

South-South Special

What a globalizing China means for LatAm

South-South ties between China and LatAm are growing beyond the well-known trade flows

Chinese corporates are now key players in the region, while Chinese banks lend more than the multilaterals

We highlight the 10 Chinese companies leading the way, as well as seven investment implications



By Ben Laidler, Qu Hongbin, Todd Dunivant,
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Disclosures and Disclaimer This report must be read with the disclosures and analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Metrics to make you think

- ▶ China's relationships with LatAm are growing outside of trade to include important corporate and banking linkages. These are the focus of this report.
- ▶ China is the main export destination for Brazil, Chile, and Peru, and could become the largest trade destination for the whole region by 2030, according to our estimates, surpassing the US
- ▶ Chinese outbound direct investment (ODI) increased 15 fold in ten years, reflecting the launch of the Chinese government's "going out" campaign in 2000
- ▶ Chinese ODI has a long way to go to catch up with China's economic clout: China's investments represent only 2% of global investments, whereas China's economy represents 10% of global GDP
- ▶ Chinese authorities are looking to increase this, recently raising the minimum threshold for ODI investments needing approval to USD300m.
- ▶ LatAm in focus: Nearly 20% of this Chinese ODI has gone to LatAm; second only to Asia
- ▶ China's investment has an emerging market orientation: 80% of total flows to EM, rather than DM
- ▶ Investment led by Chinese state-owned enterprises (SOE's), at 80% of flows so far
- ▶ China's companies are looking for two things: New markets abroad and raw materials at home
- ▶ Chinese development banks lent more to LatAm than the IMF, World Bank, and IADB *combined*
- ▶ Ten Chinese companies account for two thirds of investment in LatAm
- ▶ These 10 Chinese companies range from Sinopec to Minmetals and State Grid
- ▶ China spent USD4.3bn buying nine listed international companies with LatAm assets
- ▶ There are three Asia-listed small-cap companies with majority LatAm assets – Chinalco, Honbridge, and China Fishery
- ▶ China has become one of the largest investors in LatAm mining, energy, and infrastructure
- ▶ Chinese automakers are building capacity in Brazil equal to 10% of the market; after ex-Brazil success
- ▶ LatAm ODI has increased 30x in two decades, but 70% has remained within the region
- ▶ China has invested cUSD28bn in Brazil since 2005 vs Brazil's cUSD300m in China

Contents

China is here to stay	3
Why this is important	5
China going global	8
The Trade Connection	11
Outbound Direct Investment	13
Energy: All about Brazil	16
Mining: China top in Peru	19
Agribusiness & Autos: The next wave?	23
Banks: Beyond China	26
Development Lending: USD85bn	28
LatAm ODI into China slow	30
The top Chinese companies in LatAm	33
Appendix: China's NOCs	41
Disclosure appendix	49
Disclaimer	52

China is here to stay

- ▶ The South-South relationship moves beyond trade
- ▶ LatAm is the second largest destination for Chinese outbound investment
- ▶ Important for LatAm investors in mining, energy, and industrials

China is here to stay

This report examines the deepening South-South relationships between LatAm and China.

We examine the increasing South-South relationships between LatAm and China. The booming trade relationship between LatAm and China is relatively well-known. It is part of the growing trade and capital market connections between the nations of Asia and the Southern Hemisphere, dubbed “South-South” trade. The ‘second stage’ relationships – of deepening bank lending, and growing Chinese direct investment in LatAm through greenfield and M&A, are less well-known, of growing importance, and the focus of this report.

China’s companies are going global – with LatAm prominent. Faced with tougher domestic competition and slow developed-world growth, China’s companies are exploring new markets, acquiring advanced technology, and securing much-needed raw materials. The result has been a spectacular rise in China’s outbound direct investment (ODI), with LatAm the second-largest recipient, after Asia.

We recap the relatively well-known story of the booming trade relationship, with China now the largest export destination for Brazil, Chile, and

Peru. This has been discussed in-depth in Stephen King’s [The Southern Silk Road](#), 6 June 2011; and Andre Loes’ [LatAm Trade Flows](#), 3 February 2013.

This ‘second stage’ has become key in some large sectors – such as energy, mining, and infrastructure. This investment pick-up has been led by 10 Chinese companies, all state-owned enterprises (SOEs), who we profile in this report. Their investments make up 65% of the USD84bn in ODI from China to LatAm in the last nine years.

Chinese corporate activity in LatAm has heated up recently. In the last six months alone we have seen China Construction Bank make its first overseas expansion, agreeing to buy Brazil SME lender BieBanco for USD171m – only the second LatAm financial purchase for a Chinese bank. CNOOC and CNPC were part of the successful consortium for Brazil’s giant Libra oil field. CNPC paid USD2.6bn for Petrobras’ Peru oil assets. Sinochem recently failed in its USD1.5bn bid for 35% of Brazil block BC-10. China Fishery just closed the USD800m acquisition of listed Peru fishmeal company, Copeinca. Meanwhile, Minmetals and Chinalco have reportedly submitted bids in the sale process of Glencore-Xstrata’s USD5.9bn Las Bambas copper mine in Peru (Reuters, 3 November 2013).

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Chinese development or policy bank lending to the region is often overlooked, but is larger than that of traditional multilaterals (IMF, IADB). This has totaled USD85bn since 2005, is very focused on only four countries, on few sectors (infrastructure, mining, and energy), and is dominated by two main policy banks (China Development Bank and China Ex-Im Bank). This tends to make the transactions large and important when they happen. As trade with LatAm grows, China's major commercial banks will also likely increase their presence in the region.

Chinese energy companies have been significant investors in Brazil, Argentina, and Colombia. CNPC, CNOOC, and Sinochem bring financial strength, as well as securing valuable resources, whilst seeking to develop deep-water know-how.

Chinese mining companies have been big investors in Peru's copper and Brazil's iron ore industries, as they seek security of supply.

China is forecast by the Peruvian government to be the largest investor in the Peruvian mining industry. There is further to go here, with Japanese trading house relationships significantly larger.

Non-traditional growth areas picking up. China is a large player in the smaller auto markets of the region, and is now expanding into Brazil. Investments in agriculture have been hampered by 'resource nationalism' restrictions, but are continuing.

This investment pick up has been led by 10 Chinese companies, who we profile in this report. We also highlight three listed Chinese companies – Chinalco, China Fishery, and Honbridge Holdings – that are predominantly LatAm focused. Two of the three are covered by HSBC research analysts.

LatAm companies are only beginning to invest in China. Whilst LatAm outbound direct investment (ODI) has increased 30-fold in the last two decades, the vast majority has been within LatAm. See Ben Laidler's [Rise of the Multilatinas](#), 30 May 2013.



Chinese ODI in LatAm (2005-1H2013)

Country	(USDbn)	% share
Brazil	28.2	34%
Venezuela	14.7	18%
Argentina	11.7	14%
Ecuador	8.6	10%
Peru	7.2	9%
Cuba	5.0	6%
Chile	4.0	5%
Colombia	1.7	2%
Guyana	0.8	1%
Guatemala	0.7	1%
Costa Rica	0.7	1%
Mexico	0.5	1%
Bolivia	0.2	0%
Total	83.9	

Source: Global Chinese Investment Tracker, Heritage Foundation, HSBC

Why this is important

- ▶ China is stepping up investment at a time when others are stepping down
- ▶ Chinese companies are active acquirers of listed companies, spending USD4.3bn on nine LatAm acquisitions
- ▶ We now have three Chinese listed 'LatAm' small caps

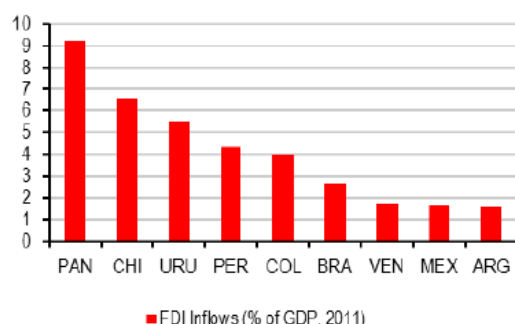
Seven Investment Conclusions

We highlight seven investment conclusions from China's stepped up LatAm presence

1 China making up for European ODI slack.

China's investment comes at a time when European outbound direct investment (ODI) – historically the largest source for LatAm – has been under pressure. European companies have been disposing of non-core assets, with over 20 European divestments totalling more than USD30bn in recent years. See Ben Laidler's [Europe selling LatAm; what's next?](#), October 2012.

FDI inflows as a percentage of GDP



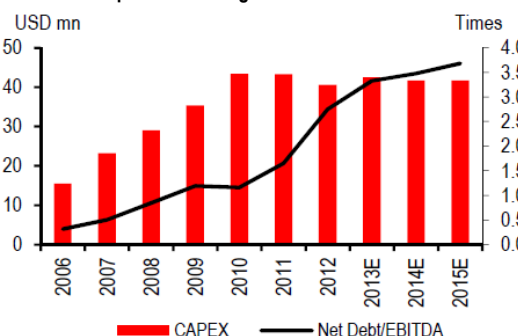
Source: CEPAL, HSBC

2 Bringing necessary Brazil oil investment.

China has become very important to Brazil energy investment, with Petrobras facing balance sheet constraints, and the recent Libra auction showing weak Western investment appetite. Brazil is forecast to account for one third of global oil production growth until 2030, reaching 6mboed – three times today's level – according to the International Energy Agency (IEA). We expect Chinese involvement in the upcoming oil auctions, may see them involved in Petrobras' significant (and controversial) refining expansion, and they have already been involved (see acquisition of Petrobras Peru) in Petrobras' international USD11bn divestment plan.

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Petrobras capex and leverage



Source: HSBC estimates, company data

3 Helping out in Brazil's electricity sector at a crucial time. China's State Grid has ramped up investments in the transmission sector, and is targeting a further USD10bn investment in Brazil. Brazil has a USD20bn utility investment plan over the coming years, making State Grid the supplier of hypothetically 50% of potential capex, seeking to grow capacity and diversify one of the most hydro-heavy utility matrix's in the world. Auctions equivalent to 33 GW of capacity are forecast by the Brazilian government in the next five years, as well as nearly 10 GW of natural gas, biomass, and wind capacity.

4 Autos the next wave in Brazil. Chinese automakers have captured up to 23% of smaller country auto market share in LatAm (and even more in many truck and motorcycle markets). They are now building capacity in Brazil for the first time, which is equivalent to c10% of domestic car demand. This could support demand for Brazil's listed auto-parts and industrials sector.

Chinese automaker share in selected LatAm markets

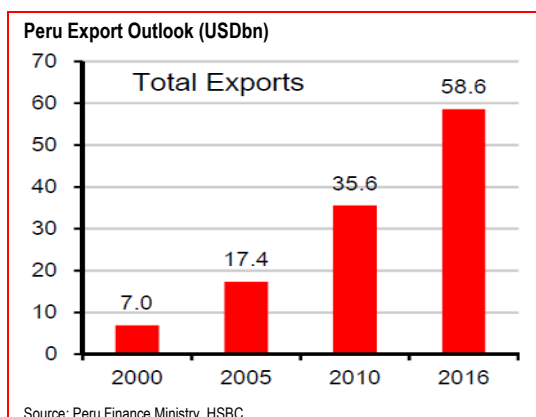
Country	Market Share %
Uruguay	23%
Peru	15%
Paraguay	9%
Chile	7%
Colombia	7%
Brazil	c2%

Source: Truth about Cars; HSBC

5 Key to supporting Peru's GDP growth.

Peru has enjoyed a 10-year historic GDP growth rate of over 6% – the highest in LatAm. China is a key support to this continuing, as the largest forecast investor in the Peruvian mining industry. Copper production is set to double by 2016 as new mines come on line. HSBC expects this to drive exports, with copper contributing over 30% of the total, from under 20% today. This

would also be a support for Peru's listed capital goods and construction industry. See Clyde Wardle's [Peru Economics: Still a good story](#), 11 October 2013.



6 Financing for LatAm natural resource juniors. Chinese companies have spent USD4.3bn acquiring at least nine listed 'junior' resource companies with LatAm assets in recent years. With mining financing conditions very tight, and large cap miners rationalising capex plans, we would not be surprised to see a pickup in Chinese investment activity.

Chinese tender offers for listed 'LatAm' companies

Company	Ticker	Acquired	Amount USD M
Peru Copper	CUP US	2007	800
Monterrico Metals	MNA LN	2007	170
Northern Peru Copper	NOC CN	2008	430
Tyler Resources	TYS CN	2008	188
Corriente Resources	CTQ CN	2009	650
Emerald Energy	EEN LN	2009	800
Globestar Mining	GMI CN	2010	195
Chariot Resources	HYP CN	2010	245
Copeinca ASA	COP NO	2013	810
Total			4,288

Source: Bloomberg, HSBC

7 Three Chinese small caps focused on

LatAm. These three Asia listed small caps – Chinalco (Peru mining), Honbridge (Brazil iron ore), and China Fishery (Peru fishing) – are close to LatAm ‘pure-plays’ given their significant businesses in the region. Chinalco and China Fishery are covered by HSBC research analysts. These companies are proof positive of China’s increasing corporate linkages with the region, and offer direct alternatives to gain exposure to this theme.

Chinese companies with majority LatAm businesses

Name	Ticker	Mkt Cap	ADTV	P/E
	Bloomberg	USDbn	USDm	2013E
Chinalco Mining Intl.	3668 HK	1.7	0.9	n/a
Honbridge Holdings	8137 HK	0.8	0.9	n/a
China Fishery	CFG SP	0.7	0.5	5.4

Source: HSBC, Bloomberg

China going global

- ▶ Chinese companies have ventured abroad to acquire natural resources, new markets, and technology since the government launched its “going out” campaign in 2000
- ▶ They require sophisticated international financial services
- ▶ China’s banks are following their domestic clients overseas

Broad horizons

China’s companies are going global. Faced with tougher competition in domestic markets and slow growth in the developed world, they are exploring new markets, acquiring advanced technology and securing much-needed raw materials.

The result has been a spectacular rise in China’s outbound direct investment (ODI) since 2000, when the government launched its “going out” campaign urging companies to expand overseas. This, in turn, has had major ramifications for China’s banks.

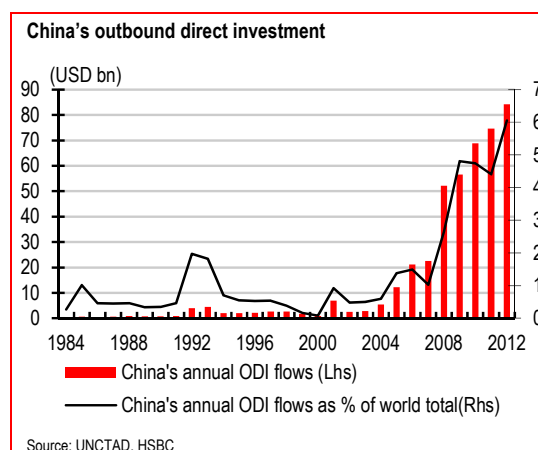
As more Chinese enterprises extend their global reach they need a wide range of sophisticated financial services. Domestic financing alone will no longer be able to meet the funding needs of these adventurous companies. The country’s banks, long used to funding the big state-owned companies, are now gaining the global experience they need to keep these important corporate clients happy.

