ChemChina Nearing Deal to Buy Syngenta for Record $43 Billion

Bloomberg.com, 2nd February 2016

China National Chemical Corp. is nearing an agreement to buy Swiss pesticide-and-seeds-maker Syngenta AG for about 43.7 billion francs ($42.8 billion) as the state-backed company extends its buying spree with what would be the biggest-ever acquisition by a Chinese firm, said people familiar with the matter.

ChemChina, as the state-owned company is known, offered about 470 francs a share in cash and a deal could be announced as early as Wednesday when the Swiss company reports earnings, the people said, asking not to be named as the details aren't public. That's 24 percent higher than Syngenta's last close of 378.40 francs on Feb. 1. Its shares rose 3.7 percent to close at 392.3 francs in Zurich.

The deal would help Chairman Ren Jianxin transform ChemChina into the world's biggest supplier of pesticides and agrochemicals, while snatching an asset coveted by St. Louis-based Monsanto Co. It also underscores the importance China attaches to owning seed and crop care technology that can boost agricultural output and help feed the world's biggest population.

Representatives for ChemChina and Syngenta declined to comment. Final talks are ongoing and could still fall apart or be delayed, the people said.

At $43 billion, a successful purchase would be the largest acquisition by a Chinese firm, surpassing China Unicom Hong Kong Ltd.'s $29 billion purchase of China Netcom Group Corp. in 2008, according to data compiled by Bloomberg.

ChemChina has lined up bridge financing of about $25 billion for the offer from banks, two people familiar with the matter said.

Delisting Plans

ChemChina is considering delisting Syngenta's shares after the deal, people with knowledge of the matter said. The company plans to make an offer for all of the Swiss company's stock and remove it from the Zurich exchange if it gets sufficient acceptance, the people said, asking not to be named because the discussions are private.

The Chinese company is also planning to keep Syngenta's management team largely in place, the people said.

Chinese Dealmaker

Analysts expect Syngenta to report an 11 percent decline in annual sales to $13.5 billion tomorrow. The company in 2014 generated 75 percent of its revenue from crop protection such as pesticides, followed by its seed business, markets that would help ChemChina reduce its reliance on petrochemical and petroleum products, which accounted for almost half of its 256.4 billion yuan ($39 billion) in 2014 revenue.

Behind the Chinese company's pursuit are national interests. Chinese President Xi Jinping is trying to boost agricultural output to maintain self-sufficiency as a growing middle class consumes more grain-intensive meat and farmland is converted to housing and golf courses. The World Bank estimates that China's arable land declined 6 percent in the last decade as economic growth boomed.

As well as domination of the Chinese market, Syngenta will provide global access to farmers, from Brazil to the U.K. Helping execute that vision is Ren, a 58-year-old executive who started China's first professional cleaning company with a 10,000 yuan loan and is now emerging as one of the country's most active dealmakers.

Deal Appetite Surging

Syngenta would trump all past deals in a country whose appetite for foreign assets is surging. ChemChina's latest purchase follows other Chinese outbound deals this year including Haier Group Corp.'s $5.4 billion purchase of General Electric Co.'s home-appliance business to Dalian Wanda Group Co.'s deal to buy control of Legendary Entertainment. This year's tally is on pace to exceed 2015's record $123.9 billion, according to data compiled by Bloomberg.

In 2016 alone, ChemChina, whose holdings include tiremaker Pirelli & C. SpA, led a group that agreed to buy German machinery maker KraussMaffei Group for 925 million euros ($1 billion) and it acquired 12 percent of Swiss commodity trader Mercuria Energy Group Ltd. Prior to that, purchases have included Adisseo Group in France to Australia's Qenos Holdings Pty and Norway's Elkem AS. The company has announced more than $15 billion of deals in the past decade, excluding Syngenta, according to Bloomberg data.

Monsanto Rebuff

For Syngenta, led by interim Chief Executive Officer John Ramsay, the agreement caps months of discussions and wider speculation surrounding its future. ChemChina was said to have previously offered about 449 francs a share and Syngenta last year rejected a 470-franc-a-share offer from Monsanto. Strategically, the Swiss company will get improved access to emerging markets at a time when the planned combination of Dow Chemical Co. and DuPont Co. threatens to create a new powerhouse in agricultural products.

Pressure is also building on Monsanto. Its market-leading position in genetically-modified seeds is threatened by the creation of a Dow-DuPont giant when the merger closes in the second half of this year. As recently as November, Monsanto said it was discussing internally the merits of a new offer for the Swiss company as well as opportunities to acquire crop-chemical assets from other companies.

A ChemChina deal would be the easiest transaction to get by antitrust regulators as the combination with the Chinese company's existing agrochemical business, Adama, would still only result in 19 percent market share, Andrew Benson, an analyst at Citigroup, said in a note yesterday. Some disposals of fungicides and herbicides may be required.

Andrew Liveris, chief executive of Dow, said Tuesday he's not surprised by the ChemChina deal given the Asian nation views genetically modified crops as a strategic area and the Chinese company previously expressed an interest in Dow's agricultural unit.

The takeover would likely need to win clearance from U.S. national security officials who review acquisitions of American businesses by foreign buyers. Even though Syngenta isn't based in the U.S it does have American operations, which would probably draw scrutiny from the Committee on Foreign Investment in the U.S. The committee, which is led by the Treasury Department, is tasked with guarding against national security risks from overseas buyers.

CFIUS pays particular attention to acquisitions by Chinese investors, especially deals involving U.S. technology. But all industries are subject to scrutiny, including agriculture.

Syngenta has two business units in the U.S., seeds and crop protection. The North American business generated $3.6 billion in sales last year, according to the company's website.

Sensitive Sites

CFIUS, in addition to considering whether control over food supply raises any national security issues, will review whether the buyer is acquiring facilities near U.S. military operations and other sensitive sites, as it did before allowing China's Shuanghui International Holdings Ltd.to buy Smithfield Foods Inc., the world's largest hog and pork producer, in 2013.

Other deals have required modifications. In 2013, CFIUS approved the acquisition of U.S. assets of Canadian energy company Nexen Inc. by Cnooc Ltd., China's biggest offshore oil and natural gas producer. Although the companies never announced terms of the agreement with CFIUS, Cnooc was barred from operating oilfields in the Gulf of Mexico under the accord due to proximity to a naval base, people familiar with the matter told Bloomberg at the time.

Syngenta operates 41 research and development sites and 36 production and supply sites in the U.S., according to the company's website.

Last month, Dutch company Royal Philips NV said it was canceling the sale of its lighting-components business to a Chinese-led consortium due to opposition from CFIUS. The committee had jurisdiction over the deal because of a Philips subsidiary in California.