2024
Asia report: year in review

MinterEllison.

Contents

Overview

This is the third edition of our Asia report and the first of the post pandemic era.

Across just about all markets in the North and South East Asia region, economies have had to negotiate the headwinds of rising interest rates, geo-political tension and fluctuating demand for exports. While no doubt these factors have made deal making challenging, the key underlying thematics influencing Asian investors in Australia have meant that M&A activity has been steady, albeit not at euphoric levels, with conditions in 2024 increasingly looking favourable.

The most common trend driving investor activity remains decarbonisation and the transition from fossil fuels to renewables. We have seen major Japanese and Korean corporates exit their investments in both thermal and metallurgical coal to refocus on renewable opportunities, most notably the sale of two coal mines by the BHP Mitsubishi alliance to independent Whitehaven Coal. Commitments to Green Hydrogen, Wind, Solar and Pumped Hydro projects are being made by investors right across the region including global names such as Inpex, Posco, Tenga and Gentari. Given Australia's twin targets of reaching emission levels of 43% below 2005 levels by 2030 as well as renewables comprising 82% of energy supply by this date, these trends will only continue as the decade progresses.

The Australian property sector remains popular with foreign investors with Japanese and Malaysian investors (including Mitsui Fudosan, Mitsubishi Estate, Daiwa House and Gamuda Land) all being active across a range of property classes including the emerging build-to-rent sector. Korea has emerged and is a very close partner to the Australian Defence Force, as evidenced by our client Hanwha Defence's engagement on 2 multi-billion dollar materiel procurements.

In 2023 Australia also made a commitment to the Association of Southeast Asian Nations (ASEAN) to increase two way trade and investment. Anthony Albanese appointed Nicholas Moore, former CEO of Australia's leading investment bank Macquarie, as its Special Envoy to the South East Asian (SEA) region. Mr Moore made 75 recommendations to the Australian government about how this goal could be achieved. This level of high profile engagement demonstrates the increasing importance of the SEA region to both investors from the region, as well as Australian businesses investing in our neighbouring economies.

Overview

The Albanese Government has also put significant effort into improving the Australia-China bilateral relationship, the Prime Minister's state visit to China being the first by an Australian government minister in 7 years. With China removing most trade barriers from the pandemic era, and increased Australian receptiveness to investment in most sectors, we are seeing early signs of renewed interest in investment from Chinese investors in the renewables and food and agriculture sectors.

We have also seen Australian non-bank lenders ramp up their operations in Singapore and the AUD$1.2 billion bid by MUFG for Link Market Services is a reminder that Japan continues to be a powerhouse in financial services.

With the US election less than 12 months away, as well as elections taking place in India, Indonesia, the EU presidency, Mexico, Korea and the UK in 2024, the year ahead is almost certain to be an eventful one for investors in the Asia Pacific region.

At MinterEllison we are firmly committed to the region and look forward to working with you on your deals in 2024 as well as meeting our friends, colleagues and clients during our visits to the region during the year ahead.

Brendan Clark
Managing Partner, International

Ben Smith
Partner, Asia Practice Leader

China

Year in review

2023 saw China finally emerge from its Zero Covid policy era associated with isolation and decoupling (self-sufficiency). This process began in late 2022, with more of a stumble than the usual official edicts, followed by unofficial but increasing relaxation of enforcement policies and procedures. It took a full three months before official confirmation was given, resulting in a lasting impact on confidence in the domestic market.

By the third quarter of 2023, the necessary components (senior ministerial level appointments and policy settings) were settled in place and the forward pathway cleared. It is easy to forget that China remains a full 6 to 12 months behind most other countries on the post-Covid era timetable. The Chinese economy is a massive tanker that takes time to turn and gain forward momentum. The grass shoots are starting to emerge but the necessary rebuild of confidence and repair of damage from drawn-out policy implementation will take time.

The new Australian Federal government methodically pursued a strategy of changing relations with China on terms it thought appropriate. At pains to not term this ‘a reset’ but a ‘stabilisation’, it acknowledged the inevitable link between matters of national security and major investment/ trade relations, striving to find a balance between the two. It backed this up with over 12 months of single-minded, steady and focused diplomacy, made all the more impressive given the global context and busy agenda, regionally and internationally. This included historic defence positioning with AUKUS and the QUAD, plus increased tension and positioning between the US and China. We saw this evolve from the initial denial of containment policies giving way to openly declared robust competition to now open restrictions and the removal of barriers to entry on access to domestic markets and technologies. The global free trade scenario we had come to expect since the late 1990s has been firmly withdrawn.

While the final shape of supply chains and barriers is still evolving, we do know great power for competition will continue between the US and China, with the EU still considering its position on the sidelines. This is predominantly in areas of decarbonisation and renewables linked to key industry sectors such as EVs and any equipment needed for climate change policies and domestic stimulus such as the IRA program in the US.

ME perspectives

Our dealmakers look back on 2023

2023 was another year of record trade numbers, improving relations and a still yet unfulfilled promise of returning new Chinese investment.

In regard to trade between Australia and China, slowly but surely, tariff and non-tariff trade barriers imposed on specific commodities have been, or look to soon be removed, including tariffs in the wine sector by the end of 2024. All the while, total trade numbers with China have increased. Over the last 12 months to December 2023, Australian exports to China increased by 15.3%.

With some notable exceptions in non-critical minerals, the deal landscape for China inbound investment remained limited as it did globally. The Chinese economy, heavily impacted by Covid Zero policies and almost three years of isolation, has survived intact and has begun a slow and patchy recovery.

Australia's higher education sector held up well, with record numbers of Chinese student enrolments, despite restrictions on physical travel and tourism, although it is early days.

Debate still ensues around the Chinese government forecasts of 5% GDP growth with concerns over quality of statistics and reporting.

The official direction from Beijing in 2023 to its Chinese companies is to get offshore and attempts are being made to demonstrate a welcome mat for foreign investment into China. However, that landscape has been changed for the foreseeable future. The theme for foreign investment is 'for China', meaning only products and services focused on China's domestic market will receive support.

This and dramatically reduced flights (e.g. USA-China round-trip flights have only just returned to 63 per week from a pre-Covid 300 plus) means the number of foreigners based in China remains dramatically below pre-Covid numbers. This obviously impacts information flows and speed of decision making for companies thinking of investing in the Chinese market.

The Chips Act introduced in October 2022 has been broadened following the scheduled 12 month review in 2023. The IRA lumbers on its way, evolving and being shaped by rulings on a range of products and inputs from other countries.

Chinese interest in offshore investment, including Australia, remains very high but there is an obvious confusion and concern on the Chinese side around the extent of what are perceived to be restrictive foreign investment policies as they apply to China. That uncertainty is an impediment to any material up-tick in China outbound M&A into Australia.

Despite these challenges, 2023 did see some enterprising collaboration between the two nations, the most high profile example being the start of the development of the Simandou iron ore project in the Republic of Guinea spearheaded by Rio Tinto and its key joint venture partners Chinalco and Baowu Steel.

"the reality is total trade numbers between China and Australia have increased in 2023 despite geopolitics and economic headwinds. Improved relations and a Chinese focus on attracting investment coupled with efforts to boost the domestic economy will benefit."