Demand is increasing for cross-border services all the time. These include M&A advice, bank loans and debt issuance in offshore markets, FX risk management and transaction banking for

payments and cash management, trade finance, supply chain and securities services.

The Industrial and Commercial Bank of China (ICBC) has led the way. In 2007, it acquired a 20% stake in Standard Bank, the largest bank in South Africa, for USD5.5bn. Last year, the bank also acquired Bank of East Asia’s US arm, making it the first China bank to complete an M&A deal in the US. It now has 383 foreign institutions and outlets in more 39 countries, up from 100 in 2004. Since then, the other big Chinese banks have followed ICBC’s lead.

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Needs and wants

Chinese companies head overseas for a variety of reasons, ranging from the need for natural resources and technology to opening new markets and buying brands to increase competitiveness.

For example, China gobbles up 10% of global oil consumption and has to import over 50% of its oil needs, so state-owned oil companies have been acquiring stakes in oil fields around the world. Chinese manufacturers are buying well-known foreign brands – examples include Lenovo acquiring IBM's PC business, car maker Geely taking over Volvo, and Shuanghai International's purchase of Smithfield Foods.

Soaring ODI

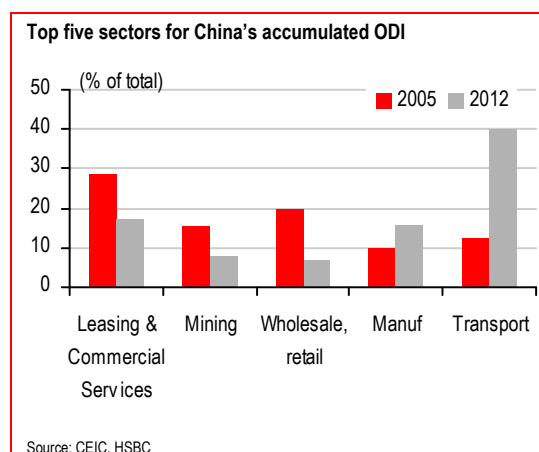
China is not just the world's biggest exporter of goods but also one of the top exporters of capital. Annual ODI for non-financial companies surged more than 33-fold between 2002 and 2012, and three-fold in the past five years.

That said, as of 2012 China's ODI still only accounted for 6.05% of global FDI flows and China's cumulative ODI represented just 2.16% of global total cumulative direct investment. This does not match China's economic status as the world's second largest economy (10% of world GDP). Put another way, China's ODI needs to double to match its economic power. It seems the only way for ODI is up.

State-owned enterprises (SOEs) account for most non-financial ODI. In 2011, 55.1% of non-financial ODI flows came from big SOEs, while private enterprises accounted for just 1.7%. In cumulative terms, SOEs represent 62.7% of total non-financial ODI.

Non-financial ODI constitutes more than 85% the of China's total. In 2012, it was concentrated in five sectors (in cumulative terms): leasing and commercial services; mining; wholesale and retail;

manufacturing; and transport, storage and postal service. Manufacturing ODI rose to 7.8% in 2012 from 4.2%-4.7% in 2008-09. Here the focus has been on transport equipment, machinery, textiles, special purpose equipment, information and technology and electronics.

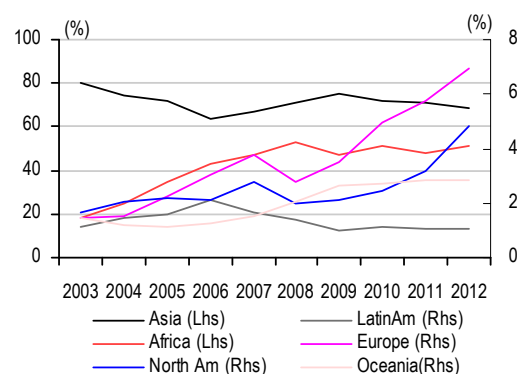


Banking dominates financial ODI. It accounts for 80.1% of cumulative financial ODI, followed by securities (5.2%) and insurance (1.7%). The overseas expansion of state-owned banks started from 2006 when they were listed and demand for overseas financial support from SOEs surged. By 2011, state-owned banks had over 62 branches and 32 subsidiaries with 32,000 foreign employees in 32 countries.

Emerging markets the main target

Emerging markets remain the top destination for Chinese funds as developed economies account for only 18.9% of cumulative ODI. As of 2012, Asia represented 68.5% of cumulative ODI, followed by Latin America (12.8%), Europe (7.0%), North America (4.8%), Africa (4.1%) and Oceania (2.8%).

Regional allocation of China ODI (2012 stock)



Source: CEIC, HSBC

Within LatAm, the Virgin Islands and Cayman Islands, both offshore tax havens, are the top two destinations, accounting for a combined 14% of cumulative total ODI by 2012, or nearly 90% of cumulative ODI to Latin America. While Brazil is an attractive destination for Chinese investors, its share of ODI was only 0.11% in 2012 and 0.14% in cumulative terms. But it is growing fast. In 2010, China became Brazil's top foreign direct investment (FDI) investor (USD487m, up from USD360m cumulative FDI over previous years). It averaged around USD160bn in 2011-12, compared with an annual average of USD18m in the years before the financial crisis.

Examples of major Chinese enterprises expanding internationally include white goods producer, Haier, which has built manufacturing bases in South East Asia and North America, and domestic car maker, Chery, which has built a car plant in Brazil, the largest car market in Latin America.

Raw materials are important, too. China accounted for two thirds of the increase in global demand for hard commodities over 2003-07, and this share surged to over 100% during 2008-10. Securing the supply of natural resources will likely continue to drive Chinese ODI for the foreseeable future.

Led by state-owned enterprises such as Sinopec, PetroChina, and Chinalco, Chinese companies have increased the pace of acquiring mineral and oil resources.

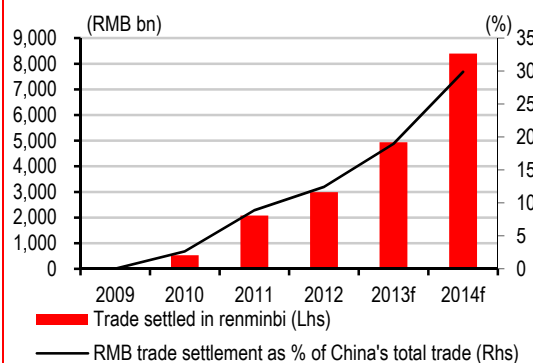
ODI and the RMB

The internationalisation of the RMB has resulted in a rapid rise in RMB-based international trade settlement. This is likely to increase further as the People's Bank of China has started to allow domestic companies to make ODI and remit revenues in RMB.

Beijing policymakers are also relaxing restrictions on ODI. In February 2011, the National Development and Reform Commission raised the threshold for ODI projects seeking central government's approval to USD300m from USD30m for the resources category and USD100m from USD10m for non-resources projects. Approval procedures were also simplified.

We believe Chinese companies will keep expanding overseas for many years to come for two reasons – they need new markets abroad and raw materials at home. And that, in turn, should be good news for China's banks.

RMB trade settlement is taking off



Source: CEIC, PBOC, HSBC

This chapter is an update of an extract from [China's Big Bang](#), November 2012, by Qu Hongbin, HSBC's Chief Economist for Greater China.

The Trade Connection

- ▶ China has become the largest export destination for Brazil, Chile, and Peru
- ▶ Three-quarters of LatAm exports are commodities
- ▶ LatAm trade tripled in a decade; but it remains a “closed” region

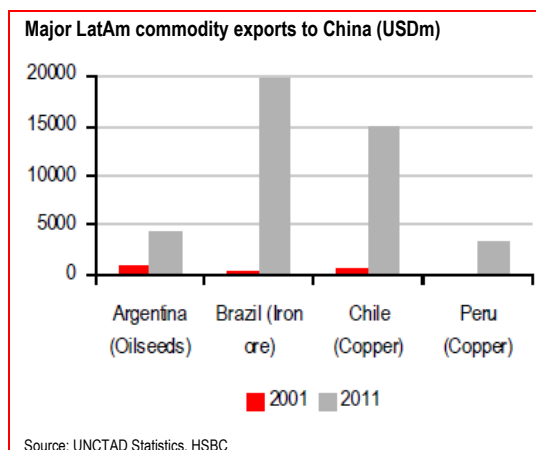
The Trade Connection

The emergence of commodity-hungry China as a global economic power house, and its growing links with South America, have been a game changer for trade in the region. Trade flows between LatAm and China have increased dramatically.

Exports from LatAm to China represented less than 1% of total regional exports in 1992. Twenty years later, this had grown to over 7% of exports. This is more dramatic at the country level. In Brazil, for example, exports to China went from 1.6% of exports to 17.2%, making it the country's largest export destination.

China is also the main export destination for Chile and Peru, and could become the largest trade destination for the whole region by 2030, surpassing the US, according to our estimates.

The growing importance of commodity-hungry China to the region reflects the unparalleled competitiveness of South America in the production of many commodities. South America is a chief mining and oil exporter, and is becoming the “farm of the world”, with plenty of arable land and water. 74% of LatAm's total exports are commodities, out of which 34% are food, 31% fuels, and 27% metals and ores.



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This has also come against a backdrop of a tripling in LatAm merchandise trade in just one decade, to reach over USD2.0trn in 2012. The continent is considerably more open than it was 20 years ago as a result of trade agreements and a shift away from the intense protectionism of the past. However, it still lags other parts of the world, and is relatively closed to trade – exports plus imports represent only 36% of GDP, vis-à-vis 63% in emerging Europe and 72% in developing Asia.

For details see [In the Spotlight... LaAm trade flows: Expanding, diversified, and increasingly South-South](#), 3 February 2013.

South-South exports in 1992 and 2012

Exports 1992 (% of total)								Exports 2012 (% of total)							
from Country	to Partner							from Country	to Partner						
	China	India	Brazil	Russia	Asia*	Africa	LatAm**		China	India	Brazil	Russia	Asia*	Africa	LatAm**
China	-	0.2	0.1	2.7	4.8	1.2	0.9	China	-	2.3	1.6	2.1	9.4	3.6	4.9
India	0.5	-	0.1	2.4	7.6	3.2	1.1	India	5.0	-	2.1	0.7	11.2	8.4	2.9
Brazil	1.2	0.4	-	0.1	2.8	2.6	22.0	Brazil	17.0	2.3	-	1.3	3.4	3.7	20.5
Russia	6.9	1.4	0.1	-	1.5	0.6	0.8	Russia	6.4	1.0	0.4	-	1.2	0.7	0.5
Asia*	2.2	0.6	0.1	0.1	-	1.1	1.2	Asia*	11.4	3.7	1.4	0.6	-	2.2	1.4
Africa	0.5	1.4	0.7	0.2	1.3	-	1.5	Africa	13.4	6.6	2.9	0.3	2.6	-	1.3
LatAm**	0.6	0.1	3.2	0.0	1.0	0.8	-	LatAm**	7.3	2.4	4.4	0.5	1.2	0.9	-

Note: *Asia developing excl. China and India; **South and LatAm excl. Brazil
Source: IMF DOTS, HSBC

South-South imports in 1992 and 2012

Imports 1992 (% of total)								Imports 2012 (% of total)							
by Country	from Partner							by Country	from Partner						
	China	India	Brazil	Russia	*Asia	Africa	LatAm**		China	India	Brazil	Russia	Asia*	Africa	LatAm**
China	-	0.2	0.6	4.3	4.3	0.5	1.5	China	-	1.0	2.9	2.4	9.5	5.8	4.0
India	0.4	-	0.9	0.9	4.6	6.1	0.8	India	11.0	-	1.1	0.9	7.7	8.0	4.6
Brazil	0.2	0.1	-	0.0	0.4	2.5	19.2	Brazil	15.4	2.3	-	1.3	3.5	6.3	17.4
Russia	4.8	2.4	0.3	-	1.9	1.3	0.5	Russia	15.5	0.9	1.0	-	2.7	0.6	1.7
Asia*	3.1	1.2	0.8	0.1	-	0.8	1.2	Asia*	17.2	3.0	0.9	1.0	-	1.4	6.7
Africa	1.7	0.8	1.2	0.3	2.2	-	1.2	Africa	14.9	5.1	1.9	1.0	4.5	-	2.2
LatAm**	0.3	0.1	5.2	0.0	1.0	0.8	-	LatAm**	13.9	1.2	5.8	0.4	2.3	0.7	-

Note: *Asia developing excl. China and India; **South and LatAm excl. Brazil
Source: IMF DOTS, HSBC

Outbound Direct Investment

- ▶ Recent pick up in Chinese investment in LatAm
- ▶ Libra oil auction, and Petrobras Peru, Copeinca, and BicBanco acquisitions
- ▶ Focused on energy, mining, and transport

Outbound Foreign Investment

China's outbound direct investment (ODI) has been on the rise, as its economy and FX reserves have grown and after the government initiated its 'going out' strategy in 2000. This process has been led by Chinese state-owned enterprises (SOE's).

This is also part of a broader trend of rising ODI stock from emerging market countries – HSBC forecasts that outbound foreign direct investment from BRIC countries could double, rising by around USD1.2trn over the next decade.



The drivers of this outward investment are:

- 1 Resource seeking. The main driver for Chinese investment in LatAm;
- 2 Market seeking; and
- 3 Trade facilitating. The driver for the announced BicBanco acquisition.

For details see [The rise of EM capital exporters](#), 3 July 2013.

Chinese corporate investments in LatAm surged in the late 2000s, peaking at US\$35bn in 2010. It now seems to be re-accelerating with a number of significant recent transactions in 2H 2013.

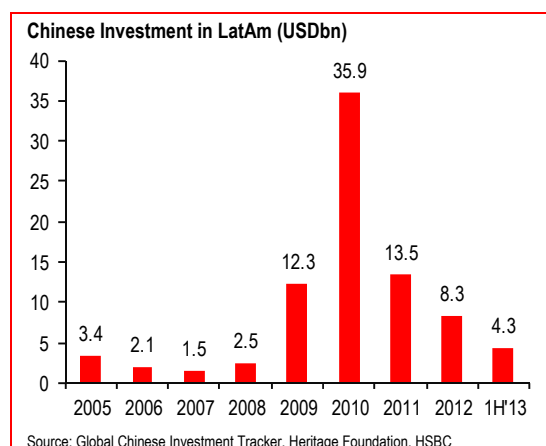
- ▶ China Construction Bank made its first LatAm expansion, agreeing to buy Brazil SME lender, BicBanco, for USD171m – only the second LatAm financial purchase for a Chinese bank.
- ▶ CNOOC and CNPC were part of the successful consortia for Brazil's giant Libra oil field.
- ▶ CNPC paid USD2.6bn for Petrobras' Peru oil assets.

