



# Mainland China and Hong Kong

## 2017 Q3 Review: IPOs and other market trends



# Foreword

In the first three quarters of 2017, the A-share IPO market in Mainland China continued its positive momentum from 2016 Q4 with significant increases in the number of new listings and funds raised, and a greater focus on the quality of listing applicants.

In Hong Kong, the IPO market remained active and was dominated by small to medium-sized deals. The city recorded its first fintech IPO, and is expected to see more technology companies list in the fourth quarter.

This report analyses the A-share and Hong Kong IPO markets in the first three quarters of 2017, and provides an outlook for the rest of the year. It also includes an update on the Stock and Bond Connect schemes.

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 Q3 (YTD)	Rank	Stock Exchange	IPO Proceeds (USD billion)	IPO Proceeds (HKD billion) <sup>1,2</sup>
	1	New York Stock Exchange	20.6	160.0
	2	Shanghai Stock Exchange	14.4	111.5
	3	Shenzhen Stock Exchange	10.7	82.6
	4	London Stock Exchange	10.4	80.3
	5	The Stock Exchange of Hong Kong	9.3	71.9

2016 (Full year)	Rank	Stock Exchange	IPO Proceeds (USD billion)	IPO Proceeds (HKD billion) <sup>2</sup>
	1	The Stock Exchange of Hong Kong	25.2	195.2
	2	Shanghai Stock Exchange	15.4	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

(1) The analysis above is based on data as at 15 September 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 Q3 (YTD)

- The A-share IPO market in the first three quarters of 2017 continues to be active, with 346 new listings and total funds raised reaching RMB 172.9 billion, exceeding the total funds raised in the entire year of 2016.
- Companies from the industrials and technology, media and telecom (TMT) sectors dominated the A-share IPO market in the first three quarters, contributing to more than half of the total number of IPOs and funds raised.
- While the top three IPOs in terms of funds raised in the first three quarters are from the financial services (FS) sector, the aggregate proceeds from FS IPOs accounted for only 6 percent, compared to about 25 percent in the full year of 2016.
- Despite the normalisation of IPOs by vetting IPOs at a fast pace, the quality of companies remains the key focus of regulators in the IPO approval process. The approval rate has decreased to 83 percent, compared to more than 90 percent in 2016.

Note: All 2017 Q3 (YTD) figures are based on a combination of data (as at 15 September 2017) and KPMG estimates

# A-share IPOs: Overview

- ❑ The A-share IPO market recorded 346 new listings for a combined RMB 172.9 billion in the first three quarters of 2017, **more than double** the amount recorded during the same period in 2016. The average deal size decreased by 18 percent to RMB 0.50 billion from RMB 0.61 billion in the first three quarters of 2016, with no new listings raising over RMB 5 billion.
- ❑ The Shanghai Stock Exchange (SSE) recorded 169 new listings with total funds raised reaching RMB 102.2 billion in the first three quarters. While the number of IPOs has exceeded the total number in 2016, the average deal size dropped significantly from RMB 0.99 billion in 2016 full year to RMB 0.60 billion, due to **the lack of sizeable IPOs from the financial services sector**.
- ❑ Shenzhen Stock Exchange (SZSE) IPO activity increased significantly in the first three quarters of 2017, with 177 IPOs and RMB 70.7 billion raised, both **about 40 percent higher than the 2016 full year figures**.

	SSE			SZSE			A-share (SSE & SZSE)			
	Funds raised (RMB billion)	# of IPOs	Average deal size (RMB billion)	Funds raised (RMB billion)	# of IPOs	Average deal size (RMB billion)	# of IPOs			
							< RMB 1 billion	RMB 1- 5 billion	> RMB 5 billion	Total
2017 Q3 (YTD)	102.2	169	0.60	70.7	177	0.40	313	33	-	346
2016 Q3 (YTD)	49.0	54	0.91	27.8	72	0.39	116	9	1	126
2016 full year	101.7	103	0.99	47.9	124	0.39	204	20	3	227
2015 Q3 (YTD)	108.7	79	1.38	48.9	113	0.43	172	17	3	192
2014 Q3 (YTD)	31.2	22	1.42	35.7	59	0.61	76	5	-	81
2013 Q3 (YTD)	-	-	-	-	-	-	-	-	-	-
2012 Q3 (YTD)	33.4	24	1.39	70.1	125	0.56	127	22	-	149

