Chinese business & finance

Top private equity firms put brakes on China dealmaking

Activity dries up amid Beijing's listings crackdown and planned US investment curbs

China's slowing growth has deterred investors, as have planned US restrictions on private equity investment in some Chinese technology © Qilai Shen/Bloomberg

Kaye Wiggins in Hong Kong 12 HOURS AGO

Most of the world's biggest private equity firms, including Blackstone, KKR and Carlyle, have put the brakes on deals in China this year as geopolitical tensions rise and Beijing exerts tighter control over business.

Dealmaking in the world's second-largest economy has slowed significantly, with just five new investments — mostly small — by the 10 largest global buyout firms this year.

The figures underscore how quickly overseas investors' enthusiasm for China, once a hot market, has waned in recent years. The same 10 firms collectively made 30 investments in the country as recently as 2021 and similar numbers in earlier years, but the numbers have fallen every year since then. This year, seven of the 10 have made no new investments at all, the figures from Dealogic show.

"China has been a roller coaster for investors, with geopolitical tensions, regulatory unpredictability and economic headwinds," said Kher Sheng Lee, Asia-Pacific co-head for the Alternative Investment Management Association.

While the country's rapid growth had fuelled a "gold rush" in the past, "today, it's more like panning for gold with a magnifying glass and tweezers", he said.

For much of the past decade, firms rushed to gain exposure to a large and fast-growing market, buying stakes in Chinese companies that could later list in the US and netting their investors a large windfall.

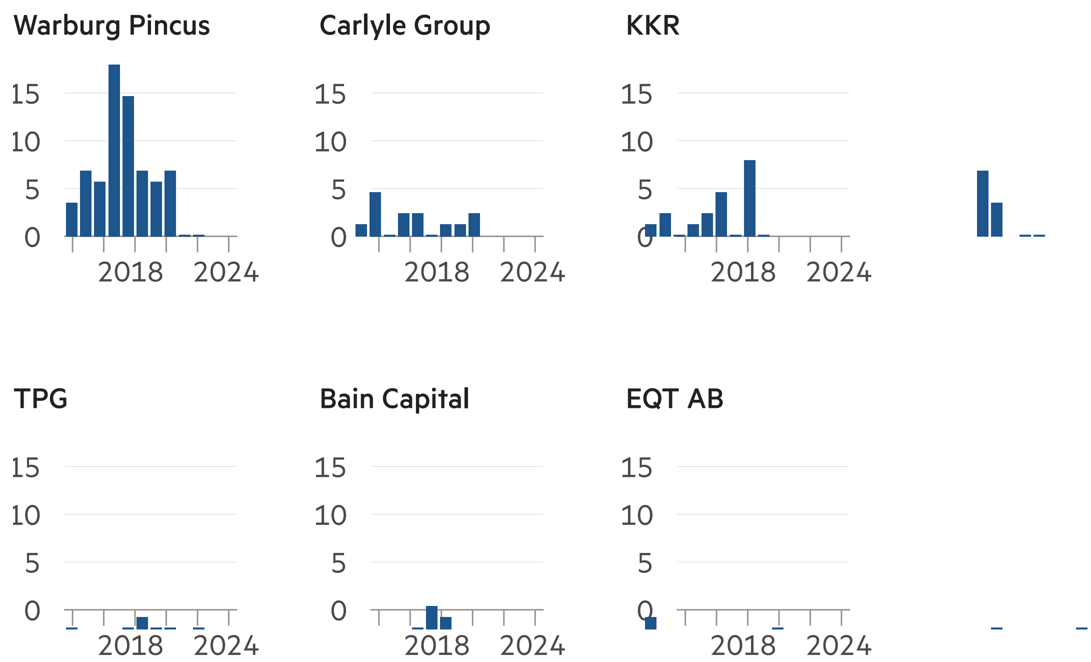
But since the ride-hailing app Didi Chuxing's troubled New York initial public offering in 2021, Beijing has cracked down on overseas listings, leaving investors with fewer ways to cash out.

China's slowing growth has deterred investors, as have planned US restrictions on private equity investment in some Chinese technology.

"Geopolitical constraints such as outbound investment rules make China increasingly look radioactive as an investment market despite its opportunities," said Han Lin, China country director at consultancy The Asia Group.

Dealmaking in China has fallen sharply among the 10 largest buyout groups

Number of China-targeted M&A deals



The data covers the 10 largest buyout groups by funds raised for private equity over the past decade, ranked by Preqin. It excludes those that have done no deals in China, as well as Vista Equity Partners, which has done just one deal in the country. It includes real estate deals.

Dealogic also counts some deals struck by companies that private equity groups later acquired. Private equity firms do not always disclose their deals, and any undisclosed investments may be missing from the data.

Warburg Pincus, once one of the most active US private equity firms in China — which has bought stakes in Ant Group and classifieds site 58.com — has not done a deal in China this year and struck just two in each of the previous two years, down from 18 in 2017 and 15 in 2018.

With the exception of a small proposed deal this year to boost its stake in a warehouse portfolio, Blackstone, whose founder and chief executive Stephen Schwarzman is among the most well-known foreign dealmakers in China, has not done a private equity deal in the country since 2021, according to the Dealogic figures.

Private equity dealmaking has slowed globally as rising rates have made the industry's debt-fuelled model more expensive. But the number of deals struck by the 10 firms has fallen more sharply in China than globally in recent years.

Apart from Blackstone's warehouse deal, Advent and Bain are the only firms among the 10 to have agreed deals in the country this year, according to the data.

Advent invested in Shanghai-based conference and exhibitions group VNU Exhibitions Asia and Seek Pet Food, a Chinese pet food manufacturer.

Fedrigoni, a packaging products group in which Bain owns a stake, did the remaining two of this year's five deals, buying stakes in Quzhou paper mill owner Arjowiggins and radio-frequency identification (RFID) company BoingTech.

A Bain spokesperson said the firm had "conviction in our core themes in China, including industrials, renewables and consumer services" and that "attractive valuations and the need for growth capital offer additional opportunities". The other firms declined to comment.

Jean Salata, chair of EQT's Asia business, told the Financial Times in June that the "bar is high" for investing in China.

The pace of offshore listings of Chinese companies has slowed since an investigation into Didi after its IPO and new mainland rules governing listings.

"The IPO market's deep freeze has left many fund managers in China stranded," Lee said. "When you can't float your company, you're looking at other exit routes, which are often less lucrative . . . maybe trade sales or mergers will gain traction, but the absence of a robust IPO market will probably weaken returns."

Last year, US President Joe Biden signed an order to restrict US investment in China's quantum computing, advanced chips and artificial intelligence sectors in an effort to cut the flow of US capital and expertise to the Chinese military, a move that has hit investors' appetite.