

The 2021 China PE Memo

A year of massive correction in China's technology sector during 2021 has not undermined China's position in Asia's private equity asset class

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In China's nascent private equity market, 2021 can be remembered as the year in which this asset class encountered its first most significant correction. This began in Q2 when the country's regulators sought to rein in the country's wayward technology sector, first by eradicating anti-monopolistic practices undertaken by technology companies. By the second half of the year, the listing of Didi Global Inc ('Didi') on the New York Stock Exchange had led regulators to express concerns over "national security" issues due to the colossal volume of consumer data collected by China's largest car-hailing app platform; and the risk that such data, given Didi is a publicly-listed company in the US, could fall into unwanted hands.

By the end of 2021, even the most celebrated technology stock, Kuaishou Technology, saw its share price tumble to HK\$72.05 (US\$9.2) each, a chilling 82% fall compared to its peak of HK\$403 on 16th February. It had won the accolade as the largest initial public offering on the Stock Exchange of Hong Kong during the year when it raised US\$5.4 bn in February.

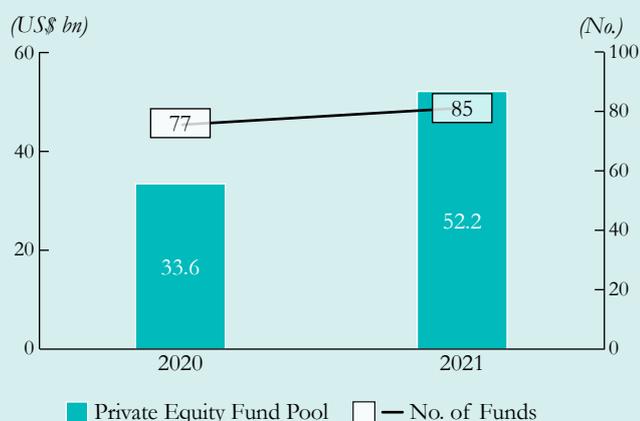
Despite a year fraught with challenges, China's commanding position in the Asian private equity asset class remains. According to **ASIA PRIVATE EQUITY REVIEW's 2021 Year End DATA ISSUE**, in these 12 months, China chalked up US\$52.2 bn of fresh capital, an impressive 55.4% increase from that in 2020. In particular, the year recorded the final closings of two funds that set new fund size thresholds for Asian country funds.

Neither has the extensive correction in the technology sector eroded investors' confidence. The US\$116.9 bn in deal sum was a 68.7% increase to the US\$69.3 billion for the preceding year. Added to this, China regained its position as home to the largest deal for 2021.

In a year fraught with challenges, capital returned from China-based realised assets, at US\$23.4 bn, surpassed all other markets, although the capital returned was the same as that for 2020.

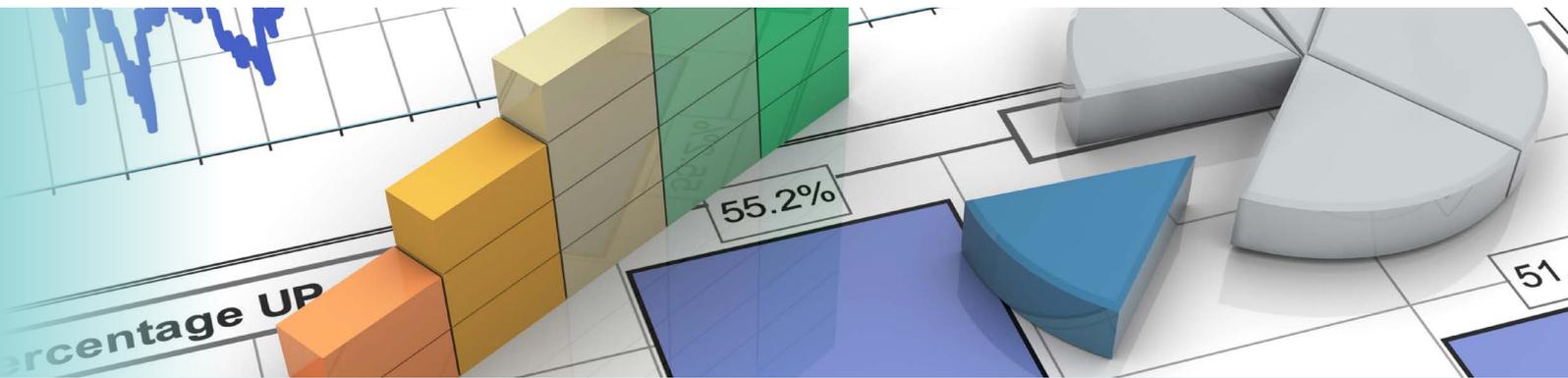
By all accounts, private equity in China has demonstrated, beyond any doubt, that it has the strength and weight to weather inclement macro factors. ■

