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PE Market Hits Highs in Q3'11 with 143 Deals, Real Estate Sector Leads in Investments

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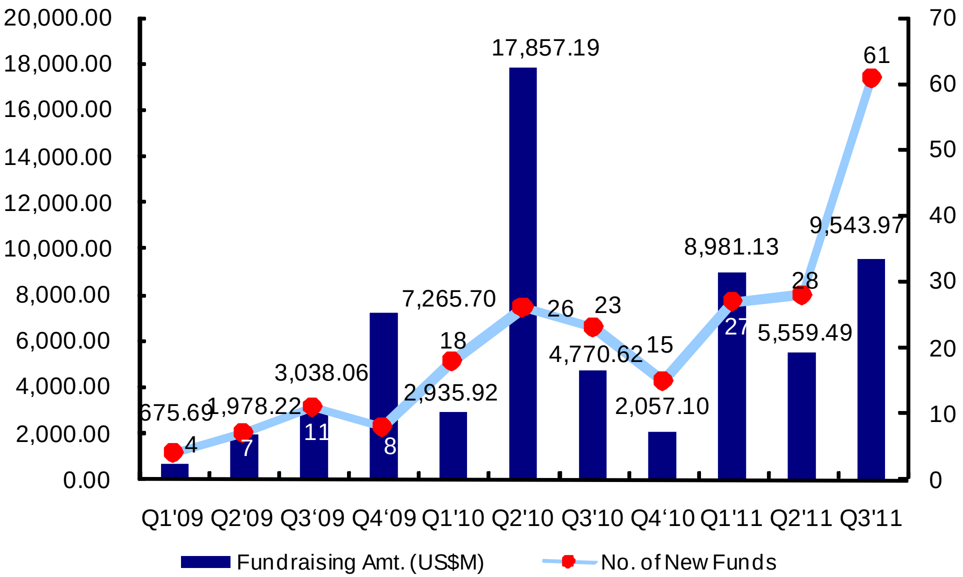
PE Market Hits Highs in Q3'11 with 143 Deals, Real Estate Sector Leads in Investments

Written By Fiona Fu, Analyst with Zero2IPO Research Center

According to the data on China's PE market in Q3 2011 recently released by Zero2IPO Research Center, a leading VC/PE research institution in the Greater China region, China's PE market closed 61 new funds investable in the Chinese mainland, hitting a record high, among which 60 funds disclosed US $9.54B raised aggregately. In terms of investments, PE funds gained a stronger momentum with 143 deals closed, eclipsing the record high in Q3'10, and 119 investment deals disclosed US $3.73B involved totally. With regard to the investment strategy, PE investment amount were equally distributed among growth capital, PIPE and real estate investment. As for the industry breakdown, real estate ranked first both in the number of deals and investment amount, and traditional industries witnessed marked improvements in number of investment deals. From the perspective of exits, 42 funds realized exits, including 38 via IPO and four through M&A. IPO exits plunged in overseas capital markets in Q3'11, as HKMB and NASDAQ completed merely four exits.