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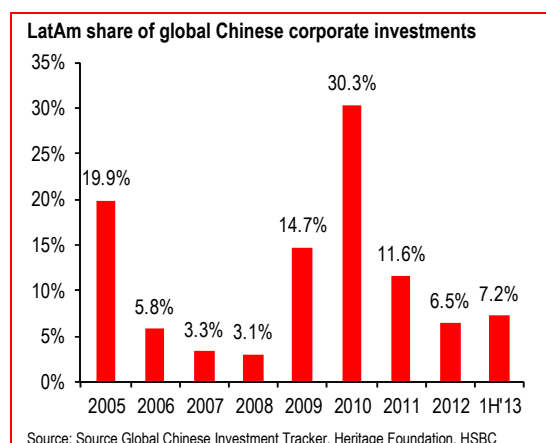
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- ▶ Sinochem recently failed in its USD1.5bn bid for 35% of Brazil block BC-10.
- ▶ China Fishery just closed its USD800m acquisition of listed Peru fishmeal company, Copeinca.

Meanwhile Minmetals and Chinalco have reportedly (Reuters, 3 November 2013) submitted bids in the sale process of Glencore-Xstrata's USD5.9bn Las Bambas copper mine in Peru.



LatAm as a destination for Chinese outbound investment peaked at 30% of total Chinese outbound investment – the most of any region in the world – in 2010 (see chart). Since then it has fallen to less than 10%, although this could now be changing again, given the pickup in Chinese investment flows to the region in the last few months.



As the LatAm share has declined, so Africa's share has increased – making it the largest destination in the 1H 2013, at 32% of total, before Asia (16%) and North America (15%).

Looking at the individual country breakdowns, Australia has seen the single largest inflows of Chinese investment since 2005 at an estimated US\$58bn, according to the Heritage Foundation's 'Global Chinese Investment Tracker'. This is closely followed by the US and other commodity exporters: Canada is third, Brazil is fourth, Indonesia fifth, and Iran sixth. Among other LatAm countries – Venezuela is tenth, and Argentina is thirteenth. Emerging market countries make up three-quarters of the destinations.

China does not rank amongst the largest sources of foreign direct investment (FDI) in the region. Amongst LatAm countries, Ecuador is the only one (second), where it is amongst the five largest providers, according to ECLAC. However, this investment is very targeted.

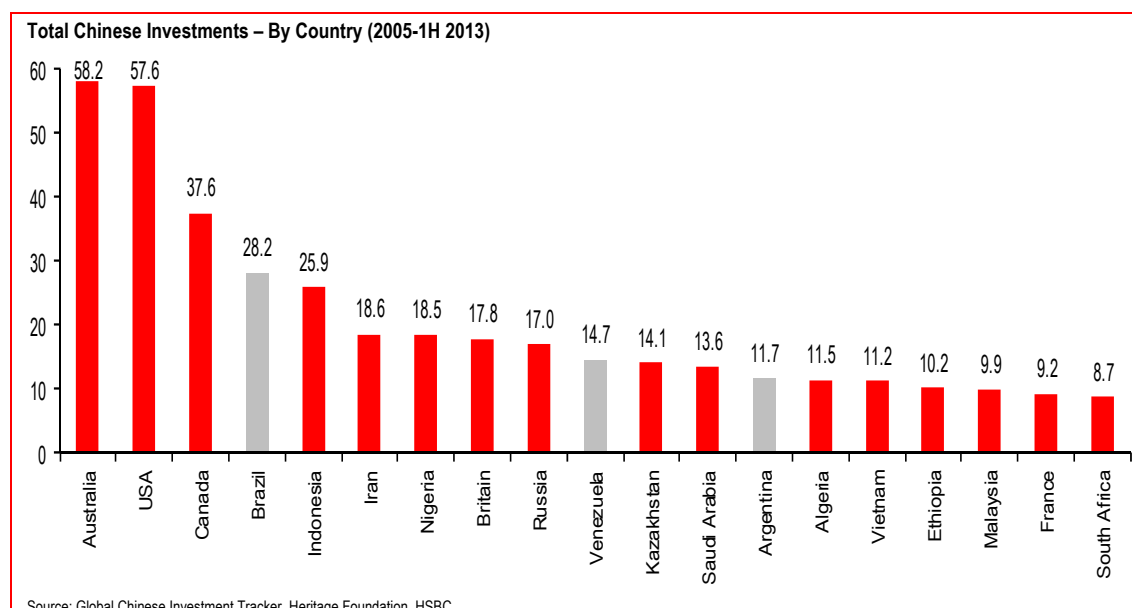
Chinese outbound foreign investment has been overwhelmingly focused in three sectors – energy, metals, and transport. These three combined make up three-quarters of the global total, and 85% of the LatAm total.

Sector Distribution of Chinese outbound investment (2005-1H13)

Sector	Global Split (%)	LatAm Split (%)
Energy	46%	53%
Metals	16%	22%
Transport	15%	15%
Real Estate	9%	2%
Finance	6%	2%
Agri	4%	5%
IT	3%	1%
Other	1%	0%
Chemicals	1%	1%

Source: Global Chinese Investment Tracker, Heritage Foundation, HSBC

A constraint is arguably resource nationalism. Chinese companies were prevented from takeovers of Unocal in the US and of Rio Tinto in Australia, for example. Similar trends have been seen in LatAm, with Brazil's announcement on foreign land-owning restrictions (following the perception that Chinese SOE's were acquiring large amounts of land) in 2010. This led to similar restrictions in Argentina and Uruguay in 2011. These were not a ban on investment, but did force Chinese investors to enter contract farming partnerships, rather than have outright land ownership, for example.



Energy: All about Brazil

- ▶ China is a major player in Brazil's energy sector
- ▶ Increasingly important given Petrobras capex plan and leverage
- ▶ Other investments in Colombia and, most recently, Peru

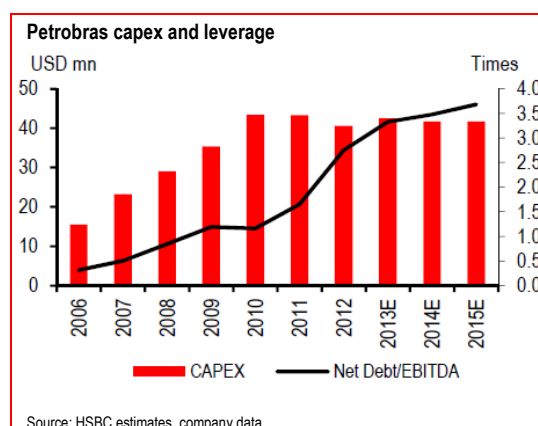
Energy Sector

China has become very important to Brazil's energy investment, with Brazil's huge investment needs estimated at around USD90bn annually by the International Energy Agency (IEA).

Additionally, Brazil's national oil company (NOC), Petrobras, is facing balance sheet constraints (see chart), and the recent pre-salt Libra auction, with only a single consortia bidding, shows weak Western investment appetite.

Brazil is forecast to account for one third of global oil production growth until 2030, reaching 6mboed – three times today's level – according to the International Energy Agency (IEA).

We expect Chinese involvement in the upcoming oil auctions; may see Chinese companies involved in Petrobras' significant USD65bn (and controversial) refining expansion over the next five years (27% of total Petrobras capex); and they have already been involved (see Peru acquisition) in Petrobras USD11bn divestment plan.



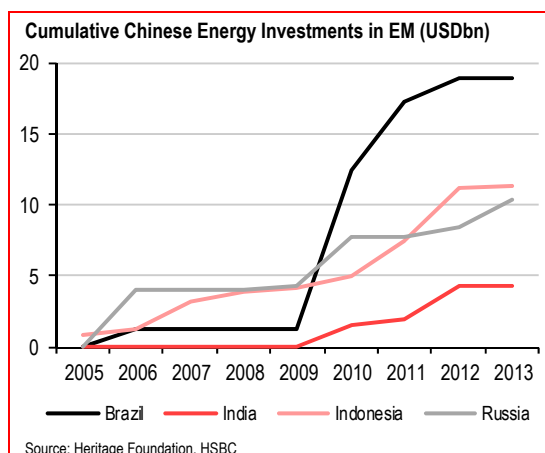
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Chinese state-owned enterprises (SOEs) have been active participants in the Brazil energy sector, investing over USD18bn from 2005-2012. This accounted for 70% of total Chinese investment in Brazil over that period. Recent landmark transactions have included Chinese participation in the Libra auction, Sinochem's failed acquisition of BC-10, and Sinopec's purchase of 30% of Galp Brazil.

More recently, this investment has expanded to Peru, with CNPC's recent USD2.6bn acquisition of Petrobras assets there.



Recent major transactions include:

- **The Libra field consortium.** A consortium consisting of Petrobras (40%), Shell (20%), Total (20%), CNPC Group (10%) and CNOOC Ltd (10%) was recently awarded the license to develop Brazil's giant pre-salt Libra field in the Santos basin. There was just one bid at the minimum Profit Oil of 41.65%. Libra is unique in scale. HSBC sees estimated recoverable oil reserves of 8-12bn bbl and peak production of c1.4mbpd in the next 10 years. The estimated capex requirement is around USD100bn in addition to a USD7bn signature bonus.
- **Sinochem tries to expand in Brazil.** Shell and ONGC pre-empted Sinochem Group's acquisition of a 35% stake in Brazil block BC-10, offered by Petrobras for USD1.54bn in October 2013. The deal would have marked a further expansion of Sinochem Group's position in Latin America. The group entered the region in 2009 with the USD880m purchase of Emerald Energy (assets in Colombia, Peru, and Syria), followed by the 2010 acquisition of a 40% stake in the Peregrino field (Brazil) from Statoil for USD3.07bn. Further acquisitions in the region are possible.

- **Sinopec buys 30% of Galp Brazil.** In November 2011, Sinopec Group (parent of Sinopec Corp, bought a 30% stake in the Brazilian unit of Portuguese oil company Galp Energia SA for USD3.54bn. Total consideration was USD5.18bn after considering the upfront cost and projected future capex. This was the second-largest LatAm cross-border M&A transaction of 2012. Also, in October 2010, Sinopec Group bought 40% of Spanish oil major Repsol's Brazilian unit for USD 7.1bn.
- **CNPC buys Petrobras Peru for USD2.6bn.** Two indirect subsidiaries of PetroChina acquired Petrobras Energia Peru from its parent, Petrobras, via the purchase of 145m shares for USD2.6bn. The purchasers, CNPC Holdings and CNODC International, are overseas subsidiaries of CNPC Exploration and Development (CNPC E&D), a 50/50 JV between PetroChina and parent CNPC. The transaction price was c4x book and c4.3x sales of the acquired corporate entity. The opportunity is for enhanced oil recovery, deep and difficult exploration drilling through hard rock below 3,000m, and a large prospective gas resource. For details see Thomas Hilboldt's [PetroChina: Shared acquisition of Petrobras Peru assets](#), 14 November 2013.

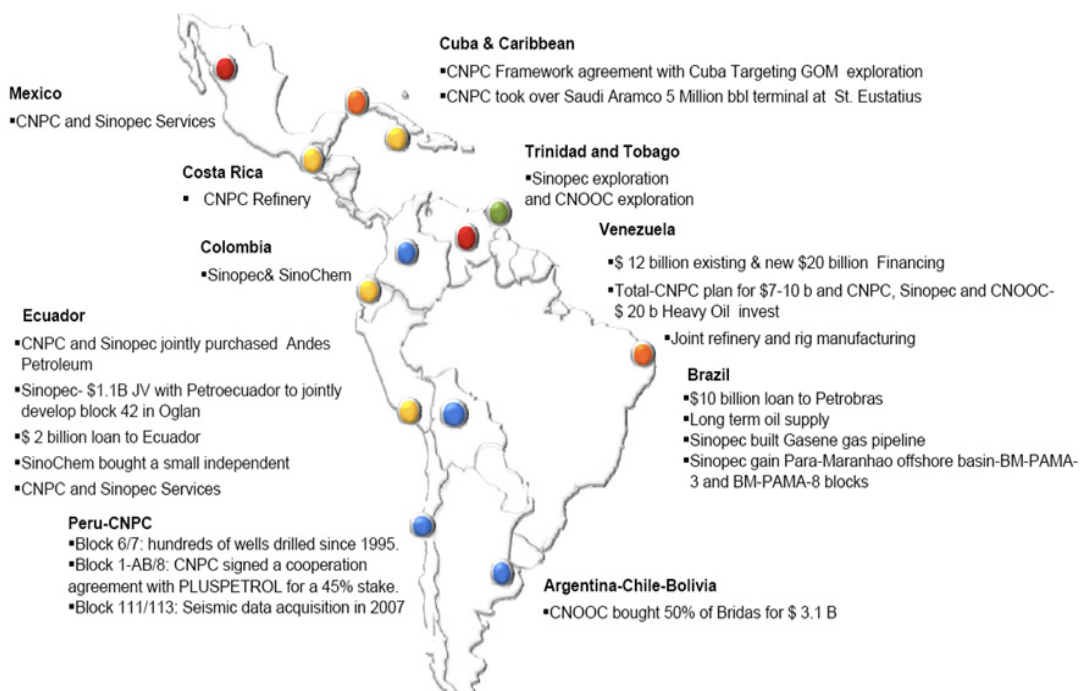
Other Latin American Oil investments

Chinese NOC's have also been active in Brazil, outside of the more recent benchmark transactions noted above, as well as in the rest of the region – these are summarized below and on the indicative map on the next page.

- **1Q2012:** Sinochem Group bought Total's Colombian oil and pipeline unit for USD1bn.
- **2Q2010:** CNOOC Ltd. bought 50% of Bidas (Argentina) for USD3.1bn. In 2010, the company also acquired 60% of Pan American Energy (Argentina) from BP for USD2.5bn.

- ▶ **2010:** Sinopec Group purchased 40% of Repsol YPF's Brazil operation for USD7.1bn.
- ▶ **2010:** Sinochem Group paid USD3bn for Statoil's 40% of Brazil's Peregrino field.
- ▶ **2009:** Sinochem Group acquired Colombia-focused, London listed, Emerald Energy for USD800m.
- ▶ **2006:** CNPC Group and Sinopec Group purchased EnCana's Ecuador oil and pipeline business for USD1.5bn.

China NOC Expansion into LatAm



Source: Schlumberger, Wenya, HSBC

Mining: China top in Peru

- ▶ China set to be the largest investor in Peru's mining industry
- ▶ Chinalco and Honbridge near pure LatAm-plays
- ▶ China under-exposed to Brazilian iron ore projects

Metals & Mining

Chinese investment in LatAm mining has been very significant, and focused mainly on Peru and, to a lesser extent, Brazil. By metal, the focus has largely been on copper and iron ore. Two Chinese listed mining companies – Chinalco (3668 HK; N(V); HKD1.09; covered by Thomas Zhu) and Honbridge Holdings (8137 HK; not rated) – have close to 100% exposure to LatAm.

SOE's have dominated Chinese mining M&A in LatAm, focused on controlling stakes in US or Canadian juniors with LatAm assets, or alternatively iron ore offtake agreements secured via strategic minority stake acquisitions.

