

# Asian Investment Monitor December 2017

## Overview

### South Korea

South Korea's President Moon Jae-in visited China in an attempt to rebuild relationships with Beijing who have restricted the business activities of Korean companies such as Samsung and LG following increased United Nations sanctions on North Korea. Such restrictions have hindered South Korea's economic growth and dented its tourist industry as group tours from China, who make up half of its 17 million overseas visitors were cancelled and charter flights to South Korea were stopped. Relations between the two countries remain strained following the failure to produce a joint statement between the leaders after the meetings between President Moon Jae-in and President Xi Jinping.

### Japan

During the month it was confirmed that the unemployment rate in Japan has decreased to 2.7%, the lowest figure since December 1994 indicating the country's continued recovery since its 'lost decade'. The decrease in the unemployment figure contributes to the ongoing economic expansion under Prime Minister Abe who embarked on a stimulus programme in 2014. However, the working age population in the country is in decline leading to shortages of workers although this has not resulted in inflationary pressures.

### Deal Activity

During the month there were 372 M&A/PE transactions (Bloomberg) completed with a deal value of USD90.3 Billion originating from the region in comparison to November 2017's metrics with 728 transactions with a value of USD92.4 Billion closed. Selected key transactions during December include:

- KKR & Co LP acquired 25.6% of Hitachi Kokusai Electric Inc for USD1.6 Billion.
- Kunming Sinobright Group Co acquired 84.4% stake Beijing 5i5j Real Estate Brokerage Co Ltd at a cost of USD840.1MM.
- Ping An Insurance Group Co acquired an additional 20.0% of Shanghai Jahwa United Co Ltd for USD524.3MM.

## Focus Industry: Chinese Media Industry

China's Box Office increased by USD2.0 Billion to USD8.6 Billion in 2017 giving the Worldwide Box Office a significant boost which would have otherwise been negative without the Chinese market. The number of movie goers and movie screens in China has also grown year-on-year as the Chinese population increasingly spends more time on leisure activities. The Chinese Government has also started to offer financial incentives to movie theatres which show local films.

Netflix has strengthened links with iQiyi, a Chinese streaming service, by acquiring the distribution rights for *Teinstin Mystic* and *Burning Ice* in all regions excluding Hong Kong, Macau, Malaysia, Brunei and Singapore. In return, iQiyi's streaming service offers a range of Netflix originals. Furthermore, Netflix has signed an agreement with Youku for the rights of *Day and Night* adding to its Asian media collection.

Alibaba's Youku signed two licencing deals with NBCUniversal and Sony Pictures Television as it looked to regain ground lost to Tencent and Baidu. Youku will now have faster access to new movies released by these two studios as Alibaba aims to rejuvenate its entertainment business which has faltered in recent years.

Completion Date	Target	Target Country	Acquirer	Acquirer Country	Transaction Value (USD MM)	Transaction Value to EBITDA	Transaction Value to Revenue
18 <sup>th</sup> April	Zhejiang Daily Digital Culture Group	China	Zhebao Media	China	289.5	-	-
29 <sup>th</sup> September	Mikefeng Culture Media	China	Multiple	-	150.7	51.5x	3.0x
21 <sup>st</sup> December	Red Sun Performing Arts Group	China	Hightsun Group Co Ltd	China	32.4	-	-

## Investment Manager Commentary

- President Moon Jae-in's visit to Beijing didn't bring the success which had been anticipated, however we expect the relationship between China and South Korea to improve in 2018 as long as there are no significant geopolitical events in the Korean Peninsula.
- Netflix has actively embarked on securing the rights to show Asian media content on its platform with little interest shown so far by its competitors. It will be exciting to see how Amazon and Hulu respond and whether Netflix's first mover advantage will pay off.
- Whilst the Chinese Government has brought in measures to protect its media industry, the response of domestic movie producers to such incentives will be worth following.

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**Contact Details:** Adamas Finance Asia Limited, 811-817, 8/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong Email: info@adamasfinance.com