Predictions for 2024 and beyond

The key 'known' for 2024 is continued uncertainty. The entire calendar year will be dominated by the US election campaign starting with primaries and running through to the final election. Other major elections happening in 2024 include India, Indonesia, the EU presidency, Mexico, Korea and the UK.

Global supply chain repositioning, whether decoupling, reshoring, friend shoring etc. by any name, will continue with persisting and increased regulatory complexity as additional layers of regulations and rulings are added to the structure.

EVs and renewable energy were dominant themes in Australia-China trade in 2023 and this is expected to continue through 2024, followed some way behind by health (life sciences) and FMCG.

Whether or not by design, China has emerged as the leading global player in the EV and renewable energy sectors. It has achieved this by becoming dominant in scale and positioning in key aspects along the supply chain. This combined with the continued weight of the national government support and domestic renewables policies mean development of associated technologies, product improvements and lower costs will continue. The Chinese domestic market is large enough to drive this alone without the need for exports, although we are seeing the first signs of Chinese players testing the export market with BYD overtaking Tesla in EV sales in the final quarter of 2023 and announcing its intention to open a factory in Hungary. Another in Mexico is also being considered.

Chinese investments in countries such as Vietnam, Mexico and Indonesia that have been building for some time retain considerable momentum and will only increase. The most high profile example of this is the expansion of Indonesia's on-shore nickel processing industry funded by Chinese investors, which has seen a plunge in the global price of nickel and a number of nickel projects in Australia withdrawn.

Australia remains in the fortunate position of being a friendly trading partner with both the US and China and having natural resources in demand from China and many developed countries.

No country, including Australia, will hit their decarbonisation targets without some involvement of Chinese renewables equipment and technology. The question remains as to how to facilitate that involvement in a manner which does not compromise national security interests.

> "
> the global push on climate change underpins a range of opportunities across the whole renewables supply chain whilst a focus on health in China facilitates Life Sciences. People connections in education and research established over 50 years are a useful catalyst."

Deal highlights

Our China team has advised clients on the following transactions:

- We advised Sunrise Garment Group, which owns the Hong Kong-based Smart Shirts Ltd, on its acquisition of ‘Gundaline’, one of Australia’s largest irrigated farming operations at Carrathool in the Murrumbidgee Irrigation area of Southern New South Wales.
- We advised a consortium of banks including Agricultural Bank of China Limited on the funding of USD$475 million to Baosteel Resources Australia Pty Ltd for the development, construction and operation of the Western Range iron ore project in Western Australia.
- We advised Bank of China Limited on the funding of USD$100 million to Karara Mining Limited for the development and operation of its iron ore projects in Western Australia.
- We advised Bank of China Limited on the funding of AUD$70 million to NRW Holdings Limited for working capital requirements.

Japan

Year in review

The Japanese economy has performed strongly in 2023 despite the external geo-political, trade and economic headwinds. With the remaining COVID-19 restrictions lifted in 2023 and inbound tourism now returning to pre-2019 levels, there is a renewed positive sentiment amongst Japanese companies that we expect will translate into strong domestic and cross-border M&A activity in 2024.

The Japanese economy performed strongly throughout 2023 and enters 2024 with a real sense of momentum. The Nikkei 225 hit a 30 year peak in 2023 since the Japanese 'bubble economy' of the early 1990s. This could herald a cycle of moderate inflation and wage increases and are a tangible sign of change from the 'lost three decades' and 'cheap Japan' mindset that has been so entrenched in corporate Japan over a long period of time.

2023 also saw Japanese shareholder engagement and activism continue to increase, in part driven by corporate governance reforms pushing for greater focus on company profitability (for example the 'Action Program for Accelerating Corporate Governance Reform: From Form to Substance' published by the Financial Services Agency of Japan in April 2023). This has resulted in a very active domestic M&A market focused on Japanese businesses rationalising through non-core asset sell-offs, notably including divestments by Olympus Omron, Shiseido and Panasonic. Total M&A value for the first nine months of 2023 grew 14% year-on-year to USD$111 billion, making Japan the only major economy to record M&A growth.

For cross border M&A the main head-wind remains the weak Japanese Yen. This has certainly held some Japanese companies back from transacting outside of Japan. However, as Japanese Inc adapts to geopolitical tensions and rising inflation impacting North America, Europe and Asia, we can expect a renewed focus from Japanese businesses on outbound M&A to achieve their strategic growth agendas, particularly in natural resources, energy and renewables.

ME perspectives

Our dealmakers look back on 2023

As we predicted in our report last year, 2023 saw a continuation of the strong deal momentum built in 2022 for Japanese in-bound M&A. Mid-market M&A continued to be the sweet spot but we also saw the re-emergence of the Japanese mega deal with Kirin's AUD$1.9 billion acquisition of Australia's leading vitamins company, Blackmores and the recent AUD$9.1 billion bid for Altium by Japanese semiconductor company Renesas Electronics. Energy transition and decarbonisation was the dominant theme headlined by INPEX Corporation's acquisition of 50% of Enel Green Power, marking INPEX's entry into Australia's renewables sector.

Hydrogen also remains a strong focus for Japanese companies and the Japanese Government in Australia headlined by the Japanese Government's Green Innovation Fund's announcement to provide approximately AUD$2.35 billion in funding to the proposed Hydrogen Energy Supply Chain project in the La Trobe Valley in Victoria.

2023 saw Japanese investors refocus their attention strongly on the Australian real estate sector. Property heavy-weights, Mitsubishi Estate (headlined by the AUD$800 million deal to develop part of Sydney's Circular Quay with Lendlease) and Mitsui Fudosan (secured the AUD$232 million deal to develop the MAC Residences in Sydney) and Japanese home builders such as Daiwa House, Sekisui House, Sumitomo Forestry and Asahi Kasei have led the way into a range of property classes from commercial, residential to the emerging build-to-rent segment.

Finally we were again reminded of the significance of Japan's role in Australia's natural resources sector after BHP and Mitsubishi agreed to sell two of their coking coal mines in Queensland to Whitehaven Coal, an Australian listed coal company, for AUD$5 billion. This was the largest Japan-Australia M&A deal in 2023.

Beyond trade and investment, 2023 further reinforced the Japan-Australia bilateral relationship as Australia's most mature relationship in Asia. In August 2023, the long awaited 'quasi alliance' Reciprocal Access Agreement between the two nations took effect, marking the establishment of a defence co-operation framework and Japan's most significant security pact in more than 60 years. Japan and Australia's national security and economies are now becoming increasingly intertwined and this will be a strong platform to drive future corporate activity between the two nations.

Japan

Predictions for 2024 and beyond

We expect 2024 to be a strong year for Japanese M&A and in-bound investment. The three 'S's' of energy security, food security and defence security, alongside Japan's continued shrinking population and Japan Inc's strong balance sheet will ensure Japan deal makers remain outward focused. At the same time we also consider there are strong pull factors incentivising Japanese capital to Australia. Firstly, Australia's pursuit of energy transition and decarbonisation will continue to attract Japanese investment into both greenfield and brownfield projects and will be strongly supported by both Japanese and Australian Government subsidies and investment grants. The transition will continue to see Japanese trading houses and energy and resources companies exit their exposure to fossil fuel assets. Secondly, Australia's current housing 'crisis' will encourage Australia's leading property developers to continue to pursue Japanese property players looking for reliable joint venture partners and access to a de-risked and approved project pipeline, particularly in our emerging build-to-rent sector.