Figure 1 Quarter-on-quarter Comparison of PE Fundraising in Q1'09 - Q3'11



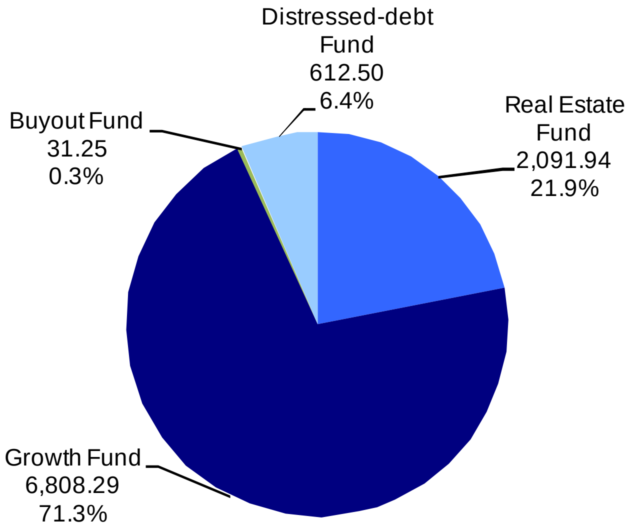
Source: Zero2IPO Research Center

Q3'11 Hits Record High in Number of Funds, Real Estate Funds Stand out

Q3 2011 closed 61 new funds, 2.18 times of that in Q2'11 and 2.65 times of that in Q3'10, hitting a record high. Among those new funds, 60 funds disclosed an aggregate amount of US $9.54B, surging by 71.7% quarter-on-quarter and 100.1% year-on-year. Whereas, according to Zero2IPO Research Center, new PE funds featured relatively small scale in Q3'11, as 39 funds garnered less than US $100.00M and the average newly-added capital decreased markedly for each fund in comparison with the previous two quarters. Such a situation was to some extent attributed to the fact that more funds were raised by emerging institutions, which generally raised small-scale funds due to insufficient track record. Besides, 38 PE funds had been initiated, among which 33 funds disclosed an aggregate target of US $19.12B.

From the perspective of fund type, growth fund

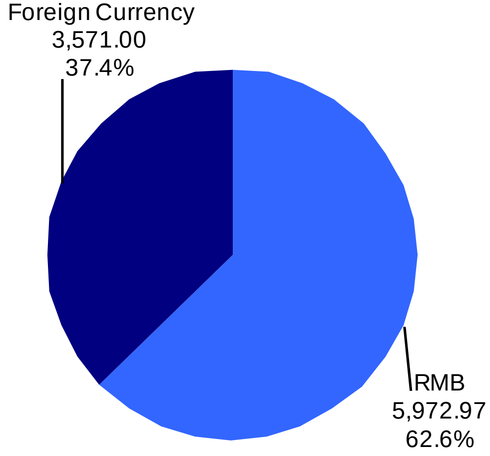
Figure 2 Distribution of PE Fundraising in Q3'11 by Fund Type
(By Fundraising Amt., US$M)



Source: Zero2IPO Research Center

maintained the dominance in Q3'11, as 44 growth funds raised US$6.81B in total, 1.76 times of that in Q2'11 in terms of number, up 27.2% quarter-on-quarter in fundraising amount. Nevertheless, 43 growth funds disclosed an average scale of only US $158.33M, a significant reduction from US $214.15M in Q2'11. It is noteworthy that PE real estate funds acquired greater significance in financing of property enterprises in Q3'11, when China's PE market witnessed fundraising boost of real estate fund, with 15 funds closed and US $2.09B raised, up 59.8% quarter-on-quarter in the average newly-raised amount. In reference to institution type, apart

Figure 3 Distribution of PE Fundraising in Q3'11 by Currency
(By Fundraising Amt., US$M)



Source: Zero2IPO Research Center

from a Sino-foreign joint real estate fund established by Sino-Ocean Land and KKR, other PE real estate funds were all exclusively launched by local institutions. In addition, a buyout fund and a distressed-debt fund were closed in Q3'11.

In terms of fund currency, 51 RMB funds were closed in Q3'11, raising US$5.97B in total, 83.6% and 62.6% respectively of the aggregate quantity and fundraising amount, outperforming foreign currency funds and securing the lead. However, RMB funds featured small size in Q3'11, as 37 funds garnered merely US$1.33B in total and less than RMB100.00M on average. With regard to institution type, in spite of the fact that foreign players initiated RMB funds in Q3'11, only one fund was closed. As for foreign currency-denominated funds, 10 funds closed in Q3'11 raised US$3.57B in total, approximately 3.00 times of RMB funds in average scale, with only two funds garnering less than US $100.00M each.

