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Chinese private equity funding hit by sharp downturn

Fundraising and exits collapse for smaller funds investors that bought tech stocks

The Bund Bull stands in Shanghai, China, where fundraising for renminbi-denominated private equity funds has plummeted © Bloomberg

Fundraising by renminbi-denominated private equity groups in China plummeted 86 per cent last year, squeezed by a tighter availability of credit and a slower initial public offering market.

The fall — revealed in a new report published on Friday — underlines how the Chinese private equity market has gone into reverse from the boom times of a few of years ago, when scores of new funds were launched and the country's technology companies attracted sky-high valuations.

Hundreds of small, inexperienced Chinese private equity funds that rushed into investments in technology and new economy companies have begun to suffer from a sharp contraction in fundraising and tougher environment for exiting investments.

Private equity houses raised about $13bn in renminbi-denominated funds in 2018, down about 86 per cent from the $93bn raised the year before, according to data compiled by the consultants Bain & Co.

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>
> **Peter Fuhrman, China First Capital**

At the same time, small Chinese private equity groups struggled to cash in on their investments in 2018. Sales and initial public offerings worth less than $100m fell by about 64 per cent last year compared to a five-year average.

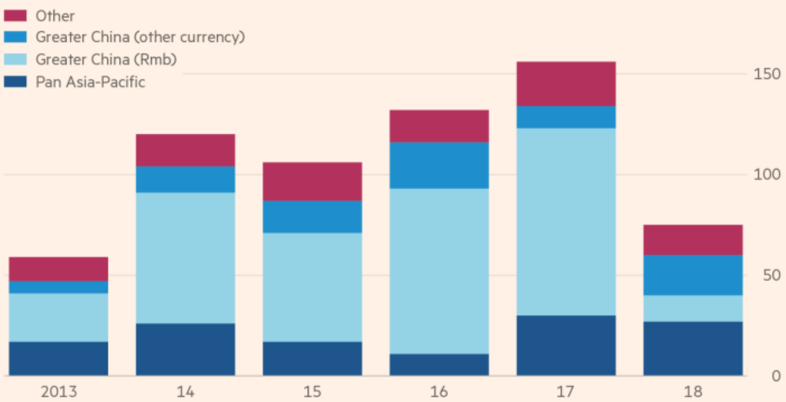
"The level of optimism and fervour for investing in the tech sector foreshadowed what we are seeing now," said Usman Akhtar, a partner at Bain & Co, referring to how many small private equity houses are struggling to exit from investments at expected prices. "It's the start of this and it may take a few years to pan out."

The tightening of credit in China is a broad trend with an impact far beyond private equity. Banks, trusts and other sources of capital have been squeezed during China's attempt to slow the growth of debt.

So-called shadow banking has been an important source of funds for small private equity groups. Without these channels to fresh cash, many of the imperilled funds are simply shutting down, raising doubts over whether investors will be paid.

Renminbi funding in China fell off a cliff in 2018

Share of global fundraising ($bn)



Includes regional and country funds; excludes real estate and infrastructure
Sources: Bain, Preqin
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China's woes are mirrored across Asia where large private equity is sucking up most of the available capital while also finding means to exit their investments, Mr Akhtar said. Hong Kong-based PAG, which is run by former TPG and JPMorgan executive Shan Weijian, raised a $6bn fund in November, following a more than $9bn fund raised by Hillhouse, the Beijing and Hong Kong-based group.

Large exits of more than $500m clearly diverged from smaller deals in 2018 by rising just over a quarter on the year before.

Global demand for Chinese technology IPOs started 2018 with a bang but quickly showed signs of fizzling out, leading to a bottleneck of private equity seeking to exit their investments.

Over the past year several large, private equity-backed groups have been forced to scale back their IPOs or delay them indefinitely.

Tencent Music, which is partly owned by private equity, was last year targeting a $4bn float but ended up raising only $1.1bn after several delays.

"The reality is that all PE and VC investing in China has been an unhedged bet that the IPO process in China would liberalise and institutional investors in US and Hong Kong would show consistent, strong interest in Chinese IPOs. Neither is true," said Peter Fuhrman, chairman of China First Capital, a Shenzhen-based investment bank.

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