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Domestic firms more cautious on foreign buyouts

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BEIJING: Chinese companies are planning to take a more cautious approach to foreign acquisitions, avoiding outright buyouts and seeking more partnerships and alliances, a report by the Economist Intelligence Unit said on Tuesday.

According to the report, among survey respondents who say they are definitely or likely to make an overseas investment, 47 percent would prefer to strike either joint ventures (29 percent) or alliances (18 percent) while only 27 percent say they will do so through acquisitions.

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"Our analysis of transactions worth more than $50 million between 2004 and 2009 shows that half the deals involved the buyer taking at least 50 percent ownership of the target. But Chinese executives are beginning to sense that this may not be the best approach, not least because it can set off alarm bells among the public and regulators," said Xu Sitao, China chief representative of the Economist Group.

Chinese companies made 298 cross-border acquisitions in 2009, with much of those investments welcomed by cash-strapped Western companies that would be hard-pressed to survive without it. But China's buying spree has raised a number of concerns, particularly where it has involved State-owned enterprises (SOEs).

And Chinese companies are discovering just how difficult it can be to get mergers and acquisitions (M&A) right, especially when they are cross-border deals. These factors have encouraged companies to lower their ambitions.

"Multiple investments of minority stakes in different companies in different countries can give a Chinese company many valuable 'windows' to learn about management and technology in different markets without triggering foreign investment review or the political pressure associated with 'control' issues," said Stephen Harder, managing partner of law firm Clifford Chance LLP (China).

Meanwhile, the report showed that outbound M&As remains dominated by SOEs. According to analysis of deals worth more than $50 million between 2004 and 2009, an overwhelming majority of China's outbound M&A transactions - 81 percent - were made by State-owned entities.

"This will remain a cause for concern abroad, not only because many deals involve control of natural resources but also because State ownership seems to confer unfair advantages on the acquired companies," said Alison Kennedy, managing partner of strategy with consulting firm Accenture in China.

In the survey conducted for the report, 82 percent of respondents cited a lack of management expertise in handling M&As as the biggest challenge for Chinese companies making purchases abroad. Only 39 percent feel they know what is required to integrate a foreign acquisition. And only 39 percent of survey respondents say they had identified attractive targets within their chosen geographic markets - increasing the risk that Chinese buyers will succumb to the temptation to buy assets that have become available as a result of the global financial crisis, rather than focusing on carefully researched targets.

The report is based on in-depth interviews with large Chinese companies with extensive investment experience abroad, an online survey of 110 Chinese executives and interviews with several foreign participants and advisers to Chinese deals overseas.

In addition, the report analyses available data on Chinese companies' cross-border transactions over the past five years, focusing on deals worth more than $50 million.