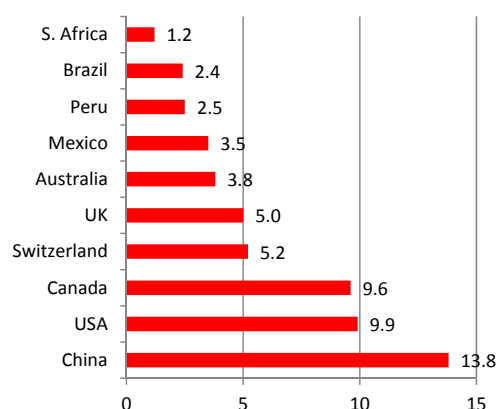
The driver has been resource security. This is similar to the Japanese trading houses, which have been active in the region for longer and have a much greater number of investments and JV relationships.

Peru Mining: No. 1 Investor

The Peruvian government expects China to be the largest investor in Peruvian mining. Chinese investment represents nearly a quarter of the USD57bn of investment expected across 50 projects in the Peruvian mining sector in coming years. This could rise to one third of expected investment if a Chinese company buys Glencore's Las Bambas project. This is a potential

support to Peru's GDP growth and Peru-listed capital goods and construction companies at a time when many Western miners are rationalizing capex budgets and expansion plans.

Estimated Pipeline of Mining Investment in Peru (USDbn)



Source: Peru Ministry of Energy and Mines

Key to supporting Peru's GDP growth.

Peru has enjoyed a 10-year historic GDP growth rate of over 6% – the highest in LatAm. China is a key support to this as the largest sector investor. Copper production is set to double by 2016 as new mines come on line. This is forecast to drive exports, with copper contributing over 30% of total, from under 20% today. See Clyde Wardle's [Peru Economics: Still a good story](#), 11 October 2013.

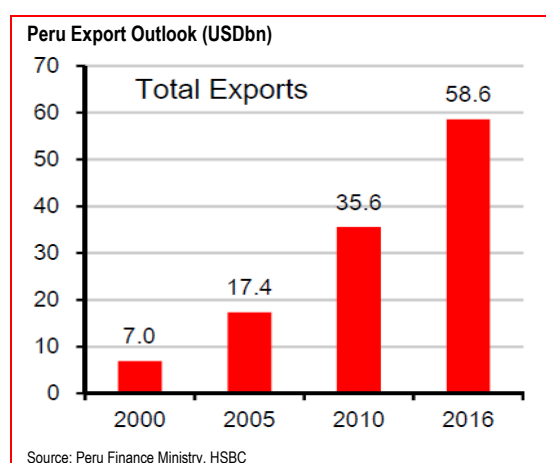
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China's exposure could increase further. Minmetals and Chinalco have reportedly (Reuters, 4 November 2013) submitted bids in the on-going sales process of Glencore-Xstrata's US\$5.9bn Las Bambas copper mine in Peru. Glencore Xstrata agreed with the Chinese anti-trust authorities to sell the project in order to approve the merger between Glencore and Xstrata and reduce the concentration of production and trading of copper.



China dominates as the destination for Peru's mining exports, taking over 40% of copper exports, 21% of silver and zinc, and 18% of lead, so far this year.

Mining Exports to China – YTD rank and percentage of total

Metal	Rank	% Total
Copper	1st	41.2%
Gold	7th	0.2%
Silver	2nd	20.8%
Zinc	1st	21.2%
Lead	2nd	18.4%

Source: Peru Ministry of Energy and Mines

The three most developed Chinese-led projects in Peru are: 1) the USD1.5bn brownfield Marcona iron ore expansion (Shougang Corp); 2) the USD1.3bn Toromocho copper mine, which is under construction by Chinalco.; and 3) a USD240m copper/iron ore/zinc project for which Shouxin (a JV between Baiyin and Shougang) has an approved environmental impact study.

Other active exploration projects include Jintong Mining (Beijing Rich Gold), Pampa de Pongo (Nanjinzha Group Co), Cercana (Junefields), Rio Blanco (Zijin Mining Group), and Galeno (Minmetals/Jiangxi Copper).

Chinese companies have been involved in five acquisitions of Canadian/US listed companies active in the Peruvian mining industry. This includes:

- 1 Chinalco's successful USD800m bid for Canadian-listed Peru Copper in June 2007;
- 2 The USD170m takeover of London-listed Monterrico Metals Ltd by a consortium led by Zijin Mining, also in 2007;
- 3 The 2008 takeover of Canadian-listed Northern Peru Copper by Minmetals and Jiangxi Copper;
- 4 The USD650m takeover of Canadian-listed Corriente Resources, by China Railway and Construction in 2009; and
- 5 The USD245m takeover of Canadian-listed Chariot Resources by China Sci-Tech Holdings in 2010.

Brazil Mining: Where are the Chinese?

In contrast to Peru, Chinese miners have been inactive in Brazil. This is surprising given their iron ore import needs of c1.1bn tons per year and domestic production of only c350m tons.

We have seen significantly larger Chinese iron ore investments in Africa and Australia, which are geographically closer and with lower logistics costs.

Brazil's iron industry is also very concentrated (as is the global iron ore industry – in contrast to the copper industry) – with Vale having the vast majority of quality iron ore reserves and Japan's Mitsui already a partner.

We do not discount transactions in the future, with mining financing scarce and a number of mid-sized private projects potentially looking for financing. Ukraine's Ferexpo recently bought a small stake in Brazil's private, Ferrous Resources, valuing it at USD550m. Pre-operational miner, Manabi, cancelled IPO plans in 2012.

Following are the few announcements and transactions we have seen:

- ▶ **2009:** Baosteel announced plans to buy a 30% stake in Anglo American's Minas Rio iron ore mine for USD3.1bn. This transaction never closed.
- ▶ **2009:** China's third largest steelmaker Wuhan Iron (WISCO) purchased a 21% stake in Brazilian iron ore producer, MMX, for USD400m.
- ▶ **2010:** East China Mineral Exploration and Development Bureau acquired a 3mt p.a. iron ore mine from Itaminas for USD1.2bn.
- ▶ **2010:** Chinese mining company Honbridge Holdings invested USD400m in the Salinas iron ore project from Votorantim.
- ▶ **2011:** A group of Chinese steelmakers (Baosteel, Shougang, Anshan, and Taiyuan) purchased a 15% stake in Brazilian niobium producer, CBMM, for USD1.95bn.

Other Countries

In 2010, a consortium of China Railway Construction Corporation and Tongling Nonferrous committed approximately USD1.7bn to the El Mirador copper project in Ecuador. The idea was to provide much needed copper ore to Tongling, the second largest Chinese copper producer. Tongling estimates its self-sufficiency rate for copper ore to be around 5%-10%. However, the production date has been pushed back from 2013 to 2014 due to weak commodity prices. CRCC, a major Chinese construction company, is interested in building the transport infrastructure required to transport the copper ore out of Ecuador.

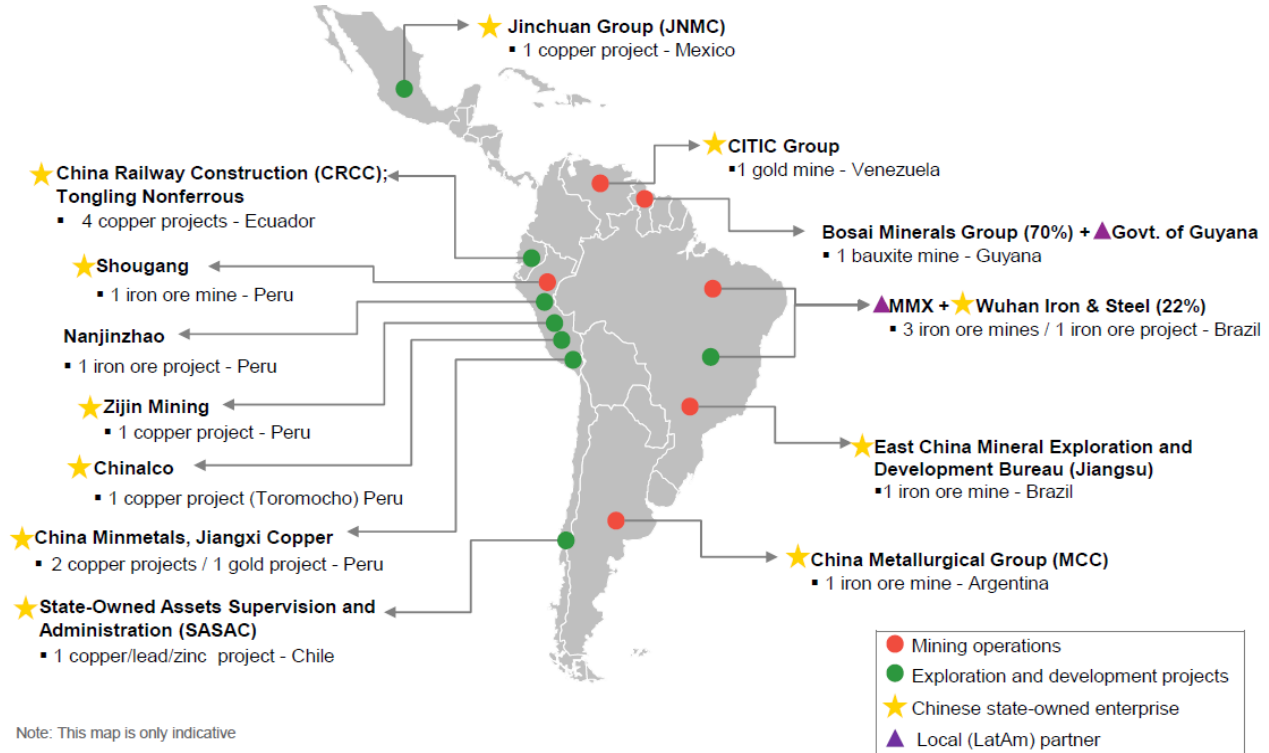
Chinese investments in the Mexican mining industry have been relatively limited, with the largest being a cUSD500m investment by the Shaanxi Dongling Group.

Mexican mining investments

Chinese company	Amount (USDm)	Year
Shaanxi Dongling Group	500	2008
Shaanxi Dongling Group	3.4	2008
Jinchuan Group	25	2008

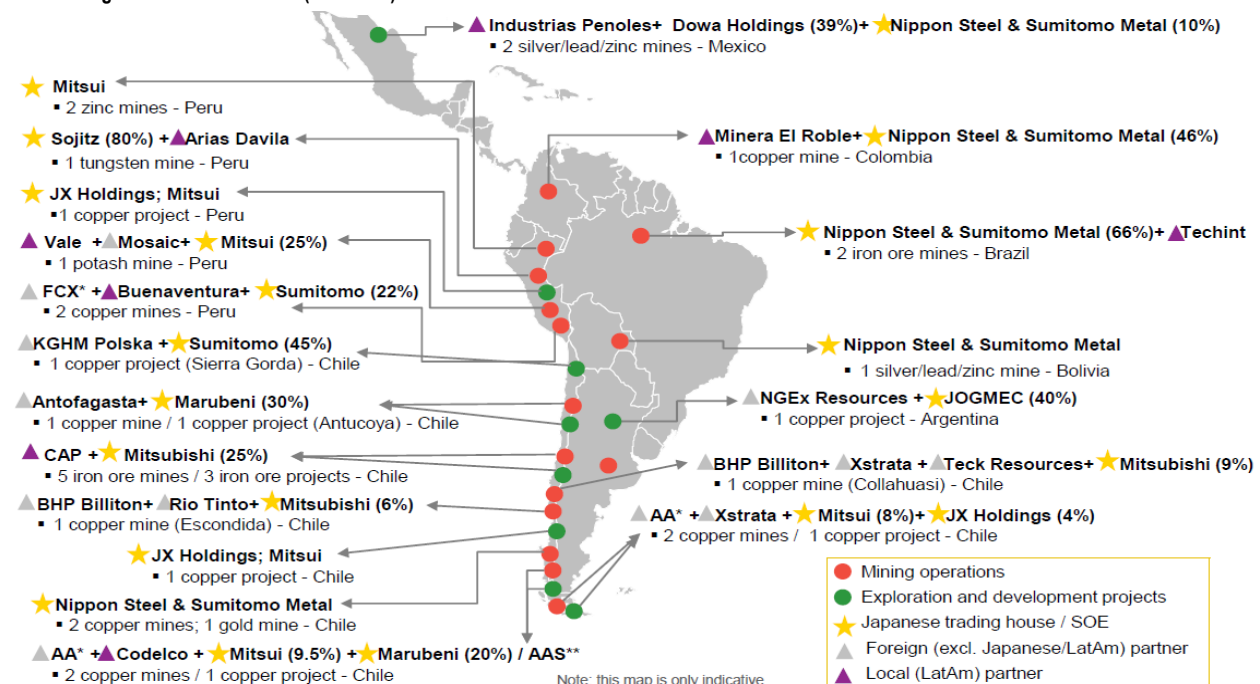
Source: thebeijingaxis.com, HSBC

Chinese Mining Investments in LatAm (Indicative)



Source: Ernst & Young, HSBC

Japanese Mining Investments in LatAm (Indicative)



Source: Ernst & Young, HSBC

Agribusiness & Autos: The next wave?

- ▶ China represents c20% of global food consumption but only 9% of acreage
- ▶ LatAm agribusiness investment is finding ways around 'resource nationalism'
- ▶ LatAm auto investments are growing quickly

Agribusiness & Autos

While metals and energy have been the focus of Chinese outbound direct investment (ODI) into LatAm, it is not exclusive to these sectors. We have seen a number of other examples of Chinese investments, especially in the agriculture/fishing, auto, and capital equipment sectors.

