



Mainland China and Hong Kong

2017 Mid-Year Review:
IPOs and other
market trends



Foreword

Annual Report Stats
Stock Exchange Composite Index

SEC (Daily) 2732,82

In the first half of 2017, the Mainland China stock market remained stable amid a balanced control of liquidity risks and regulatory measures. The A-share IPO market carried its momentum from 2016 Q4 with significant increases in the number of new listings and funds raised.

In Hong Kong, capital inflows from Chinese investors are pushing up the Hong Kong stock market with both the Hang Seng Index and the average P/E ratio of the Main Board hitting two year highs. The Hong Kong IPO market remained active and was dominated by small to medium sized deals.

This mid-year report contains our analysis of the H1 Hong Kong and A-share IPO markets and our outlook for the rest of 2017. It also includes an update of both Stock and Bond Connect.

Volume 3,456,234
Gain 1.23%
OI 0.86

324,345	+23.2%	Open	273,342
235,892	+12.5%	High	463,342
125,345	-0.83%	Low	123,834
675,982	+34.1%	Close	231,321
135,765	+11.2%	Chg	278,932



IPO Performances of Top Stock Exchanges Globally

2017 H1

Rank	Stock Exchange	IPO Proceeds (USD billion)	IPO Proceeds (HKD billion) ²
1	New York Stock Exchange	19.9	154.3
2	Shanghai Stock Exchange	10.3	79.5
3	London Stock Exchange	7.7	59.4
4	Shenzhen Stock Exchange	7.6	59.1
5	NASDAQ	6.9	53.8
6	The Stock Exchange of Hong Kong	6.8	52.6
7	Korea Exchange	3.5	27.0
8	Bolsa de Madrid	2.6	20.5
9	Toronto Stock Exchange	2.5	19.1
10	Japan Exchange Group	2.4	18.7

2016

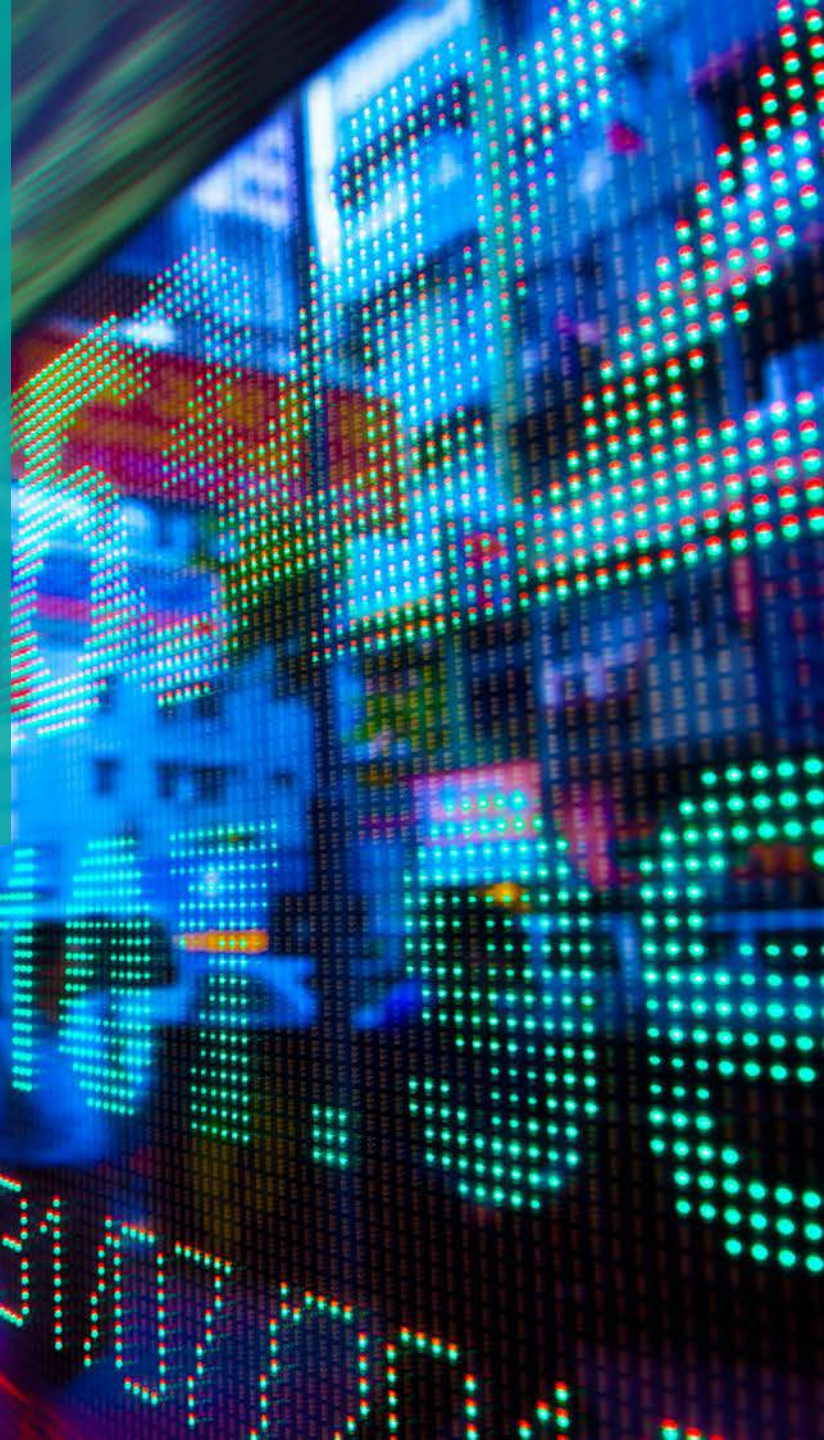
Rank	Stock Exchange	IPO Proceeds (USD billion)	IPO Proceeds (HKD billion) ²
1	The Stock Exchange of Hong Kong	25.2	195.2
2	Shanghai Stock Exchange	15.0	116.3
3	New York Stock Exchange	14.1	109.3
4	Japan Exchange Group	7.7	59.7
5	NASDAQ	7.6	58.9
6	London Stock Exchange	7.4	57.4
7	Shenzhen Stock Exchange	6.9	53.5
8	NASDAQ Copenhagen	5.9	45.7
9	Deutsche Borse	5.8	45.0
10	Korea Exchange	5.4	41.9

