Asia Monitor September 2018

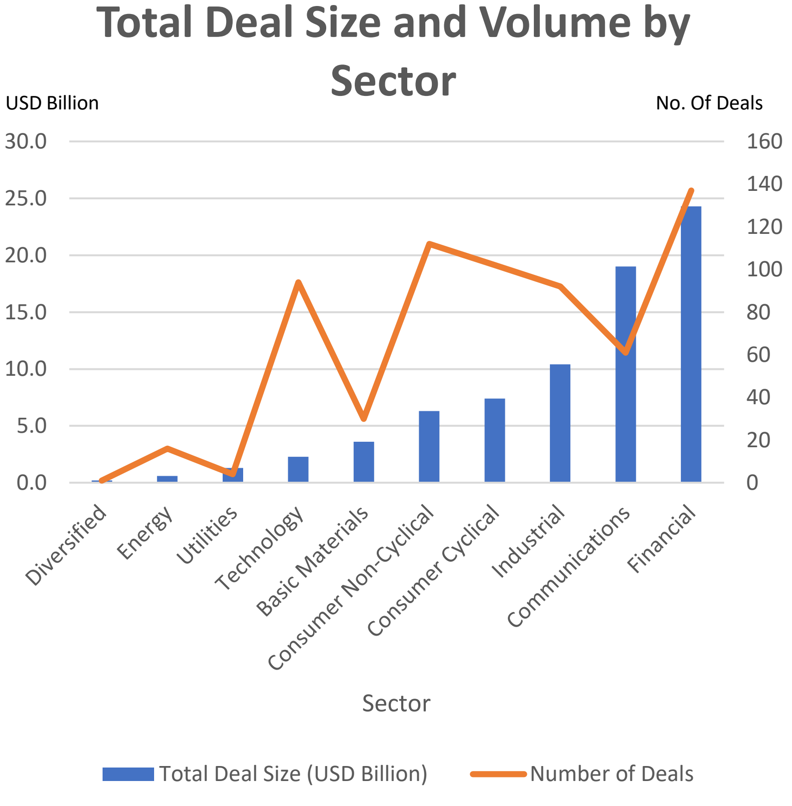
Notable Developments

China and the European Union

There have been growing concerns from European Union member countries regarding China's Belt and Road Initiative, which they believe is creating debt traps for borrowers and increasing the country's footprint globally. To address these concerns, the European Union is in the process of launching the '**Asia Connectivity Strategy**' aimed at creating jobs and growth for local communities across Asia whilst not saddling Asian countries with excessive debt. The European Union seems slow to react to world events such as President Trump's 'America First' approach and China's increasing involvement in Africa and Asia. It is hoped that the Asia Connectivity Strategy will improve the European Union's standing on the world stage.

Malaysia

Prime Minister Mahathir has spent the first several months of his premiership focusing on issues such as corruption and domestic financial instability, most recently through the cancellation of unaffordable infrastructure projects. In an effort to bring new capital into the country, he has met with leading US companies including **FedEx Express** and **Coca-Cola** as well as emerging market investors who may consider investing in Malaysia's infrastructure projects. Foreign investors seem hesitant to invest in the country as a result of the Prime Minister's government service track record in his earlier tenure (1981-2003).



Deal Activity

646 M&A/PE transactions (Source: Bloomberg) were completed in September with a total deal value of **USD61.1 Billion**, compared to August which saw the closing of 704 transactions with an aggregate value of USD64.8 Billion originating from Asia.

Notable transactions completed in September included:

- **Ping An Insurance Group** acquired 19.7% of **China Fortune Land Development Co. Ltd** for USD2.1 Billion.
- **IFM Investors Pty Ltd** acquired 49.0% of **FCC Aqualia SA** for USD1.3 Billion.
- **Ningbo Jifeng Auto Parts Co. Ltd** acquired an 84.2% in **Grammer AG** for USD888.8MM.

