

## SINOLATIN CAPITAL

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### WHY CHINA AND LATIN AMERICA?

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# TABLE OF CONTENTS

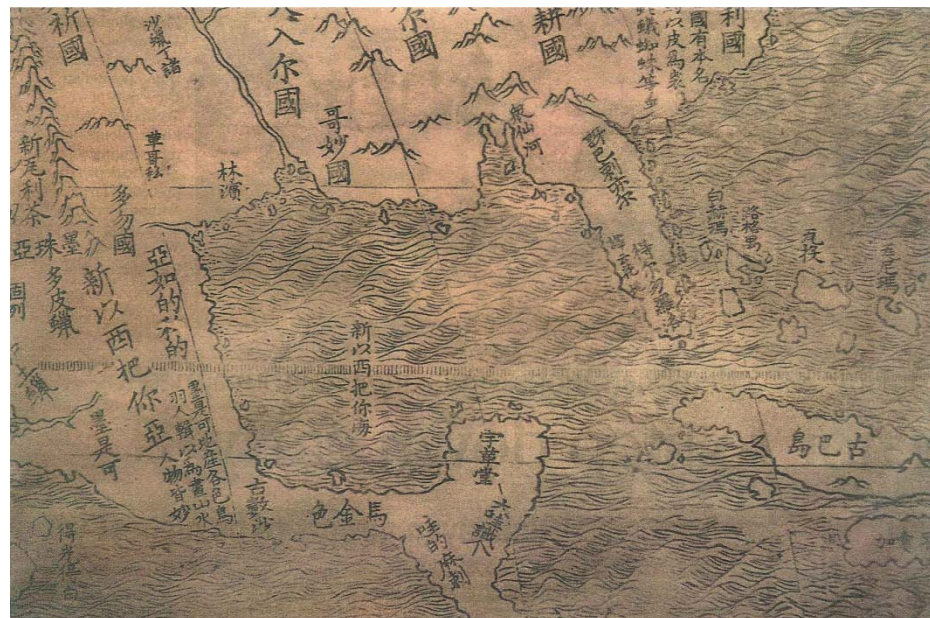
- I. BACKGROUND
- II. BIG PICTURE DRIVERS
- III. APPENDIX

## I BACKGROUND

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## HISTORICAL CONTEXT

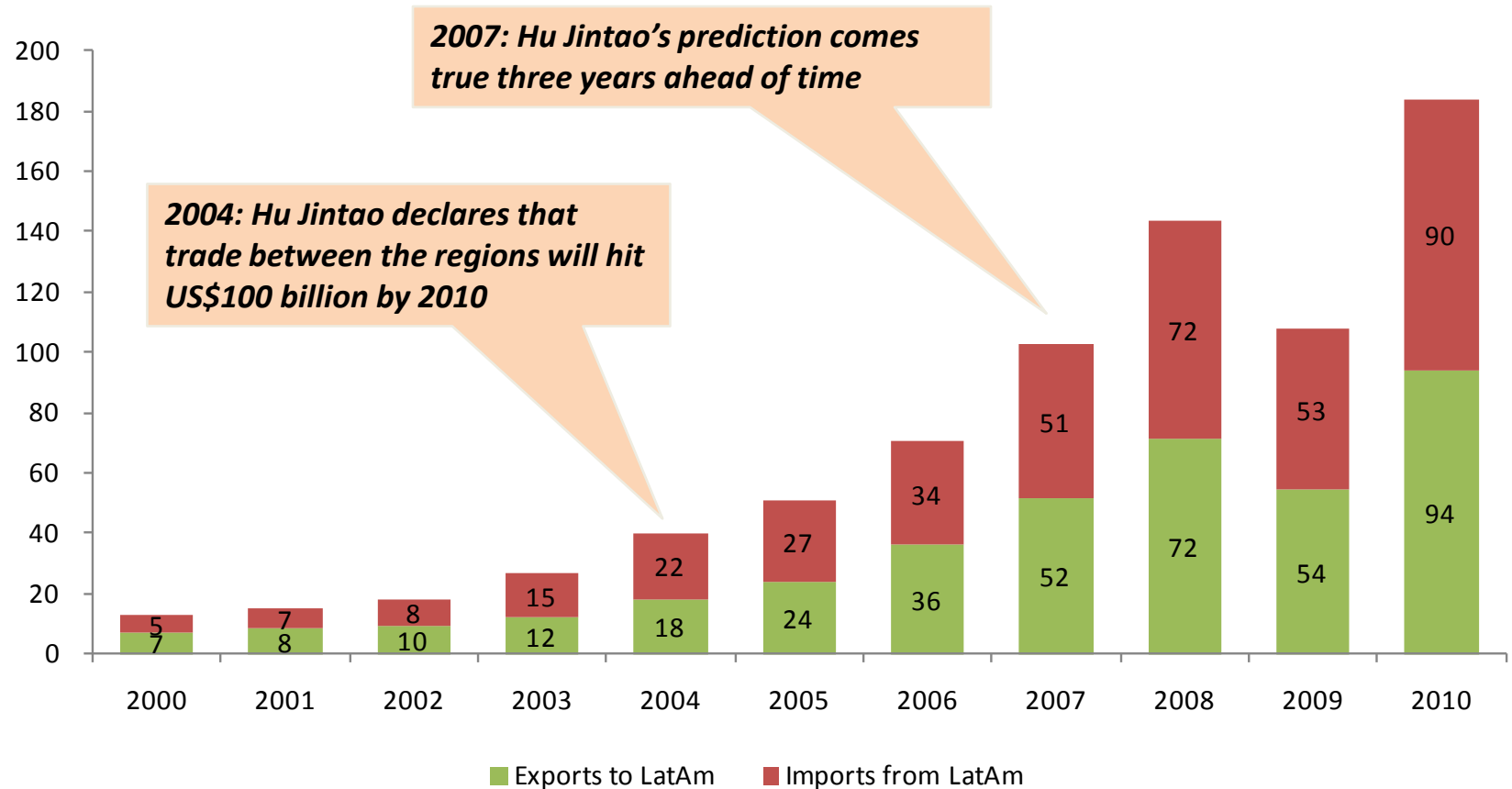
- Jesuit missionaries came to China in the 1500's, and some even became Ming Dynasty officials
- From the 17th century to roughly the 1940's China used silver coins (such as the one below) minted in Mexico and Peru called "columnarias" as a unit of currency. The coin below is dated 1795 and has Chinese "chop" marks that attest to its legitimacy
- Trade between the regions has a long history, but after the communist revolution the relationship virtually disappeared.



Matteo Ricci (1552-1610) was one of the first Jesuit missionaries to China. His map of the new world, printed in 1602 was the first to ever depict the Americas in Chinese script. The map above shows the Gulf of Mexico.

