

Asian Investment Monitor February 2018

Overview

China

This month, the Communist Party of China's Central Committee released a constitutional amendment proposal to remove the two term limit set on the country's President and Vice-President. If made effective, this would herald a new era as President Xi Jinping looks to cement his position as one of China's longest serving leaders and continue to consolidate power. A two-term limit was reportedly introduced in the 1990s by Ex-President Deng Xiaoping to prevent another lifelong dictatorship that characterised the Mao era. President Xi's latest move is an example of the power he wields in Beijing and his ability to act boldly in the face of precedence.

South Korea

The former President of South Korea, Park Guen-hye, who was removed from office under the charges of bribery and abuse of power will be sentenced in the coming weeks. The state prosecutors are proposing a 30-year prison term and a fine of USD109.0MM. Whilst Park has boycotted the court hearings, she will be required to attend her sentencing. Former cabinet ministers, presidential aides and business tycoons have also been charged in this case along with the Chairman of the Lotte Group, Shin Dong-Bin, who was sentenced to two and half years in prison for his participation in this large-scale corruption scandal.

Deal Activity

There were 665 M&A/PE transactions (Source: Bloomberg) completed in February with a total deal value of USD56.4 Billion originating from the region. This represented a sharp increase from January 2018's figures of 114 transactions with a total closed deal value of USD10.5 Billion. Notable transactions completed in January include:

- Sjec Corp acquired 100.0% of 360 Technology Inc for USD8.5 Billion.
- Permira Holdings LLP acquired 100.0% of I-Med Holdings Pty Ltd for USD1.0 Billion.

Focus Industry: Cosmetics

The Cosmetics industry in Asia has been growing significantly in past years at a CAGR of 6% with 51% of global sales originating in the Asia Pacific region. Cosmetics is experiencing an emergent trend of 'genderless' beauty which has led to more men in Asia utilising products that are traditionally used by females. A key driver in the Cosmetics industry in Asia is the sales of face moisturisers which account for USD19.0 Billion of total revenue, followed by the colour cosmetics sector generating USD15.0 Billion of revenue in 2016-2017.

The Japanese Cosmetics export market increased by 39.0% in 2017. This was due to the trend of tourists in Japan continuing to purchase and use Japanese cosmetics once they had returned to their domestic countries. The majority of exports stayed within the Asian region, with top destinations including South Korea, Taiwan and Vietnam. The United States and France were also beneficiaries of these exports. Exports to Chinese consumers from Japanese cosmetic manufacturers have been boosted by the increase in income levels for the Chinese population and the decision by the Chinese Government to reduce custom duties on cosmetic items by almost half in certain cases.

Whilst Japan and South Korea are leaders in the Cosmetics consumption space in the region, other fast growing developing markets such as India and Indonesia are challenging the status quo. As a result, cosmetics companies are targeting these countries more vigorously than ever through the implementation of bespoke marketing campaigns and promotional activities.

Completion Date	Target	Target Country	Acquirer	Acquirer Country	Transaction Value (USD Bn)	Transaction Value to EBITDA	Transaction Value to Revenue
25 th of September 2017	Carver Korea	South Korea	Unilever	UK/Netherlands	2.7	36.8x	1.5x
27 th of October 2017	Jayjun Cosmetic Co Ltd	South Korea	FN Republic Co Ltd	South Korea	0.05	-	-
20 th of February 2018	CJ HealthCare Corp	South Korea	Korean Kolmar Co	South Korea	1.2	15.2x	2.5x

Investment Manager Commentary

- The Communist Party of China's decision to remove presidential term limits has caused uncertainty over the socio-political direction of the country and raised the concern of whether this decision will ultimately translate into a dictatorship under Xi. Murmurings of dissent regarding this move impelled the government to cast a strict censorship on public posts on domestic social media such as WeChat and Weibo. Whilst the international community has been relatively quiet on this topic, the next several years will be key in President Xi's global powerplay.
- South Korea's corruption scandal has sent shockwaves throughout the country and if Park is found guilty she will be the third South Korean president convicted of crimes. As a result of the scandal, the world may expect to see a weakening relationship between government and corporate organisations in South Korea.

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