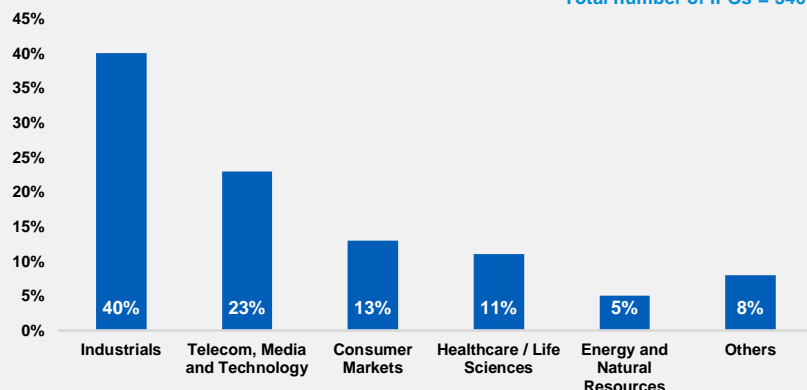
Note: All 2017 Q3 (YTD) figures are based on a combination of data (as at 15 September 2017) and KPMG estimates

Source: Wind and KPMG analysis

# A-share IPOs: Sector Analysis

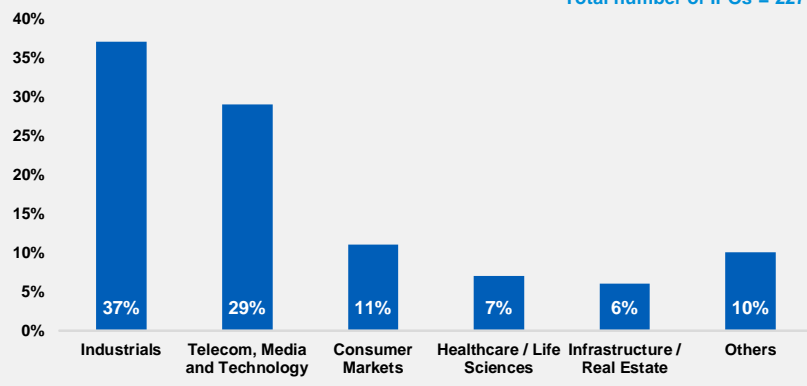
## 2017 Q3 (YTD) Top 5 Sectors – By number of IPOs

Total number of IPOs = 346



## 2016 Full Year Top 5 Sectors – By number of IPOs

Total number of IPOs = 227



Source: Wind and KPMG analysis



## Telecom, Media and Technology

- ❑ TMT remained the **second largest sector** in the first three quarters of 2017, but the **market share** of the sector in terms of the number of new listings **decreased to 23 percent**.
- ❑ The companies listed are **mainly engaged in the manufacturing of electronic products and provision of IT solutions**.
- ❑ “Internet Plus” is mainland China's key strategy to transform the country into a digital economy. With the government's support, “**Internet Plus**” will have a **deep influence on the development of the internet and traditional industries**. We expect to see more listings from companies in the internet industry in the long run.



## Education

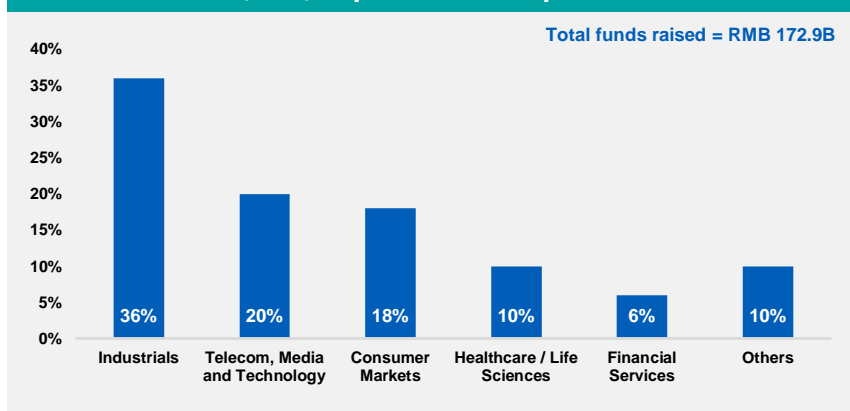
- ❑ The number of private schools has increased significantly over the past 10 years. However, these **education institutions have had little access to the A-share capital market** due to their legal designation as non-profit entities.
- ❑ The new PRC Law on Promotion of Private Education came into effect on 1 September 2017, which allows private schools to **operate as profit-making entities and set tuition fees with full autonomy**.
- ❑ Private education institutions are **expected to increase their participation in the IPO market** with the legal barriers lifted and the fee setting autonomy stimulating development.

