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## M&A deals will maintain strong momentum

By Fei Ya (China Daily)  
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The Standard Bank logo at a branch in Johannesburg, South Africa. ICBC will pay \$5.6 billion for a 20 percent stake in Standard Bank Group Ltd, in the biggest overseas acquisition by a Chinese company. [Bloomberg]

Merger and acquisition (M&A) activities will continue to see strong growth in 2008, especially in the local market, analysts said.

The overall state of economic growth facilitates an active M&A market as companies look to restructure, grow in scale and develop new markets. But equity markets, internally generated funds and bank loans will continue to provide ample liquidity for financing M&A deals.

Domestic M&As will remain the theme in 2008 due to government support and State-owned enterprise (SOE) restructuring, analysts said.

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A recent report released by local brokerage Hongyuan Securities listed the industries expected to see more domestic M&A deals in 2008.

These include steel manufacturing, cement and equipment manufacturing, which will see integrations in line with the national energy saving and pollution reduction policy.

The report also lists the IT, electronic equipment, biotechnology and retail industries, for which M&As are necessary to boost competitiveness, especially on the international market.

The national defense industry - which will restructure and go public according to last year's Commission of Science Technology and Industry for National Defense guideline - is also tipped for more M&As this year.

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Overall M&A deal volumes (excluding outbound transactions) in the first 11 months of 2007 increased 18 percent in volume to more than 1,700 transactions, and 25 percent in value to over \$80 billion, PricewaterhouseCoopers (PwC) said.

The financial services, real estate, manufacturing and mining sectors had the strongest M&A growth in 2007. There were industry-specific factors at play last year, such as the restructuring and capital replenishment of securities companies.

The domestic sector pulled well clear of foreign activity with a growth of 45 percent by volume (to 987 transactions) and 53 percent by value (to \$50.6 billion). In 2007, domestic deal activity was twice as high as foreign-backed M&A activity, according to PwC.

"Domestic activity will continue to benefit from three principal drivers: market opportunity, liquidity and government support," PwC said.

Increased domestic deals this year will continue the trend that emerged in 2006. Previously, foreign direct investment had been the key driver of M&A growth.

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