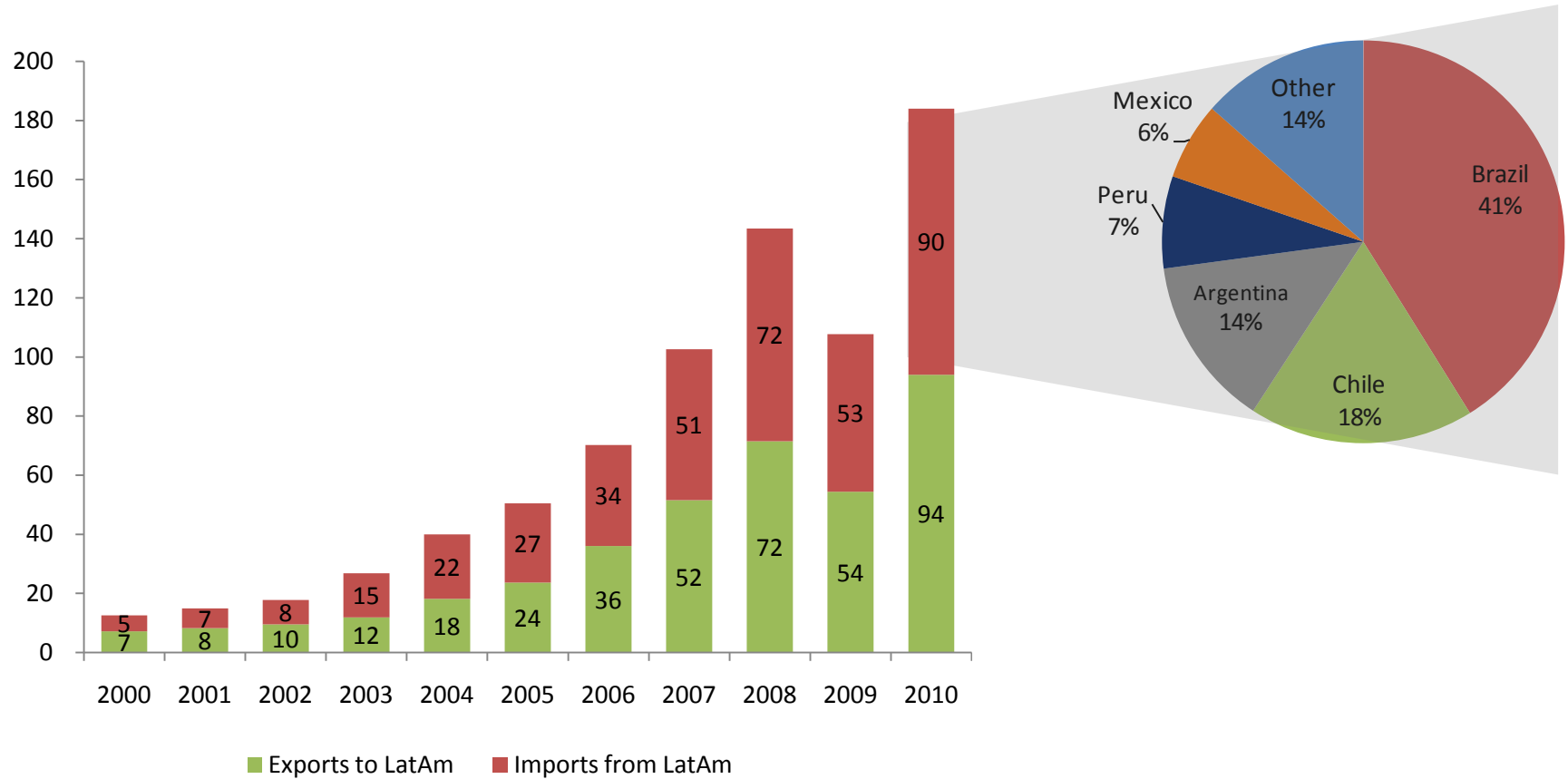
# WHERE WE ARE TODAY

## China Trade with Latin America (US\$ billions)



# WHICH LATIN AMERICAN COUNTRIES IMPORT TO CHINA?

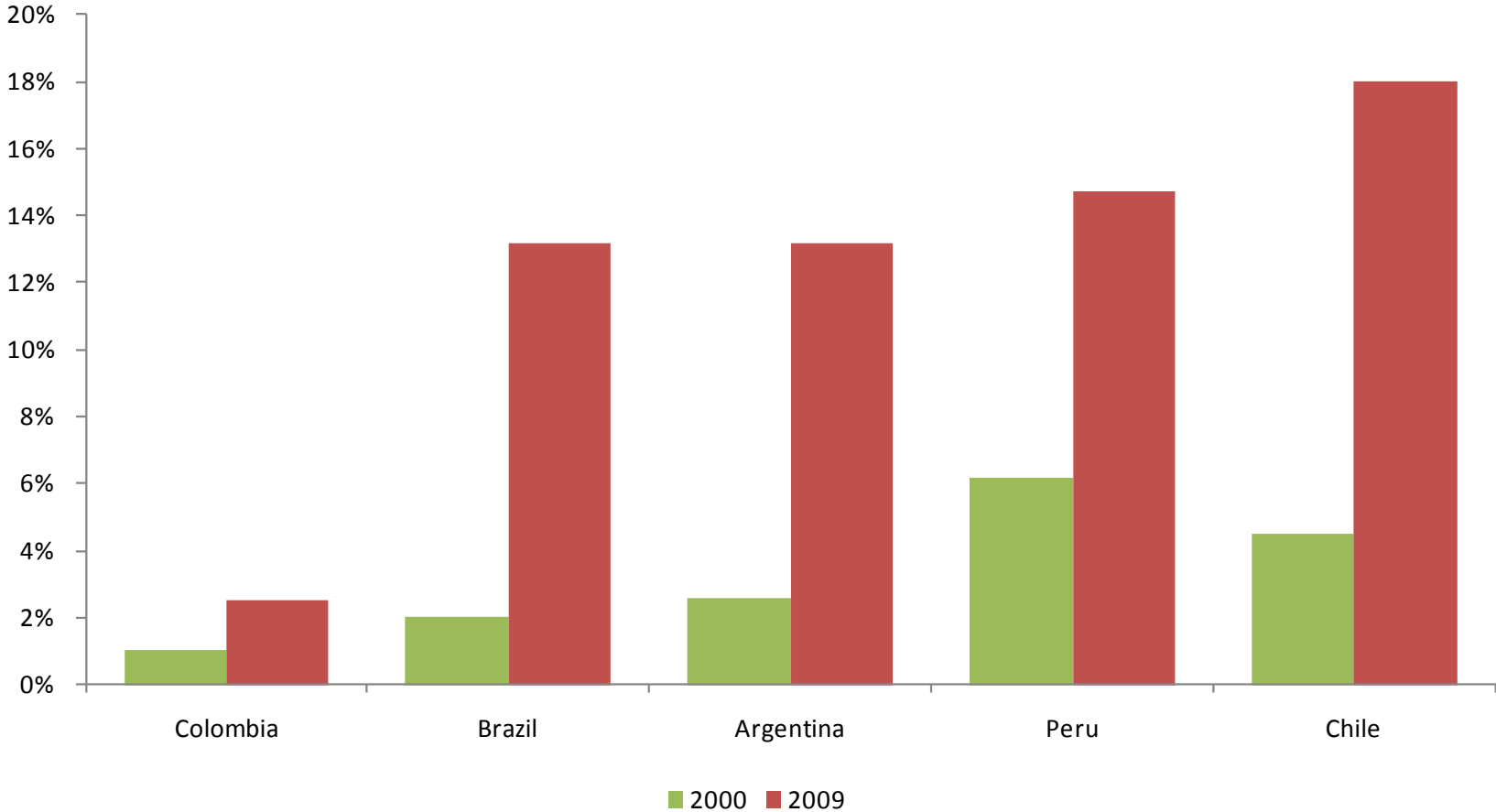
Bilateral Trade from China to Latin America (US\$ billions)



# EXPORT GROWTH FROM LATIN AMERICA TO CHINA

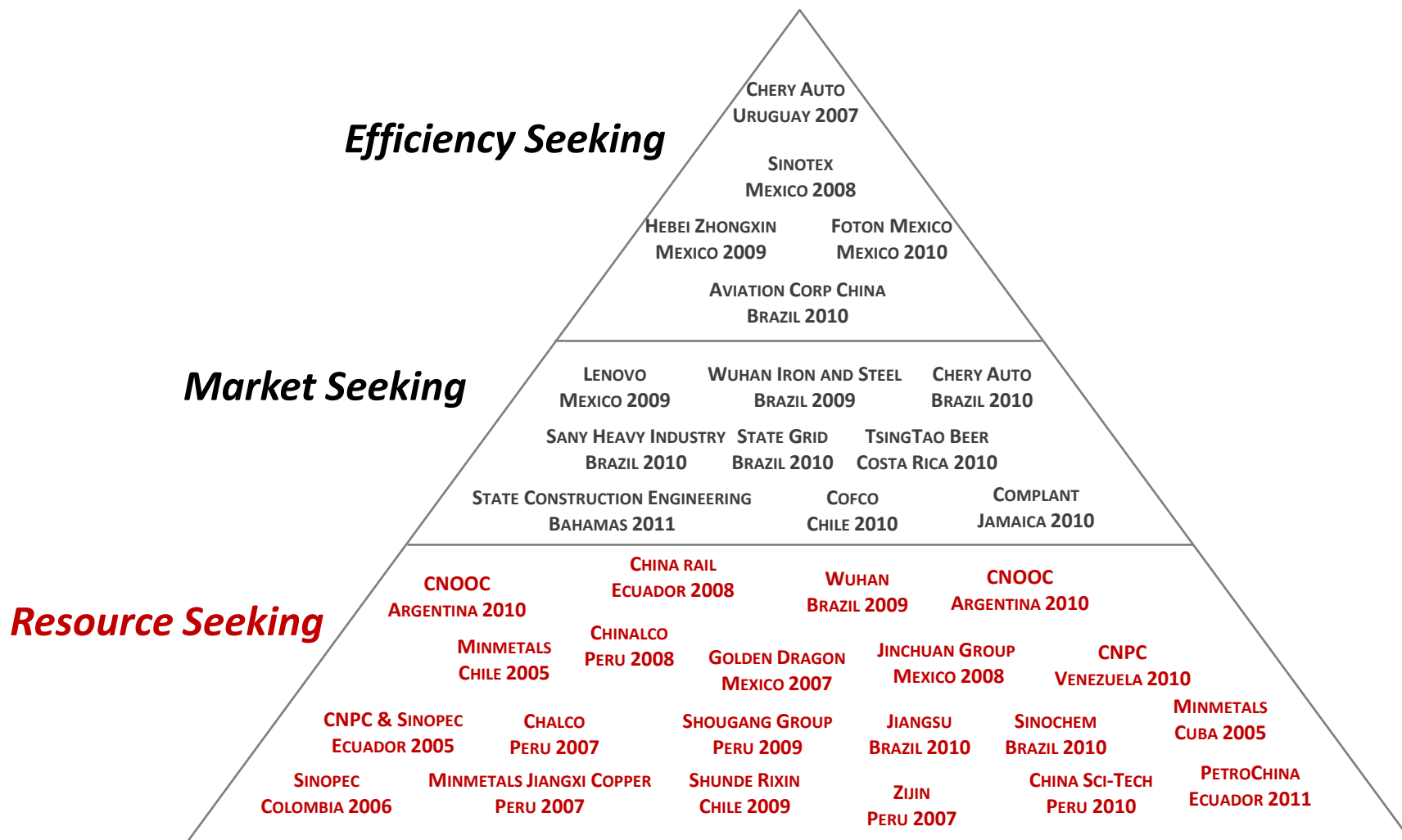
China is the #1 trade partner for Chile, Peru and Brazil

### China's Share of Latin American Countries' Total Exports (2009)



# WHY IS CHINA INVESTING IN LATIN AMERICA?

The bulk of Chinese investments & contracts in Latin America is to secure commodity supply



Source: SinoLatin Capital Analysis with the Federicks Pardee Center

## II BIG PICTURE DRIVERS

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# WHAT ARE THE GROWTH DRIVERS BEHIND CHINA OUTBOUND M&A?

## Urbanization

- 30+ cities with over 10 million people by 2020
- Urbanization means huge infrastructure requirements
- China does not have sufficient natural resources
- And China continues to urbanize and grow
- Raw material scarcity makes Beijing very concerned
- Chinese companies have been told to go outbound

## China Outbound

## Industry Consolidation

- Within China many industries are consolidating
- Fewer companies but much more efficient
- And with more bargaining power
- Less environmentally damaging
- Larger, more sophisticated firms will go overseas
- Chinese companies have been told to go outbound



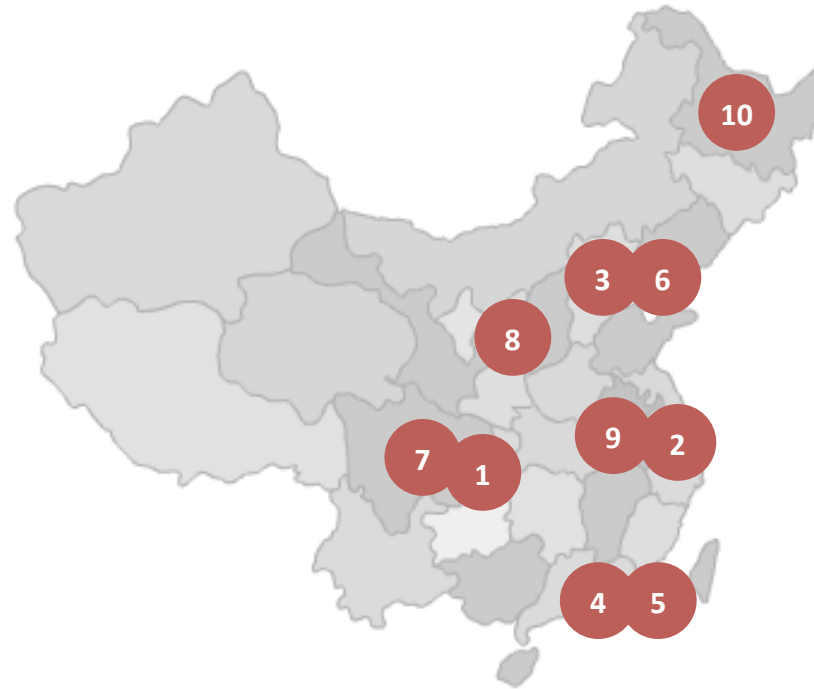
# CHINA HAS AN ENORMOUS POPULATION BUT STILL VERY RURAL

## China Top 10 Cities (mm)

1. Chongqing 32.4
2. Shanghai 18.8
3. Beijing 17.3
4. Guangzhou 15.0
5. Shenzhen 13.3
6. Tianjin 11.9
7. Chengdu 11.3
8. Xi'an 10.5
9. Hefei 10.1
10. Harbin 9.8

