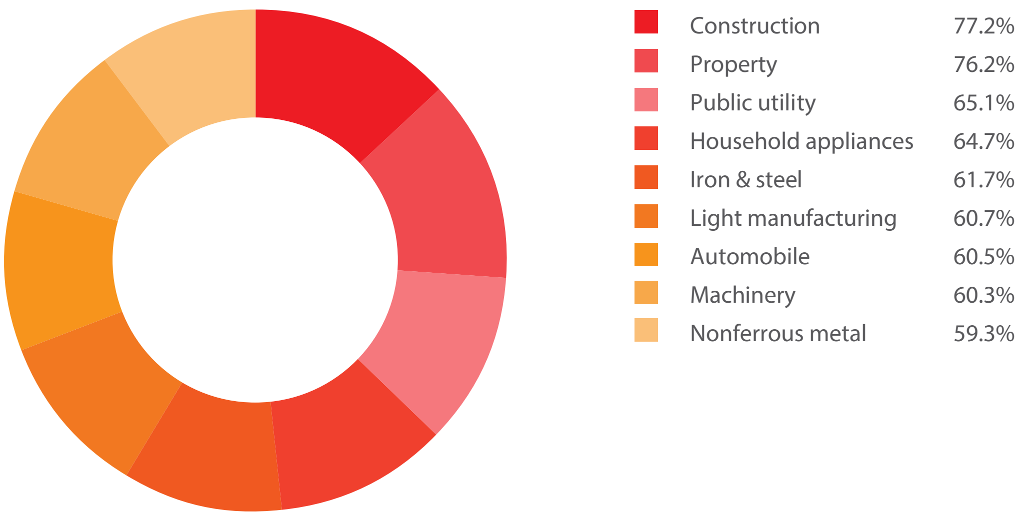
Through mergers and reorganization, SOE groups can improve the asset securitization rate by injecting unlisted assets into listed companies. Listed companies can improve the structure of assets and liabilities and achieve the reduction of leverage by acquiring external high-quality assets.

in terms of specific industry sectors, SOEs in construction, property, public utility, household appliances, and iron and steel have a high asset-liability ratio.

Mergers and acquisitions of SOEs have taken place in highly leveraged industries, such as property, public utilities, chemical, machinery, and more. There are many more M&A and restructuring opportunities for SOEs in related industries, as this issue of AIR illustrates.

SOE classification and state capital management

The Asset-Liability Ratio of Listed SOEs in Various Industries



Source: Wind Data, Citic China Securities Research

In 2015, the leadership in Beijing intended to classify SOEs into a "public class" or "commercial class" as the basis for a new round of SOE reform. In 2017, the original binary categories were updated to a tripartite grouping scheme – industrial enterprises groups, investment groups, and operating groups.

In this way, the government and SASACs no longer directly manage state-owned groups, but only manage state-owned investment groups and operating groups. In turn, the state-owned investment groups and operating groups will manage individual enterprises in the way of "managing capital", to reduce direct state interference in SOE commercial activities.

China's SOE reforms are ambitious, but traditional fault lines remain

Mixed ownership reform, SOE M&As, and the establishment of "two types of companies" – investment groups and operating groups – are features of the latest reforms of SOEs in various industries and regions across China.

