



# Mainland China and Hong Kong

## 2017 Q1 Capital Markets Overview and IPO Markets Update



# Foreword

In 2017 Q1, the Mainland China stock market grew steadily on the back of a stabilising economy and improved market sentiment. Continuing the momentum from 2016 Q4, the A-share IPO market remained active with both the number of listings and the amount of funds raised one of the highest in recent years.

In Hong Kong, an influx of capital from Chinese investors prompted by the attractive valuations of the Hong Kong stock market and Renminbi volatility expectations helped propel the Hang Seng Index and trading turnover to an 18-month high. The number of IPOs recorded in 2017 Q1 was the highest in more than two decades, reflecting a strong demand in the primary market.

Our latest quarterly update contains key observations of the Mainland China and Hong Kong stock markets as well as upcoming developments of the bond markets. In addition, it analyses Hong Kong and A-share IPOs from various perspectives and includes our outlook for the primary equities market for the rest of 2017.



Capital Markets Overview

Mainland China IPO Market

Hong Kong IPO Market





# Capital Markets Overview

- Market Highlights
- Mainland China Stock Market
- Hong Kong Stock Market
- Stock Connect
- Mainland China Debt Market
- Hong Kong Debt Market

# Market Highlights

- The Mainland China stock market grew steadily on the back of a stabilising economy and improved market sentiment. The Shanghai Composite Index and Shenzhen Composite Index ended the quarter at 3,223 and 1,986, which translate to year-to-date increases of 3.8 percent and 0.9 percent, respectively. The daily turnover of both exchanges also increased.
- The Shanghai Stock Exchange and the Shenzhen Stock Exchange came in second and third, respectively, in the 2017 Q1 global rankings in terms of funds raised. A total of 134 IPOs worth a combined RMB 70 billion were recorded – the highest first quarter figures since 2014.
- Capital is flowing into Hong Kong as Chinese investors seek to take advantage of relatively low stock valuations. The inflows are also the result of Renminbi depreciation expectations.
- Inflows into Hong Kong were most pronounced in the first quarter. The Hang Seng Index closed the quarter at 24,112, the highest over the past one and a half years. The average daily turnover in 2017 Q1 also jumped by 28 percent to HKD 60 billion compared to HKD 47 billion in 2016 Q4.
- Hong Kong recorded 20 MB IPOs and 19 GEM IPOs in 2017 Q1, the highest first quarter figures in more than two decades. However, funds raised of HKD 13 billion was the lowest first quarter figure since 2014.

# Mainland China's Stock Market - Steady Growth in 2017 Q1

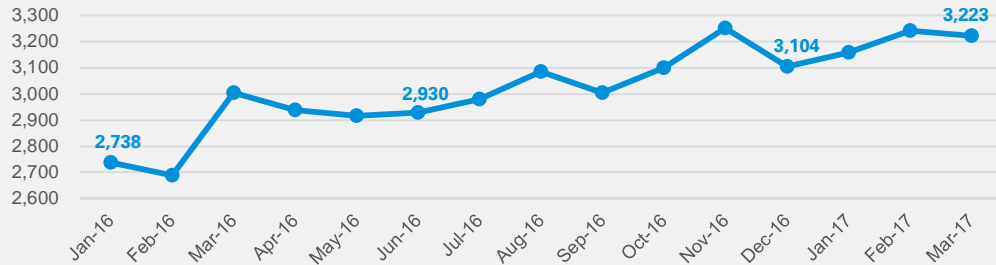


	31 Dec. 2015	31 Dec. 2016	31 Mar. 2017
<b>Shanghai Stock Exchange:</b>			
<b>SSE Composite Index</b>	3,539	3,104	3,223
<b>Equity Securities Average Daily Turnover</b>	RMB 314B	RMB 202B	RMB 221B
<b>A-share Average P/E Ratio</b>	17.6x	15.9x	16.9x
<b>Shenzhen Stock Exchange:</b>			
<b>SZSE Composite Index</b>	2,309	1,969	1,986
<b>Equity Securities Average Daily Turnover</b>	RMB 479B	RMB 245B	RMB 280B
<b>A-share Average P/E Ratio</b>	53.3x	41.6x	40.4x

Source: Wind and iFinD

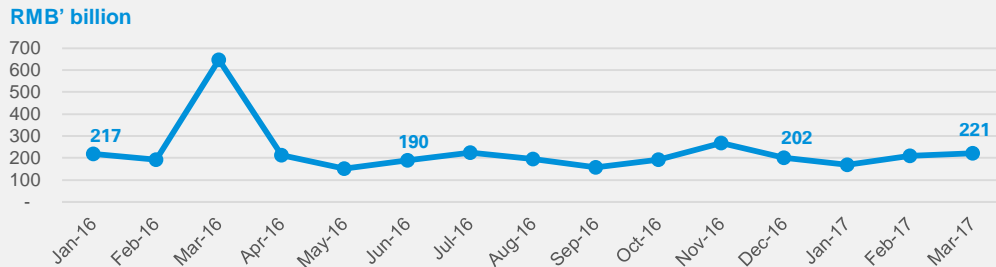
# Shanghai Stock Exchange - 2017 Q1 Statistics