PE Investments Set New High in Number of Deals, Evenly Distributed among Three Strategies

According to Zero2IPO Research Center, China's PE market completed 143 investment deals in Q3'11, jumping 44.4% quarter-on-quarter and 37.5% year-on-year, eclipsing the record high set in Q3'10. In terms of investment amount, 119 deals disclosed an aggregate investment amount of US $3.73B, up 27.7% year-on-year but plunging 48.6% quarter-on-quarter, due to a number of large-scale deals closed in Q2'11. Excluding those large-scale deals in the previous quarter, the average investment amount in Q3'11 was on a par with that in 2010 and Q1'11. From the perspective of investment in Q1-Q3 2011, the investment amount so far in 2011 has outnumber that in the full year 2010, and the number of deals represented a 91.2% of that in full 2010.

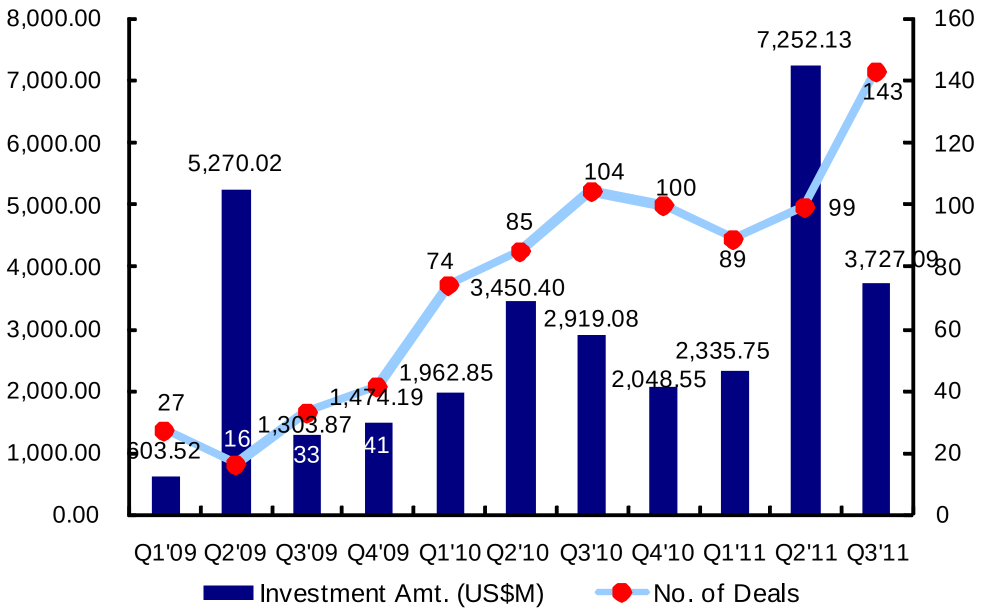
China's PE market featured diversified

investment strategies in Q3'11, as growth capital maintained the lead with 98 deals, 27 PIPE and 18 real estate investment deals were closed. The investment amount was evenly distributed among three strategies, among which growth capital investments reported evident downturn in average scale from 2010 and the previous two quarters.

It is worth noting that more PE firms sought investment opportunities among underestimated listed companies, boasting active participation in private placement and higher proportion in PIPE, as domestic securities market remained the sluggish performance and the investment cost climbed due to fierce competition in the primary market. Zero2IPO Research Center observed that PIPE has been a risk-avoiding strategy of PE players to some extent in harsh times.