We also expect 2024 to finally be a tipping point for Japanese companies investing in Australia's critical and battery minerals sector. Austrade's Critical Minerals Prospectus 2022 was keenly studied in Japan with Austrade noting that Japan accounted for the most downloads from a single country. With strong support from both the Japanese (mainly centred around JBIC and JOGMEC) and Australian Governments who have a mutual focus on creating and maintaining supply chains in this area, we expect Japanese companies to now look to deploy capital into Australian projects where there is a need for both equity providers and off-takers to alleviate short-to medium term capex requirements.

In addition to the above pull factors, there are a number of tail winds supporting Japanese corporates looking to do deals in Australia in 2024. The path to obtaining FIRB approval is comparatively easier than for other offshore investors (and indeed former Australian Ambassador to Japan, Mr Bruce Miller is now the chairman of FIRB), the high interest rate environment has a relatively muted impact on Japanese corporates given healthy balance sheets, and the geopolitical alignment with Australia is as strong as it has ever been. In summary, Japanese companies should have overall less bidder competition which, combined with a corporate Australia keen to transact after a relatively quiet domestic M&A market in 2023, bodes well for the next 12 months.

"We expect 2024 to be a strong year for Japanese M&A and in-bound investment from Japan. There continue to be a number of strong push and pull factors attracting Japanese capital to Australia across a diverse sector base including energy transition, critical minerals, real estate and technology."

Deal highlights

Daiwa House acquisition of a built-to-rent development at Melbourne Quarter

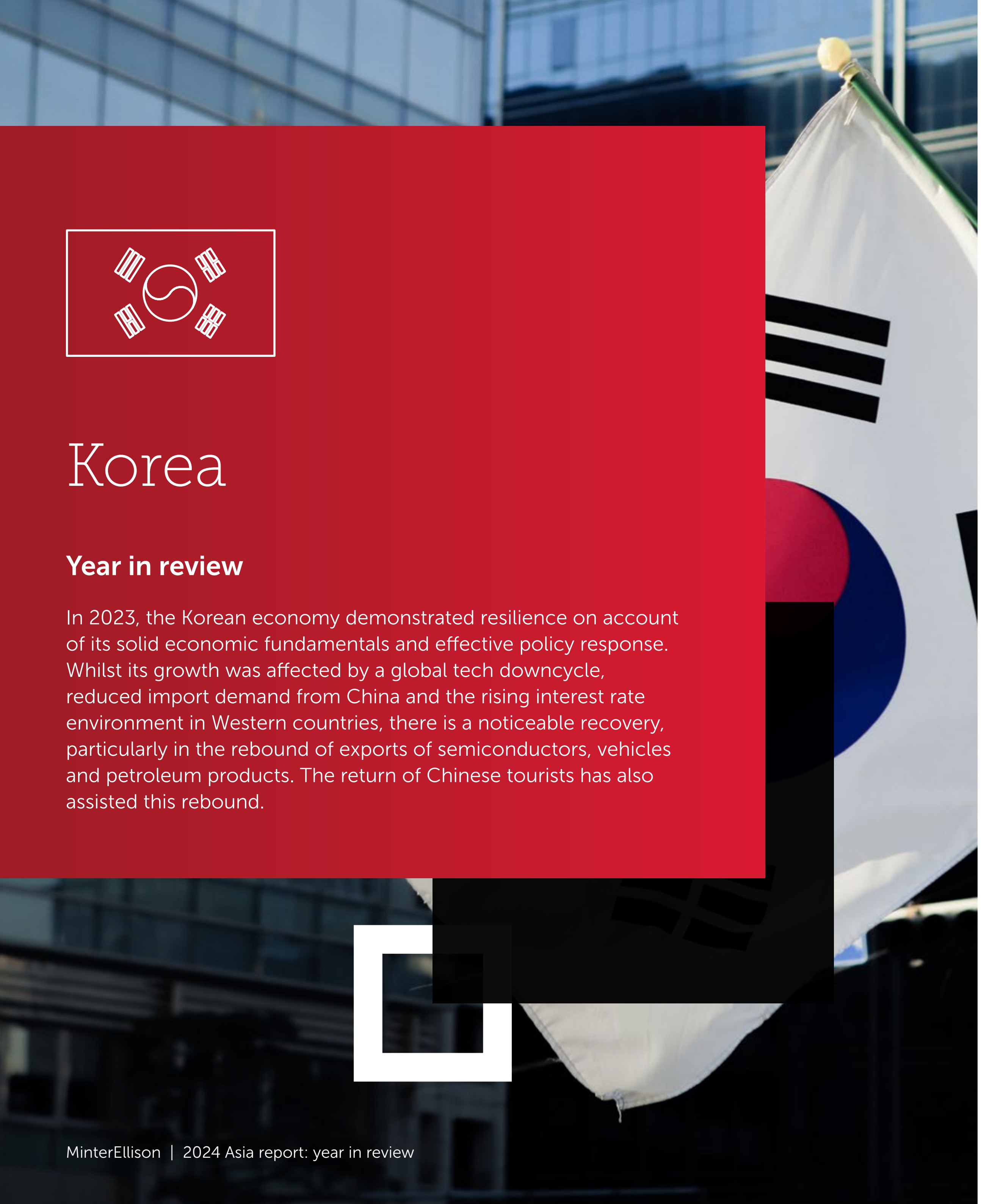
We advised Daiwa House Australia on its acquisition of a majority interest in a build-to-rent development at Melbourne Quarter in association with Lendlease. Daiwa House Australia is a member of the Daiwa House Group, one of Japan's largest home builders and property developers. This development opportunity with Lendlease marks an exciting entry for Daiwa House Australia into Australia's build-to-rent market which is expected to expand rapidly in the short to medium term. Situated at 646-666 Flinders Street, on the southern edge of Melbourne's CBD, the building with an end value of about AUD$650 million forms the final piece of Lendlease's acclaimed Melbourne Quarter precinct. Upon completion, Melbourne Quarter will be a modern and sustainable mixed-use precinct, housing over 14,000 workers and more than 3,800 residents.

FUJIFILM Business Innovation acquisition of MicroChannel Services

We advised MicroChannel Services on its sale to FUJIFILM Holdings Corporation, an international conglomerate carrying on business in various fields including healthcare, advanced materials, graphic systems and recording media, business solutions and imaging. MicroChannel Services is a top ERP and IT solutions provider in the Australian Pacific region.

Alphatheta Corporation's acquisition of Serato Audio

We advised Alphatheta Corporation, a subsidiary of Noritsu Koki Co., Ltd. and market leaders in DJ hardware and software through the Pioneer DJ brand, on their acquisition of Serato Audio in New Zealand.



Korea

Year in review

In 2023, the Korean economy demonstrated resilience on account of its solid economic fundamentals and effective policy response. Whilst its growth was affected by a global tech downcycle, reduced import demand from China and the rising interest rate environment in Western countries, there is a noticeable recovery, particularly in the rebound of exports of semiconductors, vehicles and petroleum products. The return of Chinese tourists has also assisted this rebound.