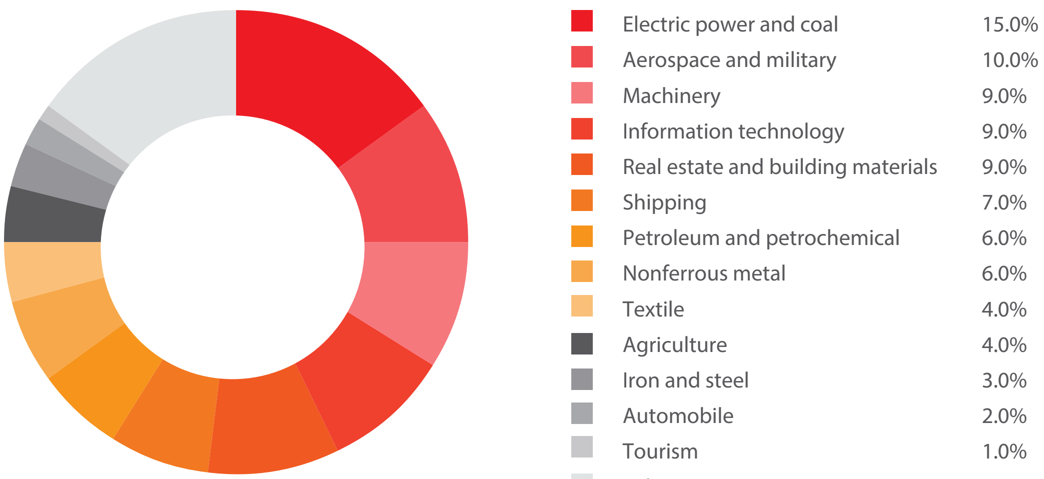
According to data from SASAC, over two-thirds of all subsidiaries under central SOEs had achieved mixed ownership. Pilot enterprises introduced 40 investors of various types with capital exceeding RMB 90 billion (US$13.5 billion). The main industries involved are: electricity, oil and gas, railway, iron and steel, nonferrous metal, coal, and construction. Region-wise – Shandong, Shanxi, Tianjin, Zhejiang, Liaoning, and Guangzhou – are at the forefront of promoting "mixed reform" efforts, with hundreds of mixed SOE projects undertaken over the past three years.

Meanwhile, SASAC and the National Development and Reform Commission (NDRC) have reemphasized SOE reforms, especially the mixed ownership reform. Broader SOE reforms in equipment manufacturing, shipping, the chemical industry, electricity, non-ferrous metals, steel and iron, and environmental protection are all either in place or are continuing to be restructured.

However, it should be noted, that although the central leadership has stated it intends to protect the interests of all types of investors participating in the mixed-ownership reform of SOEs, private investors and international actors have at times experienced limited capacity to directly influence Chinese policymaking or even SOE governance at the group company level.

These older attitudes die hard, but are gradually being pushed away, although concerns about the retreating private sector remain. President Xi Jinping has made several widely publicized speeches praising private enterprises and assuring them of official support, following this through with private sector business support measures during the Covid pandemic, many of which will remain in place until 2023.

Industrial Distribution of Central SOEs under SASAC



Source: Industrial Distribution of Central SOEs under SASAC

The current, highly publicized move to open China ostensibly seeks to achieve a more level playing field in the market but traditional fault lines remain. However, as the next section of this issue of AIR illustrates, although President Xi Jinping stresses assured political control in all sectors and decision-making areas, the financial performance of Chinese SOEs that have gone through mixed ownership reforms has been encouraging.

It will take time and some balancing for talent from the private sector to cross into the SOE sector without damaging China's private sector itself. Access to new overseas financial and consumer markets and new, imported, and foreign talent is also starting to become more desirable and accepted. The pace of China's SOE reforms may remain gradual, and rather measured at times, however the reform process is irreversible. Opportunities exist in multiple sectors for contributing to this and in global investment strategies with well-positioned Chinese SOEs.

CASE STUDIES

In this section we provide six case studies of Chinese SOE reforms, including two in global logistics, and one each in construction, aviation, white goods, and a huge restructuring involving China's State Grid. It should be noted that four of these have direct relevance to China's Belt and Road Initiative and can be expected to pave the way in the short and medium term for IPOs of hybrid China SOEs on other international markets. All have been announced since late 2020.

China Southern Airlines – Multiple Group Company Reforms

China Southern Airlines General Aviation (CSAGA) is a leading general aviation company and 2nd largest flight operator in the offshore oil and gas industry . The company, based in Zhuhai, operates 25 general aircraft and four marine producing bases. In May 2019, CSAGA was listed in the fourth batch of pilot enterprises for "Mixed Ownership Reform in Key Fields" by the National Development and Reform Commission (NDRC).

In November 2020, CSAGA the air cargo unit of China Southern Airlines (SSE listed), started its mixed-ownership reform (parent started its mixed-reform in 2019) formally implemented the mixed ownership by adding three new investors which in turn implemented employee shareholding.