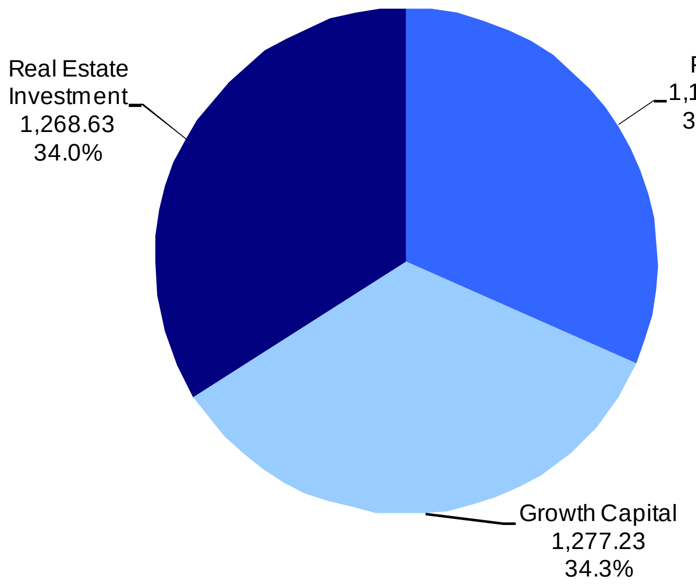
Furthermore, real estate investments increased significantly in Q3'11. Real estate enterprises relied more on PE funds for financing in the context of housing market regulation and bank credit squeeze.

Figure 4 Quarter-on-quarter Comparison of PE Investments in Q1'09 - Q3'11



Source: Zero2IPO Research Center

Figure 5 Distribution of PE Investments by Investment Strategy (By Investment Amt., US$M)



Source: Zero2IPO Research Center

Real Estate Industry Takes over Leads both in Number of Deals and in Investment Amount

From the perspective of industry breakdown, 22 grade-1 industries were involved in PE investment in Q3'11, among which the real estate industry took over the lead with 18 deals and US$1.27B investment, boasting relatively larger average investment. In addition, machinery manufacturing sector witnessed improved investment activity, with 15 deals closed and US$317.74M involved, ranking second both in number of deals and investment amount. It is worth noting that food & drinks, agr/forestry/fishing, textile & clothing, education & training and energy & mineral industries reported significant increases in number of investment deals from the previous two quarters, in contrast, high-tech industries underwent reductions in PE investments.

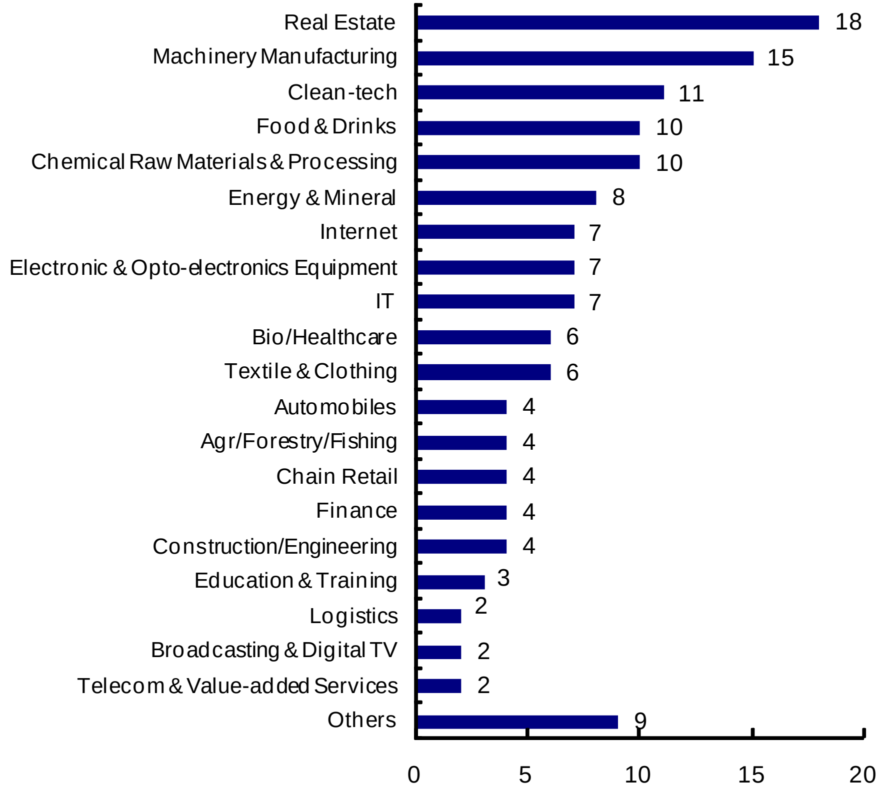
Beijing, Shandong & Guangdong (Excl. Shenzhen) Embraced Active Investments