(1) The analysis above is based on data as at 23 June 2017.

(2) The exchange rate for USD/HKD is 7.75.

Source: HKEx and Bloomberg

Mainland China IPO Market
Hong Kong IPO Market
Stock Connect
Bond Connect



Mainland China IPO Market



A-share IPO Market - Highlights of 2017 H1

- The 247 A-share IPOs in 2017 H1 is the highest first half figure in 10 years. The number of A-share listings in 2017 H1 has already exceeded full year 2016.
- 2017 H1 recorded just 4 IPOs from the financial services (FS) sector. Consequently, the share of proceeds from FS IPOs has declined from 25 percent in 2016 to just 8 percent in 2017 H1.
- The consumer markets and industrials are the top sectors in terms of funds raised. The technology sector continues to play a big part in A-share IPOs with a 20 percent market share.
- The A-share market maintained an accelerated IPO approval process of about 10 approvals per week for most of 2017 H1 as the A-share IPO pipeline continues to unclog. The pace of IPO approvals, however, has slowed since the middle of May.
- While IPOs were approved at an accelerated pace for most of 2017 H1, the approval rate has gone down. Companies from technology, media and telecom (TMT), energy and natural resources (ENR) and healthcare/life sciences tend to have lower approval rates as a result of various financial, compliance and business sustainability issues.

Note: All 2017 H1 figures are based on a combination of data (as at June 15) and KPMG estimates

A-share IPOs: 2017 H1

- ❑ The A-share IPO market recorded 247 new listings for a combined RMB 125.4 billion in 2017 H1, **significantly higher** than 2016 H1. The number of new listings in 2017 H1 is the highest first half figure in 10 years. The average deal size went up by 9 percent to RMB 0.51 billion from RMB 0.47 billion in 2016 H1.
- ❑ The SSE ended 2017 H1 with 119 new listings for a total of RMB 75.5 billion, both of which are **significantly higher than 2016 H1**. While the number of new listings is higher than full year 2016, total proceeds is 26 percent lower than 2016 due to the **lack of sizeable IPOs**.
- ❑ The SZSE soared in 2017 H1 with approximately 128 IPOs and RMB 49.9 billion raised, both of which are **higher than the levels recorded for full year 2016**.

	SSE		SZSE		A-share (SSE & SZSE)		
	Funds raised (RMB billion)	# of IPOs	Funds raised (RMB billion)	# of IPOs	# of IPOs		
					< RMB 1 billion	RMB 1-5 billion	> RMB 5 billion
2017 H1	75.5	119	49.9	128	220	27	-
2016 H1	13.4	26	15.0	35	58	3	-
2016 full year	101.7	103	47.9	124	204	20	3
2015 H1	103.1	78	42.3	109	167	17	3
2014 H1	9.3	7	14.8	45	50	2	-
2013 H1	-	-	-	-	-	-	-
2012 H1	23.9	16	48.7	88	85	19	-

Note: All 2017 H1 figures are based on a combination of data (as at June 15) and KPMG estimates

Source: Wind and KPMG analysis

A-share IPOs: 2017 H1 - Sectors Analysis



Financial services

The **market share** of the FS sector in terms of total proceeds **declined significantly to 8 percent** from 25 percent.