2023 also saw the bilateral cooperation between the two countries expand and deepen most visibly in the defence sector. Korea's defence industry has become a major supplier to the Australian Defence Force and an important collaborator in Australia's efforts to develop its own defence industrial base. The flagship Korean initiative is Hanwha Defense's construction of an HDA Armoured Vehicle Centre of Excellence (H-ACE) in Geelong, Victoria, to produce the Huntsman self-propelled howitzer and Redback infantry fighting vehicle (IFV), both for the ADF and potentially for future export opportunities.

The economic relationship between Australia and Korea continues to flourish, augmented by the two nations' complementary economic profiles, although when compared with other regional relationships that Australia has such as with Japan, there is room to grow.

One of the key focus areas for both Australia and Korea is the shift towards renewable energy, with Korea being one of the major global players leading hydrogen development for power generation. As the world moves towards a lower carbon future, it is anticipated that there will be more ventures in energy and critical minerals, alongside sectors such as food and agriculture, where Australia's commitment to ESG principles and responsible farming will align with Korea's priorities in food security.

ME perspectives

Our dealmakers look back on 2023

Korean M&A activity as a whole was to some degree subdued in 2023, impacted by global headwinds including the sustained high-interest rate environment, heightened protectionism and concerns of a credit crunch linked to certain US mid-sized banks. This follows a lacklustre year in 2022 that saw a 40% decrease in deal value from approximately USD$106 billion in 2021 to an estimated USD$64 billion. However, there is optimism for a revival of deal activity in 2024 with major conglomerates being well placed to seize opportunities in the cautious market environment.

The key thematic for inbound investment from Korea to Australia was securing access to materials for, and developing, clean energy projects. In particular, the Korean battery industry plays an important role in guiding countries to achieve their net zero commitments. Access to critical minerals is important to both nations with co-operation driven by Australia's position as one of the world's largest producers of spodumene and Korea being a global leader in manufacturing electric vehicle (EV) batteries.

At the same time we have seen Korean companies retreat from their investments in fossil fuels including in Mongolia, Indonesia and Australia.

Developing resilient supply chains and accelerating the transition to clean energy saw numerous MoUs entered into between Australia and Korea at various different levels of Governments and by a number of key private sector participants focusing on investment and exports of major minerals, clean hydrogen and carbon capture technology. Korea's Korea Electric Power Corporation (KEPCO) and Western Green Energy Hub signed an MoU to develop one of Australia's largest green hydrogen hubs in Western Australia's Goldfields Esperance region. The project is intended to generate 50 gigawatts of electricity using 3,000 wind turbines and 25 million solar panels. In addition, Korean steelmaker POSCO announced its goal to invest USD$28 billion in manufacturing hydrogen using renewable energy and water electrolysis with Australian partners by 2040.

Predictions for 2024 and beyond

Notwithstanding the relatively challenging year in 2023, the market remains optimistic for further Korea-Australia cross-border M&A activity in 2024 aided by lower financing costs and less concern over a future recession.

Strategic partnerships in the critical minerals sector will continue to play a prominent role where the focus will be on collaborations that capitalise on the combination of Korean technology and Australian dominance in resources capability.

Technology generally will continue to be a significant driving force, with AI, agribusiness and clean energy the key areas for cross-border M&A activity.

Further expansion of the relationship between the two countries in the defence sector can be expected following the success of the Korean defence industry in Australia.

Deal highlights

Hanwha Defense Australia

We continue to be the primary legal advisers to Hanwha Defense Australia for the Commonwealth's Land 400 Phase three (an Infantry Fighting Vehicles program worth approximately AUD$7 billion) and the Land 8116 (a AUD$2 billion self-propelled artillery project).

LG Energy Solution

We advised LG Energy Solution in relation to its USD$30 million investment via convertible notes in ASX-listed company, Novonix Limited which is focused on developing artificial graphite anode material for lithium-ion batteries.

Mirae Asset Global Investments

We advised Mirae Asset Global Investments on its acquisition of a 53% stake in Stockspot, an Australian online investment advisor (robo-advisor) for AUD$28 million.

SK Networks

We advised SK Networks on the sale of its interest in the Clarence Joint Venture to Centennial Coal, a major Australian mining company owned by Thailand-based Banpu.

Volpara Health

We advised Volpara Health Technologies, the New Zealand based developer and manufacturer of volumetric breast imaging products, on its AUD$292 million takeover by Lunit Inc, the Korean based software-Medical Technology company. The transaction is expected to close in Q2 2024.

Singapore

Year in review

Despite global economic challenges and a downturn in M&A activity across much of Southeast Asia, Singapore remains positioned as the region's primary dealmaking hub and Australia's largest two-way trading partner and investor in the region. This importance has only increased with the shift of investors away from Hong Kong to Singapore. Singapore's well-developed financial services sector continues to offer a wide array of sophisticated financial products and services for the funds management industry.

The next Singapore general election, which must be held by November 2025 but could be called later this year will be of keen interest to many. Prime Minister Lee Hsien Loong is expected to hand over the leadership to the Deputy Prime Minister Lawrence Wong before the general election. This landmark event will be a genuine test of Singapore's stability and future economic and political direction after Prime Minister Lee Hsien Loong's nearly 20 year term in office.

ME perspectives

Our dealmakers look back on 2023

In 2023, M&A activity in Southeast Asia declined due to the headwinds of rising interest rates, inflation, geopolitical tensions and regulatory change. Singapore's GDP growth in 2023 was forecasted to be approximately 1%, marking a significant slowdown from that of 3.6% in 2022.

Despite a slowdown in its manufacturing sector, Singapore's services sector saw a boost from a rebound in international tourism and travel. With its robust investment climate and financial sector, Singapore remains a key business hub in the region and continues to be Australia's largest trade and investment partner in the ASEAN region.

Cost of living pressures are also being faced in Singapore, with the GST rate rising to 9% effective 1 January 2024. Singaporean policymakers will no doubt be monitoring the impact of this on consumer sentiment, spending and overall economic activity in the coming months.

A cautious approach to M&A was observed in 2023, as evidenced by a decline in deal activity. However, the strong bilateral relations between Singapore and Australia, anchored on the Singapore-Australia Comprehensive Strategic Partnership, which has led to over 110 joint initiatives across a range of sectors, provides the framework for new partnerships and continued collaboration between the two nations. One example is the Singapore-Australia Green Economy Agreement (GEA). The world's first agreement of its kind when it was signed in 2022, the GEA is a partnership model for driving economic growth while reducing emissions.

To attract more single-family offices, Singapore has been implementing various strategies, including offering attractive tax incentives and granting licensing exemptions. These efforts seem to be yielding results, as there has been a steady increase in the number of family offices in Singapore, rising from approximately 400 in 2020 to a significant 1,100 by the close of 2022.

The City State has seen continued interest in its role as a global hub for wealth management. This status has been boosted by far sighted policy actions taken by the Government including pioneering the so called Variable Capital Company Structure (VCC) for investment funds. Launched in 2020, the VCC has enhanced the options available to fund managers to structure and establish funds in Singapore. The flexibility of the structure (VCCs can liquidate investments without the constraints of strict capital maintenance rules and pay dividends from capital) as well as the ability to structure the funds as either stand-alone or as an umbrella fund has seen significant interest from the financial services sector, including from Australia. The popularity of this structure has further increased with the decision taken by the Monetary Authority of Singapore to extend its grants scheme to 15 January 2025 which offers applicants co-funding for qualifying expenses for eligible establishment or registration work performed in Singapore for VCCs. As of 2 October 2023, a total of 969 VCCs have been established or re-domiciled in Singapore.