## SSE Composite Index\*



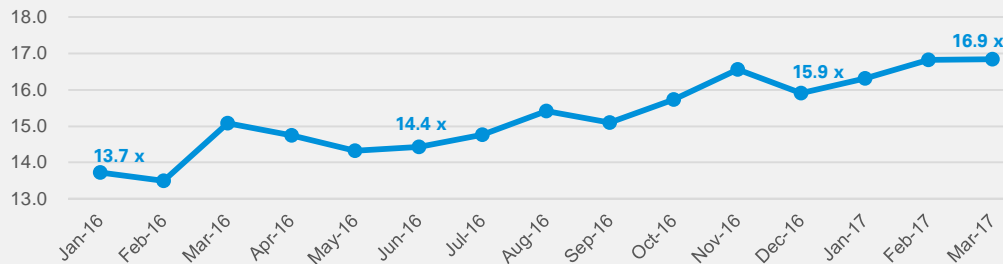
Source: Wind

## SSE Equity Securities Average Daily Turnover#



Source: Wind and iFinD

## SSE A-share Average P/E Ratio\*



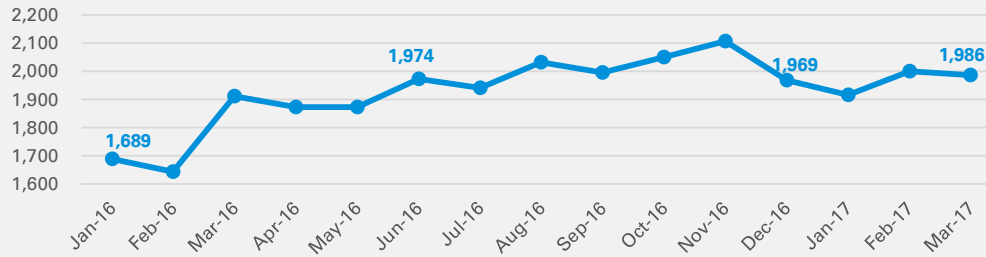
Source: Wind and iFinD

\* Month-end figures

# Average daily turnover includes trading turnover from stocks. Trading turnover from funds, bonds, warrants and preferred stocks are excluded.

# Shenzhen Stock Exchange - 2017 Q1 Statistics

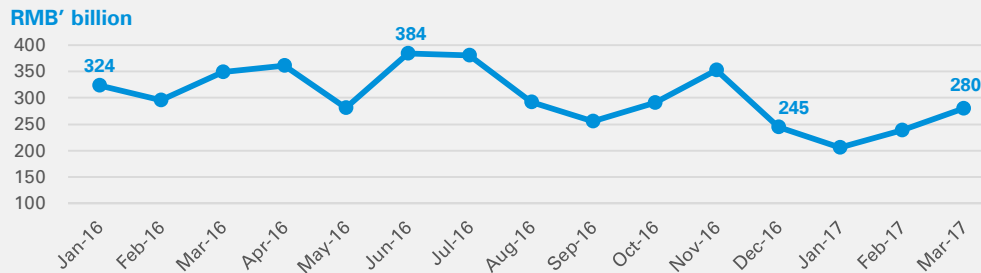
## SZSE Composite Index\*



Source: Wind

**1,986** in Mar 2017  
↑  
**0.9%**  
↑  
**1,969** in Dec 2016

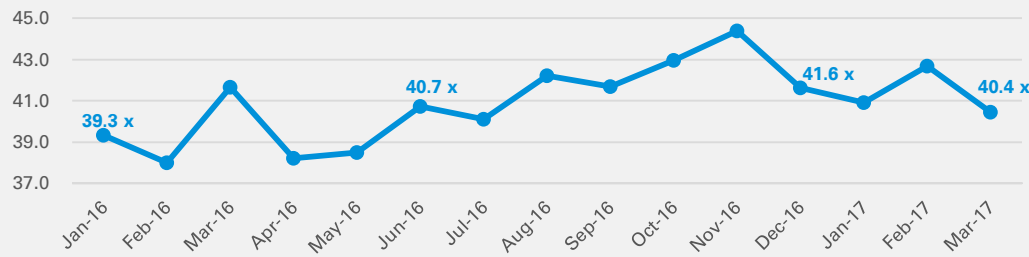
## SZSE Equity Securities Average Daily Turnover#



Source: Wind and iFinD

**RMB 280B**  
in Mar 2017  
↑  
**14.3%**  
↑  
**RMB 245B** in Dec 2016

## SZSE A-share Average P/E Ratio\*



Source: Wind and iFinD


**40.4x** in Mar 2017  
↑  
**(2.9%)**  
↑  
**41.6x** in Dec 2016

\* Month-end figures

# Average daily turnover includes trading turnover from stocks. Trading turnover from funds, bonds, warrants and preferred stocks are excluded.



# Hong Kong Stock Market - Strong 2017 Q1



**Capital inflows**  
Increased capital inflows from Mainland Chinese investors amid RMB depreciation expectations



**Attractive valuations**  
Hong Kong-listed companies generally trade at a lower P/E ratio compared to the China-listed stocks