Agribusiness restrictions

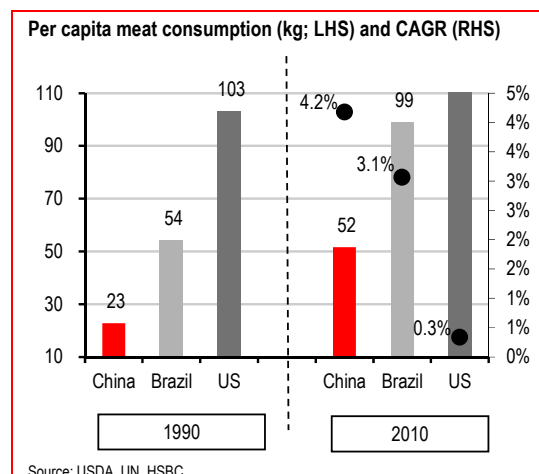
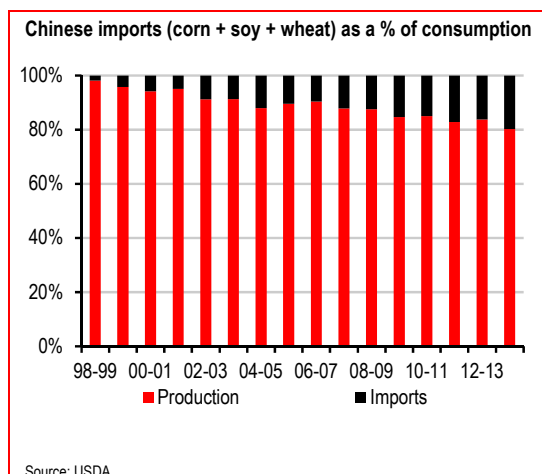
China's 1.3bn population consumes c20% of the global food supply, yet has only about 9% of the world's acreage under production, according to

the USDA. As a result, agricultural imports have soared in the last few years. In the last 15 years, China's imports of key commodities (corn, soybean and wheat) have increased from 2% of consumption to as high as 20% in 2013/14 (see left chart below). While consumption of these commodities has grown at a 3.8% CAGR in the last 15 years, domestic production has increased by only 1.9%. Thus, imports have grown at a 21% CAGR to 84.5m tons in 2013/14 from less than 5m tons in 1998/99, according to the USDA. The demand has mainly been fuelled by rising meat

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Sample of Chinese investment in agriculture abroad

Region	Reported ha*	Confirmed ha*	Key countries invested
LatAm	1,284,500	472,000	Argentina, Brazil, Colombia
Africa	2,698,997	363,792	Congo, Ethiopia, Mali, Senegal, Tanzania, Zambia, Zimbabwe
Asia	2,680,558	1,565,269	Cambodia, Indonesia, Laos, Philippines
Central Asia	1,085,000	1,083,000	Kazakhstan, Russia

*Reported hectares were all investments as cited by the media and company/government sources and confirmed hectares represent those that were cited by a company/government source
Source: International Institute for Sustainable Development

consumption as income levels have increased. Chinese per capita meat consumption grew by a 4.2% CAGR to 52kgs/year in 2010 from 23kgs in 1990, yet is far below the US average of 110kgs.

As a result, China continues to explore new investments in agricultural farmland located overseas. Since LatAm has abundant farmland with significant competitive advantages such as low population density, water availability, fertile soil and high precipitation levels, it was one of the main target regions for Chinese expansion and investment. However, countries like Argentina and Brazil have imposed restrictions on the foreign ownership of farmland. China has continued to invest in other regions such as Africa and Asia.

A report by the International Institute for Sustainable Development in August 2012 lists several Chinese projects globally. Due to a lack of official data on foreign investments in agricultural farmland in China and elsewhere, it is difficult to obtain an exhaustive list of Chinese investments abroad. The report sites as many as 86 Chinese projects across LatAm, Asia and Africa (see table above), with c8m hectares reported by several Chinese companies, government and media sources. Of that, c1.3m hectares were reported as investments within LatAm.

Despite the restrictions, note that there are several ways that foreign players are pursuing investments, including through joint ventures and partnerships with local companies, and long-term leases.

For example, Chinese company, Chongqing Grain Group, decided to build an agricultural-industrial

complex for storage and crushing of soybeans in Bahia (thus being able to access soybean production without purchasing farmland). In September 2013, Reuters reported that China's Xinjiang Production and Construction Corps. (XPCC) signed an agreement with Ukrainian government-controlled agricultural firm KSG Agro to lease up to 3m hectares.

Brazilian autos expansion

Chinese auto companies have been exporting to LatAm since the 1990's. Initially they focused on the smaller and less developed car markets in the region, for imports and assembly plants. This has been very successful in some markets, with Chinese producers having an estimated 23% share in Uruguay, 15% in Peru, 9% in Paraguay (plus an estimated 59% of the Paraguay truck market), and 7% in Chile. Both Chery and Lifan (40,000 units/year capacity) have assembly factories in Uruguay, while Dongfeng has one in Paraguay.

Chinese automaker share in selected LatAm markets

Country	Market Share %
Uruguay	23%
Peru	15%
Paraguay	9%
Chile	7%
Colombia	7%
Brazil	c2%

Source: Truth about Cars; HSBC

Now they are building local presence in the larger auto markets of the region – Brazil, Mexico, and Argentina. Brazil became one of the largest Chinese auto export markets globally. At least three Chinese automakers are in the process of building production plants in Brazil, with

announced capacity equivalent to c.10% of Brazil's 2012 production volume of 3.6m units.

- ▶ **FAW:** First Automotive Works signed an agreement in 2007 to invest USD100m in Mexico for a manufacturing plant with capacity of 50,000 units per year.
- ▶ **Foton:** Foton Automobile, part of the Beijing Auto Group, entered Mexico in 2008 to build tractors, and is set to expand this to light trucks (as part of a JV with Daimler). Targeted production is 50k units per annum. This is seen as a pilot project for other potential Foton investments in Brazil, India, Thailand, and Russia.
- ▶ **Chery:** Chery Automobile expanded into Uruguay (2007) and Brazil (2010), aiming for 50k production capacity in Brazil by end-2013 and plans for a second phase with a 150k capacity.
- ▶ **JAC:** Is reportedly set to open a 100k capacity auto plant in Bahia at the end of next year, following a USD250m investment, according to Automotive World Magazine.
- ▶ **Geely:** According to CarNewsChina, Geely has plans for a USD300m plant in Brazil's Santa Catarina state, with a 100k annual capacity. The company also plans to export vehicles to Brazil from its Uruguay assembly plant, a JV with local industrial group, Nordex.

Argentine capital equipment

CSR Corp, a major Chinese rail equipment manufacturer, was this year awarded orders worth RMB5.7bn (USD914m) to supply Argentina's Ministry of Transport with passenger rail equipment. These trains will be used to replace trains on certain domestic lines that are more than 50 years old. In order to meet the manufacturing and maintenance requirements, CSR plans to open two plants in Argentina, one for passenger cars and the other for freight wagons.

Peru fishing leadership

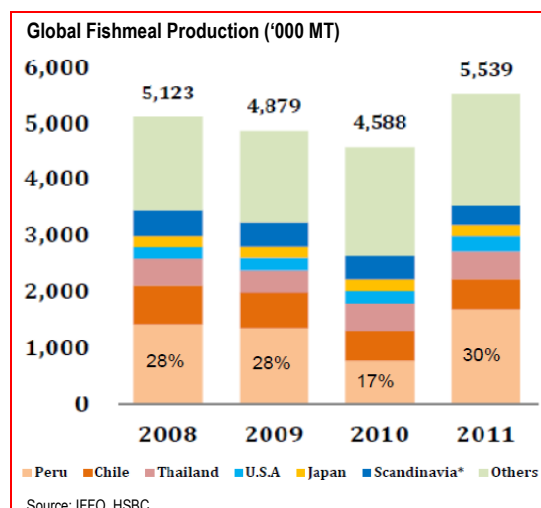
China Fishery Group Ltd. (CFG SP OW; SGD0.39; covered by Catherine Chao) recently took control of Norwegian-listed Peruvian fishmeal and fish oil producer, Copeinca, for an investment of cUSD800m.

Copeinca is the second largest Peruvian fishmeal company (by quota), while China Fishery Group was sixth prior to the acquisition. With the acquisition of Copeinca, China Fishery Group now has a combined allowable quota of 16.9%, and is targeting USD50m of synergy cost savings. On a pro-forma basis (reported 2012 data), Peru fishing operations account for at least 54% of China Fishery Group's revenues.

Copeinca has 28 vessels (75% refrigerated), and five plants (100% steam dried). This acquisition makes China Fishery Group the world's largest fishmeal producer.

Peru is the world's largest fishmeal and fishoil producer, responsible for producing c30% of global fishmeal and 33% of fishoil (2011). China is the main export market for the industry, accounting for 56% of sales in 2012. Two-thirds of fishmeal is used for aquaculture.

For further detail see Cathy Chao's [HK/China Consumer: Key takeaways from HSBC's 3rd Annual China Consumption Conference](#), 1 November 2013.



Banks: Beyond China

- ▶ International expansion has accelerated as Chinese banks follow their corporate customers overseas
- ▶ Policy banks are now playing a leading role; CDB has a “loans for resources” programme and China Export-Import Bank is also active in emerging markets
- ▶ As trade with LatAm grows, we expect China’s major commercial banks will increase their presence in the region

Expanding overseas

China’s leading banks are massive in terms of deposits, assets, and branch networks, with loan books tightly linked to large state-owned enterprises (SOEs). So when large Chinese companies started to expand overseas, the banks followed. They know the needs and wants of these important clients very well.

The earliest moves were made by Bank of China (BOC), which for historical reasons already had an overseas network. It has been followed in recent years by Industrial and Commercial Bank of China (ICBC) and China Construction Bank (CCB). China’s two largest banks have expanded to six continents in as many years.

But with overseas expansion closely linked to loans and investments by various state-linked entities, it is the development or policy banks (see next chapter for further details) that are now playing the leading role in China’s “going out” strategy, especially when it comes to natural resources and emerging markets. These banks channel funds to government-supported investments.

For example, China Development Bank (CDB) established a “loans for resources” programme in 2008, marking the start of a new wave of expansion into emerging markets by Chinese banks. The table below lists some of the projects that CDB has been involved with.

Another policy bank, China Export-Import Bank, is also active in emerging markets.

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China policy banks – sample of projects

Year	Bank	Country	Project type	USDm
2008	CDB	Brazil	Thermo electricity	430
2009	CDB	Indonesia	Thermo electricity	1,010
2009	CDB	Brazil	Oil	10,000
2009	CDB	Africa	Agriculture	30
2010	CDB	Venezuela	Oil	10,000
2010	CDB	Argentina	Agriculture	60
2010	CDB	Tanzania	Telecom	70
2010	CDB	Indonesia	Thermo electricity	400
2010	CDB	Africa	Agriculture	3
2011	CDB	Australia	Iron ore	400
2012	CDB	Portugal	Electricity	1,280
2012	CDB	Oman	Electricity & Water	170

Note: USD amounts are USD equivalents; currency may be RMB for some loans
Source: Company data

The banks’ loans are rarely made in isolation. After CDB’s USD10bn loan for oil-related projects in Brazil in 2010, several SOEs in the energy sector (CNPC, CNOOC, Sinochem and Sinopec) made investments in Brazilian oil projects.

The LatAm link strengthens

The scale of investment from China to Latin America has reached nearly USD85bn in the last decade. Including CCB's acquisition of BicBanco, ICBC and CCB have invested nearly USD1.5bn in Brazil and Argentina in the past two years (see table).

As trade and investment continues to increase, we expect China's commercial banks will extend their reach and the services they offer in the region. The benefits should include:

- ▶ Improved access to local currency funding
- ▶ Access to Chinese companies making outbound direct investment (ODI) in Latin America
- ▶ Business with other important trading partners in Latin America. The Chinese commercial banks will play a major role in expanding the reach of the RMB as a trade currency.

At the moment, overseas operations make only a minor contribution to the profits of China's large banks (see table). However, this is likely to change as business in regions like LatAm expands rapidly. Following Chinese corporates overseas can offset slower bank earnings growth at home as China moves to liberalise its domestic financial system.

ICBC and CCB expansion overseas since 2004

Year	ICBC	CCB
2004		Korea
2007	South Africa, Russia, Indonesia	Australia
2008	Qatar, Australia	
2009		US, Vietnam
2010	Thailand	
2011	Argentina, France, Laos, Pakistan, India	
2012	US	
2013		Brazil

Source: Company data

China banks: overseas scale remains small (RMBm)

Bank	Assets - overseas		CAGR	2012 PBT (overseas)	% Total PBT
	2004	2012			
BOC	234,718	1,087,203	21%	8,187	4.4%
CCB	68,561	358,283	27%	3,176	1.3%
ABC	3,041	38,783	37%	2,807	1.5%
ICBC	294	99,233	107%	523	1.8%

NOTE: Pre-tax profit for ABC includes Hong Kong, which is excluded from the other banks
Source: Company data, HSBC estimates

China SOE bank expansion in Latin America

Bank	Country	Year	Comments
ICBC	Argentina	2012	acquired 80% of Standard Bank Argentina for USD600m (103 branches)
	Peru	2012	new branch with USD50m registered capital
	Brazil	2013	new subsidiary bank with USD100m registered capital
CCB	Brazil	2013	72% acquisition of BicBanco for USD720m
BOC	Brazil	2009	new branch with USD60m registered capital

Source: Company data, Bloomberg, Reuters

Development Lending: USD85bn

- ▶ USD85bn lending from Chinese development banks to LatAm
- ▶ This is more than the combined lending to LatAm by the IMF, World Bank, and IADB
- ▶ Lending is very focused on Venezuela and infrastructure

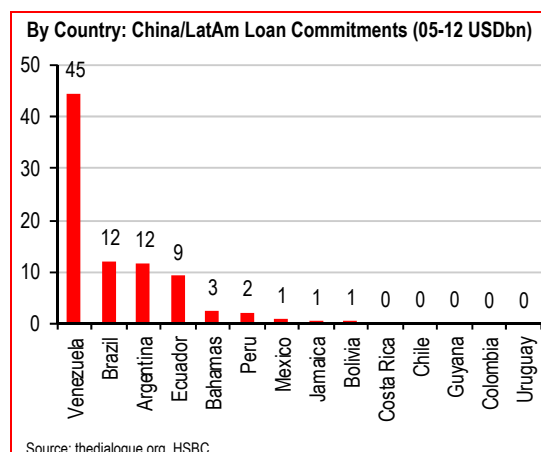
Development Bank Lending

Chinese development or policy bank lending to the region is often overlooked, but is large and by being so concentrated can have a significant impact. It has totaled USD85bn since 2005, has been very focused on only four countries and few sectors (infrastructure, mining, and energy), and has been provided by only two main Chinese banks. This has tended to make the transactions large and important when they happen. Cumulatively, China Development Bank (CDB) and China Ex-Im Bank (Exim) are larger lenders to LatAm than the better-known multilaterals such as the IMF, World Bank, and IADB combined.

Chinese bank lending to LatAm is relevant.

Since 2005, lending commitments have totaled over USD85bn. The peak occurred in 2010, with over USD35bn of commitments, which fell to less than USD10bn in 2012. And while this may not sound much in aggregate, it has been very concentrated by lender, loan size, sector, and recipient. This concentration by recipient and sector is very different from lending patterns of Western lending institutions.

More than half of lending commitments went to only one country. Venezuela (see chart below) has accounted for the largest share of lending commitments, with over ninety percent of commitments going to only four countries: Venezuela, Brazil, Argentina, and Ecuador. The majority of financing packages have been for USD1bn or more.



Most of the loans have gone to finance infrastructure projects. Loan commitments of USD45bn, or over 50% of the total, have been allocated to infrastructure projects. This has been followed by energy and mining investments.