Total 150.5

47% population urban



## USA Top 10 Cities (mm)

1. New York 8.4
2. Los Angeles 3.8
3. Chicago 2.9
4. Houston 2.3
5. Phoenix 1.6
6. Philadelphia 1.5
7. San Antonio 1.4
8. Dallas 1.3
9. San Diego 1.3
10. San Jose 1.0

Total 25.5

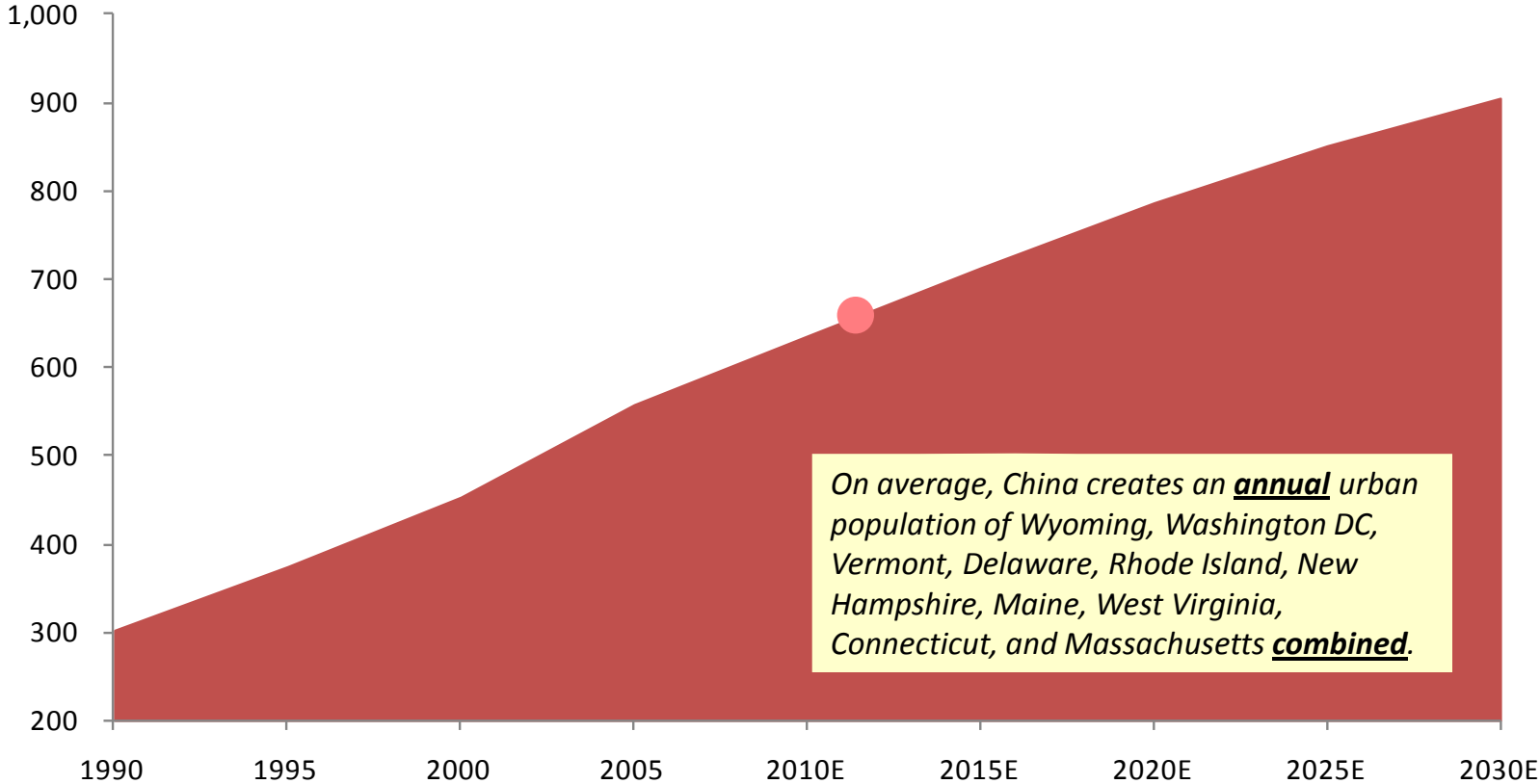
82% population urban

*Despite the vast difference in population size, The US is mostly urban, while China is mostly rural*

# CHINA IS URBANIZING HUNDREDS OF MILLIONS EVERY DECADE

Today, China still has ~ 700 million living in poor, rural areas. Beijing wants “only” 150MM in countryside

China Urban Population (millions)

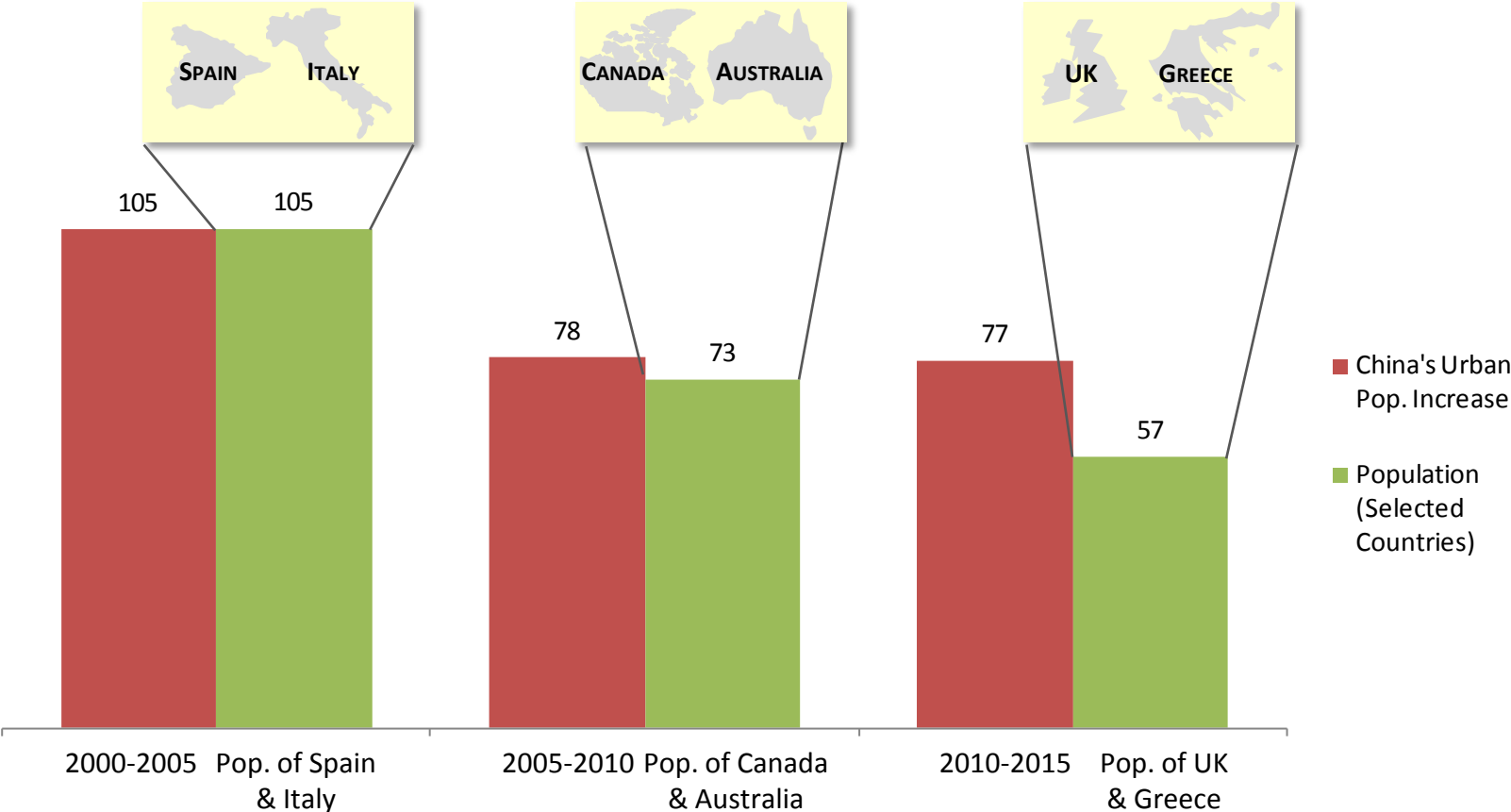


Source: UN Population Division.

# CHINA IS URBANIZING HUNDREDS OF MILLIONS EVERY DECADE

Every 5 years, China's urban population increases by over 70 million people, more than the population of entire countries

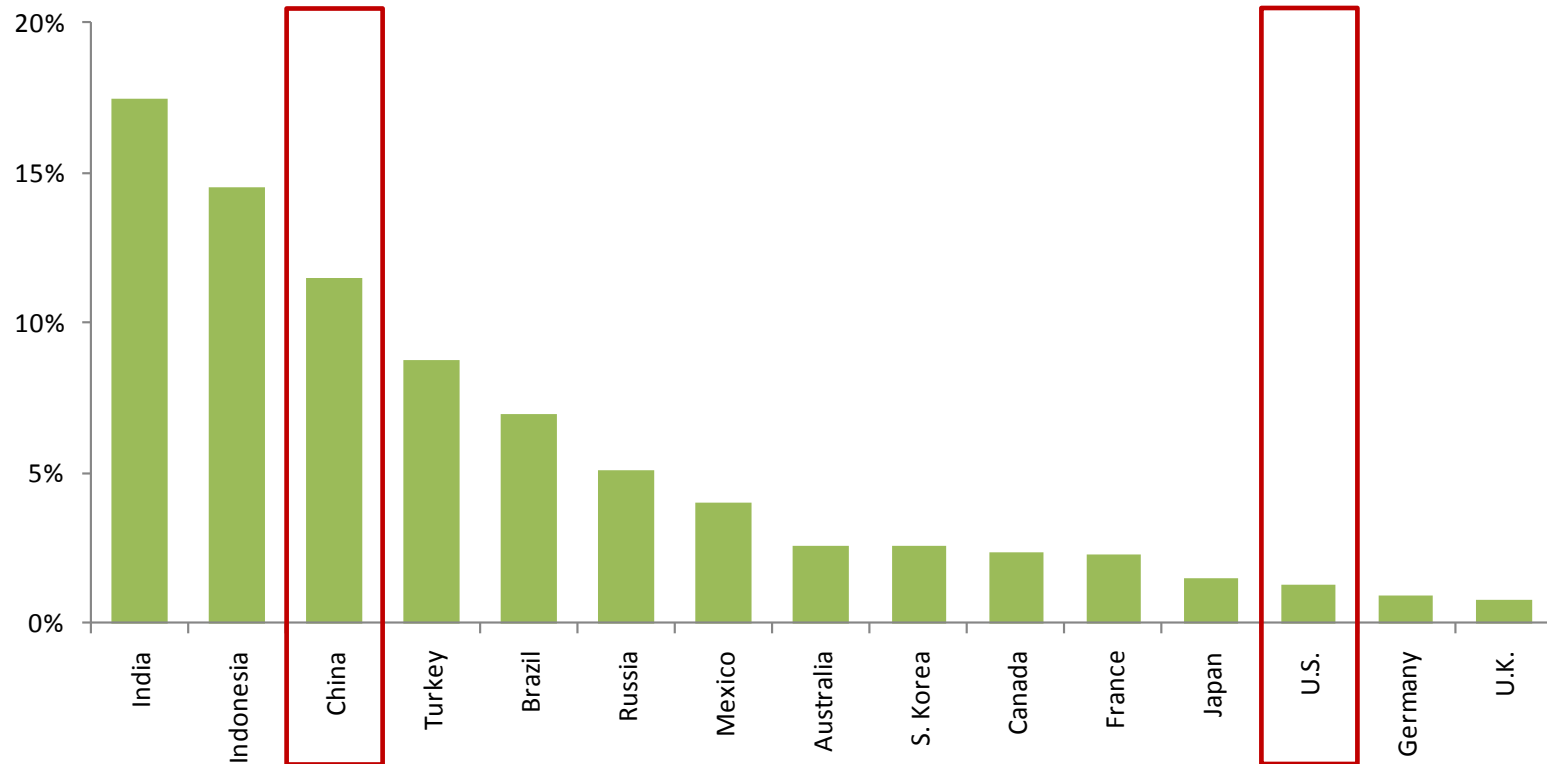
Urban Population Increase in China (millions)