China Fund Pool (2020 - 2021)



Source: **APER** Data

- In 2021, the **US\$52.2 bn** of fresh capital raised by China-focused private equity funds was a **55.4% increase** to the **US\$33.6 bn** for 2020
- A driver of the surge of fresh capital was increased allocations from **domestic investors**, especially those affiliated with the state. The equivalent **US\$20.2 bn** was an **80.4% increase** to the equivalent **US\$11.2 bn** for 2020, highlighting domestic investors' staunch support for China's private equity industry
- During 2021, China-focused private equity funds set new thresholds for the region's country fund sizes –
 - **US\$9.5 bn** Hillhouse Fund V, which closed during the year, is the **largest country-focused fund**
 - **US\$2.8 bn** Sequoia Capital China Growth Fund VI is the **largest VC - Growth/Expansion fund** for a single market



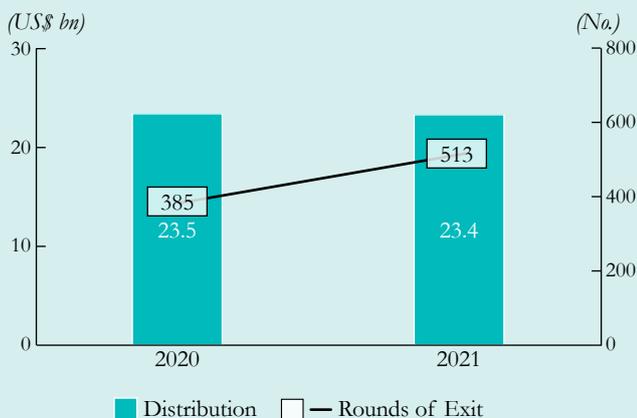
Deal Volume in China (2020 - 2021)



Source: APER Data

- Despite intense measures adopted by regulators in China to rein in the country's sprawling technology sector, investors' interest in this market remains strong. The US\$116.9 bn in deal sum chalked up by China-based assets during 2021 represents a multitude of significance –
 - a 68.7% increase to the US\$69.3 bn for 2020
 - the first time that deal value in China breached the US\$100 bn mark, underscoring robust investment activities in Asia's largest private equity market
 - the amount was a near half of the US\$264.2 bn for the entire Asia, a percentage that underscores China's commanding position in Asia's deal landscape
- China regained its position as home to the largest deal in 2021, a position that was lost to India in 2020. Its US\$3.8 bn in Zhuhai Wanda Commercial Management Group Co Ltd was the largest deal in the region

Divestment & Distribution Volume in China (2020 - 2021)



Source: APER Data

- While regulatory measures in China have significantly curbed divestment movements for technology companies backed by private equity investors, especially during 2H of the year, there were a number of telling developments –
 - the US\$23.4 bn in distribution was virtually the same as that for 2021, suggesting that despite adversity, there has been no depletion of capital returns
 - the US\$23.4 bn accounted for 27.8% of the total for all of Asia. China continued to maintain its pole position in the 2021 distribution record
 - the rounds of exit in 2021, at 513, was a 33.2% increase from 385 in 2020, and were shored up by robust rounds of exit from listed healthcare assets
- Three sizeable distributions also helped boost China's 2021 capital return record –
 - US\$3.9 bn from Meituan was the largest distribution in 2021
 - estimated US\$1.8 bn from AI Dream 1 (Cayman) Ltd
 - US\$1.8 bn estimated from Wuxi AppTec Co Ltd