With regard to geographic distribution, PE investments involved 27 provinces and cities in Q3'11, among which Beijing ranked atop with 22 deals mainly in Internet and IT sectors. Shandong and Guangdong (Excl. Shenzhen) ranked second and third by completing 13 and 11 deals, which focused on real estate and machinery manufacturing sectors respectively. As for the investment amount, Guangdong (Excl. Shenzhen), Beijing and Shandong held the top three positions, accounting for a combined 50.2% of the total amount.

Domestic Exits Boasts Larger Share, Overseas Exits Delivered Chilling Performance

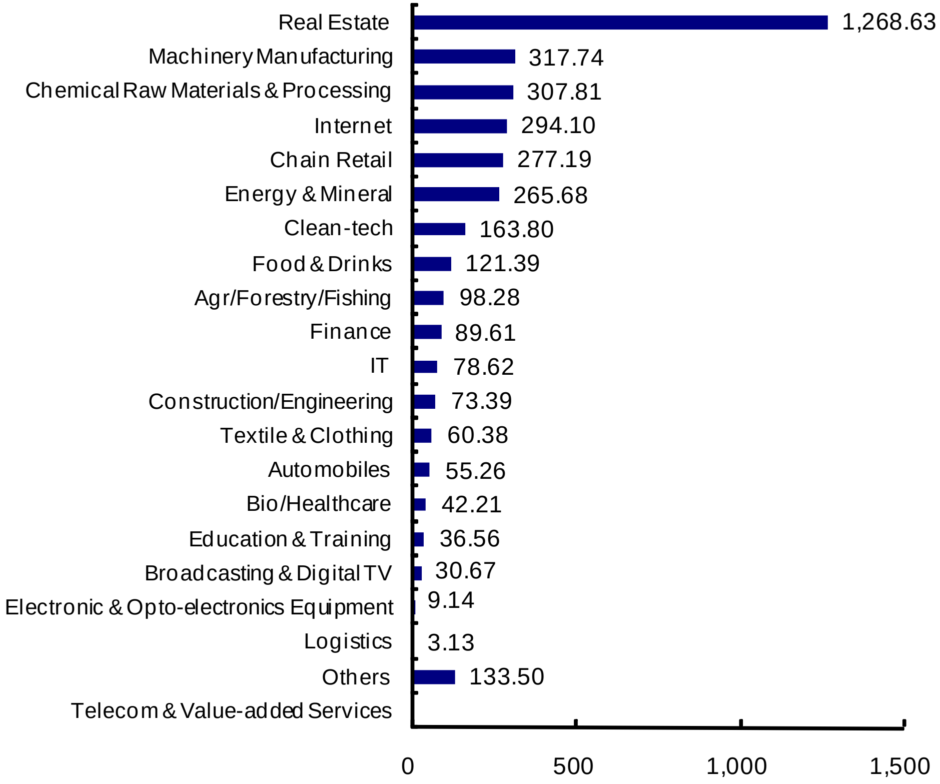
During Q3'11, 42 PE exits were completed involving 29 investees, up 23.5% sequentially and 27.3% yearly. In reference to exit option, 38 exits were completed via

Figure 6 Industry Breakdown of PE Investments in Q3'11 (By No. of Deals)