# WHY IS CHINA PUSHING FOR URBANIZATION?

Advanced economies have a low % of output linked to agriculture

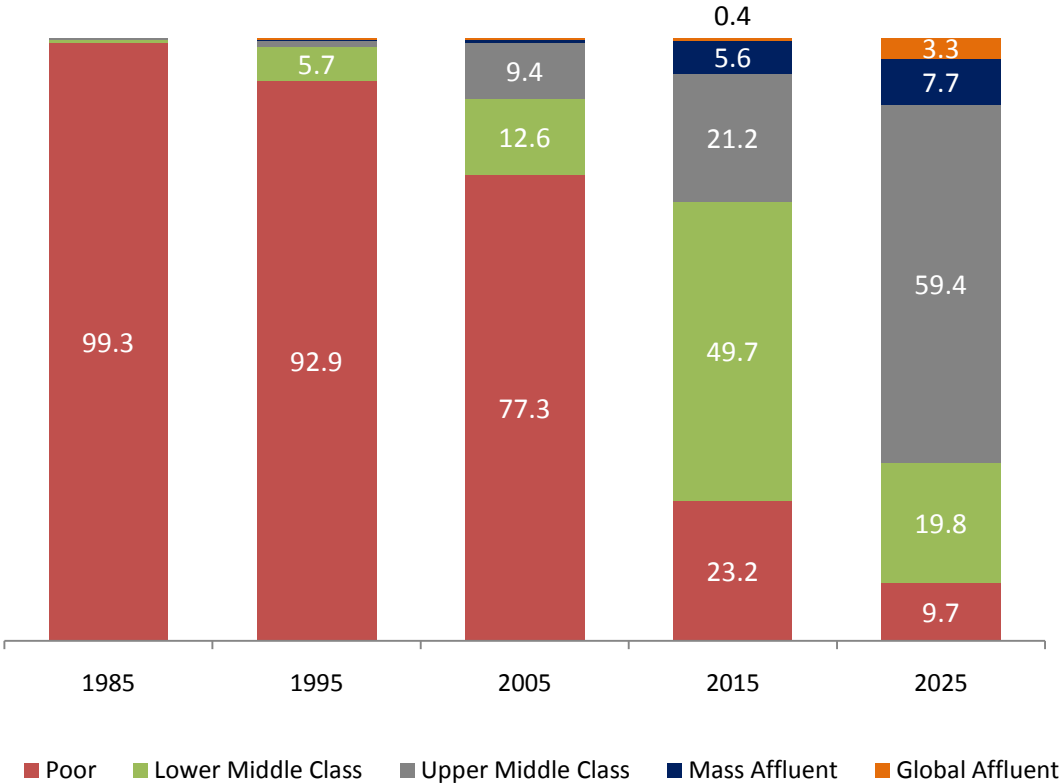
Agricultural Output as % of GDP



# URBANIZATION LEADS TO AN EMERGING MIDDLE CLASS

When people move to the cities in China their income improves

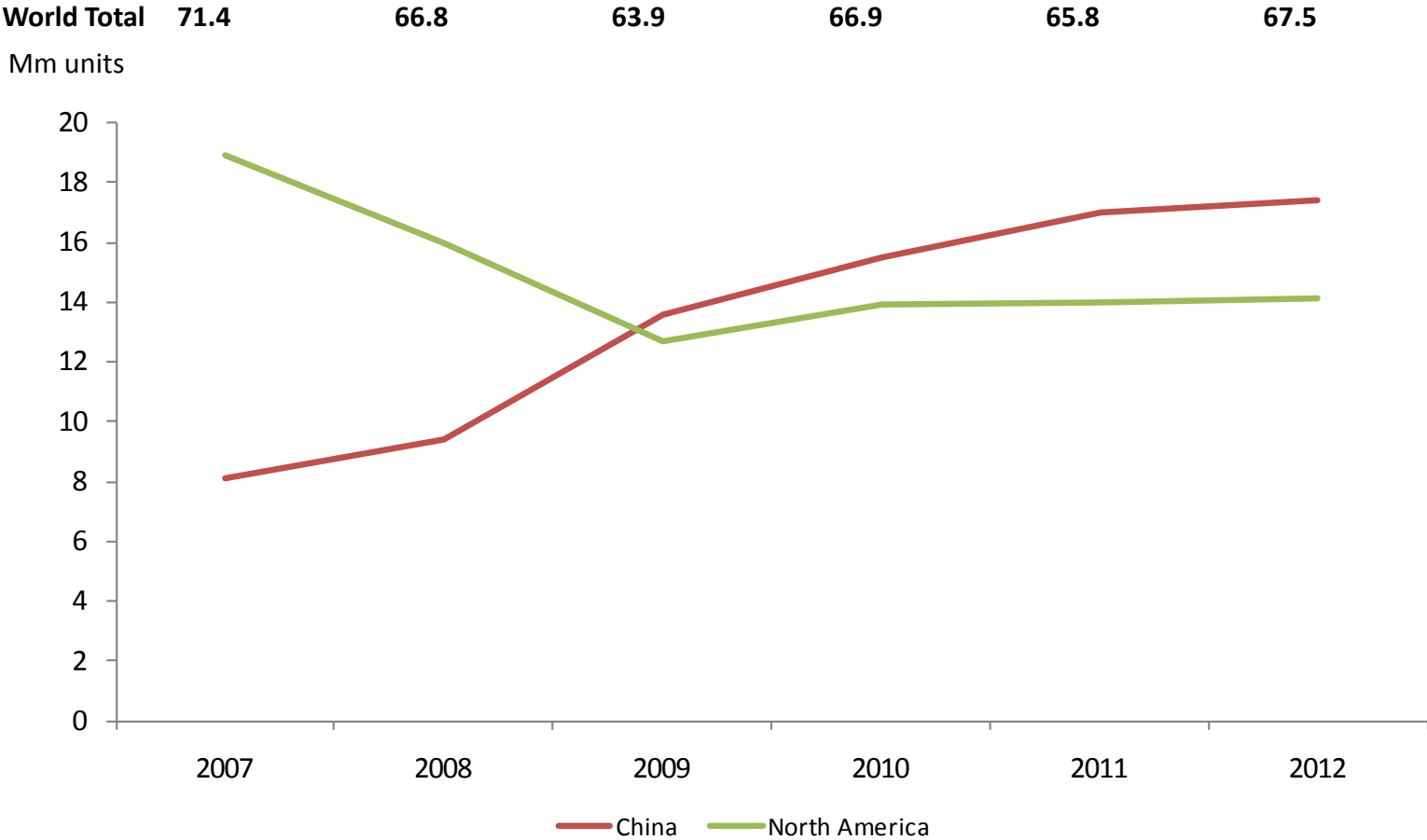
### China's Emerging Middle Class (percentage)



# MIDDLE CLASS HAS CONSUMPTION PATTERNS SIMILAR TO GLOBAL PEERS

People with higher incomes in China buy houses, white goods and cars

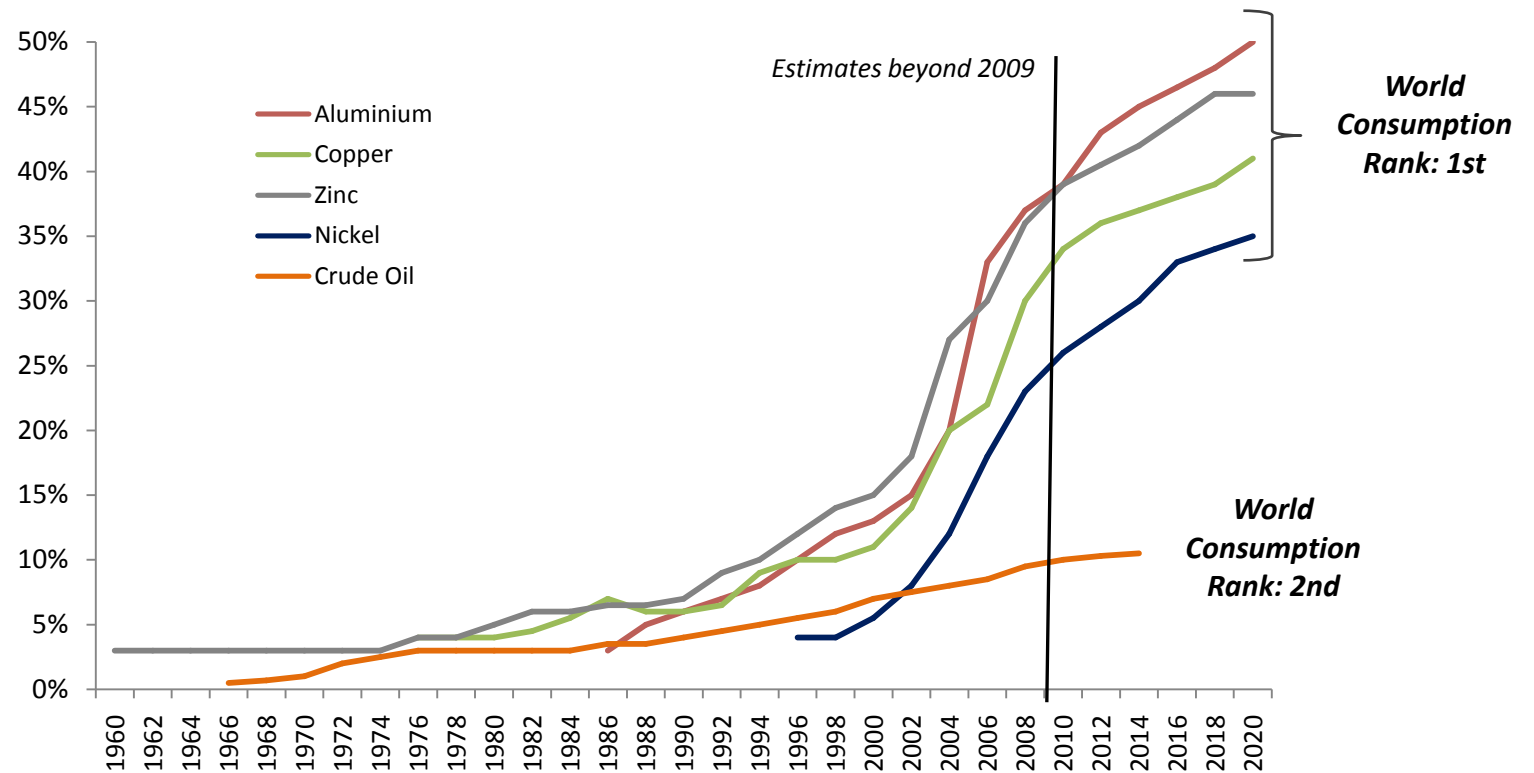
### Annual Vehicle Sales in U.S. vs. China (million units)



Source: Automotive News, Manufacturers' Associations.