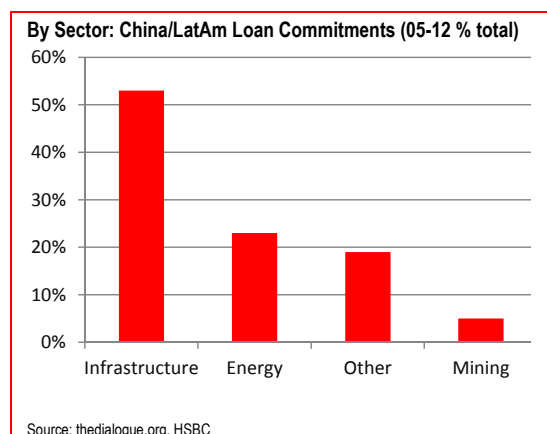
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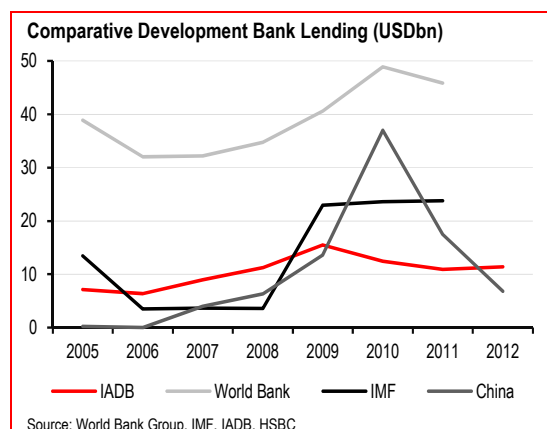
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The majority of China's international lending has come from the China Development Bank (80% of total), distantly followed by China Ex-Im Bank (9%).

To put this lending in perspective, in 2010 Chinese development bank lending to LatAm exceeded total IMF and IADB lending combined. Even last year, Chinese lending was USD7bn, not dissimilar to the disbursements from the IADB (see chart below).



On a cumulative basis (2005-to date), it is estimated (see *The New Banks in Town* report below) that these two Chinese development banks (CDB and Exim) have lent more to the region than the World Bank, IMF, and IADB combined.



This lending often comes with differing conditions though. According to *The New Banks in Town: Chinese Finance in Latin America*, by Gallagher, Irwin, and Koleski, China Development Bank terms are often more stringent than those of the World Bank, while China Ex-Im Bank offers lower interest rates than the US Ex-Im Bank. There are virtually no policy conditions associated with Chinese loans, but they often require equipment purchases and sometimes oil sale agreements. They also operate under an expanding set of environmental guidelines; however, these are not yet on par with those of Western lending institutions.

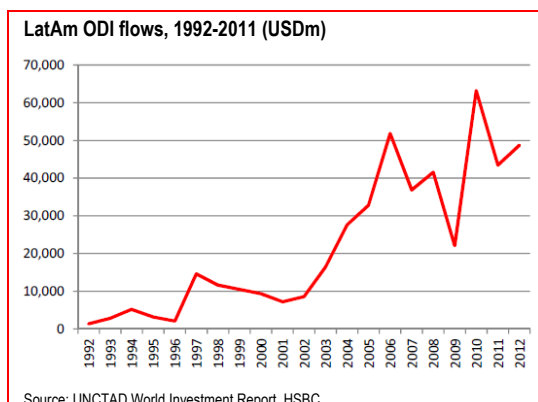
LatAm ODI into China slow

- ▶ LatAm outbound direct investment is up 30x in last two decades
- ▶ 85 LatAm companies are active in China, a 21% CAGR since 2000...
- ▶ ...including Vale, Tenaris, Weg, Gruma, Bimbo, and Concha y Toro

LatAm goes to China (slowly)

LatAm companies have also been investing more in China, as trade flows have increased and regional outbound direct investment (ODI) has soared. This has been a slower process, however, than China's investing in LatAm. Brazil has led the way, but has only invested cUSD300m since 2006, compared to the cUSD25bn China invested in Brazil over the same period.

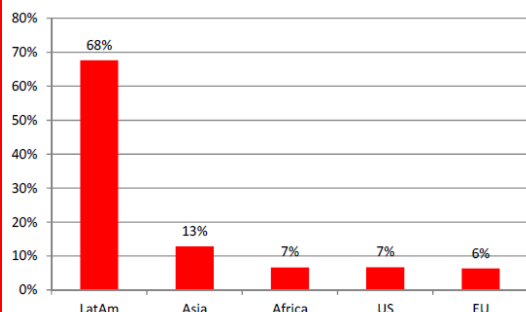
LatAm country ODI surged from less than USD2bn in 1992 to a recent peak of USD63bn in 2010. Drivers here have included the increase in "South-South" trade, European corporate divestments from LatAm, and strong BNDES (Brazil's state-owned development bank) support in the case of Brazil. Last year, there were more than 20 large cross-border M&A transactions involving LatAm companies totaling USD32bn.



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These so-called *multilatina*'s (LatAm companies actively expanding outside of their home markets) have stayed close to home, however. Nearly 70% of ODI flows from LatAm countries have remained in the LatAm region. However, "South-South" linkages are alive and well, with Asia and Africa receiving similar or greater levels of ODI than the developed markets of the US and the European Union.

LatAm greenfield ODI (2010-11)

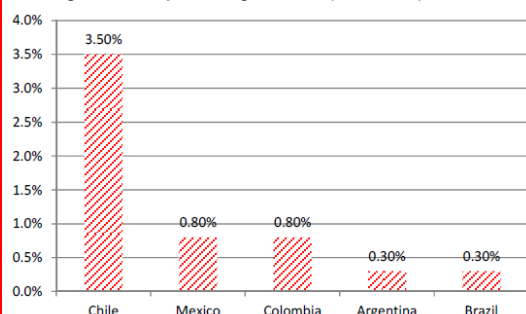


Source: UNCTAD, HSBC

The greatest *multilatina* growth has come from the smaller or more-liberal and open economies, such as Chile, Mexico, and those in Central America. This is the clearest parallel with the Chinese state-owned enterprise (SOE) experience – where LatAm companies have expanded abroad looking for growth and to remain competitive at home.

ODI from Chile is by far the largest of the major economies, relative to the size of its economy (see the following chart). Mexico and Colombia are also relevant. Brazil's ODI is small (as a large, relatively closed economy, with a significant domestic market), and Peru's is so low that we did not put it in the chart.

Average ODI as a percentage of GDP (2006-2012)



Source: UNCTAD, ECLAC, HSBC

For details see Ben Laidler's [Rise of the Multilatina](#), 30 May 2013.

Interestingly, when looking at ODI flows solely to China, Brazil stands out, with an estimated USD314m since 2006, according to ECLAC. This

represents 37% of the total, which is more than five times more than second placed Argentina.

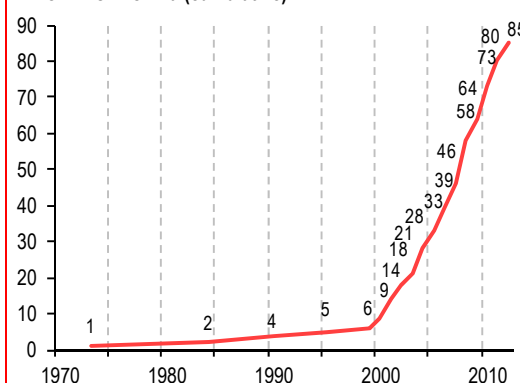
LatAm ODI to China 2006-1H 2012

Country of Origin	USDm	% Total
Brazil	314.1	37%
Argentina	58.4	7%
Mexico	48.4	6%
Chile	46.9	5%
Bolivia	15.2	2%
Venezuela	13.6	2%
Honduras	10.7	1%
Peru	9.8	1%
Paraguay	9.7	1%
Uruguay	4.9	1%
LatAm Top 10	531.8	62%
LatAm Total*	858.0	100%

Source: MOFCOM, ECLAC, HSBA. * Not including regional tax havens

LatAm companies started their entry into China in the early 1970s, but it has only been in the last decade – as the trade linkages have grown – that China has become a significant target market. Since 2000, the number of LatAm companies active in China has increased with a CAGR of 21%, to a total of 85 firms.

LAC firms in China (cumulative)



Source: iadb.org, HSBC

It is perhaps not surprising that the first LatAm company to enter China, back in 1973, was Brazil iron ore giant, Vale. Last year, China represented over a third of Vale's revenues.

Argentina's seamless pipes maker, Tenaris, was another early 'pioneer' that started exporting to China in the 1970's, before setting up an office, and, in 2008, building its own China-based capacity.

Other LatAm companies active in China include Chilean winemaker, Concha y Toro, which has developed China into a significant export market.

Brazilian industrial, Weg, is one of the few producers of high efficiency motors in China. Unlisted Brazilian IT services company, Stefanini, has also been active in China.

Mexican tortilla maker, Gruma, has been in China with local production since 2006, whilst Mexican bread-maker, Bimbo, entered China through an acquisition in 2006.

Select LatAm firms in China – a brief overview

Company	Country	Sector	Operations in China
Vale	Brazil	Mining	Vale is the world's second-largest metals and mining company with presence in 27 countries. Vale was the first company from LatAm to enter China in 1973. China accounted for 34% of revenues in 2012.
Tenaris	Argentina	Industrials	Tenaris is a leading global manufacturer of tubular products used in the oil and gas industry. Tenaris' linkage with China goes back to 1976, when it started exporting steel pipes. In 1990, the company set-up an office in Beijing. Tenaris built its own China-based facility in 2008, with a capacity of 40,000 tons of premium joints.
Viña Concha y Toro (CyT)	Chile	Beverages	CyT is the world's third largest vineyard by planted acreage, exporting to 135 countries. CyT was the first Chilean winemaker to enter China in 2001, and has been very aggressive in marketing and brand building since.
Weg	Brazil	Industrials	Weg is a leading producer of electrical motors and other electrical items, competing with players like GE and Toshiba in the international markets. Weg entered China in 2004 with acquisition of a state-owned electric motor manufacturing firm. It is one of the few producers of high efficiency motors in China.
Gruma	Mexico	Food	Gruma is the world's leading producer, distributor and marketer of corn tortillas, with presence in 18 countries. Gruma entered China in 2006 by building a new plant in the outskirts of Shanghai. It had invested USD200m in China by 2011.
Grupo Bimbo	Mexico	Baked Foods	Bimbo entered China with the purchase of Beijing Food Processing Center in 2006 for USD11m. In 2006-2010, sales increased by 400% to USD35m, and Bimbo became one of the most important bakeries in China. Now Bimbo sells over 100 products in 27 cities in China.
Stefanini	Brazil	IT	Stefanini, a leading Brazilian IT services firm has presence in 30 countries. It entered China in 2010 by acquiring a US tech firm. Around 40% of its revenues are from international operations.

Source: iadb.org, HSBC

The top Chinese companies in LatAm

- ▶ We profile the 10 largest Chinese corporate investors in LatAm
- ▶ Energy companies Sinopec, CNPC, Sinochem, and CNOOC lead
- ▶ Three HK-listed companies get the majority of their value from LatAm

The largest Chinese investors

We highlight the 10 Chinese companies that have been most active in Latin America over the last eight years – ranked by size of investment. They have made 65% of total Chinese ODI in LatAm. We also highlight a comprehensive list of Chinese investments in LatAm.

The Chinese national oil companies (NOCs) have been the largest investors. We note that some investments into Brazil have occurred at the state-owned enterprise (SOE) (i.e. unlisted) level, while some have occurred at the listed company level. We believe that this is an important distinction and we highlight the NOC industry structure in an organogram in Appendix I.

Top 10 Chinese Investors in LatAm (2005-1H 2013)

Name	Sector	USDbn	% of Total
Sinopec Group	Energy	16.1	19%
China Railway Engineering	Transport	8.0	10%
CNPC Group	Energy	5.4	6%
Sinochem Group	Energy	4.1	5%
State Grid	Energy	4.0	5%
Sinomach	Multi	4.0	5%
Minmetals	Metals	3.6	4%
CNOOC Ltd	Energy	3.4	4%
Chinalco	Metals	3.0	4%
China Railway Construction	Metals	2.7	3%
Total (above 10)		54.2	65%
Total investments from China		83.9	100%

Source: Global Chinese Investment Tracker, Heritage Foundation, HSBC

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We also highlight the three Chinese-listed small cap stocks that are largely focused on LatAm. These three Hong Kong-listed small caps – Chinalco (Peru mining), Honbridge (Brazil iron ore), and Pacific Andes (Peru fishing) – are close to LatAm ‘pure-plays’ given their significant businesses in the region.

- ▶ Chinalco (3668 HK; N(V); HKD1.09; covered by Thomas Zhu) is developing the Toromocho copper mine in Peru that it acquired by buying Canadian-listed Peru Copper in 2007.

- ▶ Honbridge Holdings (8137 HK; not rated) is developing the Salinas iron ore project in Brazil and associated export infrastructure. Honbridge purchased the project from Votorantim.
- ▶ China Fishery Group (CFG SP; OW; SGD0.39; covered by Catherine Chao), after its purchase of Peru's second largest fishmeal company, Copeinca, is now one of the world's largest fishing companies, with a majority exposure to Peru.

Chinese companies with majority LatAm businesses

Name	Ticker Bloomberg	Mkt Cap USDbn	ADTV USDm	P/E 2013E
Chinalco Mining Intl.	3668 HK	1.7	0.9	n/a
Honbridge Holdings	8137 HK	0.8	0.9	n/a
China Fishery	CFG SP	0.7	0.5	5.4

Source: HSBC, Bloomberg

Chinese investments in LatAm (2005-1H 2013)