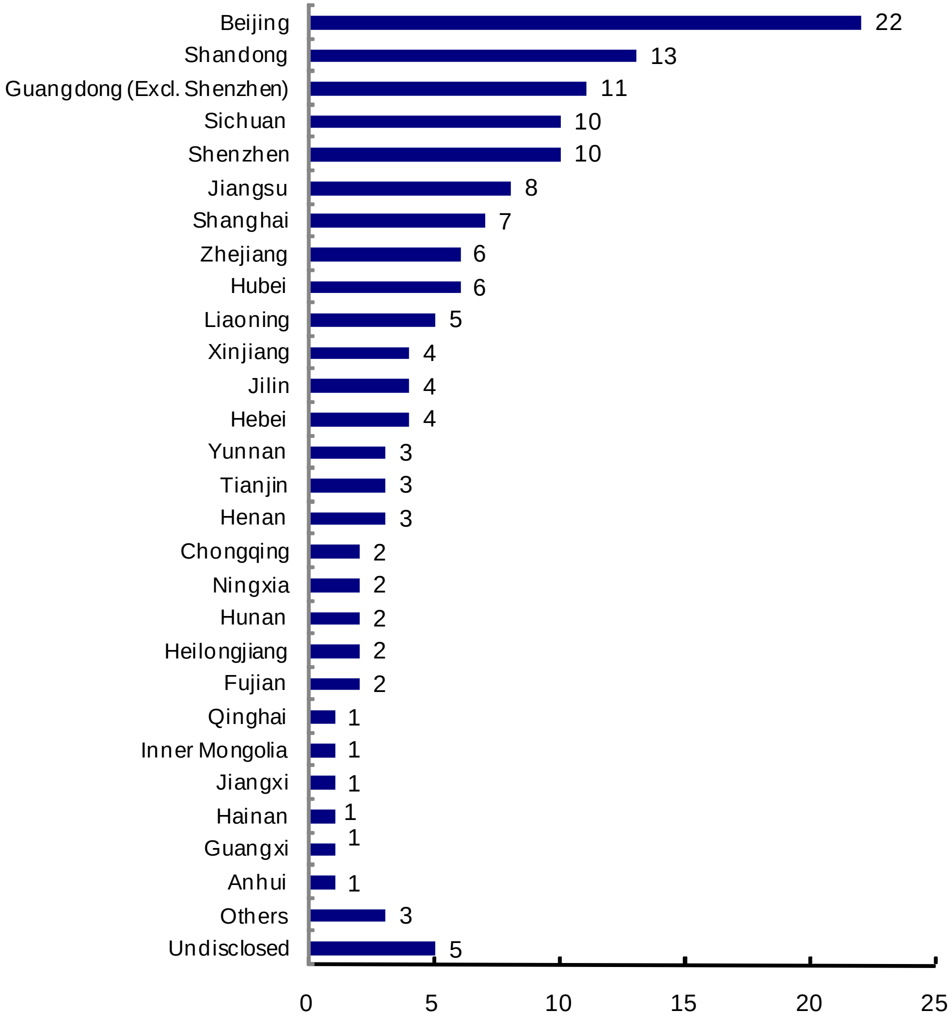
Source: Zero2IPO Research Center

Figure 7 Industry Breakdown of PE Investments in Q3'11 (By Investment Amt., US$M)