Singaporean investors demonstrated continued interest in Australia's real estate sector, with many lured to buy second homes in Australia due to a combination of prohibitive taxes on second homes in Singapore, a strong Singapore dollar and the promise of high returns on Australian properties.

Singapore's sovereign wealth fund, GIC, partnered with Real Asset Management, an Australian alternative asset manager, to target development opportunities within the Australian healthcare sector. The AUD$1 billion fund will reportedly target development opportunities such as hospitals and medical centres in capital city markets.

Predictions for 2024 and beyond

Singapore's GDP is expected to increase gradually over 2024 amid an uncertain global economic outlook. The recovery of tourism and air travel in Singapore is expected to encourage growth in sectors such as air transport and accommodation, alongside consumption sectors like retail and food & beverage services.

In 2022, Singapore and Australia committed to begin work on a bilateral Food Pact to bolster food security, enhance supply chain resilience and facilitate greater flows in trade and investments of Australian and Singapore food supply. Following the conclusion of negotiations on the Food Pact in 2024, we expect to see increased collaboration on food trade pathways and expanded opportunities for Australian food exports to and through Singapore in the near future.

In 2024 and beyond we expect that the following sectors will be the ones to watch from a Singapore/Australia perspective:

- Agriculture and food - Singapore imports over 90% of its agricultural needs and Singapore's interests in food security will continue to drive agricultural trade.
- Digital economy – Singapore is one of the leading countries in Asia from a digital readiness perspective, and is well placed to take advantage of growth in the artificial intelligence and data protection space.
- Resources – Over 90% of Singapore's electricity is generated from imported natural gas. To achieve its net zero target, renewable energy will become increasingly important to Singapore. Singapore has also publicly stated its objective to import up to 4 gigawatts of low carbon energy by 2035. In 2023, Sun Cable confirmed that it will be proceeding with the development of its flagship Australia-Asia Power Link (AAPowerLink) project. Whilst it faces significant financial and logistical challenges, if it proceeds, the AUD$30 billion project would be the world's largest solar export project and will transmit solar energy from the Northern Territory in Australia to Singapore via submarine power cables that will pass through Indonesian waters. The AAPowerLink project could be seen as the start of a new renewables export industry in Australia, attracting investment, creating jobs and increasing export revenues while establishing Singapore as a renewable energy centre for Southeast Asia. The project is still seeking the requisite regulatory approvals to progress the project, but Sun Cable has indicated that it has received customer interest in Singapore for as much as 2.5 gigawatts of power.

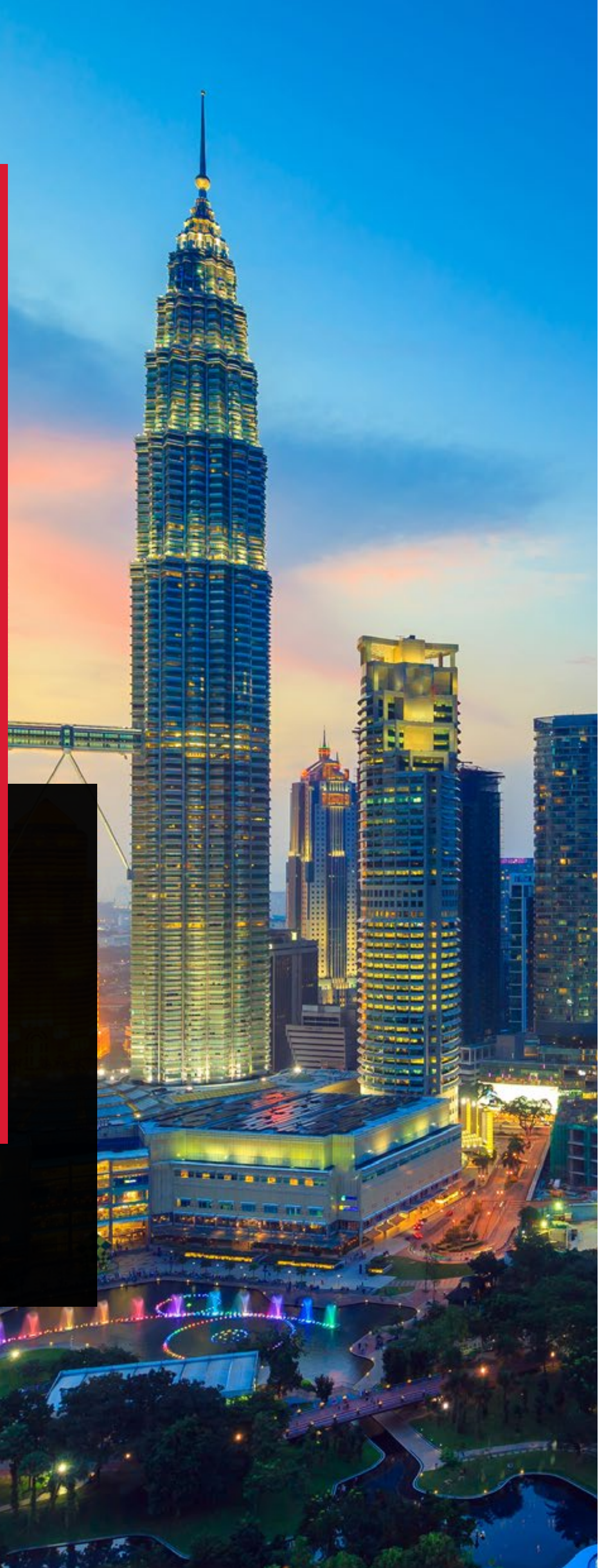
Deal highlights

Chestnut acquisition of Tibaldi

We advised Chestnut Avenue Pte Ltd, a leading Asian business conglomerate, on its acquisition of Tibaldi, a market-leading Australian smallgoods manufacturer. Chestnut is wholly-owned by the family office of Mr Indra Widjaja. The family office is a leading Asian business conglomerate that has investments in several large listed companies, including PT Sinar Mas Multiartha Tbk in Indonesia, and Golden Energy & Resources in Singapore.

Zagga Investments

We advised Zagga Investments on the establishment of their Australian CRED fund in Singapore.



Malaysia

Year in review

Malaysia's firm commitment to decarbonisation coupled with a slowdown in Southeast Asian construction and infrastructure development saw a deepening of its trade and investment relationship with Australia in 2023. As with other economies in the region, economic growth moderated on account of increased inflation, softer demand for Malaysian exports and the conflicts in Ukraine and Israel. Nonetheless, as international tourism recovered and inbound investment rebounded (investment of RM225 billion (AUD$72.7 billion) was approved during the first nine months of 2023), overall sentiment improved in the second half of 2023.

Australian Prime Minister Anthony Albanese and Foreign Minister Penny Wong continue to prioritise Malaysia as a key economic and defence partner in Southeast Asia, particularly as international 'great-power' competition in the region intensifies.

Key highlights from Malaysia's 2023 budget included significant income-tax reform, targeted spending in small-to-medium enterprises to encourage domestic investment and digitalisation, the expansion of 5G infrastructure to cover 80% of populated areas by the end of 2023 and tax exemptions and rebates for EV component manufacturers and assemblers.