# THOSE PURCHASES AFFECT COMMODITIES

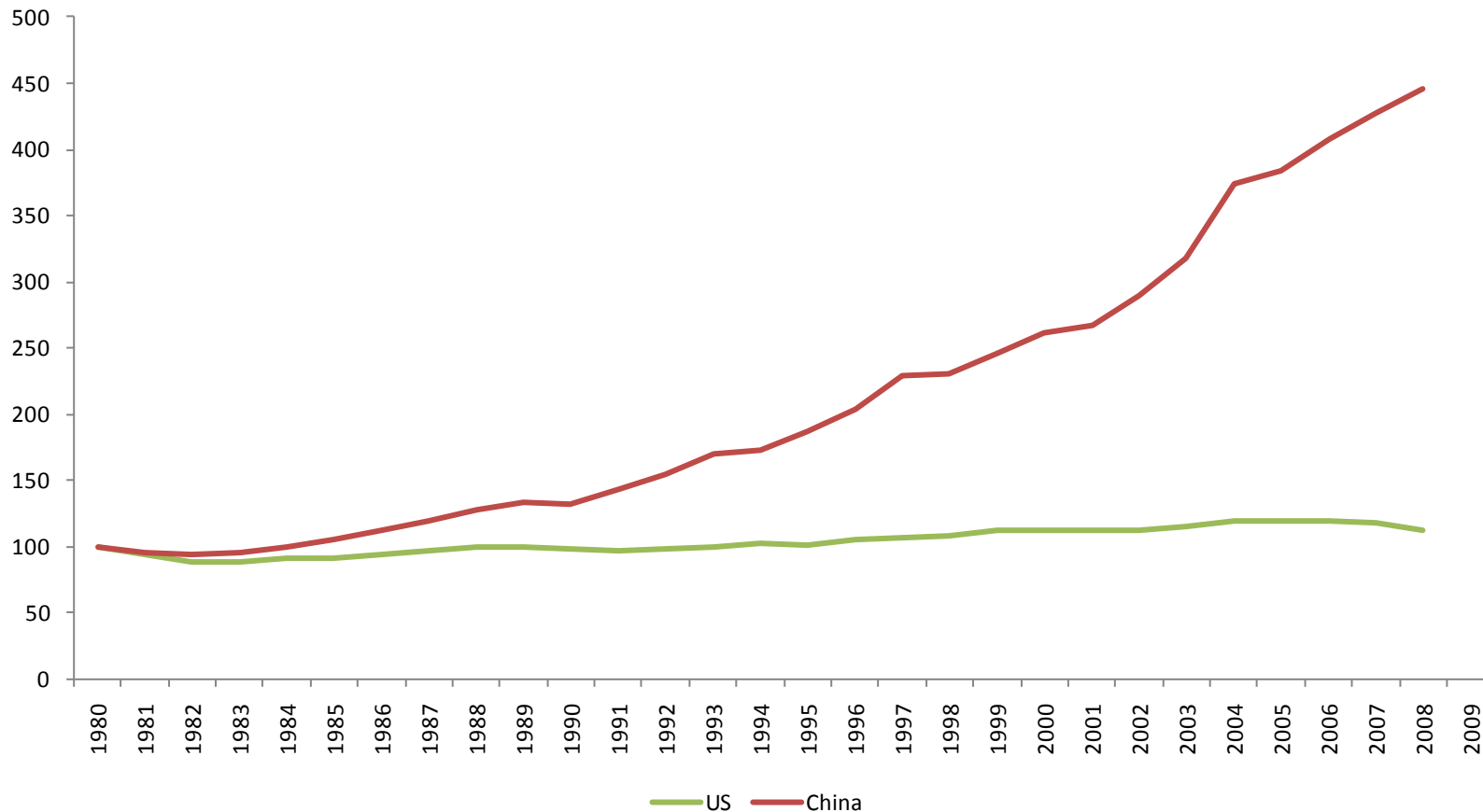
## China's Share of the World Commodity Usage (%)



# CHINA CONSUMES LARGER AMOUNTS OF OIL

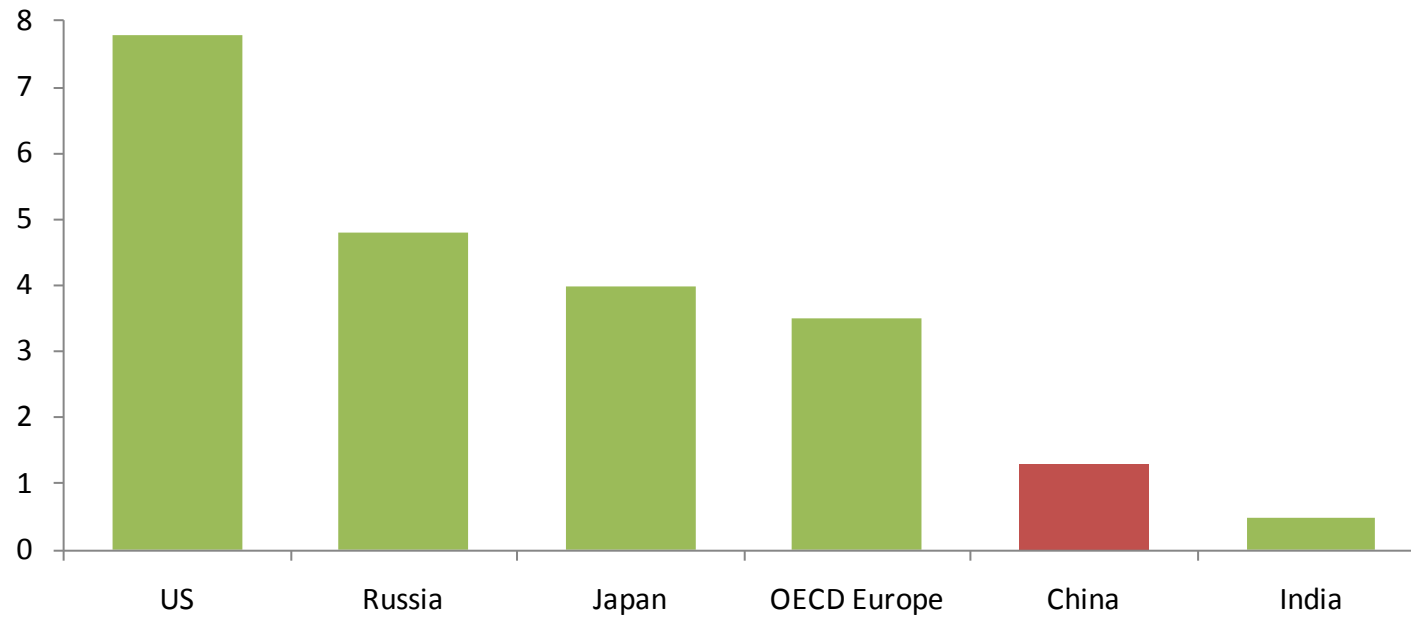
China's oil consumption growth significantly higher than the U.S.

Barrels of Oil Consumption Index: 1980-2009 (Year 1980= 100)



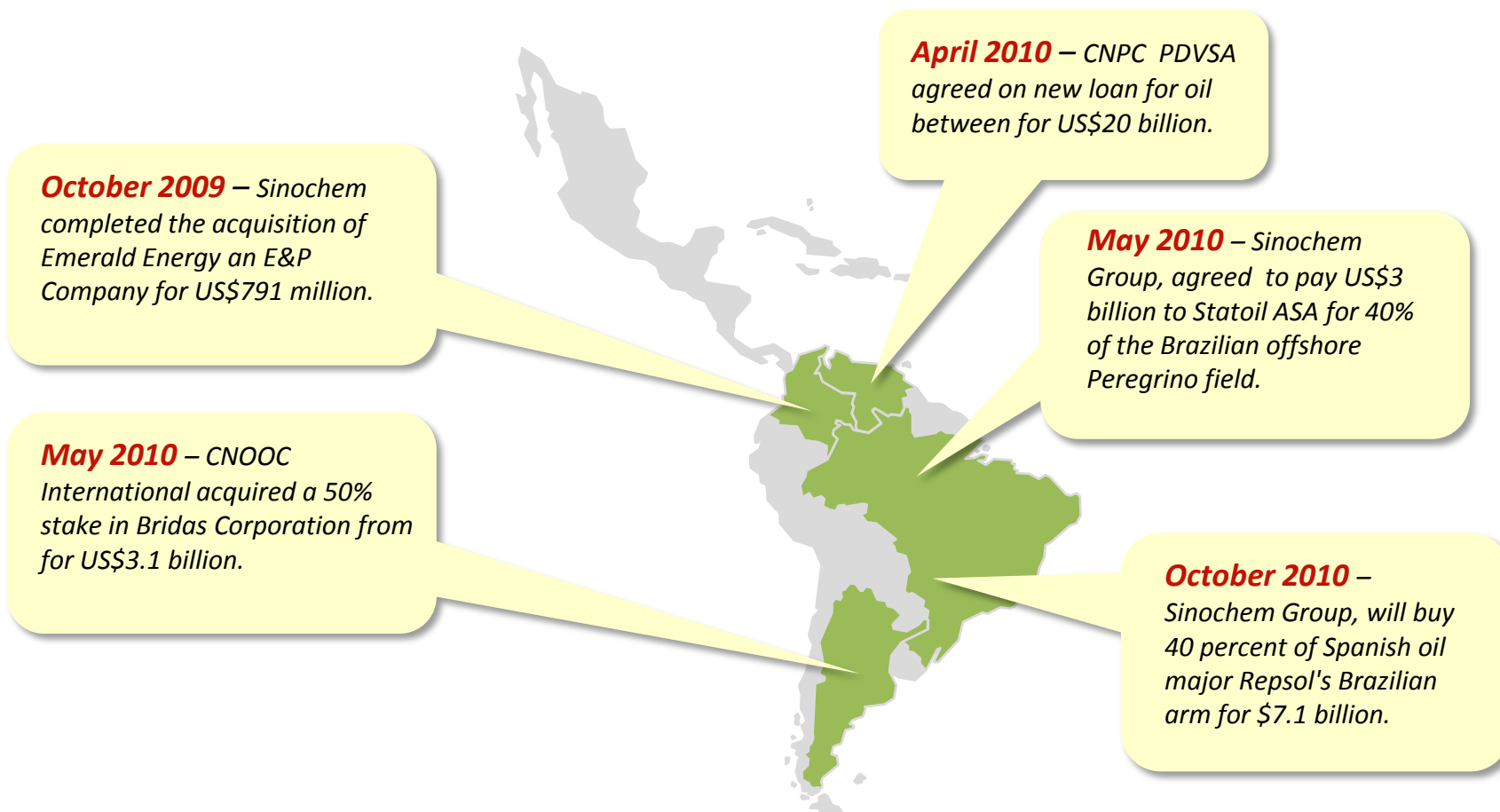
# BUT THERE IS STILL A LONG WAY TO GO (UPSIDE)