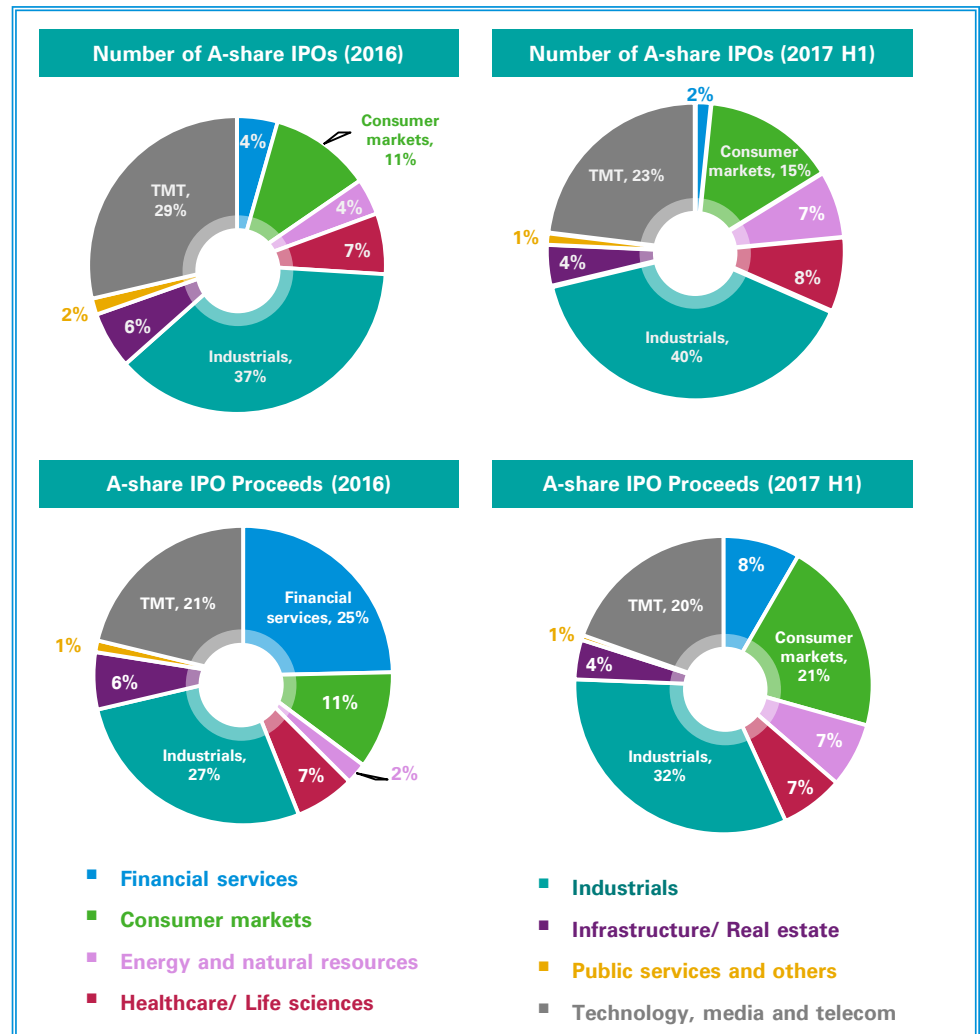
Consumer markets and industrials

Consumer markets and industrials **improved their market shares** to 21 percent and 32 percent, respectively.



Healthcare/ Life sciences

Pharmaceutical, medical devices and biotech companies improved their participation in 2017 H1 and are **expected to play a bigger role** in the future.



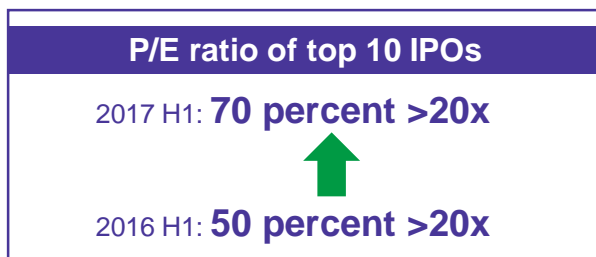
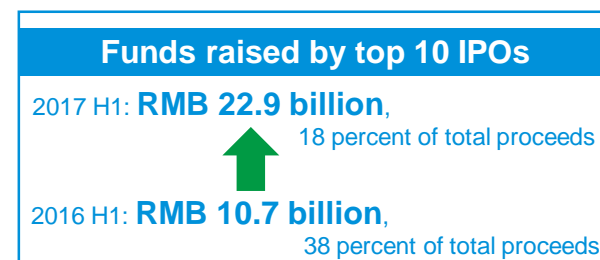
Note: Analysis is based on a combination of data (as at June 15) and KPMG estimates

Source: Wind and KPMG analysis

Top 10 Largest A-share IPOs

2017 H1	Company	Exchange	Proceeds (RMB billion)	IPO P/E Ratio	Sector
1	China Galaxy Securities	SSE	4.1	7.0x	Financial Services
2	Zheshang Securities*	SSE	2.8	23.0x	Financial Services
3	Central China Securities	SSE	2.8	11.2x	Financial Services
4	Jiangsu Provincial Agricultural Reclamation and Development	SSE	2.4	22.1x	Consumer Markets
5	Oppein Home Group	SSE	2.1	23.0x	Consumer Markets
6	Xin Feng Ming Group	SSE	2.1	23.0x	Industrials
7	Zhejiang Jihua Group	SSE	1.7	23.0x	ENR
8	Yealink Network Technology	SZSE	1.7	15.8x	TMT
9	Guangzhou Port	SSE	1.6	23.0x	Infrastructure / Real Estate
10	Qingdao Liqun Department Store	SSE	1.6	23.0x	Consumer Markets

