Asia Private Equity Forum 2014
Hong Kong Venture Capital and Private Equity Association

Media Coverage
24 January 2014

Summary

- **ft.com** reported that state-owned enterprises (SOEs) offer the chance for private equity to make real change and real money. Fred Hu, founder of Primavera, said there are some very good, talented people operating inside SOEs, but that they lack the incentives – financial or otherwise – to push change. Private equity can play a good role in SOE reform partly as capital provider, but also to help change the culture and the mindset, he said. According to Hu, this could be a good opportunity, but it will be very hard. Technically, culturally and politically there are a lot of risks there.
  - XD Yang, co-head of Asia buyouts at Carlyle, said the presence of investors with very specific and time-limited financial goals "really help to affect that change as an outside force". He said that his firm was excited by the opportunities in reshaping bigger SOEs.

Full Articles

Private equity lessons from the pig factory
ft.com
21 January 2014

When Shuanghui International lists in Hong Kong sometime in the next few months it will give the world a novel beast: a sino-US pork giant worth up to $12bn. But this beast almost certainly would not have been created without the push of private equity.

Shuanghui's bold $7.1bn takeover of Smithfield Foods of the US last year was a deal plump with strategic gains. China's urban drift and embourgeoisement means more people want not only more meat, but also meat that is safer and with posher sounding foreign brand names.

Shuanghui, already China's biggest pork producer with more pigs than Beijing has citizens, nailed three strategic imperatives with this deal. First, access to raw meat supply; second, the technology and knowhow to produce more pork more efficiently; and third, a string of popular US brands for meat, bacon and sausages.

But to the frustration of M&A bankers, there are hundreds if not thousands of corporate marriages between Chinese companies and foreign businesses that make oodles of strategic sense but do not happen. At a time when M&A activity had crumbled elsewhere, the world's second largest economy last year finally became the second largest home for companies pursuing acquisitions overseas, according to Dealogic. But the near $70bn total value of outbound deals was still only about one-third of international deals by US companies.

At Shuanghui, what got the deal done was the presence of private equity. A takeover can make all the strategic sense in the world, but the people behind a company – its owners and especially its executives – still need a tangible, immediate incentive to work the hours and take the risks needed to pursue the deal.

CDH Investments, a Chinese private equity house, and Goldman Sach's investment arm have both had money in Shuanghui since 2006. CDH owns about one-third of the company, while Goldman and a handful of other private investors own a further 20 per cent. These investors have been agitating for an exit and Shuanghui's septuagenarian founder, Wan Long, made an eager accomplice.

Other investors and bankers in Asia reckon it will be extremely difficult to stitch Shuanghui and Smithfield into a coherent and unified company. The company may not even properly attempt it. But what they are certain of is that the chairman and his backers have created a commercial proposition that can be sold to the public markets – and that outcome more than anything else drove the deal, they say.

No sector in China today needs a catalysing ingredient more than the state-owned enterprises. This is likely to give private equity some of its best, if toughest, opportunities in the years ahead, according to some senior dealmakers from the industry.

The industry in Asia has never managed to create the conveyor-belt of leveraged buyouts and resales of companies that it achieved in the US and Europe. Last year, there were just five buyouts worth more than $1bn in the entire region, including Japan.

State-owned enterprises (SOEs) offer the chance for private equity to make real change and real money. Fred Hu, the former head of Goldman Sachs in China and founder of Primavera, one of China's oldest and best known private equity houses, says there are some very good, talented people operating inside SOEs, but that they lack the incentives – financial or otherwise – to push change.

"Private equity can play a good role [in SOE reform] partly as capital provider, but also to help change the culture and the mindset," he says. "Be under no illusion, this could be a good opportunity, but it will be very hard. Technically, culturally and politically there are a lot of risks there."

Another very experienced Chinese private equity leader says the presence of investors with very specific and time-limited financial goals "really help to affect that change as an outside force". XD Yang, co-head of Asia buyouts at Carlyle, told a small industry gathering in Hong Kong last week that his firm was excited by the opportunities in reshaping bigger SOEs.

Private equity managers will need good political contacts and diplomatic skills to smooth egos, ease out the obstructive older guard and help the talented executives get the performance-related pay schemes that will give them the tangible incentives to reshape their companies.

Private equity's best role in China should be as agitator and catalyst that will not only unlock investment opportunities for firms but potentially put China M&A on a closer footing to its economic might.