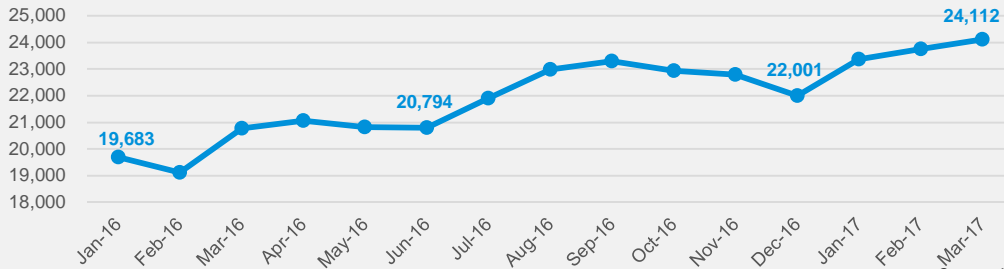
**Strong performance**

	31 Dec 2015	31 Dec 2016	31 Mar 2017
Hang Seng Index	21,914	22,001	24,112
HKEx Equity Securities Average Daily Turnover	HKD 40B	HKD 47B	HKD 60B
HKEx Main Board Average P/E Ratio	9.9x	10.5x	13.0x

Source: HKEx and iFinD

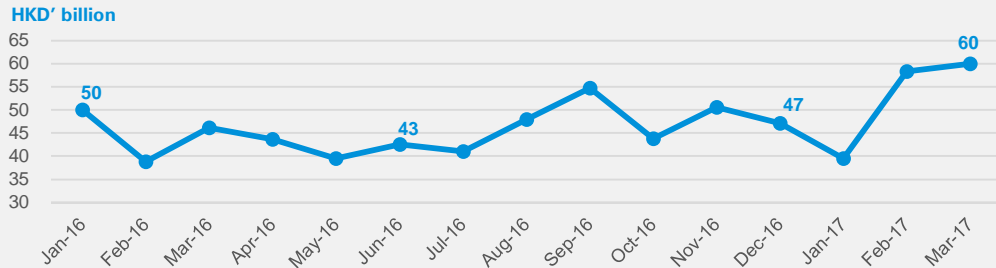
# The Stock Exchange of Hong Kong - 2017 Q1 Statistics

## Hang Seng Index\*



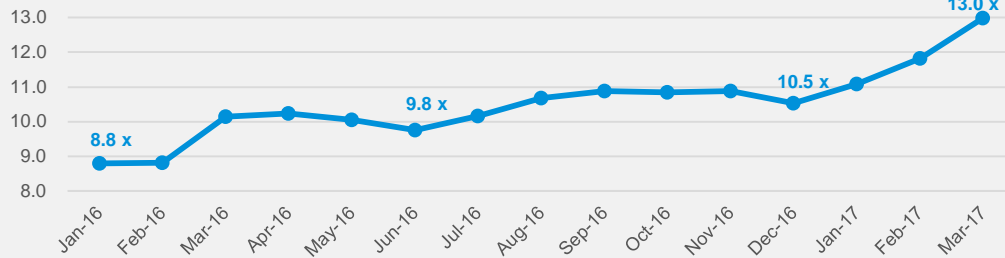
Source: HKEx

## HKEx Equity Securities Average Daily Turnover#



Source: HKEx and iFinD

## HKEx Main Board Average P/E Ratio\*



Source: HKEx

\* Month-end figures

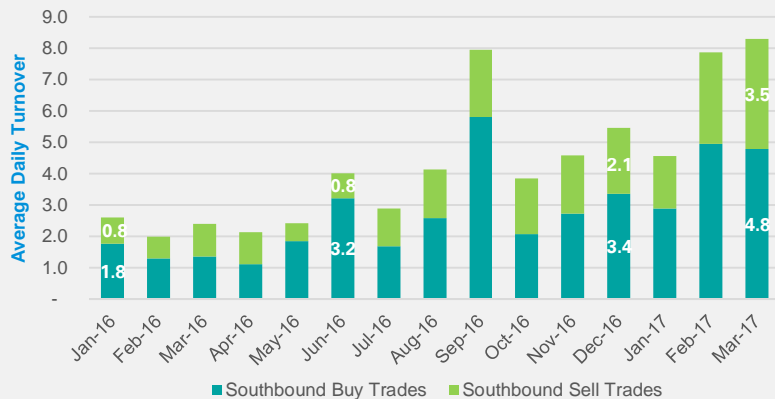
# Average daily turnover includes trading turnover from equity securities. Trading turnover from derivative warrants, CBCBs, and unit trusts are excluded.

# Stock Connect ~ Increased trading turnover

Stock Connect continues to experience an **increase in turnover** since the **launch of SZ-HK Stock Connect** in December 2016. The average daily **Southbound turnover increased** comparing to previous quarter, contributing to 13% the average daily turnover of Hong Kong equity securities in 2017 Q1.