Note: Analysis is based on a combination of data (as at 15 September 2017) and KPMG estimates



# A-share IPOs: Sector Analysis (cont'd)

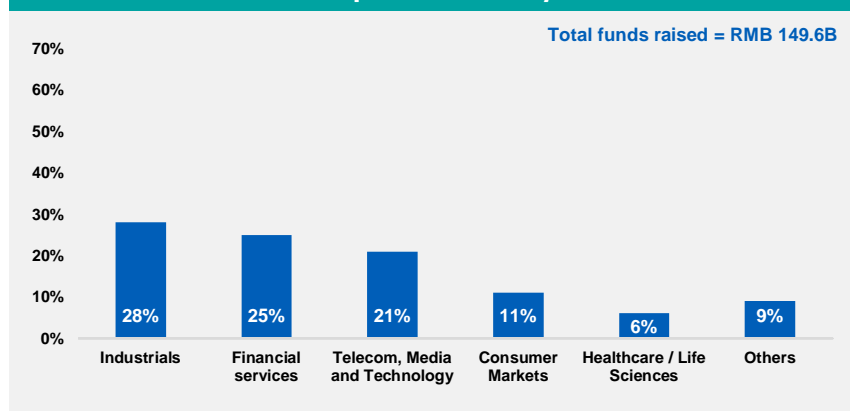
## 2017 Q3 (YTD) Top 5 Sectors – By Funds Raised



## Industrials

- Similar to prior years, the industrials sector **remains the largest contributor** to both the number of new listings and total funds raised. This trend is expected to continue.
- The companies listed are mainly engaged in the manufacturing of **automotive parts, industrial machinery and electrical equipment**.
- Other than traditional industrial companies, **high-end manufacturing will become a new growth driver** of industrial markets in the long run, with mainland China implementing the "Made in China 2025" strategy.

## 2016 Full Year Top 5 Sectors – By Funds Raised



## Financial Services

- The **market share** of the Financial Services sector in terms of total proceeds **declined significantly to 6 percent from 25 percent**.
- There is still a chance for this market share to increase** in the last quarter if some of the regional commercial banks in the pipeline (11 in total) successfully get listed before the end of the year.

Source: Wind and KPMG analysis

Note: Analysis is based on a combination of data (as at 15 September 2017) and KPMG estimates

# Top 10 Largest A-share IPOs

2017 Q3	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	Electric Connector Technology	SZSE	2.0	23.0x	TMT
8	Zhejiang Jihua Group	SSE	1.7	23.0x	Industrials
9	Yealink Network Technology	SZSE	1.7	15.8x	TMT
10	Guangzhou Port	SSE	1.6	23.0x	Infrastructure / Real Estate