* Expected to list by the end of 2017 H1

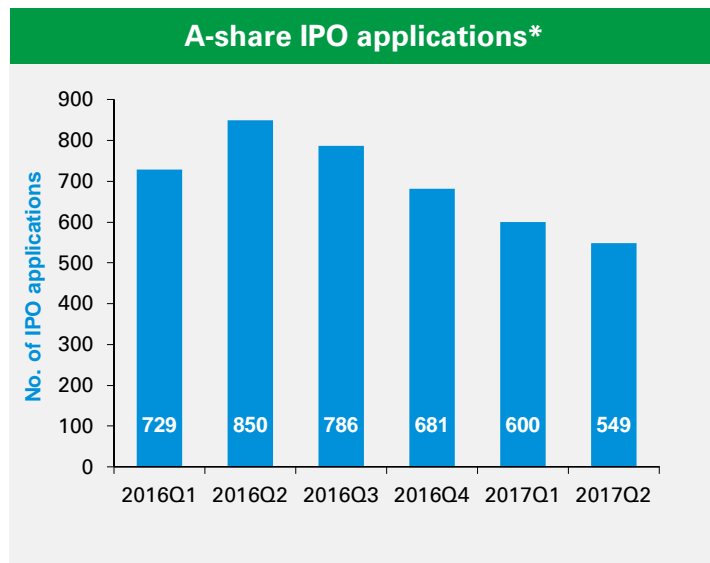


2016 H1	Company	Exchange	Proceeds (RMB billion)	IPO P/E Ratio	Sector
1	First Capital Securities	SZSE	2.3	23.0x	Financial Services
2	China Nuclear Engineering	SSE	1.8	15.6x	Infrastructure / Real Estate
3	Southern Publishing and Media	SSE	1.0	23.0x	TMT
4	Guangdong Kinlong Hardware Products	SZSE	1.0	21.7x	Infrastructure / Real Estate
5	Chongqing Sokon Industry Group	SSE	0.8	18.2x	Industrials
6	Eastern Pioneer Driving School	SSE	0.8	21.7x	Education
7	Shanghai Flyco Electrical Appliance	SSE	0.8	16.5x	Consumer Markets
8	Jinhui Liquor	SSE	0.8	18.5x	Consumer Markets
9	Hangzhou Zhongya Machinery	SZSE	0.7	23.0x	Industrials
10	Tongyu Communication	SZSE	0.7	9.7x	TMT

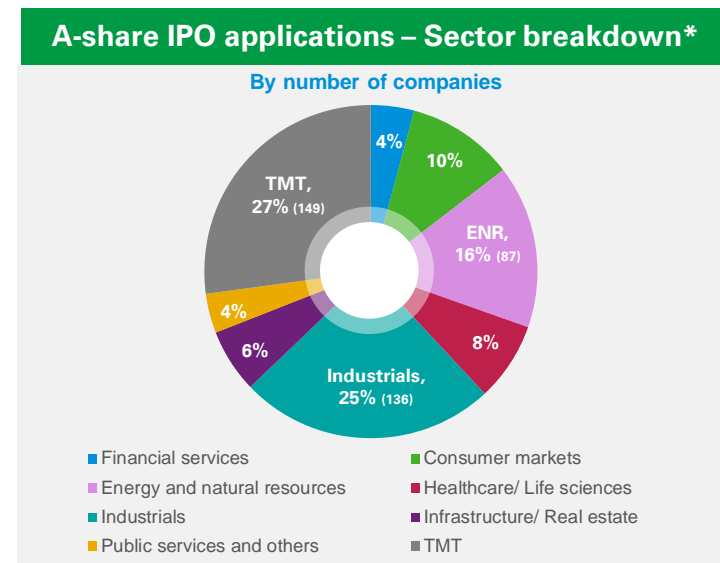
Source: Wind and KPMG analysis

A-share IPO Pipeline

- ❑ IPOs were approved at an accelerated pace of about 10 approvals per week for most of 2017 H1. That has slowed to four to eight approvals per week since the middle of May.
- ❑ The regulators are keen to clear the application pipeline and **the number of active applications has gone down** from 681 at the end of 2016 to 549 as at 15 June 2017. The pipeline could be fully digested by the end of 2019 under the current rate of approval.
- ❑ **More ENR, industrials and TMT firms** are seeking A-share listings. The healthcare/life sciences sector is also expected to play a bigger role in the future in light of its significant market demand.