## Southbound Investments Average Daily Turnover

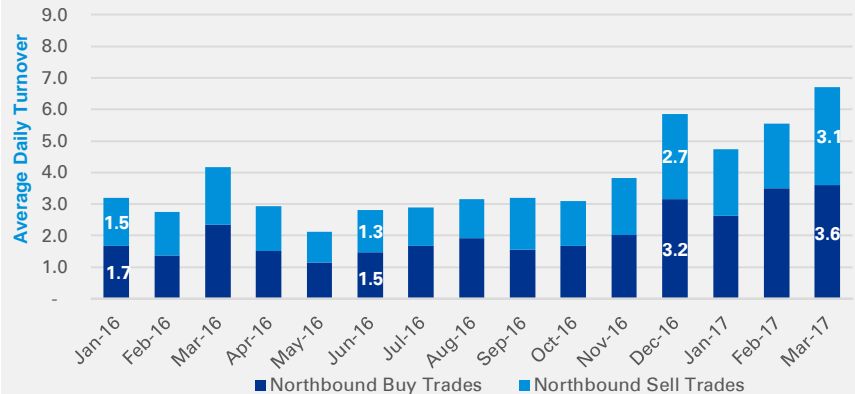
HKD' billion



Source: HKEx

## Northbound Investments Average Daily Turnover

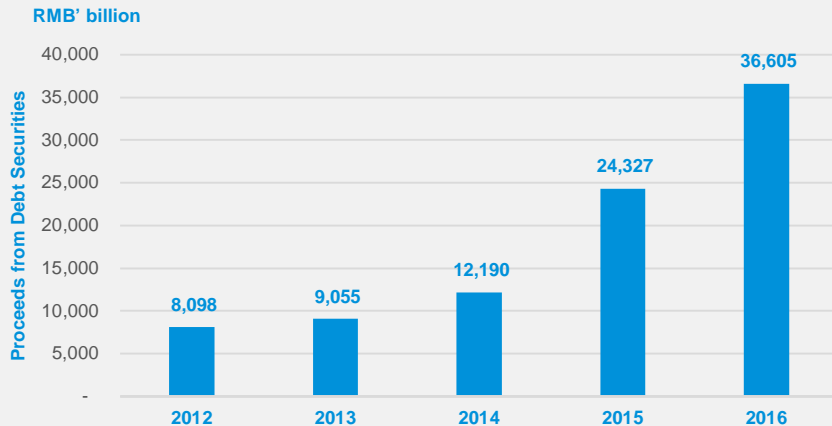
RMB' billion



Source: HKEx

# Mainland China Debt Market

Proceeds from Debt Securities issued in the Inter-bank Bond Market, SSE and SZSE



Source: Wind

## World's 3rd largest

debt market with RMB 66 trillion outstanding at the end of 2017 Q1. Bond Connect will provide offshore investors an additional investment channel into China.

**88%**  
issued in  
interbank  
bond  
market

**53%**  
issued by  
public  
sector



**Fast-  
growing  
corporate  
bond  
market**

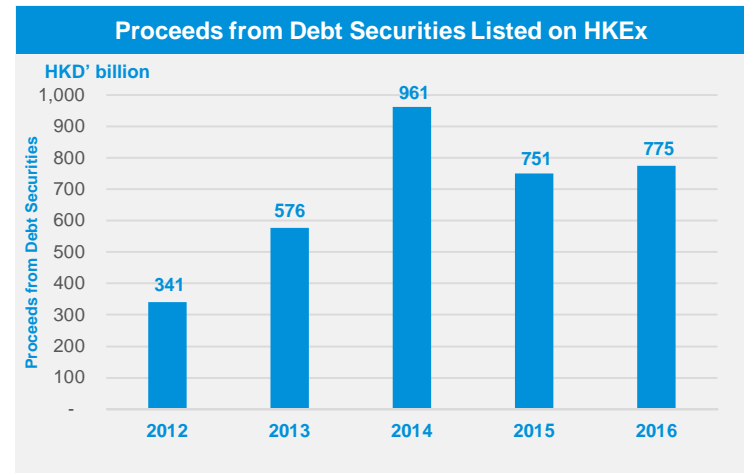
### Internationalisation

- Panda Bonds
- SDR Bonds
- Greater access for foreign investors
- Bond Connect

\* Corporate bond includes MTN, enterprise bonds, and commercial papers

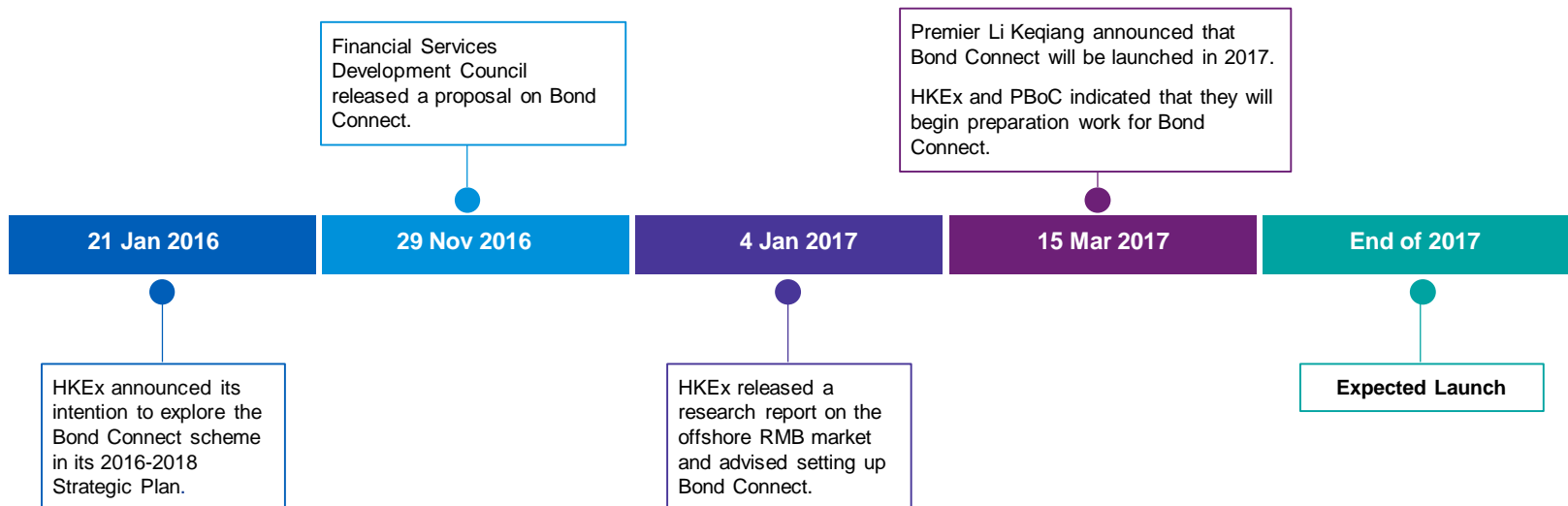
# Hong Kong Debt Market

**Bond Connect** is expected to strengthen Hong Kong's role as the financial securities gateway into Mainland China, allowing overseas investors to trade onshore bonds from Hong Kong