Prime Minister Anwar Ibrahim's Government has not secured a clear majority in its first year of administration. This uncertainty has prompted Malaysian corporates to increase their focus on offshore opportunities.

ME perspectives

Our dealmakers look back on 2023

2023 marked another strong year for M&A activity in Malaysia. FDI levels of AUD$40 billion were more than double the annual average recorded in the decade before the pandemic. Malaysia enjoyed five mega projects with a capex of at least AUD$1.5 billion across the automotive, internet infrastructure and semiconductor sectors. Highlights include Chinese carmaker Geely Holding Group announcing plans to invest AUD$23 billion into a production hub in Tanjung Malim as well as American chipmaker Texas Instruments expanding its footprint with plans for two new assembly and test factories in Kuala Lumpur and Melaka valued at over AUD$4.5 billion. Malaysia continued to see offshore support in its semiconductor industry as some western nations diversified supply chains away from China.

In the past, Malaysian investment into Australia has been challenging on account of the weak Malaysian Ringgit. However, 2023 was an inflection point with over AUD$3.7 billion directly invested into Australian projects. The key sectors were renewables and property. We saw Malaysia's energy giant, Tenaga Nasional Berhad, acquire Spark Renewables' solar and wind platform (which owns the 100 megawatts Bomen Solar Farm in New South Wales), a project pipeline which will require an estimated AUD$6 billion of capital expenditure through to 2026, should all projects be developed. Tenaga also requested the Australian Government through its Partnerships for Infrastructure program to conduct research into the viability of pumped hydro energy storage in Malaysia. We also saw Gentari, the clean energy unit of Petronas, affirm its intention to operate up to 8 gigawatts of renewables in Australia by 2030, making it one of the largest electricity suppliers in the country. Gentari expanded its capacity by acquiring the Australian assets of Wirsol Energy for AUD$1 billion, gaining 422 megawatts of solar capacity and a potential expansion of 7,765 megawatts. The deal was highly competitive, and interestingly fellow Malaysian corporate Tenaga was the underbidder. Both deals highlight the commercial logic for Malaysian renewables players to acquire, scale and transfer Australian renewable know-how to the Malaysian market.

From a property perspective, Gamuda Land started construction on a AUD$180 million residential tower in Port Melbourne. Significantly, the project is a milestone in renewable property development, using ground-source heat-pump technology embedded in the building's 30 metre deep foundation to provide energy for air-conditioning and water heating. Gamuda Land also unveiled plans to build 1,000 apartments in Australia over the next five years.

Australian exporters continue to see significant profits from Malaysia's certified halal food market, currently importing more than AUD$190 million worth of Australian sheep meat per year. With 42% of the world's Muslims living in the ASEAN region, Malaysia is a global leader in the halal economy and offers a gateway to Australian exporters to tap into the ASEAN market and beyond.

Predictions for 2024 and beyond

The headwinds of 2023 are expected to continue in 2024 particularly the exposure of the economy to the sluggish pace of recovery in mainland China.

However, Australia has signalled the growing importance of SEA to the Australia economy (see pages 20-21) and over the medium term Malaysia should be well placed to become the high-tech manufacturing services hub of SEA with skilled and technology literate talent, widely spoken English and strong engineering supporting industries. Australian businesses have and will continue to see significant profit opportunities from setting-up offshore manufacturing plants in Malaysia, leveraging the regional proximity and access to the SEA market.

Malaysia's decarbonisation commitments until 2040 will see a growth in joint-ventures with Australian companies.

We expect Malaysian corporates to continue to expand further into Australia particularly in energy and resources (renewables), infrastructure and real property (student accommodation and residential) sectors. Australia's migration and population growth as well as large infrastructure developments (such as the 2032 Brisbane Olympics) will drive opportunities.

Deal highlights

Downer EDI acquisition

We advised Gamuda Berhad on its acquisition of the transport projects business and assets from Downer EDI Works and VEC Civil Engineering. The transaction is a significant milestone in Gamuda's strategy to expand its presence in the Australian infrastructure market, adding to its extensive suite of current projects.

Caterpillar dealership acquisition

We advised Bursa Malaysia listed Sime Darby Berhad on its AUD$500 million acquisition of the Cavpower Group which holds the exclusive Caterpillar dealership rights in South Australia and parts of New South Wales.

Onsite Rental acquisition

We sold Onsite Rental Group to Sime Darby Allied Operations, a group which services the mining and construction industries in Queensland and Western Australia.

Australia's focus on South East Asia

In November 2022 the Australian Prime Minister appointed Nicholas Moore AO, former CEO of Macquarie Group, as Australia's Special Envoy for Southeast Asia (SEA). Mr Moore was charged with developing a strategy to increase two-way trade and investment between Australia and SEA. His DFAT Southeast Economic Strategy to 2040 report was released in September of last year. Importantly, the Federal government has committed almost AUD$100 million to implement the recommendations of the report. The key features of Australia's relationship with the region were noted as follows:

- SEA (as a bloc comprising Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam) is projected to become the world's fourth-largest economy by 2040, after the United States, China and India, with an expected compound annual growth rate of 4% between 2022 and 2040.
- By 2040, projections suggest that the potential consumer market in SEA will be 10 times larger than Australia's.
- Australia's trade and investment growth with the region have not kept pace with SEA economic growth over the past 20 years and developments in key sectors provide opportunities to significantly increase Australia – SEA trade and investment.
- Australian investment in the region is underweight. Australian foreign investment stocks in SEA countries were worth AUD$123.1 billion in 2022, representing 3.4% of Australia's total investment stocks abroad (AUD$3.7 trillion). Investment was concentrated in Singapore (AUD$76.2 billion) and Timor-Leste (AUD$16.7 billion, nearly all of which is in a single investment in Santos's Bayu-Undan gas facility). Only 0.8% (or AUD$40.4 billion) of Australia's total investment stock abroad went to the remaining nine ASEAN countries.
- SEA's continued economic success is critical for Australia's prosperity and security. The region is facing growing geostrategic competition. Supply chain diversification is in the region's and Australia's mutual interests. Expanding economic linkages between Australia and SEA provides choices and creates shared wealth, contributing to a strategic equilibrium.

"Malaysia has experienced a GDP growth rate of approximately 6% throughout 2022, which is estimated to be 2.6% higher than that of the Australasian region."