Investor	Date	Amount (USDm)	Industry	Country
China Railway Engineering	July 2009	7,500	Transport	Venezuela
Sinopec Group	October 2010	7,100	Energy	Brazil
Sinopec Group	November 2011	4,800	Energy	Brazil
CNPC Group (not confirmed)	November 2010	4,500	Energy	Cuba
CNOOC Ltd	March 2010	3,100	Energy	Argentina
Sinochem	May 2010	3,070	Energy	Brazil
Minmetals	October 2010	2,500	Metals	Peru
Sinomach	October 2010	2,490	Transport	Argentina
Sinopec Group	December 2010	2,470	Energy	Argentina
Sinohydro	June 2010	2,300	Energy	Ecuador
Chinalco	May 2008	2,160	Metals	Peru
China Railway Construction and China Nonferrous	April 2013	2,040	Metals	Ecuador
Taiyuan Iron, CITIC, Baosteel	August 2011	1,950	Metals	Brazil
Shunde Rixin and Minmetals	December 2009	1,910	Metals	Chile
Heilongjiang Beidahuang Nongken	June 2011	1,510	Agriculture	Argentina
Wison	June 2012	1,470	Energy	Venezuela
CNPC Group and Sinopec Group	September 2005	1,420	Energy	Ecuador
Chongqing Grain	March 2011	1,410	Agriculture	Brazil
SkySolar	January 2013	1,360	Energy	Chile
State Grid	July 2012	1,310	Energy	Venezuela
Sinopec Group	April 2006	1,290	Energy	Brazil
East China Mineral Exploration and Development Bureau (Jiangsu)	March 2010	1,200	Metals	Brazil
Shaanxi Chemical subsidiary	June 2010	1,010	Chemicals	Argentina
Shougang Group	February 2009	990	Metals	Peru
State Grid	May 2010	990	Energy	Brazil
Sinochem Group	February 2012	980	Energy	Colombia
Sinomach	September 2010	960	Energy	Venezuela
CITIC	November 2005	940	Real estate	Venezuela
State Grid	May 2012	940	Energy	Brazil
CNPC Group	April 2010	900	Energy	Venezuela
Chinalco	June 2007	790	Metals	Peru
China Machine New Energy	August 2010	700	Energy	Guatemala
ICBC	June 2011	680	Finance	Argentina
Gezhouba	August 2010	670	Energy	Ecuador
China Railway Construction and China Nonferrous	December 2009	650	Metals	Ecuador
CNPC Group (JV) and Sinopec Group	November 2010	610	Energy	Ecuador
Minmetals	February 2005	550	Metals	Chile
State Grid	March 2012	550	Energy	Brazil
China Railway Engineering	September 2012	510	Energy	Guyana
Minmetals	January 2005	500	Metals	Cuba
CIC	December 2009	500	Metals	Brazil
Harbin Electric International	December 2011	470	Energy	Ecuador
CIC	November 2012	460	Real estate	Brazil
Minmetals and Jiangxi Copper	December 2007	450	Metals	Peru
JAC Motors	October 2012	450	Transport	Brazil
Sinopec Group	September 2006	430	Energy	Colombia
China Railway Construction	June 2012	410	Metals	Venezuela
China Communications Construction	June 2013	410	Transport	Costa Rica
Wuhan Iron and Steel	November 2009	400	Metals	Brazil
Chery	August 2010	400	Transport	Brazil
CITIC	November 2006	340	Metals	Brazil
CNOOC Ltd	February 2011	330	Energy	Argentina
China Communications Construction	September 2011	320	Transport	Venezuela
China Oils and Foodstuffs	April 2013	320	Agriculture	Brazil
Beiqi Foton	September 2012	300	Transport	Brazil
China Gezhouba	December 2010	290	Agriculture	Venezuela
Three Gorges	December 2010	270	Energy	Ecuador
China Communications Construction	October 2011	260	Transport	Venezuela
Huawei	January 2009	240	Technology	Costa Rica
Sinomach	October 2011	240	Energy	Colombia
China Communications Construction	September 2011	220	Transport	Mexico
State Grid	December 2012	220	Energy	Brazil
Jinchuan	January 2008	210	Metals	Mexico
Power Construction Corp	October 2011	210	Energy	Ecuador
Sany Heavy	February 2010	200	Real estate	Brazil
CIC	December 2010	200	Finance	Brazil
ZTE	April 2011	200	Technology	Brazil
Chery	May 2011	200	Transport	Venezuela
China Construction Bank	May 2012	200	Finance	Brazil
Xugong Machinery	January 2013	200	Real estate	Brazil
Zijin, Tongling, and Xiamen C&D	February 2007	190	Metals	Peru
Goldwind	February 2012	190	Energy	Chile
Sinomach	March 2011	170	Agriculture	Bolivia
Chery	July 2011	170	Transport	Brazil
Lenovo	September 2012	150	Technology	Brazil
Sinomach	July 2008	140	Agriculture	Venezuela
China Communications Construction	November 2011	140	Transport	Guyana
Golden Dragon	July 2007	100	Metals	Mexico
Najinzha	May 2009	100	Metals	Peru
JAC Motors	August 2011	100	Transport	Brazil
ICBC	November 2011	100	Finance	Argentina
Bosai	March 2012	100	Metals	Guyana
ICBC	March 2012	100	Finance	Brazil

Source: Global Chinese Investment Tracker, Heritage Foundation, HSBC

The Chinese Top 10

Sinopec Group

Sinopec Group is one of four Chinese SOE oil majors operating E&P assets at the SOE level and through its listed subsidiary, Sinopec Corp. It has a downstream weighted asset portfolio and is China's largest refiner (5mmb/d) and chemical processor (10mtpa of ethylene capacity). Beginning in 2004, the Group developed a strategy to expand its international upstream reserves and balance its upstream and downstream capacities. Group production was 1.7mmb/d as of 2012, less than 50% of crude processing capacity.

Sinopec Chairman Fu Chengyu, ex-chairman of China National Offshore, was appointed in May 2011, and has piloted an accelerated wave of acquisitions since. The objective is to balance the Group's upstream and downstream, and increase crude self-sufficiency, along with meeting China's broader strategic objective of increasing energy security by gathering international oil & gas reserves.

Sinopec Group has more than 40 projects in 21 countries, with total proven reserves of petroleum and natural gas of 6bn boe, about two-thirds of which are in China.

We estimate that Sinopec Group, at the SOE level, has invested cUSD50bn in E&P assets since 2004, including three cornerstone transactions in 2013: 1) USD1bn to buy an interest in 850,00 acres in the US with Cheasapeake; 2) USD1.52bn to purchase interests from Marathon in Angola; and 3) USD3.1bn to buy 33% of Apache's Egyptian portfolio.

In addition, in March 2012 Sinopec Group closed an agreement with Portuguese oil firm, Galp Energia, to pay USD3.54bn for a 30% stake in its deep-sea oil asset in Brazil. The Group expects entitlement of 21.3kboe/d by 2015.

In recent years, Sinopec Group has enhanced its overseas portfolio through a number of successful major transactions, including among others:

- ▶ Latin America: 40% of the shares of Repsol Brazil, and Oxy Argentina Corporation;
- ▶ North America: US shale (via Devon Energy) and Canada upstream (acquisition of Daylight Energy), and a 9.03% equity position in Canada's Syncrude Company;
- ▶ Europe, West Africa and the Middle East: 50% of Talisman's North Sea assets; West Africa (from Shell and Marathon), the full takeover of Addax; and
- ▶ Asia and Australia: Asia Pacific LNG (APLNG); and Indonesia (purchase of 18% stake of local business from Chevron).

China Railway Engineering (CREC)

CREC is a large state-owned civil construction company, focused on rail, road, and tunnel construction. It is one of the world's largest, with a significant market share in China, Asia, and Africa.

In Venezuela, CREC began construction in 2009 of the Anaco-Tinaco railroad, an USD800m project to build a 471km high speed railway line. South China Morning Post reported that there have been payment delays on the project.

CNPC Group

CNPC Group is a Chinese SOE and China's largest integrated energy group. CNPC Group is the parent of listed, PetroChina. The Group has a sprawling scale of upstream and downstream projects in China and internationally.

The international business operates in 29 countries and generates total production of more than 4.5mmb/d. Its downstream operations include 28 refineries in China, and nine

international refineries in nine countries. In addition to the Chinese E&P operations, international upstream operations include: Rumaila and Halfaya Projects in Iraq; the Canadian Athabasca Oil Sands Project; Arrow Energy in Australia; Indonesia; and significant production and distribution assets in Kazakhstan and Turkmenistan.

CNPC Group took a 10% stake in the successful consortium for Brazil's giant Libra field, and Libra provides CNPC with its first significant deepwater oil project. Earlier in 2013, the CNPC Group executed investments in Yamal's Arctic LNG and Mozambique LNG, which along with entry into Brazil, signals a bolder approach from China's largest onshore energy group towards the offshore sector generally and deep water in particular.

As one of the largest Oil & Gas companies in the world, the company reported 2012 net profit of USD22bn, with assets of USD542bn and shareholders' equity of USD360bn.

Along with access to generous financing terms from China Development Bank as well as the broader capital markets, CNPC Group is financially well placed to support the Libra development. Libra marks an important step in the internationalization process for CNPC. The joint venture with Petrobras, Shell, Total and CNOOC Ltd. indicates NOC-IOC partnerships can be part of the process.

Sinochem Group

Sinochem Group is a Chinese SOE with its roots in trading chemicals and fertilizers and, more recently, investing in energy and metals producers and processors internationally. Presently, nearly half of revenues come from outside of China.

The upstream sector still represents a modest portion of Sinochem Group's asset portfolio,

although recent activities suggest that the group is focused on expanding its international presence.

In August 2009, Sinochem Group entered the Latin American region through the USD880m purchase of UK-based oil company, Emerald Energy (assets in Colombia, Peru and Syria). In 2010, it acquired a 40% stake in the Peregrino field (Brazil) from Statoil for US\$3.1bn. Further acquisitions in the region are possible.

More recently, in October 2013, Shell and ONGC pre-empted Sinochem's acquisition of Petrobras' 35% stake in Brazil block BC-10 for USD1.54bn. The deal would have marked a further expansion of Sinochem's position in Latin America.

State Grid (SGCC)

State Grid is one of the world's largest electric utilities. It has significant Brazil investments and has announced plans to invest USD10bn in the Brazil power sector in the near term. State Grid was arguably the first Chinese SOE to operate large scale assets in Brazil.

The company has been active internationally, with investments in the Philippines and Malaysia, and most recently a 25% stake in Portuguese network operator, REN.

- ▶ In May 2012, the company bought seven power lines, totaling 2,800km, from Spain's ACS for USD940m.
- ▶ This followed its 2010 acquisition of seven transmission businesses for USD990m, totaling around 3,200km of lines, in south-east Brazil, from Elecnor, Abengoa, and others.
- ▶ In 2012, State Grid was successful in an auction to build a 1,600km transmission line in the Amazon. Later that year, the company, along with partners Copel and Furnas (Eletrobras), won an auction to build a c1,000km transmission line, investing USD440m.

- ▶ According to Reuters (12 May 2013), State Grid was also reportedly interested in Iberdrola's 39% stake in Brazilian power holding company, Neoenergia, and a potential partnership with Eletrobras for 6,000km of transmission auctions for the Belo Monte dam.

The Brazil Government's ten-year investment plan (2010-2020) targets a 40% expansion in the transmission network, to over 140,000km.

State Grid, through its subsidiary XJ Wind Power, is also involved in the renewables sector. The company signed a 2,000MW development project MOU with Santa Catarina state in 2010.

Sinomach

Sinomach is China's largest contract engineering company. It has actively expanded abroad, and has thermal power stations in Indonesia, rail projects in Argentina and power stations in Africa. It is involved in 20 countries alone in Africa.

The company has also expanded into developed markets, including the acquisition of France's McCormick (tractors), and Canada's Procon (mining contracting).

Minmetals

Minmetals is a Chinese SOE focused on mining and minerals trading. It is a major iron ore and steel trader, and has focused its overseas expansion on LatAm and Africa.

In 2009, it acquired OZ Minerals (Australia) for USD1.5bn. The company also bought Anvil Mining (UK) for USD1.3bn. In 2011, the company launched an unsuccessful USD6.5bn takeover bid for Canada's Equinox Minerals.

Minmetals joined with Jiangxi Copper to purchase Northern Peru Copper (Canada), and also set up a JV, Aluminum Corp (US), in Jamaica to acquire the mining rights for 150m tons of bauxite.

Minmetals and Chinalco have reportedly (Reuters, 4 November 2013) submitted bids in the on-going sales process of Glencore-Xstrata's US\$5.9bn Las Bambas copper mine in Peru. Glencore Xstrata agreed with the Chinese anti-trust authorities to sell the project in order to approve the merger between Glencore and Xstrata and reduce the concentration of production and trading of copper.

CNOOC Group

CNOOC Group is a Chinese SOE, which in turn owns listed company, CNOOC Ltd. Among the four Chinese oil majors, it has the most concentrated exposure to the E&P sector, although it has expanding unlisted business interests in refining & chemicals (with Shell) and gas & power (independent) in China. It is one of the world's biggest players in the LNG import market, with current import capacity of 21mtpa.

The Group's core E&P business, mainly conducted through CNOOC Ltd., is exploration and production of crude oil and natural gas

China State Grid Participation in Brazilian Transmission Auctions

Year	Partnerships	Location	Asset Type	Length (km)	Share	Capex (USDbn)	Annual Regulatory Revenue (USDbn)	Group name
2011	Furnas	GO	Transmission Systems	nm	51%	18	4.2	Luiziândia
2012	Copel	MT/GO/MG	Transmission Systems and Lines	606	51%	219	39.9	Guaraciaba
2012	Copel	MT/GO	Transmission Systems and Lines	1,005	51%	406	69.1	Sino-Copeliano
2013	Copel & Furnas	BA/GO/MG	Transmission Lines	967	51%	265	51.2	Paranaíba
2013	none	SP/MS	Transmission Systems	nm	100%	na	5.0	nm
Total						908	169	

Source: Aneel, HSBC

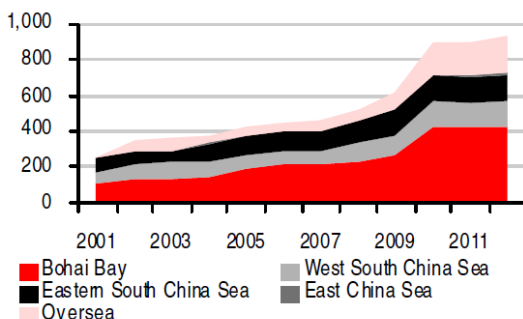
Acquisition focus (not including Toromocho)

	Focus asset types	Focus asset size (reserves/resources)	Focus area
2012-15	Pre-feasibility or feasibility study stage projects	3.0-4.0m tonnes	South America
2015 onwards	Production or near production stage projects	6.0m tonnes	Africa and Asia

Company Reports, HSBC

offshore China, and increasingly overseas in Australasia, the Middle East, Africa and the Americas. Overseas reserves and production accounted for more than 25% of CNOOC's total reserves and 20% of total production, respectively, in 2012. Specific development projects include: Australia (North West Shelf), Nigeria (OML-130), Uganda (Tullow/Total farm in), US (Eagle Ford shale project), Canada (Nexen and Opti's Long Lake oil sands project), and Nexen's other international assets, including the North Sea.

CNOOC production breakdown by region, kb/d, 2001-12



Source: CNOOC, HSBC estimates

CNOOC recently took a 10% stake in the successful consortium bidding for the right to develop Brazil's giant Libra field. Libra is expected to have a long production stream over 2020-2050e that should help offset expected declines in China's domestic offshore oil production in the next decade. Brazil may become one of the Groups biggest international production geographies.

The Group is financially well placed to support the Libra development. CNOOC Ltd is generally cash flow positive and despite the recently closed

USD18.5bn cash acquisition of Nexen in late-2012, the company has highly profitable operations and ample access to credit markets.

Chinalco

Chinalco is one of China's largest diversified SOEs. It is the world's No 2 alumina supplier, No 3 aluminum supplier and No 5 aluminum products supplier, and also has a substantial copper business. Chinalco aims to become a leading international mining conglomerate within 5-10 years.

Chinalco Mining (3668 HK; N(V); HKD1.09; covered by Thomas Zhu) is the core overseas platform for the group's non-aluminum, non-ferrous resources.

The company owns the Toromocho copper poly-metallic deposit in Peru, the world's second largest copper project by ore reserves to come on-stream in 2012-16e, according to the CRU. Management plans to bring Toromocho into production by 4Q13e and increase output by 45%. It plans to spend USD1.32bn on expansion, which is scheduled to be completed by 2Q16.

Chinalco Group already has stakes in several non-ferrous metal exploration rights in Peru, Mexico, Chile, Canada and Australia, and plans more acquisitions in South America, Africa and Asia. We think any future potential M&A could get support from the Chinese government in terms of approvals and funding (e.g. financing from China's policy banks) as part of the effort to build Chinalco into a leading international mining conglomerate.