Source: HKEx

## Bond Connect Scheme



# Mainland China IPO Market

- A-share IPOs Overview
- Top 10 A-share IPOs
- A-share IPO Pipeline
- NEEQ Companies
- Outlook



# A-share IPO Market Overview - 2017 Q1

- Continuing the momentum from 2016 Q4, the A-share IPO market made a strong start with both the number of listings and the amount of funds raised, one of the highest in recent years.
- The momentum in the A-share IPO market has been fuelled by an accelerated IPO approval process since late 2016. Approved IPO cases are now released in batches on an almost weekly basis in 2017 Q1.
- With a clear aim to deal with pending IPO applications in alignment with a market-oriented approach, the normalisation and acceleration of IPO approvals has increased the supply of high - quality companies in the A-share market and will help maintain reasonable valuations in the long run.
- The proportion of companies passing through the approval process declined to 87% in Q1 2017 from over 90% in 2016. This suggests that the bar for IPO approvals has been raised and indicates that the A-share IPO market will focus on both quantity and quality.
- The debt-to-equity swap programmes coupled with supply-side structural reforms and state-owned enterprise reforms would favour the development of the IPO market. Increasing number of NEEQ listed companies applying for an IPO, as well as policies surrounding the development of multi-tiered capital markets will also help set the positive trend for the A-share IPO market in the years ahead.

# A-share IPOs: 2017 Q1

## A quarter of records...

...the **most first quarter funds raised** since 2014 with **RMB 70 billion**

...the **most first quarter IPOs** in 10 years with 134 IPOs

... a **higher contribution from deals smaller than RMB 1 billion**, representing 63 percent of total proceeds (2016 Q4: 49%)

	SSE		SZSE		A – share (SSE & SZSE)		
	Funds raised (RMB'B)	# of IPOs	Funds raised (RMB'B)	# of IPOs	# of IPOs		
					< RMB 1B	RMB 1-5B	> RMB 5B
2017 Q1	41.8	65	27.8	69	118	16	-
2016 Q1	5.1	9	6.2	15	23	1	-
2016 full year	101.7	103	47.9	124	204	20	3