Energy Consumption (tons of oil equivalent per capita)



## SINO-LATIN ENERGY AGREEMENTS

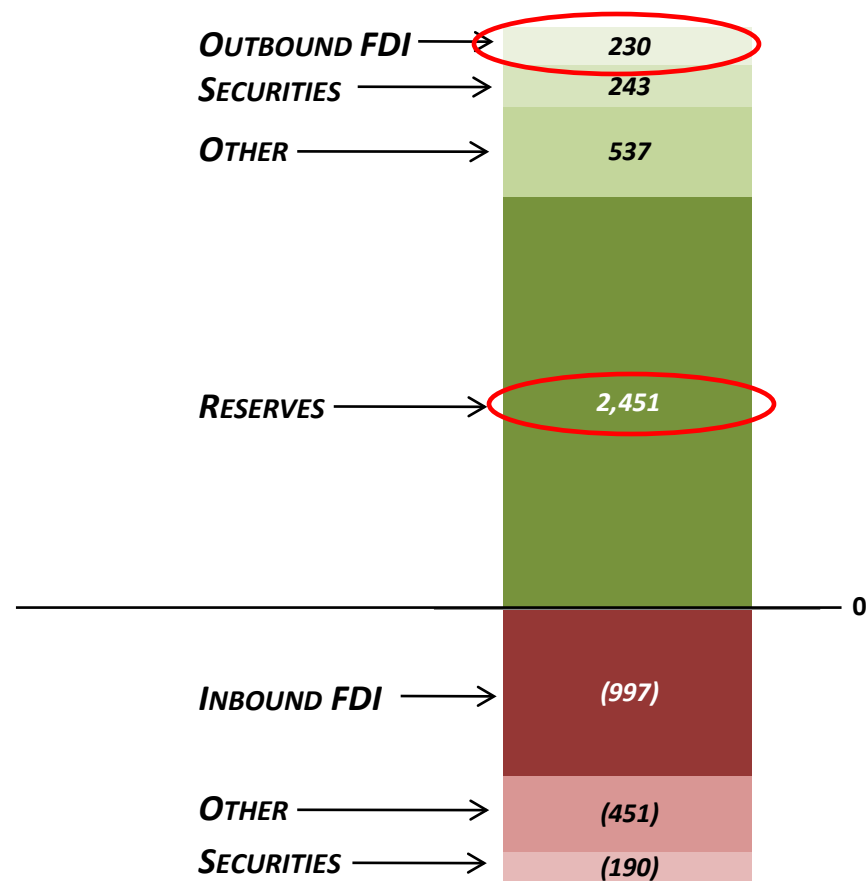
In the last 12 months, China has signed half a dozen oil agreements to secure long-term energy supplies.



# CHINA HAS AN ENORMOUS WAR CHEST

- To date, relatively small overseas foreign investment (outbound FDI)
- Huge foreign currency reserves (as of May 2011 > \$2.9 trillion). Mainly in US\$ denominated UST's
- Serious concerns about US\$ devaluation so China seeking to buy hard assets
- Perception that commodities will hold their value

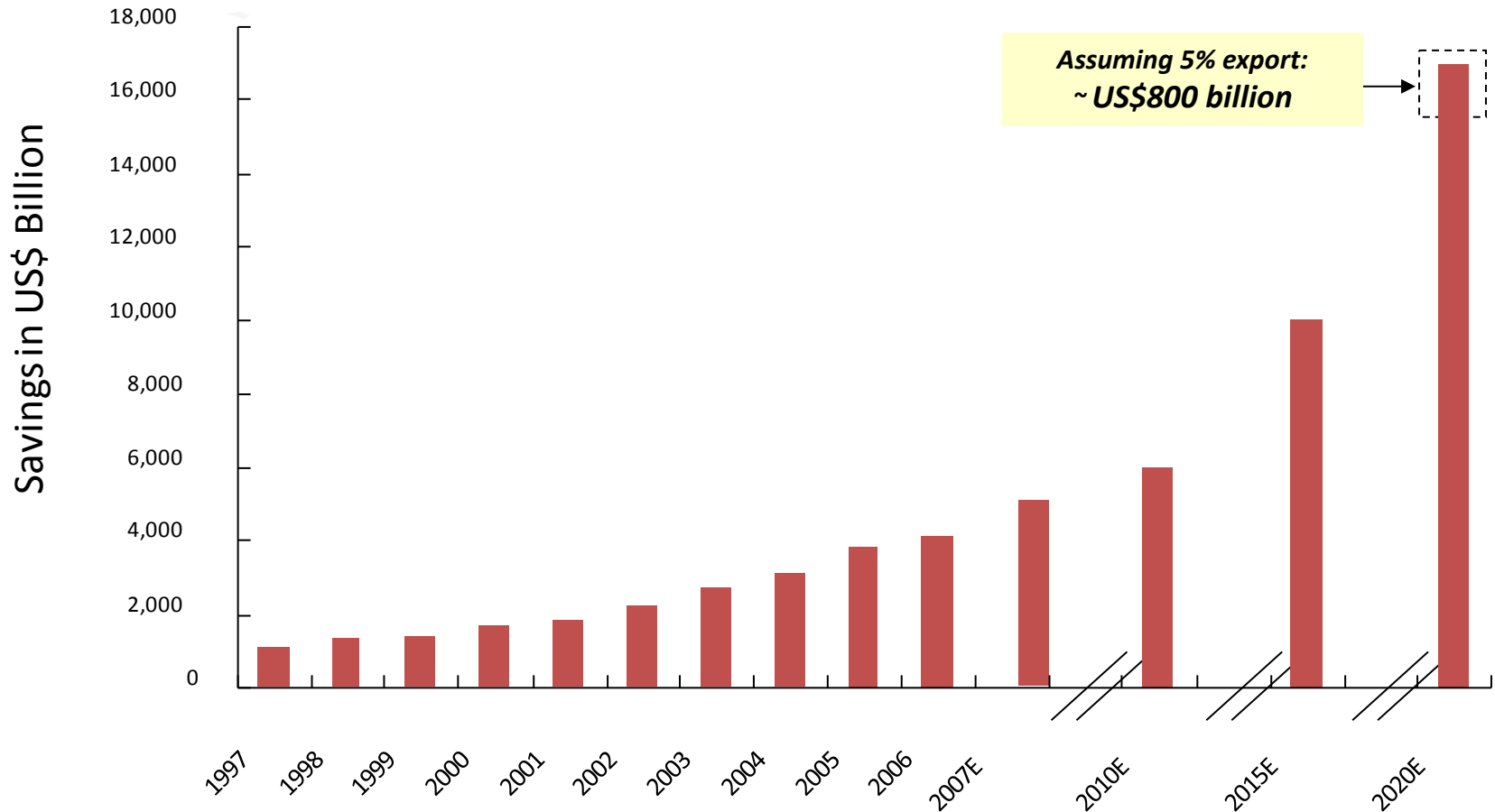
## China's International Investment Position 2009



# CHINA WILL EXPORT MASSIVE AMOUNTS OF CASH

If China uses just 5% of its savings to purchase assets overseas, it will have over \$800 billion to spend annually

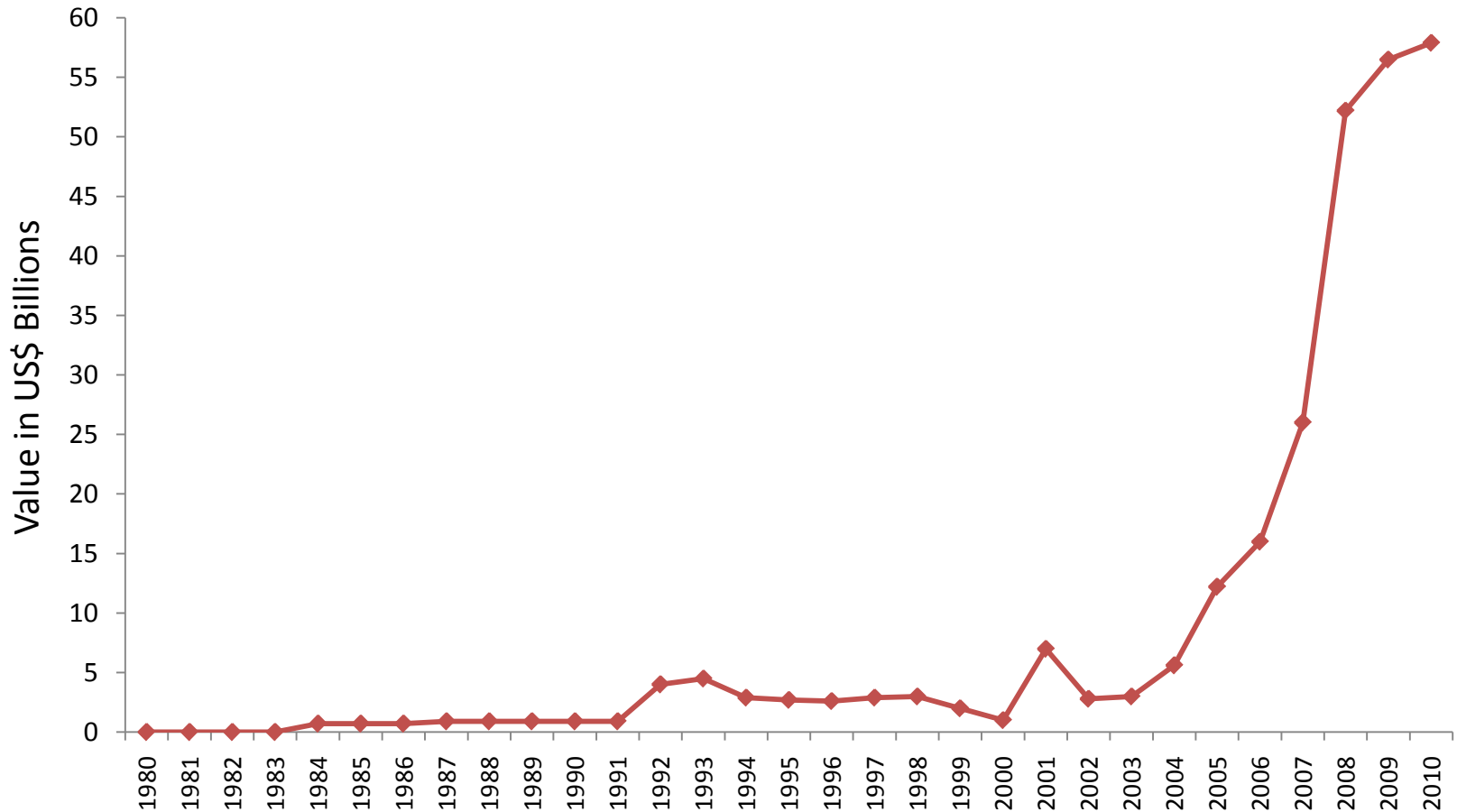
### China's Domestic Savings (1997-2020E)



Source: JP Morgan, China Statistics Bureau, SLC estimates.