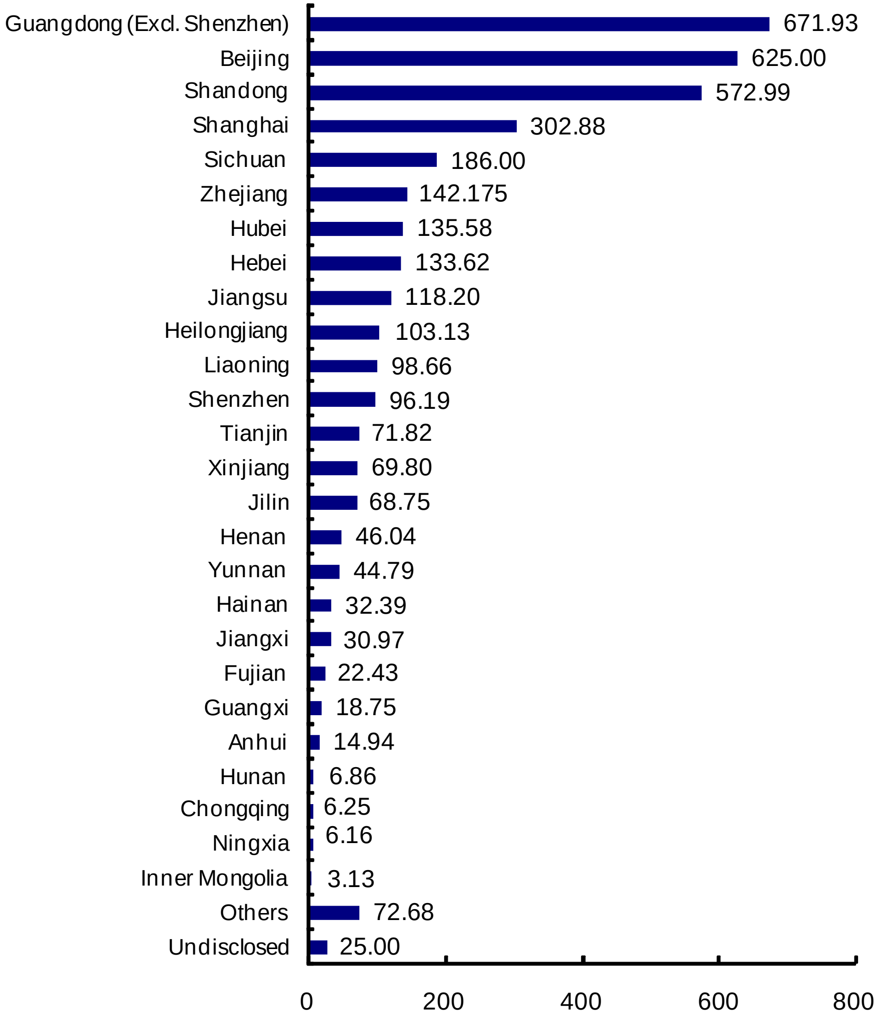
Source: Zero2IPO Research Center

Figure 8 Geographic Distribution of PE Investments in Q3'11 (By No. of Deals)



Source: Zero2IPO Research Center

Figure 9 Geographic Distribution of PE Investments in Q3'11 (By Investment Amt., US$M)