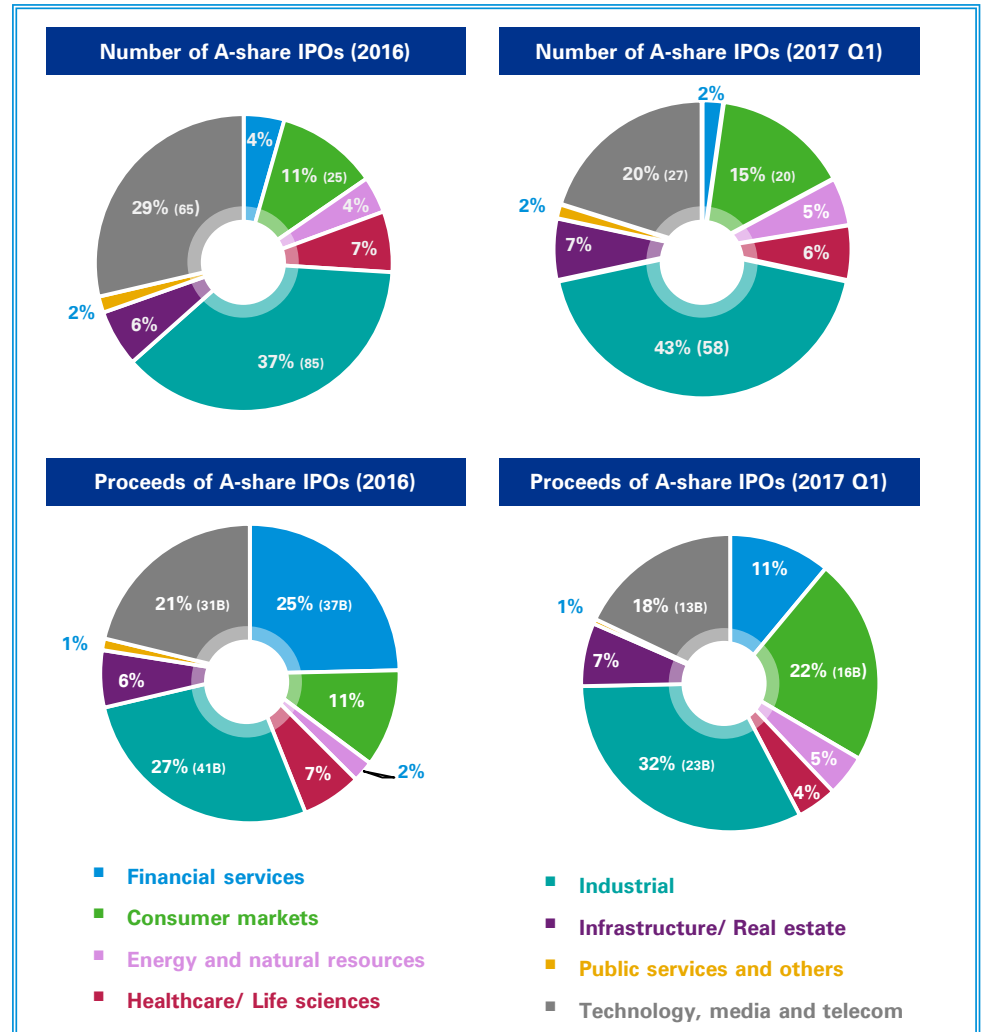
Source: Wind and KPMG analysis



# A-share IPOs: 2017 Q1 - Sector Breakdown

**More non-FS companies** are seeking A-share listings

The weightings of **industrials** and **consumer markets IPO proceeds** increased to **32%** and **22%**, respectively



Source: Wind and KPMG analysis

# Top 10 largest A-share IPOs

of 2017 Q1 combined for RMB 19 billion, or 27 percent of total proceeds raised. They are mainly from **traditional sectors** including FS, consumer markets and industrials.

	Company	Stock Exchange	Proceeds (RMB 'bn)	P/E Ratio	Sector
1	China Galaxy Securities Co.,Ltd.	SSE	4.1	7.02x	Financial Services
2	Central China Securities Co., Ltd.	SSE	2.8	11.23x	Financial Services
3	Oppein Home Group Inc.	SSE	2.1	22.99x	Consumer Markets
4	Yealink Network Technology Corporation Limited	SZSE	1.7	15.76x	TMT
5	Guangzhou Port Company Limited	SSE	1.6	22.98x	Infrastructure / Real Estate
6	Guangzhou Shangpin Home Collection Co.,Ltd	SZSE	1.5	22.99x	Consumer Markets
7	Guangdong Pak Corporation Co., Ltd.	SZSE	1.4	22.99x	Consumer Markets
8	Shenzhen Kedali Industry Co.,Ltd.	SZSE	1.3	22.99x	Industrial
9	Huada Automotive Technology Corp.,Ltd	SSE	1.2	19.83x	Industrial
10	Baiyin Nonferrous Group Co., Ltd.	SSE	1.2	556.25x	ENR

Source: Wind and KPMG analysis

# A-share IPO Pipeline

**Number of IPO applications** decreased from

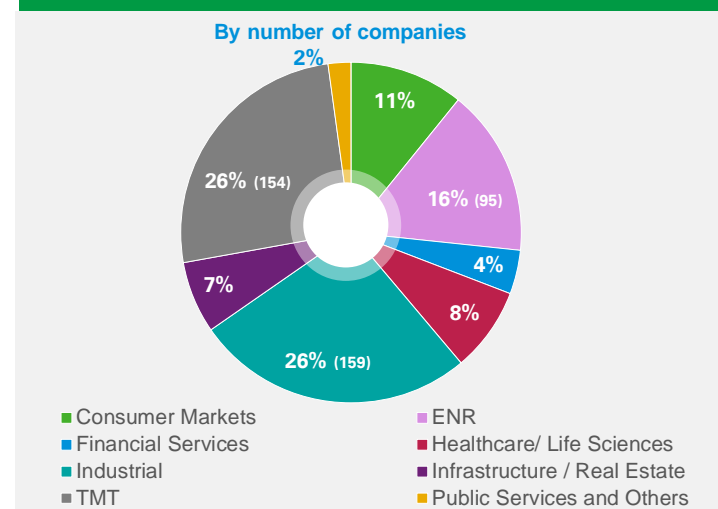
**681 to 600** ↓

More **ENR, industrials,** and **TMT** companies are seeking listings

**A-share IPO applications - Number of companies**



**A-share IPO applications – Sector breakdown**



Source: Wind and KPMG analysis

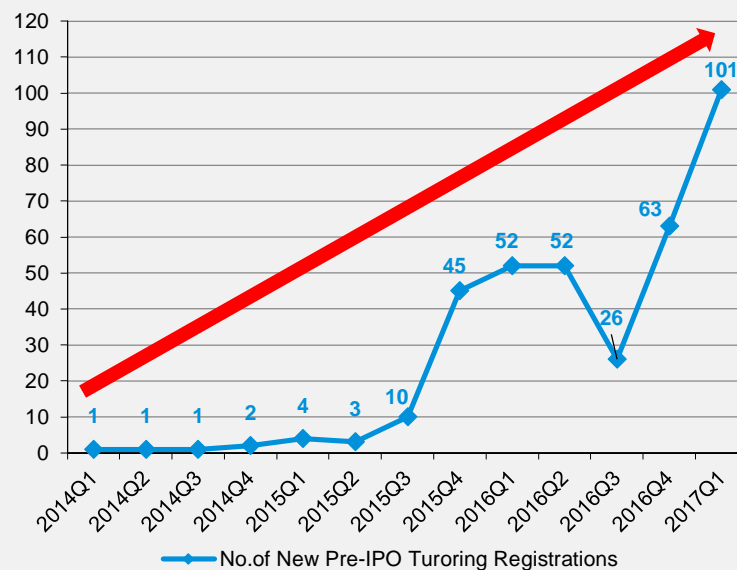
# NEEQ Companies ~ Transfer to A-shares

Of the 600 A-share IPO applicants at the end of 2017 Q1, **69** are NEEQs. An increasing number of NEEQ companies are seeking A-share listings.