Note: *Data as at 15 June 2017



Source: Wind and KPMG analysis

A-share IPO Approval Rate



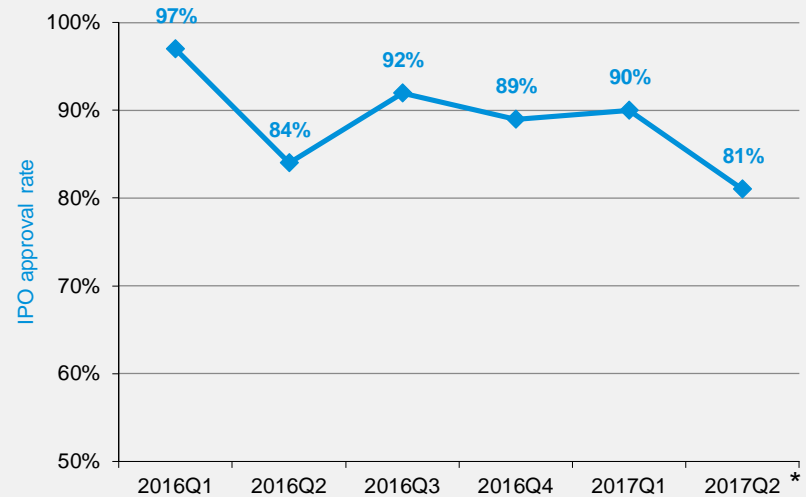
A-share IPO approval rate **declined to 81 percent** in 2017 Q2* from over 90 percent in 2016.



TMT, ENR and healthcare/life sciences companies have **lower approval rates** due to financial, compliance and business sustainability issues

Note: *Data as at 15 June 2017

A-share IPO approval rate



Source: Wind and KPMG analysis

A-share IPOs: Outlook for the rest of 2017

IPO activity will continue to be strong in the second half of the year as the regulators continue to focus on clearing the pipeline. The number of new listings is expected to hit a 10-year high by year end. The two Mainland Stock Exchanges are expected to strengthen their leading positions in the global IPO rankings this year.

Industrials, consumer markets and TMT sectors will lead both in terms of the number of transactions and funds raised.

KPMG China expects the number of A-share IPOs in the second half to be similar to 2017 H1. Our year end forecast is around 400 IPOs, raising approximately RMB 220 billion.



Hong Kong IPO Market

Hong Kong IPO Market - Highlights of 2017 H1

- Hong Kong remains one of the most popular listing destinations and we are seeing a greater amount of diversification in both industry and geographical composition.
- The Main Board recorded 34 IPOs totaling HKD 50.5 billion in 2017 H1, compared to HKD 42.4 billion from 23 IPOs in 2016 H1.
- Main Board IPOs were dominated by small to medium sized deals. The average deal size in 2017 H1 was the lowest first half figure since 2013.
- The financial services sector continues to be a major contributor with four IPOs in 2017 H1, contributing 61 percent of total Main Board proceeds.
- Emerging sectors such as education, healthcare and life sciences were also active, accounting for a combined 21 percent of total Main Board proceeds.
- The GEM Board had 35 listings in 2017 H1, the highest first half figure since its establishment. The HKD 2.5 billion raised is more than double the amount recorded in 2016 H1.

Note: All 2017 H1 figures are based on a combination of data (as at June 15) and KPMG estimates

Hong Kong IPOs: 2017 H1

- ❑ The Main Board recorded 34 new listings for a combined HKD 50.5 billion. The **average deal size dropped** to HKD 1.5 billion - the lowest first half figure since 2013.
- ❑ **Financial services, healthcare/life sciences and public services (education institutions included)** are the top three sectors, accounting for around 61 percent, 11 percent and 10 percent, respectively, of total Main Board proceeds in 2017 H1.
- ❑ Investor appetite for IPOs was strong as more than half of new Main Board listings priced in the upper half of their price range and around 80 percent were over-subscribed.
- ❑ The GEM Board had 35 new listings worth a combined HKD 2.5 billion, which was more than double of 2016 H2. The **number of new GEM listings is also the highest first half figure on record.**

	Main Board					GEM Board	
	Funds raised (HKD billion)	# of IPOs	# of IPOs			Funds raised (HKD billion)	# of IPOs
			< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion		
2017 H1	50.5	34	25	7	2	2.5	35
2016 H1	42.4	23	16	4	3	1.1	15
2016 full year	190.6	72	48	14	10	4.6	45
2015 H1	128.5	31	20	4	7	1.0	14
2014 H1	81.5	38	21	13	4	0.6	6
2013 H1	38.7	15	8	5	2	0.9	6
2012 H1	30.1	24	18	5	1	0.8	7

Note: All 2017 H1 figures are based on a combination of data (as at June 15) and KPMG estimates

Source: HKEx and KPMG analysis

Hong Kong IPOs: 2017 H1 - Main Board Sector Analysis



Financial services

Major contributor to total funds raised with a slight decrease in market share. **From 70 percent to 61 percent**