On the same day, China Southern Airlines officially signed a contract with three investment entities, an ESOP platform, and China Southern Airlines at the Beijing Equity Exchange. After the completion of the mixed reform, CSAGA registered capital increased from RMB 1 billion (US$153.9 million) to RMB 1.34 billion adding three new investors:

SOE Reform Development Fund Management Co Ltd (14.1%),
China Southern Power Grid Industrial Investment Group Co Ltd (10%),
China Southern Airlines Capital (10%)
and a Zhuhai company (8%) as well as the employee ESOP. China Southern Group still owns 57.9%, but now has both external capital and Board members.

In December 2020, Hidden Hill Capital, a subsidiary of GLP (Singapore) announced it had made a RMB 745 million (circa US$114million) investment in China Southern Airlines Cargo Logistics, the cargo subsidiary of China Southern Airlines. China Southern Airlines Logistics provides cargo services to 243 destinations in 44 countries and regions through more than 3,000 flights a day. China Southern Airlines sought out private and foreign investment for its cargo business as part of its mixed-ownership reform pilot.

The mixed-ownership reform trial of China's three major airlines (China Southern Airlines, China Eastern Airlines and Air China) started with their cargo subsidiaries since the reform of air freight is urgently needed. In recent years, the Chinese logistics industry has developed rapidly, while the air freight business has been gradually marginalized (10% of revenues) and profitability remains low.

Xugong Group Construction Machinery Co Ltd

Xugong Group Construction Machinery Co., Ltd. (Xugong) is a core business of the Xuzhou Construction Machinery Group Co., Ltd (XCMG). Xugong is a SOE reform "double-hundred enterprise", the first batch of mixed-ownership reform pilot enterprises in Jiangsu Province. It ranks No. 1 in the domestic industry, No. 3 in the global industry, No. 4 in China's top 100 machinery industry and No. 409 in the world's top 500 brands.

XCMG's route to mixed-ownership took 15 years. Since its founding in 1989, it had been previously owned by the city government of Xuzhou. In 2005, Carlyle Group agreed to purchase an 85% stake for US$375 million in cash. However, the proposed deal was blocked for numerous reasons. Carlyle made several attempts to restructure the deal before it was finally abandoned in 2008.

In July 2020, Xugong was officially announced as a mixed-ownership state run enterprise. The announcement stated that the company will introduce strategic investors through stock transfers and capital increase, which still left the provincial government with 51%. Strategic investors and employee stock ownership platforms (2%) will hold 49%. Several sources quoted major western investors including BlackRock, Harvest, Vanguard, the Florida State Board of Administration and Norges Bank Investment Management acquired a (combined) 9% stake.

On 15 December 2020, Xugong announced the sale of a 10.5% stake to GIC (Singapore) and CITIC Private equity for US$2.25 billion. The GIC/CITIC deal would make the two Xugong's single biggest shareholder among a dozen new investors (not yet named), which will own a total of 46%.

Xugong will then inject US$2.1 billion in assets into Shenzhen listed XCMG - of which it owns 38% - which recorded 2019 revenues of US$2.4 billion. Xugong will be dissolved after shareholders receive XCMG stock. Xugong intends to complete the process by the end of 2022.

GREE / Hillhouse Capital / Philips Home Appliances

In October 2019, GREE Electric Appliances (GREE) – sold a 15% interest to Hillhouse Capital for US$7.5 billion, launching its mixed-hybrid reform. The move made Hillhouse Capital, one of the largest and most sophisticated Asian/Chinese PE firms with investments in Tencent and jd.com, the largest shareholder of GREE, one of China's leading air conditioning manufacturers. After Hillhouse's 15% stake, GREE's three top shareholders are Zhuhai Mingjun (15%), Hebei Jinghai Guarantee Investment Co Ltd (8.91%) and Zhuhai Gree Group (3.2%).

In March 2021, Dutch Philips AG announced that it agreed to sell its home appliance unit to Hillhouse Capital in a deal valued at €4.4 billion (US$5.2 billion). The Philips Domestic Appliances business has annual sales of €2.2 billion in 2020 and was active in more than 100 countries. It owns a number of successful home care products including the Airfryer, Fully Automatic Espresso Machine, Perfect Care Elite steam generator, Air Purifier, and SpeedPro Max vacuum cleaner. The business employs approximately 7,000 employees globally. While the Philips business in the Chinese market was declining, it has a sound brand reputation and wide world channels.