In his report, Mr Moore focused his attention on 10 priority sectors (Agriculture and food, Resources, Green energy transition, Infrastructure, Education and skills, Healthcare, Visitor economy, Digital economy, Professional and financial services and Creative industries) and then made 75 recommendations, bespoke to these sectors aimed at enhancing economic collaboration. Key observations in the Infrastructure, Education and Green energy transition sectors are as follows:

Infrastructure

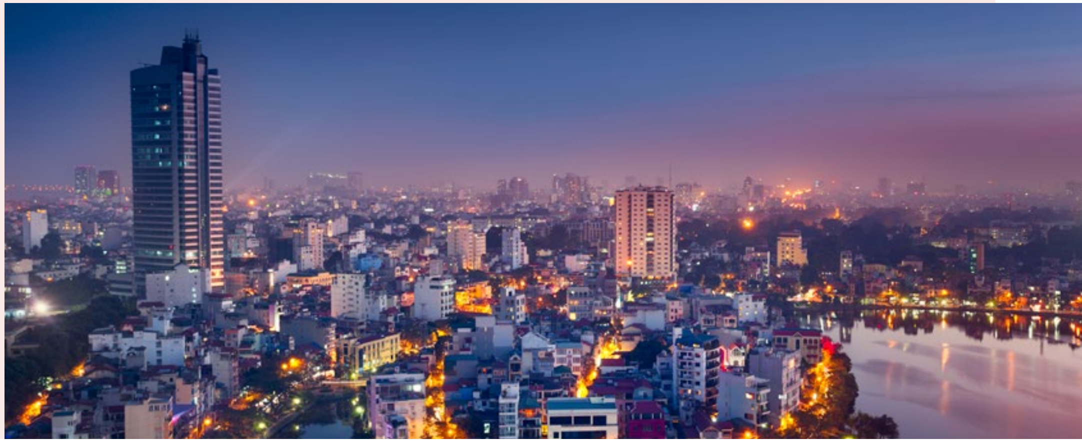
- Meeting SEA's estimated USD$3 trillion infrastructure investment gap will require average annual investment of USD$210 billion in the lead up to 2040.
- SEA is experiencing rapid urbanisation and the growing digitalisation of economies, coupled with the challenges of climate change.
- Assistance from governments across the infrastructure life cycle, from policy development to project delivery and asset maintenance, will be key to meeting SEA's infrastructure gap to 2040.
- There is significant scope for Australia to help meet SEA's infrastructure needs through both private and public investment, especially given most SEA national budgets lack the capacity to cover the infrastructure gap amid other priorities.
- Australian industry has deep expertise and can make a significant contribution to private financing of infrastructure in Southeast Asia.

Education

- A burgeoning middle class, youthful demographics and evolving workforce needs will continue to drive strong demand for education services in SEA to 2040.
- Australian education providers will be well placed to supply this demand, but will need to be responsive to evolving student preferences and industry needs.
- Continued investment in Australia's education offerings, advocacy, alumni and scholarships will help drive Australia's economic and people-to-people connections.
- SEA is one of Australia's largest transnational education markets, which covers offshore campuses, offshore partnerships with local providers, and hybrid and online offerings. Australian transnational tertiary education providers have established campuses in Indonesia, Malaysia, Singapore and Vietnam.
- Australia has a key opportunity in this sector. In particular, Australia's tertiary education and vocational education and training capabilities are well positioned to support the region's skills uplift. Post-pandemic enrolment numbers from SEA students at Australian campuses in Australia and the region are again rising, and demand will likely continue growing to 2040.

Green energy transition

- The transition to a clean energy economy is both the most significant challenge and an opportunity for SEA and Australia.
- Australia has the expertise and technology to assist the region with its transition needs, and there is also scope to attract investment to support Australia's clean energy manufacturing objectives.
- Diverse and resilient energy supply chains will be critical, and there is potential to collaborate on solar, electric vehicles and battery storage supply chains.



Recommendations

Mr Moore's recommendations to achieve the greater two way trade and investment were both extensive and innovative. They included the following:

- **Investment deal teams:** Establish new investment deal teams and formalise collaboration between Austrade, DFAT and private sector experts to assist prospective Australian investors to do deals in SEA. The deal teams would work with various national authorities (such as the Indonesia Investment Authority) to develop a pipeline of investment-ready projects and advise Australian investors on matters ranging from regulatory approvals to finding local commercial partners. These deal teams could first be established in Jakarta, Singapore and Ho Chi Minh City.
- **Concierge service:** This proposed service has been inspired by the successful Singapore Economic Development Board model, to facilitate inward investment. This service would aid SEA investors in navigating Australia's regulatory landscape, approval processes, and tax arrangements.
- **SEA business exchange program:** Create a new Business Exchange Program to boost two-way trade to improve awareness of trade opportunities both in Australia and in SEA. This program would be aimed at young professionals to building enduring links between Australian and SEA businesses.
- **Austrade Landing Pads:** Using the precedent of a 'Landing Pad' service as established in Singapore, set up such a service in Indonesia and Vietnam, whose respective digital economies are projected to be worth up to USD$360 billion and USD$200 billion respectively by 2030 to drive opportunities. This service would involve collaboration with local tech ecosystems, government associations and accelerators to deliver in-market program services (this service is intended to facilitate Australian in-bound investment into the region whereas the concierge service is focused on assisting foreign investors enter the Australian market).
- **Stream-line Australia's foreign investment regime:** Balancing regulatory frameworks to safeguard the Australian national interest and enhance its appeal as a preferred investment destination for SEA investors is crucial for capitalising on the opportunities outlined in Mr Moore's report. Some SEA investors have raised concerns regarding the timeliness and transparency of the FIRB approval process. The report makes a general observation that the Australian Government should collaborate with SEA partners to streamline regulatory burdens and encourage reciprocal action.

To some extent Australia is playing "catch-up" in increasing its focus on the opportunities available to Australian businesses in the SEA region. However by appointing an executive of Mr Moore's calibre it is clear that the region has a materially increased importance to the Australian Government. While it will take time to achieve this strategy, it is pleasing to see the Australian Government be proactive in working with business to identify investment opportunities and leverage our expertise in the ASEAN region.

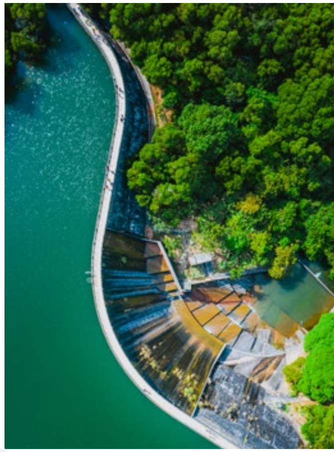
ESG practice

Environmental, social and governance (ESG) has become a core issue for organisations in recent years. In particular, climate change has evolved from a purely 'ethical' issue to have mainstream recognition as a material financial risk across physical, economic transition and litigation dimensions. Notably, the World Economic Forum's Global Risks Report 2024 listed extreme weather events as the second most severe risk over the next two years (only preceded by misinformation and disinformation). Moreover, the four most severe risks over the next 10 years relate to climate and nature.

ESG considerations will continue to influence M&A activity as organisations (and governments) transition towards net zero. This includes as a driver of M&A activity and as a risk in the transaction process. Businesses are under increasing pressure to adopt expanding ESG standards and consider ESG-related risks and opportunities in decision making. To prudently manage ESG-related risks, organisations must consider risks holistically and look beyond 'hard regulation' to understand the impact of 'soft-law', as well as evolving expectations from investors, customers, suppliers, financiers, employees and other stakeholders. A failure to manage ESG-related risks can, in turn, give rise to significant risks to an organisation's reputation and 'social licence to operate' and ultimately, create exposure to liability risks.