**101** NEEQ companies filed pre-IPO tutoring registrations in 2017 Q1

**64** of them are from the industrial or TMT sectors

New Pre-IPO Tutoring Registrations - NEEQ Companies



Source: Wind and KPMG analysis

# Mainland China outlook



Mainland China's capital markets will maintain their momentum and the IPO market is expected to remain active in light of:

- A stabilising economy and expected recovery in exports
- The development of strategic emerging industries as part of China's innovation-driven economic development
- Key role of capital markets in supply side and state-owned enterprises reform
- Demand arising from the debt-to-equity swap program and other deleveraging policies



# Hong Kong IPO Market

- Hong Kong IPO Overview
- Top 10 Hong Kong IPOs
- Listing of Overseas Companies
- Outlook

# Hong Kong IPO Market Overview - 2017 Q1

- The Hong Kong IPO market recorded the highest first quarter IPO numbers in more than two decades, reflecting a strong demand in the primary market. However, in terms of IPO proceeds, Hong Kong recorded the lowest first quarter result since 2014 because of the absence of sizeable IPOs.
- Diversification in terms of sectors and geography will enhance the attractiveness and competitiveness of the city's capital markets and positive trends have been observed from the newly listed companies.
- More overseas companies have been seeking Hong Kong listings since 2016 and there are a number of overseas listing applicants in the pipeline at the moment. Companies from ASEAN countries eyeing opportunities in Mainland China are increasingly interested to list in Hong Kong.
- Diversifying away from traditional sectors and attracting the listings of high-growth industries from the technology, healthcare and life sciences sectors will contribute to long term development of the market. More companies from non-financial services sectors, including education, healthcare and life sciences listed in the first quarter.
- Upcoming consultation by the Hong Kong Exchange and Clearing Limited (HKEx) on the creation of a new board can help to attract start-ups and emerging companies to list in Hong Kong. Together with the review of the GEM board in the consultation, the market is expected to be better stratified to fit the needs of companies at different stages of growth.
- In spite of a number of challenges and uncertainties, Hong Kong still possesses a healthy pipeline of more than [120] active IPO applications. With market liquidity improving, we expect Hong Kong's IPO market to remain steady with a year-end forecast of 120 IPOs worth a combined HKD 200 billion. The eventual outcome will largely depend on various factors including the destination of several sizeable deals.

# Hong Kong IPOs: 2017 Q1

A quarter  
of  
records...

...the **highest** number of companies listed in the first quarter over the **last two decades**

...the **lowest** first quarter funds raised since 2014 with **HKD 13 billion**

...the **lowest** first quarter average deal size for MB listings since 2010 (HKD 0.6 billion)

No IPOs over the size of HKD 5 billion were recorded.

	Main Board					GEM Board	
	Funds raised (HKD'B)	# of IPOs	# of IPOs			Funds raised (HKD'B)	# of IPOs
			< HKD 1B	HKD 1-5B	> HKD 5B		
2017 Q1	12.0	20	17	3	-	1.3	19
2016 Q1	29.9	13	8	3	2	0.3	6
2016 full year	190.6	72	48	14	10	4.6	45

Source: HKEx and KPMG analysis



# Hong Kong IPOs: 2017 Q1 - Sector Breakdown

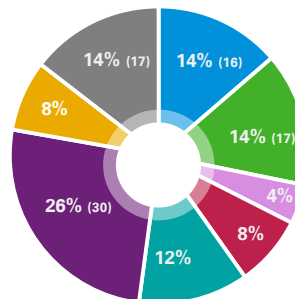
## 4 Education companies

raised HKD 4 billion in 2017 Q1, accounting for approx.

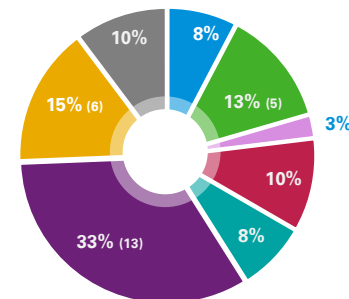
**one-third** of total funds raised.

The weighting of **funds raised by FS companies** declined to **27%** in 2017 Q1 (2016 Q4: 35%).

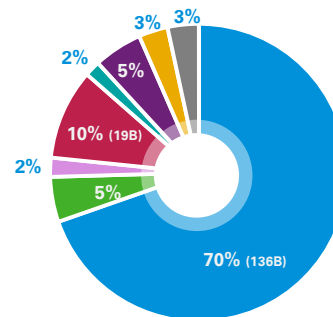
Number of HK IPOs (2016)



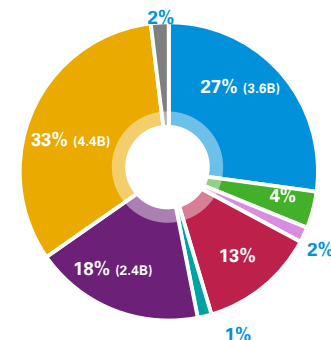
Number of HK IPOs (2017 Q1)



Proceeds of HK IPOs (2016)



Proceeds of HK IPOs (2017 Q1)



- Financial services
- Consumer markets
- Energy and natural resources
- Healthcare/ Life sciences

- Industrial
- Infrastructure/ Real estate
- Public services and others
- Technology, media and telecom

Source: Wind and KPMG analysis

# Top 10 largest Hong Kong IPOs

of 2017 Q1 accounted for **80 percent of total funds** raised. Half were from the **education and life sciences / healthcare** sectors.