Hillhouse Capital's acquisition marks another example of Chinese household appliance manufacturers/ PE firms to acquire foreign appliance brands for global expansion; Hisense acquired EU home appliance manufacturer Gorenje (Slovenia) and Toshiba's Visual Solutions (Japan) TV business , Skyworth acquired the television business of German electronics company Metz; Midea acquired Toshiba's home appliances business; Haier (backed by KKR) purchased GE Appliances and Candy, a manufacturer of household appliances from Italy.

Philips business is closely aligned with GREE's domestic business thus combining these two businesses someday would create a global leader by helping it broaden its product categories and opening a fast channel to the global market. Such a merger would also lift GREE to the same level of Midea and Haier – its Chinese peers.

In the interim, Philips was convinced that Hillhouse could provide capital and digital expertise to bring new technologies or apply other commercial strategies to the business.

Eastern Air Logistics (EAL), a subsidiary of China Eastern Airlines Group

In June 2017, China Eastern Airlines Group (China Eastern) announced an agreement with private investors Legend Holdings, Global Logistic Properties (GLP), Deppon Logistics and Greenland Financial and a representative of its core staff team to diversify the ownership structure of EAL by selling a majority stake.

EAL is the integrated service business of air logistics, which integrates business functions such as air express transportation, cargo terminal operation, multimodal transport, warehousing, cross-border e-commerce solutions, inter-industry project supply chain, aviation special cargo solutions and direct origin solutions. At the time, EAL had not been performing well.

In the deal, China Eastern kept only 45% of EAL holdings, while the four private firms held 45% shares (25% by Legend Holdings, 5% by Greenland, 10% by GLP (Singapore) and 5% by Deppon Logistics). EAL's core staff team held the remainder 10% (125 workers bought the shares, with the general manager holding less than 1% stake for his RMB 30 million (US$4.4 million) of stock.

The move marked an important step for SOEs mixed-ownership by attracting private investors. It also helps EAL to be able to complete with Fedex and UPS.

In 2019, EAL submitted plans to list that year, but elected not do so. In 2020, the company was able to obtain new capital from the proceeds from a large capital raise by its parent, China Eastern Airlines.

By the end of 2020, China Cargo Airlines, a subsidiary of EAL, operated 10 cargo planes and 725 passenger planes. Through its partnerships with SkyTeam, the route network reached 1,036 destinations in 170 countries around the world. EAL has 17 self-operated cargo terminals and covers 12 airports. Among them, Shanghai Pudong Airport and Shanghai Hongqiao Airport are the main bases of EAL, while Shanghai Pudong Airport is the third largest airport in the world in terms of cargo and mail throughput.

Financially, EAL made considerable progress from 2016 -2020, operating income nearly trebled from RMB5.8 billion to RMB15.1 billion, total profit was increased from RMB485 million to RMB3.6 billion, the asset-liability ratio decreased from 86% to 37%, and net assets by nearly 7X. Clearly EAL performed very differently than from under its prior ownership.

In June 2021, EAL was listed on the main board of Shanghai Stock Exchange (SSE), issued "the first share of mixed ownership reform of aviation". It soared 44% on listing day and its share price reached the upper limit of RMB 22.7 (US$3.55) per share at the SSE.

EAL's IPO came at time when the demand for air cargo not only recovered from COVID-19 epidemic crisis, but also continued to grow. EAL has also been an active transportation of vaccines and other important materials. EAL has flown to more than 20 countries and carried out all kinds of anti-epidemic flights, transporting more than 70,000 tons of medical materials.

This marks that EAL, being one of the 1st batch of pilot businesses countrywide and the 1st pilot business from civil aviation sector in the MOR program, has gone through the "3-step" reform journey (equity transfer, capital increase (2017) and listing) in a beyond-expectation manner and grown into a public company.