China Railway Construction (CRCC)

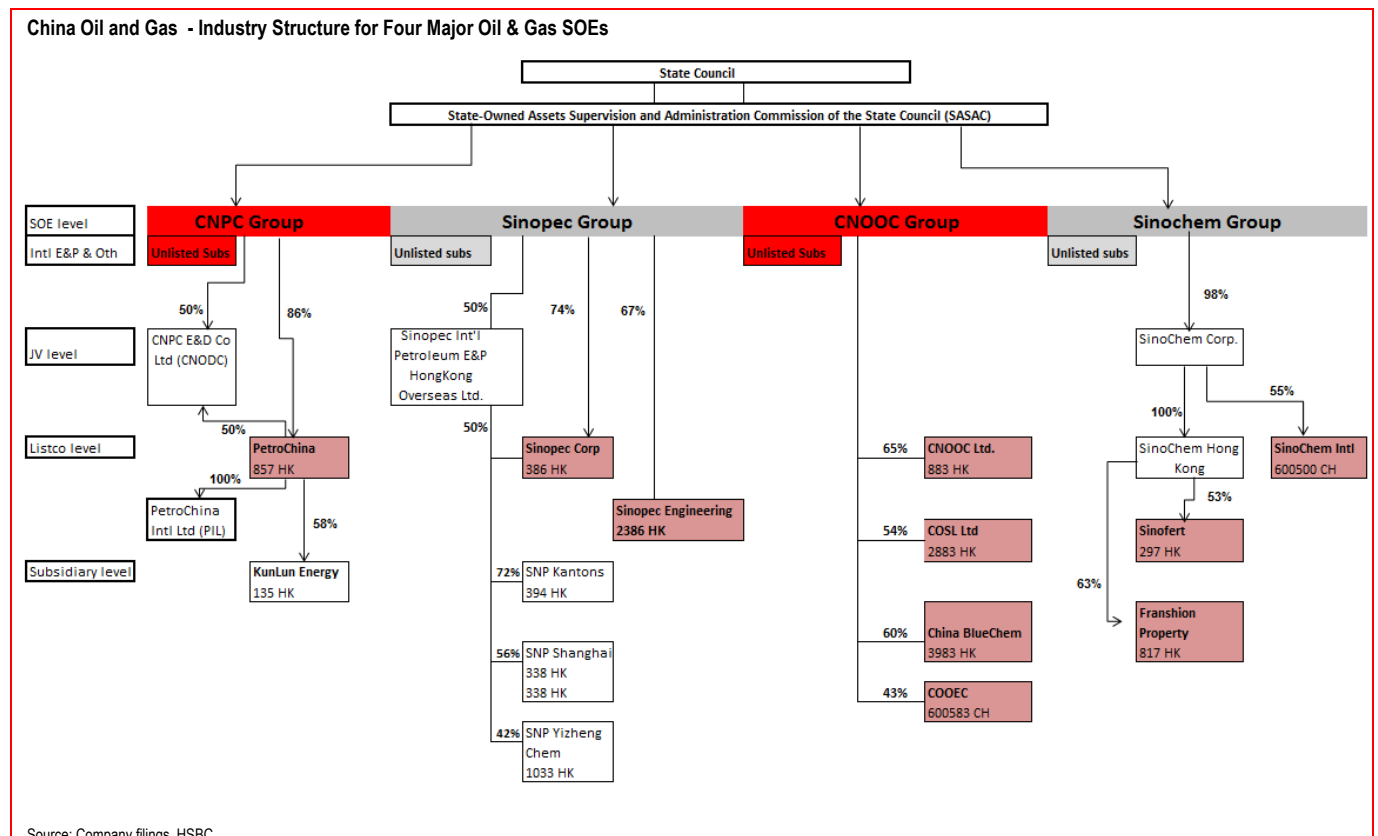
Formerly the railway arm of the PLA, CRCC is the second largest SOE civil construction company in China, after CREC (see earlier profile). Only 4% of 2012 revenues were from outside China.

The group was involved in 2010 plans for the Rio-Sao Paulo high-speed rail link.

In 2009, the company bid, in conjunction with Tongling Nonferrous, USD650m for Canada's Corriente Resources to gain access to copper reserves in Ecuador.

Appendix: China's NOCs

- ▶ Many different Chinese entities – unlisted, listed, and joint ventures, make international energy investments
- ▶ Major Chinese investors in Latin America and Brazil include Sinopec Group (SOE), CNPC Group (JV), CNOOC Ltd. (listco) and Sinochem Group (SOE); CNOOC Ltd recently entered Brazil directly via a 10% holding in Libra
- ▶ Other China SOE energy investors include: Shanxi Yanchang Petroleum (Group) Corp., China Zhenhua Oil Co. Ltd. (ZhenHua) and Citic Group



China National Petrochemical Corp (Sinopec Group)

Sinopec (386 HK; UW; HKD6.99; covered by Thomas Hilboldt)

Sinopec Group, a 100%-owned SOE, owns 74% of listed Sinopec Corp. Both Sinopec Group and Sinopec Corp have active international businesses.

Standalone E&P. The Group's stand-alone international E&P business is conducted through Sinopec International Petroleum Exploration and Production Corporation (SIPC) and funded through various vehicles under 'Sinopec Group Overseas Development Limited'.

JV E&P with Listco. Sinopec Group also has a 50-50 JV with Sinopec Corp, called Sinopec Int'l Petroleum E&P Hong Kong Overseas Ltd. (SIPC HK; not rated), which houses international assets in Russia, Colombia and Kazakhstan.

After investing nearly USD50bn in overseas assets, Sinopec Group has a number of other assets that could be injected into the SIPC HK joint venture, but these are generally high risk exploration assets that would require significant investment to commercialize. As a result, the parent company currently holds the assets.

SIPC went global in 2004 and has invested almost USD50bn, according to our bottom up analysis. SIPC is active in three principal geographies, Middle East & North Africa, Russia Central Asia and Latin America. By late 2011, SIPC's overseas oil & gas business included over 20 countries.

Through two transactions, Sinopec Group has injected four geographies into SIPC HK:
1) Angola in 2011, and 2) Columbia/UDM-Russia/Kazakhstan in 2013.

Sinopec Group has directly listed a second company – Sinopec Engineering Group (SEG) – which went public during 1H13. Other controlled

subsidiaries of Sinopec Corp. include Sinopec Kantons, Sinopec Shanghai Petro and Sinopec Yizheng Chemical & Fibre.

China National Petroleum Corp (CNPC Group)

PetroChina (857 HK; OW; HKD9.49; covered by Thomas Hilboldt)

CNPC Group, a 100% owned SOE, owns 86% of PetroChina Ltd. CNPC Group has an active international oil & gas business spanning the full energy value chain, from upstream, oil field services, refining and chemicals, construction and trading.

CNPC is now playing a more important role in the global energy industry. A 58% owned and controlled subsidiary of PetroChina, Kunlun Energy (135 HK; N; HKD13.64; covered by Thomas Hilboldt) serves as the natural gas flagship of CNPC.

The CNPC group has oil and gas assets and interests in 33 countries, 1,077 engineering and technical service and construction crews working in 66 countries, and exports materials and equipment to 70 countries. International trade volume reached 253m tonnes in 29 countries around the world.

SOE standalone E&P. CNPC Group directly holds assets in a number of sensitive areas including Sudan, Iran, Syria and Myanmar. These assets have been purposely withheld from the listco and JV structures. In addition, more recently, CNPC has housed new, higher risk purchases in this vehicle, including Greenfield LNG projects in the Russian Arctic (Yamal), Mozambique LNG (MLNG), and its 10% investment in Brazils Libra field.

JV E&P with Listco. CNPC Exploration & Development Co Ltd. (CNODC), a 50-50 JV between CNPC and PetroChina, is the primary joint venture vehicle in the international upstream arena.

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Listco standalone E&P. PetroChina executes its standalone international investments, primarily in Australia and Canada, through PetroChina International Limited (PIL).

China National Offshore Oil Corp (CNOOC Group)

CNOOC Ltd. (883 HK; OW; HKD15.86; covered by Thomas Hilboldt)

COSL (2883 HK; N; HKD23.90; covered by Thomas Hilboldt)

CNOOC Group, is a 100% owned SOE, owns 65% of CNOOC Ltd, its primary corporate E&P vehicle. CNOOC Group COSL is the 54% owned subsidiary of CNOOC Group.

SOE standalone E&P. CNOOC Group recently purchased a USD1.93bn interest in the upstream and liquefaction facilities of British Gas' Queensland Curtis LNG project (QCLNG). This represents the Group's first standalone investment in E&P since the listing of CNOOC Ltd in 2001. According to the company, there is no intention to inject these assets into the listco.

Listco standalone E&P. CNOOC Ltd has an exclusive undertaking to engage in upstream E&P operations on behalf of the CNOOC group in the offshore China region. But it has also invested in international markets. Its operations span from China to Indonesia, to Australia's North West Shelf, across to Nigeria, Trinidad and Tobago, the United States, and Canada. In Latin America, the company has interests in Argentina through its associate company, Bidas.

In February 2013, CNOOC closed the USD15bn acquisition of Canada's Nexen. In October, CNOOC Ltd, along with CNPC Group, participated in the consortium bidding for Brazil's Libra. Both companies took a 10% stake. Production at the Petrobras-operated Libra is

estimated to begin in 2020e at the earliest, according to HSBC.

Sinochem Corp (Sinochem Group)

Sinochem Group is a 100% owned SOE, which through 100% owned Sinochem Petroleum Exploration and Production Co., Ltd. (Sinochem E&P), holds international E&P assets. It also has subsidiary companies in Brazil, Ecuador, Yemen, Norway

Sinochem Group is China's largest state-owned trading company. The group was founded in 1950 and has operated under the names China Import Co., Ltd, China Import & Export Co., Ltd., China National Chemicals Import & Export Co., Ltd., China National Chemicals Import & Export Corp., before finally becoming Sinochem Corp in 2003.

Sinochem Group is mainly engaged in distribution of petrochemicals, but its activities span energy, agriculture, chemicals, real estate, and financial services. It is one of China's four state oil companies, and is also China's biggest agricultural input company and leading chemical service company. The group operates its business through more than 100 subsidiaries in China and overseas.

SOE standalone E&P. Sinochem E&P owns 34 contractual oil and gas blocks located in the USA, Brazil, Yemen, UAE, Tunisia, Ecuador, Colombia, Peru, Syria, Indonesia, and China's Bohai Bay. The group had an equity oil and gas production of 23.27mmbbl in 2012, with equity oil and gas recoverable reserve of over 600mmbbl.

The Sinochem Group controls several listed companies, including Sinochem International (600500 SH; not rated), Sinofert (297 HK; not rated), Franshion Properties (817 HK; OW;

HKD2.61; covered by Michelle Kwok) and Far East Horizon (3360 HK; N; HKD5.81; covered by York Pun)

Shanxi Yanchang Petroleum (Group) Corp. (Yanchang Petroleum Group)

Yanchang Petroleum (346 HK; not rated)

Yanchang Petroleum Group is one of four qualified enterprises to explore and develop oil & gas within China, along with CNPC, Sinopec and CNOOC. Founded in 1905, the company is China's first oil enterprise and drilled the first oil well in China in 1907. Both Yanchang Petroleum Group and Sinochem Group are increasing their penetration in the upstream and downstream sectors of the domestic industry, as well as pushing overseas.

Yanchang Group is now an integrated energy company engaged in E&P, engineering, equipment manufacturing, petrochemical and refining, and pipeline transportation. Yanchang Petroleum Group achieved annual revenue of RMB162bn (USD25bn) in 2012, making it the largest enterprise in Shaanxi province in terms of annual revenue.

Standalone E&P and downstream operations.

In 2012, Yanchang Petroleum produced 12.64m tons of oil, processed 14m tons of crude oil and realized revenue of RMB162.1bn. The company's goal is to grow revenues to RMB200bn by 2015.

In September 2013, Yanchang made its first international E&P investment. A subsidiary of Yanchang Group, Yanchang Petroleum International Ltd., bought Canadian E&P company, Novus Energy Inc., for CND232m cash and assumed USD120m of debt, in China's largest purchase of a Canadian oil and gas

company since CNOOC Ltd. completed the USD15bn acquisition of Nexen Inc February 2013.

China North Industry Corporation (Norinco Group) China Zhenhua Oil Co. Ltd. (ZhenHua)

NORINCO Group is a 100% owned SOE, which owns 100% of ZhenHua. ZhenHua invests in international E&P assets.

Zhenhua is a relatively young company (founded in 2003) that engages primarily in international E&P, global oil trading, and domestic investment in refineries, storage tank farms and logistics. Zhenhua is designated as one of the six corporate coordinators of resource development abroad by China's National Development and Reform Commission (NDRC), a member of the Sino-Kazakhstan, Sino-Venezuela, Sino-Kuwait and Sino-Russia Intergovernmental Cooperation commissions, and one of the major state-owned enterprises that carry out national policy for outbound investment.

Zhenhua has acquired six overseas oil and gas projects with around 1.1bn tons of original oil in place (OOIP) and over 8m tons in gross annual production. The company's trading volumes of crude and oil products reached 20m tons and revenue exceeded RMB90bn in 2012. Zhenhua aims to further boost its OOIP to 1.35bn tons and gross output to 10m tons during 2011-2015, as well as raise trading volumes to 30m tons and annual revenue to RMB120bn.

According to ZhenHua, some of the company's assets are in sanctioned countries, including K&B Oilfield in Kazakhstan, Gbeibe Oilfield in Syria, Pakistan Exploration Project, Ahdeb Field in Iraq, and the Chauk and Yenangyaung Oilfields in Myanmar.

CITIC Group Corp. (CITIC Group) CITIC Resources Holdings (CITIC Resources)

CITIC Resources (1205 HK;
not rated)

CITIC Group is a 100% owned SOE, which holds 60% of CITIC Resources. CITIC Group was formerly called China International Trust and Investment Corporation.

CITIC Resources is positioned as an integrated provider of strategic natural resources and key commodities, with particular focus on the oil, coal and metals businesses.

CITIC Resources owns oilfields in Kazakhstan, Indonesia and Liaoning Province in China. It also has a 22.5% of the Portland aluminium smelter JV, in Australia, and a 14% share in a coal mine JV in Australia. In 2012, the company achieved revenues of RMB39bn.

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Disclosure appendix

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Company	Ticker	Recent price	Price Date	Disclosure
CHINA OILFIELD SERVICES	2883.HK	24.30	20-Nov-2013	4, 6
CHINALCO MINING CORP INTL	3668.HK	1.08	20-Nov-2013	1, 2, 5
CNOOC LTD.	0883.HK	15.76	20-Nov-2013	1, 2, 4, 5, 6, 7, 11
FAR EAST HORIZON	3360.HK	5.98	20-Nov-2013	1, 5, 6
FRANSHION PROPERTIES	0817.HK	2.57	20-Nov-2013	1, 4, 5, 6, 7
KUNLUN ENERGY	0135.HK	13.96	20-Nov-2013	11
PETROCHINA	0857.HK	9.59	20-Nov-2013	4, 6, 11
SINOPEC	0386.HK	6.97	20-Nov-2013	1, 2, 4, 5, 6, 7, 11

Source: HSBC

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