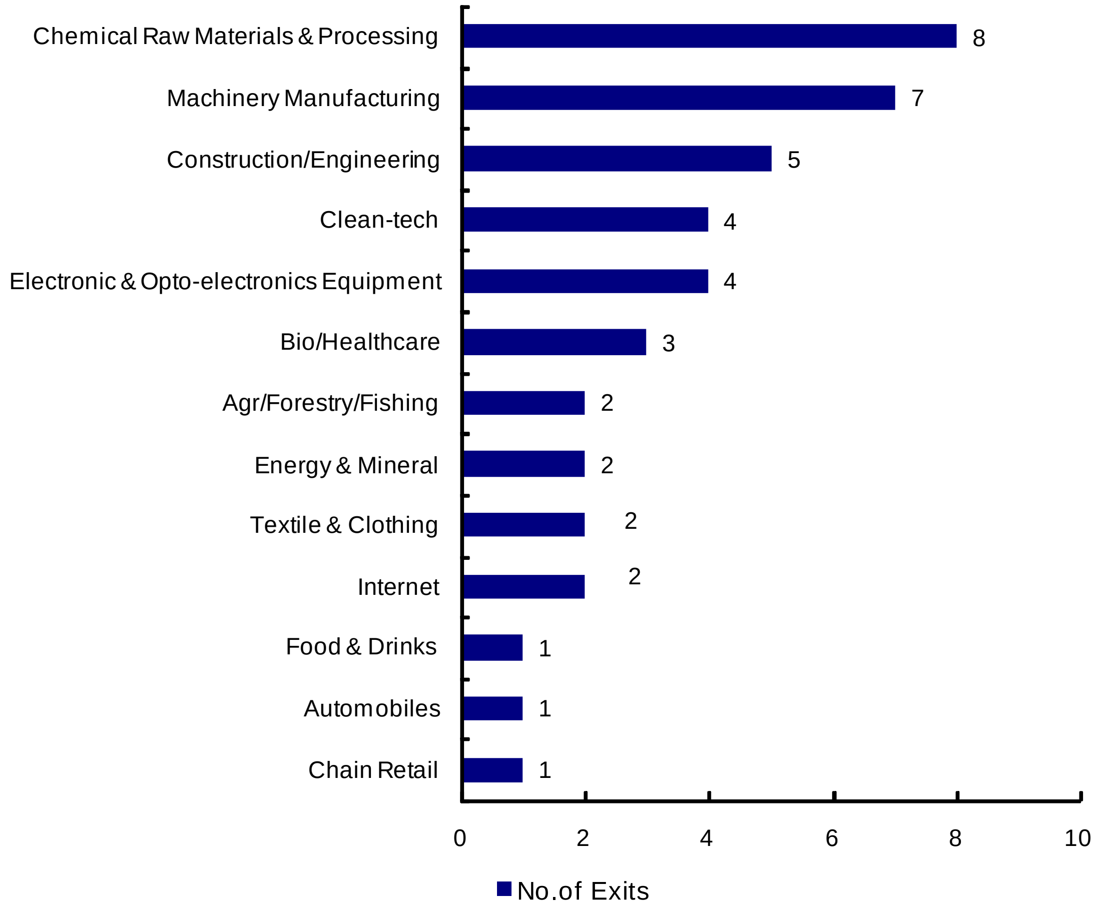


Source: Zero2IPO Research Center

IPO, while four exits were completed by means of M&A, marking an improved performance. In terms of institution type, 37 exits were completed by domestic institutions, boasting a larger share in comparison with the previous two quarters.

In reference to the industry breakdown of exits, 42 exits intensively involved 13 grade-1 industries. Specifically, chemical raw

Figure 10 Industry Breakdown of PE Exits in Q3'11 (By No. of Exits)

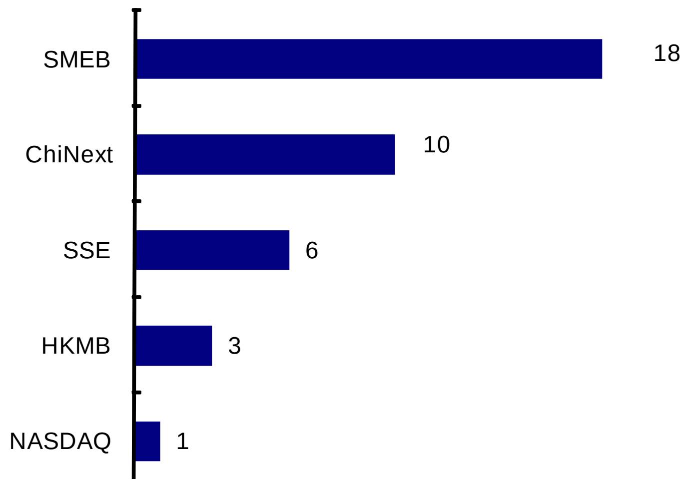


Source: Zero2IPO Research Center

materials & processing industry topped the list with eight exits, thanks to four PE exits from Anhui Jinhe Industrial Co Ltd The underperforming with seven exits. Besides, as the textile & clothing industry delivered greater enthusiasm in exits since 2011, Q3'11 witnessed two exits closed

From the perspective of market breakdown of PE exits via IPOs, domestic markets took an overwhelming dominance in Q3'11, as nearly a half of exits were completed in SMEB. In comparison, China concept stocks listed on the US markets underperformed since 2011, due to the looming prospect of VIE structure and chilling overseas listing of VC-backed enterprises. Specifically, HKMB and NASDAQ closed four exits, merely 10.0% of the total IPO exits. As for institution type, foreign institutions were involved in two exits on domestic markets during Q3'11, i.e. Prax Capital and IFC exited respectively from Shanghai-listed JYT Corporation and Fenglin Group.

Figure 11 Market Breakdown of IPO Exits in Q3'11 (By No. of Exits)



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