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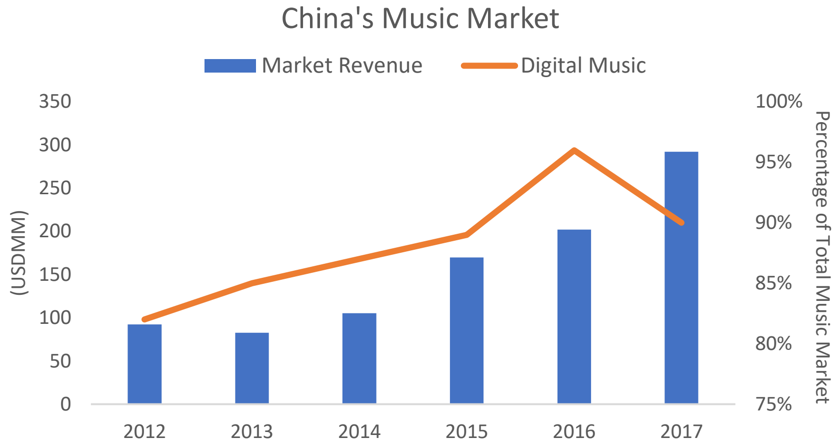
Focus Industry: China's Digital Music Market

In recent years, China's music industry has undergone a significant shift with regards to copyright protection measures, a result of a process driven by government regulation alongside record companies and rights holders. **China's music revenue tripled between 2013 and 2017** to become the **10th largest music market globally with USD292MM in revenue** in comparison to the largest market, the US, which generated revenues of USD5.9Bn in 2017. China generates over **90% of music revenue from digital releases** in contrast to the US which generates 81% of its music revenue from this category. Digital releases are defined as music content distributed to the end-user over the Internet through paid downloads and online streaming services. **Music revenue in China grew by 35.3% in 2017**, including a 26.5% rise in streaming revenues. Despite this growth, China still has an average revenue per user much lower than that in mature markets such as the UK, US and Germany. This is partially due to the minimum subscription fees charged by digital music services in China to attract users to their service.



Source: 2013-2018 IFPI Annual Global Music Reports

Chinese internet companies **Tencent**, **Alibaba**, and **NetEase** have made several acquisitions to dominate the digital music distribution market in the country. They have partnered with major record labels such as **Sony**, **Universal**, **Warner** and **BMG** to stream their content catalogue. In March 2018, **Alibaba Music Group** and **NetEase Cloud Music** agreed to share their libraries. A similar cross-licensing agreement was made between Tencent and Alibaba in September 2017. These agreements have expanded the digital platforms' catalogues and streaming rights.

Within China, **Tencent Music Entertainment** ("**TME**") was formed after the merger of Tencent's top three music platforms – QQ Music, Kugou and Kuwo. It now **controls 78% of the digital music market in China** and is **the world's largest music streaming company**. TME has a combined 700 million monthly active users ("**MAU**") and 14 million paid subscribers. In comparison, Swedish music streaming company **Spotify** has over 180 million MAUs and 83 million paid subscribers globally. Spotify and TME agreed to a minority share swap in December 2017 to increase their exposure to each other's core market. TME was preparing to go public in the US in October 2018, however this has now been delayed due to unsatisfactory market conditions.

The second largest player in this space, **NetEase Cloud Music**, **controls 16% of China's digital music market**. In April 2017, NetEase completed a **USD108MM Series A round at a USD1.2Bn valuation with 70 million MAUs**. NetEase Cloud Music has attempted to differentiate itself in the market through allowing listeners to leave comments under songs they like and to share their listening history to other social media sites, thereby enhancing user experience by creating an interactive music platform.

Investment Manager Commentary

- The European Union is introducing a new policy aimed at restoring its position on the world stage through investing in Asia whilst maintaining high environmental and social standards in its investee companies. The perception outside of European Union has been that it is concentrating all its resources on negotiating an exit deal with the United Kingdom. There has also been criticism from inside of the organisation saying it was not counteracted China's increasing regional influence. Instead of competing against each other, China and the European Union may be better off working side by side to invest in the region and to offset the effects of the current US Administration's protectionist policies.

- China's music market continues to be one of growth, challenges and innovation. Despite being a developing music market, China stands out in its ability to adjust and acclimatise to the digital future. Music companies have created diversified revenue models, including the sale of digital albums and singles, payment per download and premium account subscription. As part of tech giants Tencent, Alibaba and NetEases' ecosystem, their respective digital music platforms can tap into a much wider array of business units under their parent companies such as telecom and e-commerce, allowing for revenue generation from sales of concert tickets, virtual gifts, auxiliary products, data packages for music and other channels. These integrated, value-added features should encourage more users to adopt the paid subscription model, further driving market growth.

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