China State Grid - merging units with XD Group to create a Chinese electrical gear giant

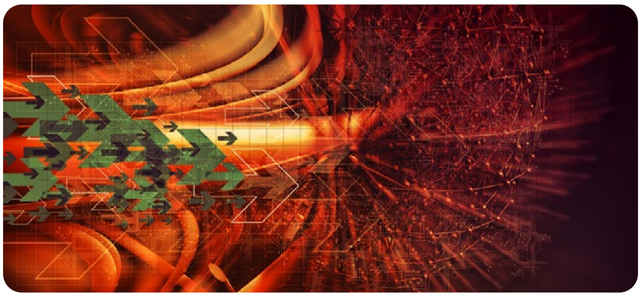
In September 2021, China established an electricity equipment giant through a merger which involved companies affiliated with the State Grid Corp and power engineering company China XD Group. The new company has a registration fund of 100 billion yuan (US$15.47 billion). The three unlisted units of China's State Grid- Xuji Group, Ping Gao Group, and Shandong Electrical Engineering and Equipment Group (RMB70 billion assets), plus 3 other companies - will merge with China XD Electric's controlling shareholder China XD Group (RMB 40 billion) to form a power equipment group with combined assets of over CNY100 billion (US$15.5 billion). Shares of all listed companies with some involvement in this deal increased upon the announcement between 6-10%, so the market responded very positively to this plan.

The move is part of China's efforts to reform state-owned companies to drive efficiency. The merger will create a large equipment maker and service provider that can compete well in BRI countries. (As at end 2021, 142 countries have signed off BRI MoU with China, including many globally emerging economies requiring energy solutions to maintain development. China's trade with BRI nations is now 29.6% of its global total, while Chinese imports from BRI nations rose 66.6% in 2021. Chinese outbound investment also increased during 2021 with the country the largest provider of outbound investment in global terms).

While this transaction was only announced in Q3 2021, in December 2020 listed companies including China XD Group said they were preparing for a merger. In February, State Grid stated that it will gradually strip out its traditional manufacturing business - beginning the process to spin off State Grid's assets in transmission and distribution equipment manufacturing.

An Energy Internet

The State Grid also announced a new focus on Energy Internet - a US$350 billion investment, that also brings it another step closer to spinning off its non-core business (there are still other non-grid businesses to separate out) to prepare it to focus on future growth as State Grid has huge priorities in clean energy.



In January 2021, its CEO Xin Baoan delivered a speech at the World Economic Forum's "Davos Agenda" via video link during the "Accelerating Clean Energy Transition" session. During his speech, Baoan said that in the next five years, China's State Grid will spend an average of more than US$70 billion a year (US$350 billion over 5 years) to upgrade the power grid to the "Energy Internet" and promote the transition to clean and low-carbon energy. Energy Internet is a smart energy system based on a strong smart grid that integrates advanced information and communication technology, control technology and energy technology.

State Grid will provide a configuration platform for the large-scale development and use of clean energy. By 2030, China's installed wind and solar power generation capacity will reach 1.2 billion kilowatts or more. State Grid is also building a highway fast charging network covering 171 cities, building the world's largest smart car networking platform and accumulating 1.03 million charging piles.

China Logistics Group

In early December 2021, China announced the launch a new state-owned logistics group, China Logistics Group (CLG), designed to strengthen domestic and global supply chains amid widespread disruptions caused by the pandemic. CLG is to become a "global supply chain organizer" by developing international trade links and freight services, as well as cross-border e-commerce.

CLG has been formed through a merger of several companies dealing in material storage and transport, international logistics and logistics packaging; China Railway Materials, China National Materials Storage and Transportation Group, Huamao International Freight Limited Company Shenzhen Branch, China Logistics, and China National Packaging Corporation.

CLG currently covers 30 Chinese provinces, is present across five continents, and operates three million vehicles. CLG also has property rights on 24.3 million m^2 of land, owns 120 designated railway lines and has 42 futures delivery warehouses.

China's State Council/SASAC and CLG each hold 38.9% of the shares, while the three strategic investors, all publicly listed organizations and global brands hold the remaining 22%: China Eastern Airlines (10%), COSCO Shipping (7.3%), and China Merchants Group (4.9%).

The merger comes at a time when the pandemic continues to disrupt global supply chains, especially in Chinese ports, where even one positive COVID-19 case can result in operations being suspended. It also represents the next set of steps needed to reduce the operating performance gap between Chinese logistics costs and those of other major countries (circa 7% currently).