# AND THIS IS JUST THE BEGINNING OF OVERSEAS M&A BOOM

China Annual Outbound FDI 1980 – 2010 (US\$ billions)

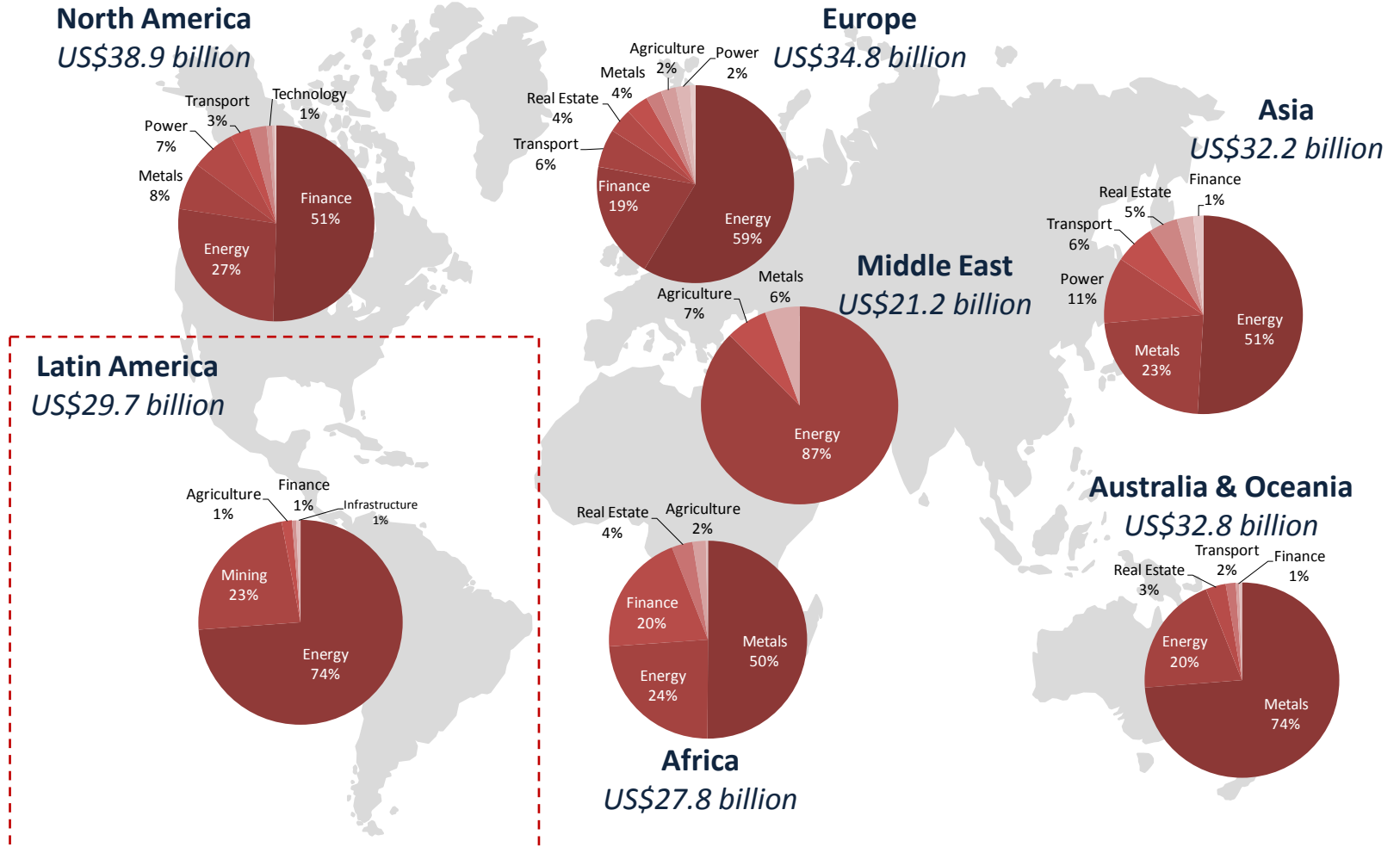


Source: MOFCOM, Various News Sources.



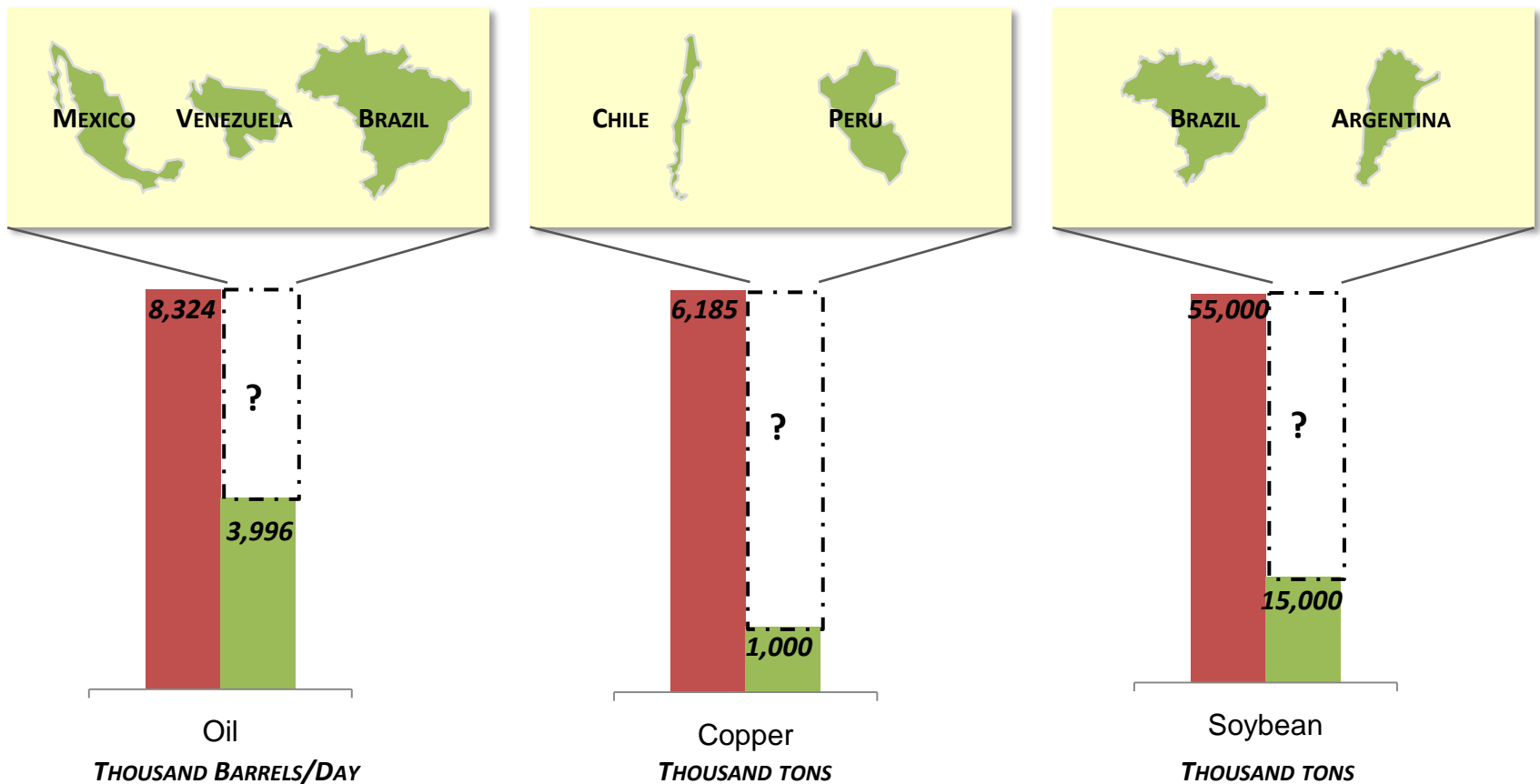
# CHINA HAS INVESTED IN EVERY CONTINENT

China FDI 2005-2010<sup>1</sup> (by region and industry)