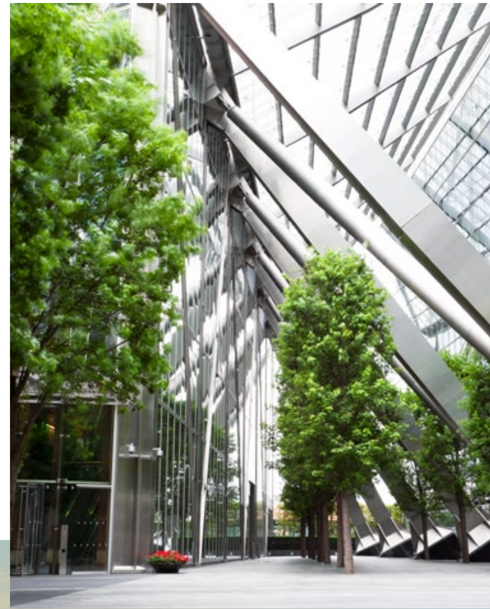
There have been a number of developments in 2023 and more expected throughout 2024. These are being driven by a range of factors including regulation (domestic and global), investor expectations, litigation, activism and community expectations. We provide a high level overview of some key developments and expectations below:

- Many companies will be subject to new mandatory climate-related financial reporting obligations under the Australian Sustainability Reporting Standards, which Treasury has flagged will be phased in from financial years commencing from 1 July 2024. Even if a company is not directly caught under the new requirements, value chain partners are likely to seek additional information to support their own disclosures.
- Nature-related risk is a 'fast follower' to climate as a key financial and regulatory risk issue. There have been rapid developments in global policy and regulation, investor and community expectations around how nature-related risk is managed as disclosures, including through the development of the Taskforce on Nature-related Financial Disclosure (TNFD) Framework.



ESG practice

- Greenwashing remains a regulatory (and activist) focus in Australia and globally. In 2023, the Australian Securities & Investments Commission (ASIC) initiated three 'greenwashing' enforcement proceedings in financial services, including against Mercer Superannuation (Australia) Limited (February 2023) (Mercer), Vanguard Investments Australia (Vanguard) (July 2023) and Active Super (August 2023). The proceedings largely relate to alleged misleading statements about the sustainable and/or ethical nature of certain funds, in particular the application of ESG exclusions to the funds. For example, ASIC alleged that Mercer made misleading statements that the sustainable plus options were suitable for members who 'are deeply committed to sustainability' because they excluded investments in companies involved in carbon intensive fossil fuels like thermal coal (and alcohol and gambling). Similarly, ASIC alleged that Vanguard engaged in misleading conduct in relation to claims about the application of ESG exclusionary screens to the ethically conscious global fund (including in relation to fossil fuels). ASIC alleged that Active Super represented that they eliminated investments that posed too great a risk to the environment and the community, including tobacco manufacturing, oil tar sands and gambling (amongst others). In each case, ASIC alleged that the statements were misleading as the relevant fund/s had exposure to investments claimed to be excluded. Further enforcement action is anticipated from both ASIC and the Australian Competition & Consumer Commission (ACCC).
- Australian companies are proactively focusing on the 'social' component of ESG, including by giving greater priority to identifying and managing the risk of modern slavery in their operations and supply chain. There is an increasing expectation for suppliers to share this commitment and have their own robust internal policies and procedures to support modern standards.
- More broadly, there has been an increase in actions taken by shareholders, investors and activists to ensure that commitments related to ESG are being fulfilled. Activists are increasingly looking to the courts to accelerate corporate action on climate (and biodiversity). Shareholders are also demanding more granular detail of 'how' companies propose to transition to a low carbon economy, with shareholder resolutions being a popular method in 2023 to bring this to attention of target companies.



MinterEllison Asia Pacific deal highlights

CHINA 〉

Advised Sunrise Garment Group, which owns the Hong Kong-based Smart Shirts Ltd, on its acquisition of 'Gundaline', one of Australia's largest irrigated farming operations in Southern NSW.

Advised a consortium of banks including Agricultural Bank of China Limited on the funding of USD$475 million to Baosteel Resources Australia Pty Ltd for the development, construction and operation of the Western Range iron ore project in WA.

Advised Bank of China Limited on the funding of USD$100 million to Karara Mining Limited for the development and operation of its iron ore projects in WA.

Advised Bank of China Limited on the funding of AUD$70 million to NRW Holdings Limited for working capital requirements.

KOREA 〉

Advising Hanwha Defense Australia for the Commonwealth's Land 400 Phase 3 (an Infantry Fighting Vehicles program worth approximately AUD$7 billion) and the Land 8116 (a AUD$2 billion Self-propelled artillery project).

Advised SK Networks on the sale of its interest in the Clarence Joint Venture to Centennial Coal, a major Australian mining company owned by Thailand-based Banpu.

Advised Volpara Health Technologies on its AUD$292 million takeover by Lunit Inc, the Korean based software-Medical Technology company. The transaction is expected to close in Q2 2024.

Advised LG Energy Solution in relation to its USD$30 million investment in ASX-listed company, Novonix Limited focused on developing artificial graphite anode material for lithium-ion batteries.

Advised Mirae Asset Global Investments on its acquisition of a 53% stake in Stockspot, an Australian online investment advisor for AUD$28 million.

MinterEllison Asia Pacific deal highlights

JAPAN 〉

Advised Daiwa House Australia on its acquisition of a build-to-rent development at Melbourne Quarter in association with Lendlease.

Advised MicroChannel Services on its sale to FUJIFILM Holdings Corporation.

Advised Alphatheta Corporation on their acquisition of Serato Audio in New Zealand.

SINGAPORE 〉

Advised Chestnut Avenue Pte Ltd, a leading Asian business conglomerate, on its acquisition of Tibaldi, a market-leading Australian small goods manufacturer.

Advised Zagga Investments on the establishment of their Australian CRED fund in Singapore.

MALAYSIA 〉

Advised Gamuda Berhad on its acquisition of the transport projects business and assets from Downer EDI Works and VEC Civil Engineering.

Advised Sime Darby Berhad on its AUD$500 million acquisition of the Cavpower Group which holds the exclusive Caterpillar dealership rights in SA and NSW.

Advised Onsite Rental Group on its sale to Sime Darby Allied Operations, a group which services the mining and construction industries in QLD and WA.

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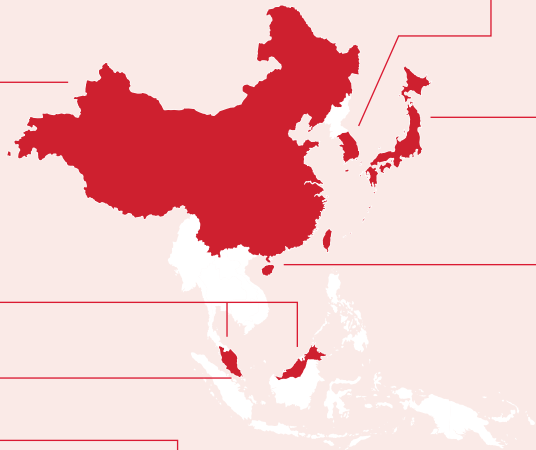

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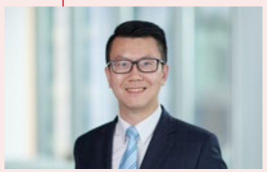

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In a competitive landscape with numerous opportunities for growth, investors should start planning early to take advantage of identified prospects. Competition for strategic assets is fierce and the regulatory environment is complex, and can take time to navigate. However, with the right planning and due diligence, it's an exciting time to be exploring new opportunities in the Australian and New Zealand market.

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