Summary

While six companies do not represent a complete sample of all Chinese SOEs, most are global brands and did in fact achieve considerable progress in achieving mixed-hybrid status since Q4 2020 including:

Logistics (and other businesses) within China Eastern and China Southern Airlines;

China's market leader and a global brand in cranes and construction equipment;

The largest 2021 China outbound consumer investment, acquired by the largest shareholder in GREE, China's largest air conditioning company which could be merged at a later date;
Creating a large domestic electricity equipment giant-and in the process freeing up State Grid to invest in a US$350 billion energy internet over the next 5 years;

Creating a new 30 province logistics group, to become a "global supply chain organizer" by developing international trade links and freight services, as well as cross-border e-commerce.

In addition to domestic Chinese strategic, institutional and PE investors, these transactions also attracted investment from ASEAN strategic investors, major PE funds and sovereign wealth funds as well as institutional investors from North America, EU, and the UK.

The financial markets in 2022 will continue to pose challenges, but we believe that there will be increased activity in this segment – maybe not at the pace Western governments want – but it is in the process of moving and can be a model for countries such as Uzbekistan as they begin to implement privatizations of some of their own SOEs.

ASIA INVESTMENT RESEARCH

WHO WE ARE & WHAT WE DO

Asia Investment Research is jointly produced by China Investment Research www.chinainvestmentresearch.org

China Investment Research have been providing China financial data since 2008 and are based in London.

Asia Investment Research provides unique, primary source reconciled data related to China and Asian inbound investment on a quarterly basis in addition to specific monthly country profiles. We monitor all Asia inbound investment on a global basis, by country of origin, industry and by type, including both equity and debt. This is combined with pertinent regulatory updates to illustrate where current investment trends are appearing and where future trends will appear.

Learn More

METHODOLOGY

Our M&A/equity investment numbers are comprised of three components; FDI, below FDI/venture and/or growth capital and announced China inbound.

The FDI component is drawn from data sources which virtually all major consultants, accountants and bankers use. However, we take the extra step of verifying what a reporter states and what actually makes it onto the data run. In Q3, we found one discrepancy of over US$1.3 billion. We also have China based sourcing and verification as sometimes the data is only reported in China and in Mandarin.

Below FDI and venture growth capital – we draw from numerous PE and VC specialty databases – Preqin, Crunchbase, Pitchbook, Traxcn to name a few. We then (systematically) remove all non-Chinese investors from these investments – which can frequently involve syndicates of 5+ non-Chinese investors, to provide data for China only.

China inbound – is built daily globally with input from China and the master data based held in London. It is literally announced deal by deal, JV by JV, day by day. All entries are linked to an specific announcement. For example, the Q3 inbound had 41 pages of backup data and story links.

The combination of these 3 components makes AIR unique among data providers.

We also provide notable regulatory updates that preclude investment. These provide a window into future investment trends are likely to be and include G2G intelligence on bilateral, free trade negotiations, trade impact analysis and track amendments to existing agreements. This is especially important when considering future global and regional trade flows and developments within them. The upcoming RCEP and CPTPP free trade agreements are examples of this ongoing tracking and analysis.

On a G2B basis we track industry-specific regulatory updates pertinent to new market opportunities in addition to where Government policy may discourage investment. This allows our subscribers to take remedial action on negative developments and potential investment action on positive regulatory developments.

Research is conducted from our permanent offices in the United States, European Union, United Kingdom, China, India, Russia, the ASEAN6 (Indonesia, Malaysia, Philippines, Singapore, Thailand & Vietnam) Hong Kong and allied partners within the Middle East (Dubai, Qatar), South Asia (Bangladesh, Sri Lanka, Pakistan) and East Asia (Japan, Mongolia, and South Korea).

ASIA INVESTMENT RESEARCH

CONTACT US:

Asia Investment Research is a monthly publication and is designed for Government, Banks, Financial Institutions, PE, Equity & Pension Fund Managers, Lawyers and Corporate Financiers and Executives looking for the latest Asian investment trends.

Strictly available by subscription only, 12 times a year: US$2,500
Individual Issues available for US$250.

Email us at *info@asiainvestmentresearch.org*
Website: *www.asiainvestmentresearch.org*

OUR CONTRIBUTORS

China Investment Research
China analytical and financial data
www.chinainvestmentresearch.org