# CHINA'S GAP BETWEEN CONSUMPTION AND PRODUCTION IS BIG

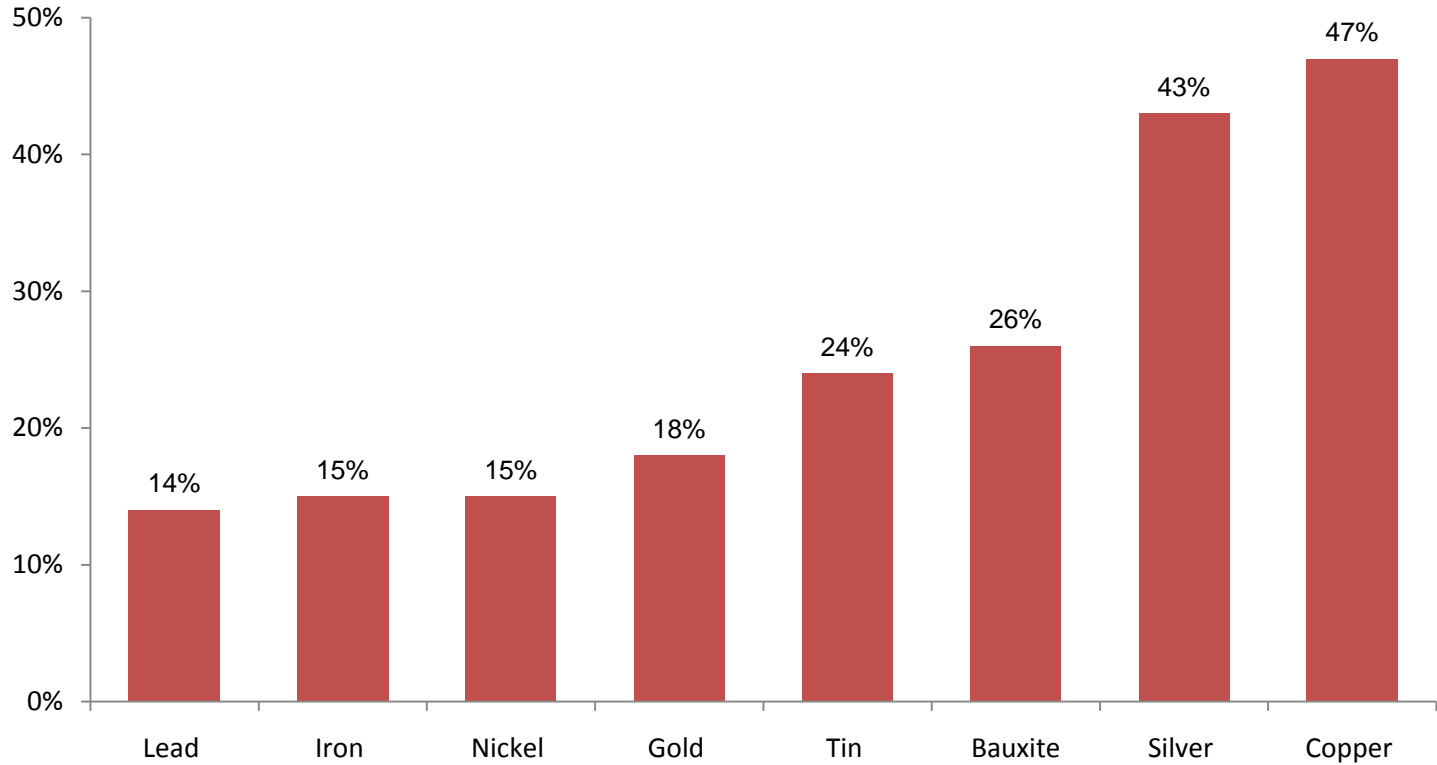
Can Latin America fill the gap between consumption and production?



Chinese Consumption Chinese Domestic Production

# LATIN AMERICA CAN FILL THE GAP

Latin America Share of World Total Production (%)



# LATIN AMERICA CAN FILL THE GAP

## Latin America is #1 Producer or Exporter



**Soybeans**



**Fishmeal**



**Coffee**



**Sugar**



**Beef <sup>(1)</sup>**



**Avocados**



**Papayas**



**Bananas <sup>(1)</sup>**

## Latin America is Top 3 Producer or Exporter



**Table Grapes**



**Pineapples**

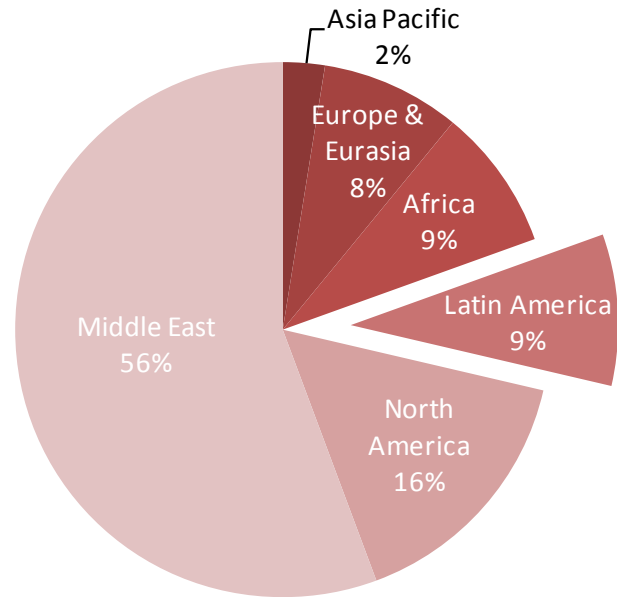


**Lemons & Limes**

# LATIN AMERICA CAN FILL THE GAP

## Global Oil Reserves

(world total 1.34 trillion barrels)



# SELECTED CHINESE DEALS IN LATIN AMERICA

<p>2010</p>  <p><b>JV WITH (50%)</b></p>  <p>Oil: US\$3.1 billion <b>BRAZIL</b></p>	<p>2010</p>  <p><b>China Sci-Tech</b></p> <p>70% interest in 2 projects</p>  <p>Copper: US\$255 million <b>PERU</b></p>	<p>2009</p>  <p><b>JV WITH (40%)</b></p>  <p>Oil Exploration: US\$1 billion <b>ECUADOR</b></p>	<p>2009</p>  <p><b>LOAN TO</b></p>  <p>Oil &amp; Gas: US\$60 million <b>BOLIVIA</b></p>	<p>2009</p>  <p><b>OFF-TAKE AGREEMENT</b></p>  <p>Long Term Iron Ore Supply <b>VENEZUELA</b></p>	<p>2009</p>  <p><b>INVESTED IN (70%)</b></p>  <p>Autos: US\$400 million <b>MEXICO</b></p>
<p>2009</p>  <p><b>ACQUIRED 15% STAKE</b></p>  <p>Agriculture: US\$850 million <b>LATAM</b></p>	<p>2009</p>  <p><b>LOAN TO</b></p>  <p>PETROBRAS</p> <p>Oil: US\$10 billion <b>BRAZIL</b></p>	<p>2009</p>  <p><b>SIGNED AGREEMENT WITH</b></p>  <p>Oil Exploration: US\$16 billion <b>VENEZUELA</b></p>	<p>2009</p> <p><b>Shunde Rixin</b></p> <p><b>INVESTED IN (70%)</b></p>  <p>Iron: US\$1.9 billion <b>CHILE</b></p>	<p>2009</p>  <p><b>ACQUIRED 22% OF</b></p>  <p><b>MMX Mineracao</b></p> <p>Iron: US\$400 million <b>BRAZIL</b></p>	<p>2009</p>  <p><b>INVESTED IN</b></p>  <p>Hydro Energy: US\$559 million <b>ECUADOR</b></p>
<p>2009</p> <p><b>Shougang Group</b></p> <p><b>AGREEMENT TO INVEST IN</b></p>  <p>Iron: US\$1 billion <b>PERU</b></p>	<p>2007</p>  <p><b>ACQUIRED 100% OF</b></p> <p><b>Peru Copper Inc.</b></p> <p>Copper Mines: US\$860 million <b>PERU</b></p>	<p>2006</p>   <p><b>JV (50/50) TO ACQUIRED</b></p>  <p><b>Omimex</b></p> <p>Oil: US\$850 million <b>COLOMBIA</b></p>	<p>2006</p>  <p><b>JV (50/50) &amp; OFF TAKE AGREEMENT</b></p>  <p>Mining: US\$550 million <b>CHILE</b></p>	<p>2006</p>    <p><b>ACQUIRED</b></p>  <p>Oil: US\$1.42 billion <b>ECUADOR</b></p>	<p>2006</p>  <p><b>AGREEMENT TO INVEST</b></p>  <p>PETROBRAS</p> <p>NG Pipeline: US\$240 million <b>BRAZIL</b></p>

### III APPENDIX

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## SUMMARY

- SinoLatin Capital is the first advisory and principal investments firm focusing exclusively on transactions between Latin America & China
- Industry emphasis is on natural resources and infrastructure (specifically mining, energy and agribusiness)
- Team of Latin American & Chinese professionals with a track record of investing in both regions and strong institutional relationships
- Strategic / sourcing partners in Latin America (leading investment banks, PE and law firms, among other) with local execution capabilities
- Strong relationships with sources of capital in China including strategic and financial buyers, policy banks, and commercial lenders
- Headquartered in Shanghai, China with offices in New York and Lima, Peru



# OUR PARTNERS

US Naval Academy Annapolis	Morgan Stanley & Co Latin America I-Banking	Wharton MBA	JP Morgan Private Equity	Compass Point Capital Private Equity	ChinaVest Ltd I-Banking and Private Equity	SinoLatin Capital	Erik Bethel	
Universidad Catolica - Chile	Ministry of Finance Peru	Wharton MBA	Deutsche Bank I-Banking	UBS I-Banking		SinoLatin Capital	Jorge Barreda	
Tecnologico de Monterrey	Purina Agribands	Los Olivos Alimentos Agribusiness Mex.	Corporacion Gomez Cobo Agribusiness PE *		CEIBS - China EMBA	GOXCO China PE	SinoLatin Capital	Luis Gomez
Shanghai University of Finance and Economics	China Audit Bureau SOE Auditing	China Ministry of Commerce Foreign Trade Policy	China Jin Mao Group	CEIBS - China EMBA	China Jin Mao Group	Shanghai Financial Sector Investment Fund PE	SinoLatin Capital	Lu Mei

\* SLC has a staff of ~ 20 in Shanghai, New York, and Lima, Peru

# WHAT WE BRING TO THE TABLE

## *Relationships*

*Solid relationships in both regions build over decades...*

## *Sector Knowledge*

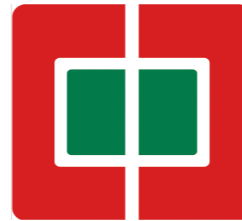
*Focused on mining, forestry, agribusiness, and energy sectors...*

## *Experience*

*Combined track record of US\$26+ billion of transactions in Latin America and China...*

## *Expertise*

*Experience in cross-border M&A and private equity...*



## *Communication*

*Can overcome language and cultural barriers in China and Latin America...*

## *Deal Sourcing*

*Extensive deal sourcing network in Latin America and relationships with investors in China...*

## *Background*

*UBS Investment Bank, JP Morgan, Morgan Stanley, Merrill Lynch, ChinaVest, Wharton, Columbia, CEIBS ...*

## *Partners*

*Latin American and Chinese professionals understand how to do business in both regions...*

# FOCUSED

	China	Latin America	Rest of World
M&A Advisory			
Private Equity			
Tailored Research			

Mining



Agribusiness



Energy



## CONTACT INFORMATION

**SinoLatin Capital**

**Min Sheng Lu #1518 Building A**

**Suite 703A**

**Shanghai, China 200135**

**+(8621) 6109-9568**

Erik Bethel, Managing Partner  
[ebethel@sinolatincapital.com](mailto:ebethel@sinolatincapital.com)

Jorge Barreda, Partner  
[jbarreda@sinolatincapital.com](mailto:jbarreda@sinolatincapital.com)

Luis Gomez Cobo, Partner  
[lgomez@sinolatincapital.com](mailto:lgomez@sinolatincapital.com)

Lu Mei, Partner  
[mlu@sinolatincapital.com](mailto:mlu@sinolatincapital.com)