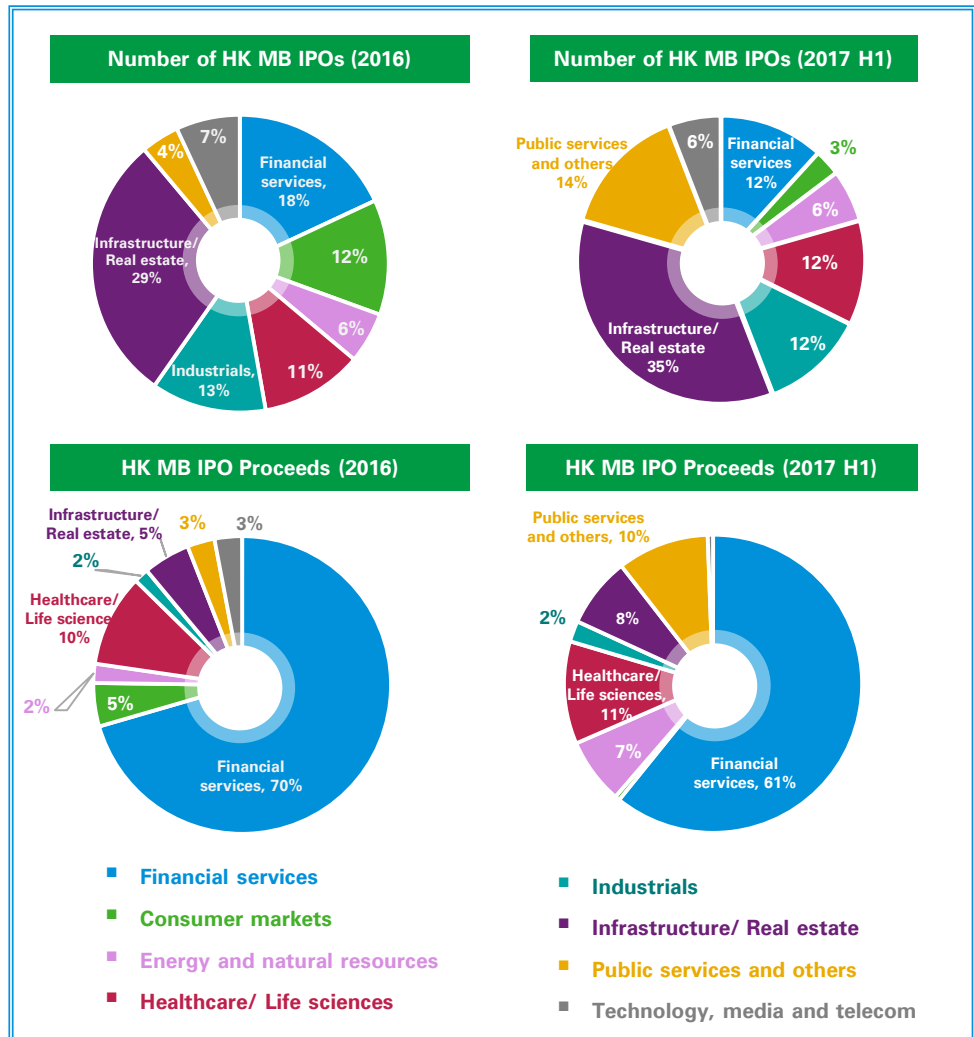
Public services and Healthcare/Life sciences

Both sectors have higher weightings in terms of total funds raised. **More education institutions IPOs** were recorded



Infrastructure/Real estate

Increased market share in both number of listings and funds raised. There were **no real estate IPOs**.



Note: Analysis is based on a combination of data (as at June 15) and KPMG estimates

Source: HKEx and KPMG analysis

Hong Kong IPOs: 2017 H1 – GEM Sector Analysis



Financial services

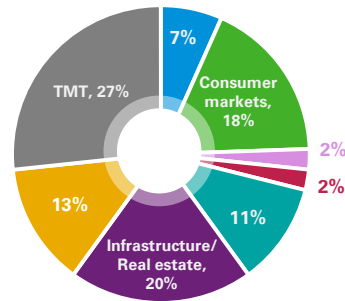
Mainly companies engaging in lending or corporate finance advisory services.



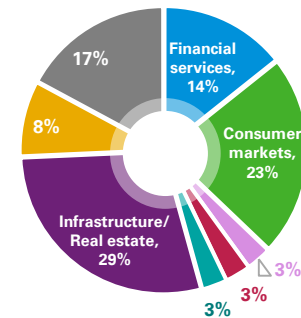
Infrastructure/Real estate

Increased market shares in both the number of listings and funds raised. Continues to be dominated by construction companies.

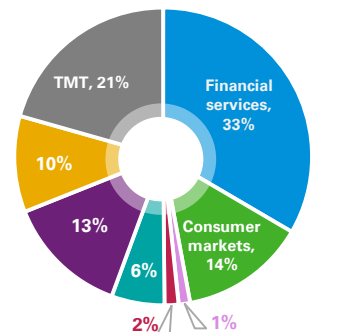
Number of HK GEM IPOs (2016)



Number of HK GEM IPOs (2017 H1)

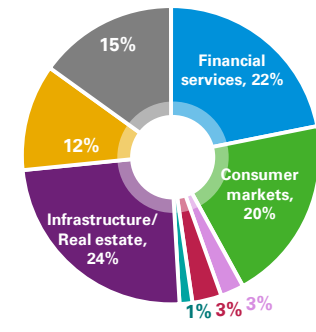


HK GEM IPO Proceeds (2016)



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

HK GEM IPO Proceeds (2017 H1)




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


Note: Analysis is based on a combination of data (as at June 15) and KPMG estimates