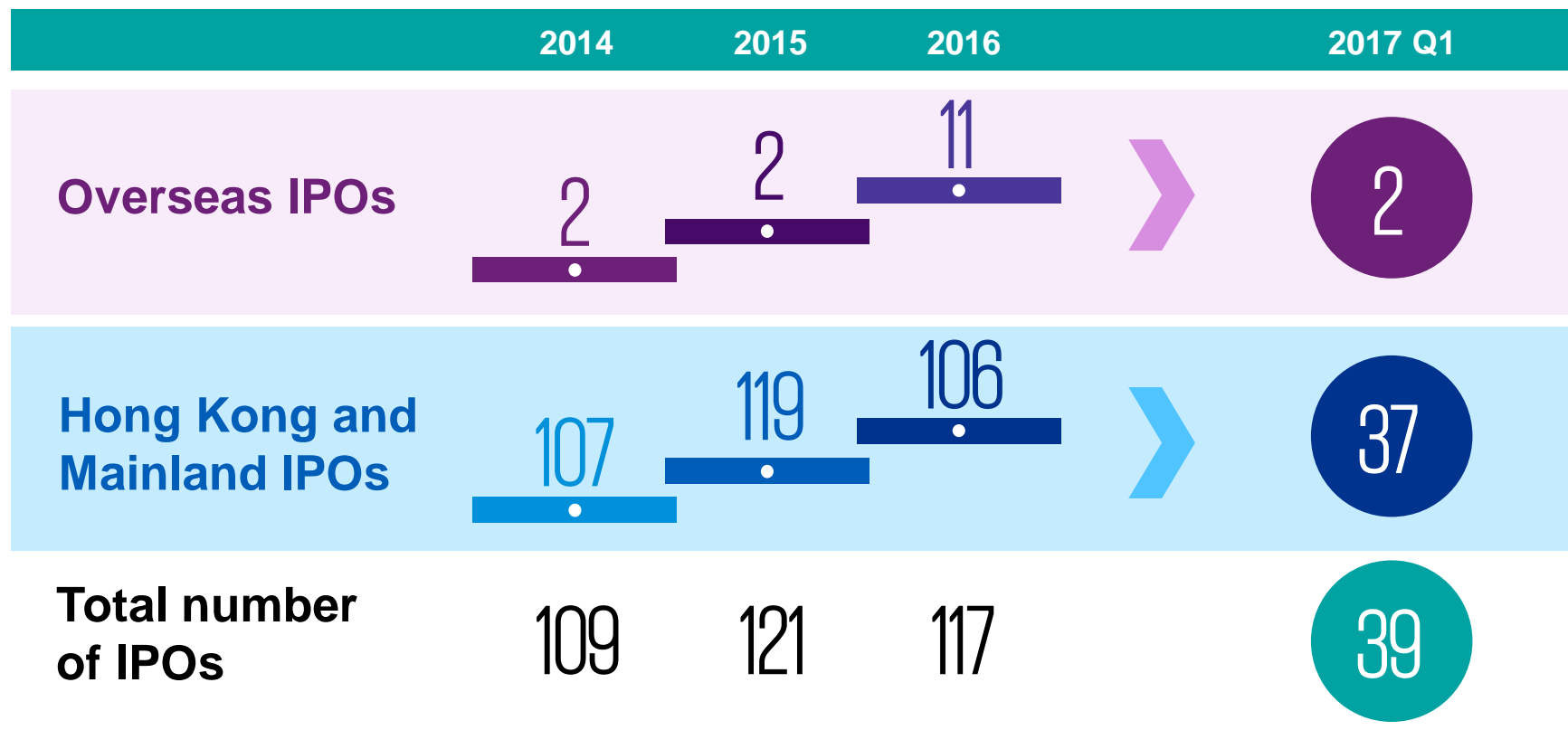
	Company	Funds raised (HKD bn)	P/E Ratio	Sector
1	Jilin Jiutai Rural Commercial Bank	3.5	10.1x	Financial Services
2	China YuHua Education	1.8	17.6x	Education
3	Minsheng Education	1.4	21.2x	Education
4	New Century Healthcare	1.0	112.6x	Life Sciences / Healthcare
5	Wisdom Education Int'l	0.9	19.7x	Education
6	Able Engineering Holdings	0.6	11.9x	Infrastructure / Real Estate
7	Luzhou Xinglu Water	0.5	13.4x	Infrastructure / Real Estate
8	Hospital Corporation of China	0.4	44.4x	Life Sciences / Healthcare
9	Chanhigh Holdings	0.3	10.1x	Infrastructure / Real Estate
10	Morris Holdings	0.3	12.9x	Consumer Markets

Source: Wind and KPMG analysis

# Listing of overseas companies

**More overseas companies are seeking HK listings.** These companies are mostly from the ASEAN countries.

More than 10 overseas companies are in active application as of the end of Q1. They are mostly from the industrial, infrastructure / real estate and TMT sectors.



Source: Wind and KPMG analysis

# Outlook for Hong Kong

**KPMG China expects Hong Kong's IPO market to remain steady with a year-end forecast of 120 IPOs worth a combined HKD 200 billion. The eventual outcome will largely depend on the following factors:**

- **Final choice of listing venue of sizeable deals**
- **Capital inflows into Hong Kong**
- **Fundraising demand of Mainland China and Hong Kong companies**
- **Potential impact of further US interest rate hikes**



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