Source: HKEx and KPMG analysis

Top 10 Largest Hong Kong IPOs

2017 H1	Company	Funds raised (HKD bn)	IPO P/E Ratio	Sector
1	Guotai Junan Securities	17.2	12.5x	Financial Services
2	Guangzhou Rural Commercial Bank	8.1	8.7x	Financial services
3	WuXi Biologics	4.0	148.0x	Healthcare / Life Sciences
4	Jilin Jiutai Rural Commercial Bank	3.5	10.1x	Financial Services
5	China Everbright Greentech	3.4	17.2x	Energy and natural resources
6	BOCOM International	2.0	20.4x	Financial Services
7	China YuHua Education	1.8	17.6x	Education
8	Minsheng Education	1.4	21.2x	Education
9	Kunming Dianchi Water Treatment	1.3	13.1x	Infrastructure / Real Estate
10	New Century Healthcare	1.0	112.6x	Healthcare / Life Sciences

Funds raised by top 10 IPOs	
2017 H1: HKD 43.7 billion	- 87 percent of total proceeds
	
2016 H1: HKD 39.7 billion	- 91 percent of total proceeds

Average P/E ratio of top 10 IPOs	
2017 H1: 38.1x	Higher P/E ratio due to more non-traditional IPOs , e.g. healthcare/life sciences and educational companies
	
2016 H1: 16.1x	

2016 H1	Company	Funds raised (HKD bn)	IPO P/E Ratio	Sector
1	China Zheshang Bank	15.0	9.9x	Financial Services
2	BOC Aviation	8.7	10.9x	Financial Services
3	Bank of Tianjin	7.7	8.5x	Financial Services
4	Virscend Education	2.0	70.0x	Education
5	Ronshine China Holdings	1.8	10.8x	Infrastructure / Real Estate
6	Yadea Group Holdings	1.3	1.8x	Industrials
7	Jiayuan International Group	1.3	14.1x	Infrastructure / Real Estate
8	Union Medical Healthcare	0.7	16.2x	Healthcare / Life Sciences
9	Nameson Holdings	0.7	11.3x	Consumer Markets
10	Get Nice Financial Group	0.5	8.2x	Financial Services

Source: HKEx and KPMG analysis

Hong Kong IPOs: Outlook for the Rest of 2017

We forecast there will be around 80 Main Board IPOs and 70 GEM IPOs worth a combined HKD 170 billion for the full year.

Globally, Hong Kong will likely be behind New York, Shanghai and Shenzhen in terms of total fundraising.

More overseas companies are seeking listings in Hong Kong, most of which are from the ASEAN countries. The applicants are diversified in terms of sectors, ranging from industrial manufacturing, construction to human resources outsourcing.

The consultation to tighten GEM listing requirements and the subsequent adjustment to the existing Main Board eligibility criteria may lead to an influx of applications for both Main Board and GEM listings in the interim.



Country	Currency	Rate
USA	USD	35.03
EURO	EUR	45.72
ENGLAND	GBP	65.35
JAPAN	JPY	0.287
SINGAPORE	SGD	22.89
HONG KONG	HKD	4.47
AUSTRALIA	AUD	27.98
NEW ZEALAND	NZD	24.78
SWITZERLAND	CHF	27.86
SWEDEN	SEK	4.88
DENMARK	DKK	5.94
CANADA	CAD	25.85
NORWAY	NOK	5.42
BRUNEI	MYR	22.14
INDONESIA	IDR	1.494

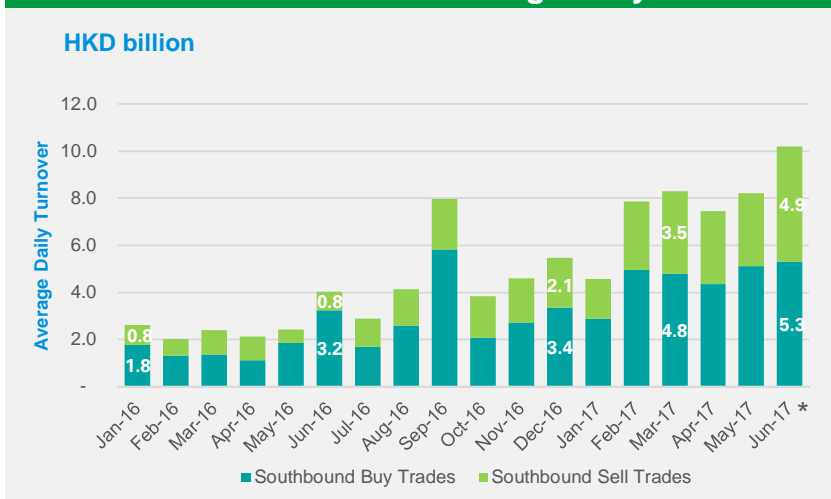
20.2	▲ 0.28	19.44	0.5	▼ -5.22%
15.9	▲ 0.62	24.87	2.1	▲ 6.13%
25.1	▲ 0.35	19.43	0.6	▲ 1.46%
12.8	▲ 0.46	26.17	0.2	▲ 0.44%
16.3	▲ 0.23	16.11	1.7	
14.7	▲ 0.77			
11.2				

Stock Connect

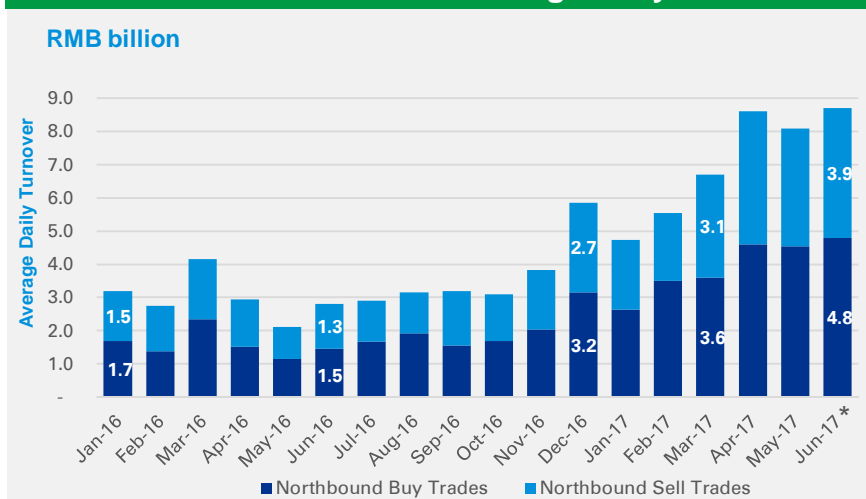
Stock Connect

- Currently, the combined southbound turnover of the two stock connect programmes makes up approximately **5 percent** of Hong Kong's total market turnover and its importance is continuing to increase. This increase symbolises **the integration between the two regions' capital markets**.
- Approximately half the stocks listed in Shanghai and Shenzhen and a quarter of Hong Kong listed stocks can be traded through Stock Connect. They are **primarily medium to large-cap companies**, which represent over 80 percent of the three stock exchanges' combined market capitalisation.

Southbound Investments Average Daily Turnover



Northbound Investments Average Daily Turnover



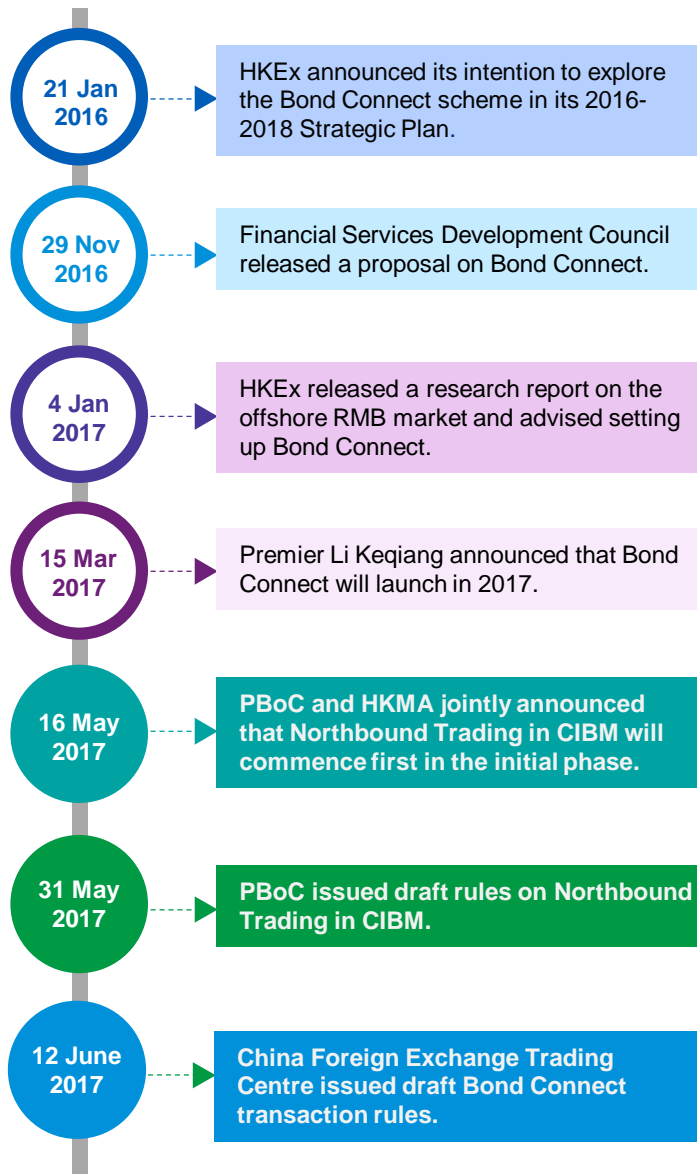
* As at 15 June 2017

Source: HKEX

Bond Connect



Bond Connect ~ Northbound Trading in CIBM in 2017 H2



Mainland China bond market

- ❑ China is the **world's 3rd largest** domestic bond market with RMB 68 trillion outstanding as at 15 June 2017. **Only 2 percent** of outstanding bonds are **held by foreign investors**.
- ❑ 88 percent of bonds outstanding were issued in the China Interbank Bond Market (CIBM).
- ❑ Bond Connect allows international investors additional access to China's massive onshore bond market.

Source: Wind

“ **Bond Connect will help Hong Kong maintain its status as an international financial centre and provide Hong Kong investors with more options** ”

Chinese Premier Li Keqiang

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