## Funds raised by top 10 IPOs

2017 Q3 (YTD):  
**RMB 23.3 billion**  
 - 13 percent of total proceeds



2016 Q3 (YTD):  
**RMB 30.2 billion,**  
 - 39 percent of total proceeds



## Average P/E ratio of top 10 IPOs

2017 Q3 (YTD):  
**19.4x**



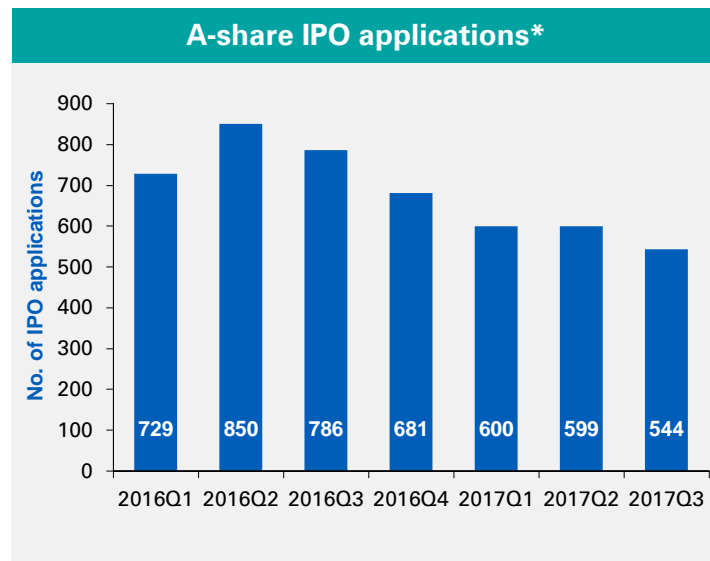
2016 Q3 (YTD):  
**19.0x**

2016 Q3	Company	Exchange	Proceeds (RMB billion)	IPO P/E Ratio	Sector
1	Bank of Jiangsu	SSE	7.2	7.6x	Financial Services
2	Triangle Tyre	SSE	4.4	23.0x	Industrials
3	Bank of Guiyang	SSE	4.2	6.1x	Financial Services
4	China Film	SSE	4.2	23.0x	TMT
5	Shandong Linglong Tyre	SSE	2.6	23.0x	Industrials
6	First Capital Securities	SZSE	2.3	23.0x	Financial Services
7	China Nuclear Engineering	SSE	1.8	15.6x	Infrastructure / Real Estate
8	Guangxi Radio and Television Information Network	SSE	1.4	22.9x	TMT
9	Xinjiang Xintai Natural Gas	SSE	1.1	23.0x	Infrastructure / Real Estate
10	Southern Publishing and Media	SSE	1.0	23.0x	TMT

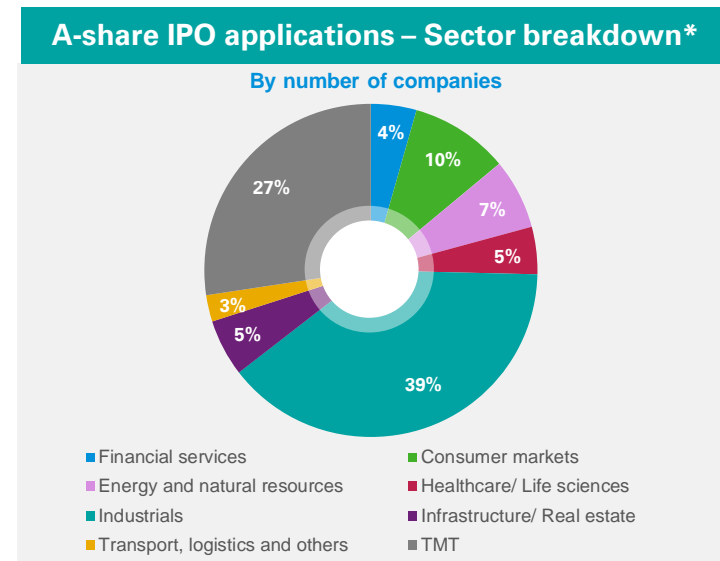
Source: Wind and KPMG analysis

# A-share IPO Pipeline

- ❑ With regulators aiming to normalise the IPO market, new listings have been approved at a fast pace in 2017. **The number of applications in the pipeline decreased** from 681 applications at the end of 2016 to 544 applications as at 14 September 2017.
- ❑ The A-share IPO pipeline is dominated by **industrials and TMT companies**, which is aligned with the trend of new listings from these sectors in 2017.
- ❑ With a national strategy to develop the **high-end manufacturing and new materials industries**, an increasing number of these companies are seeking A-share IPOs.



Note: \*Data as at 14 September 2017



Source: Wind and KPMG analysis



# A-share IPO Approval Rate



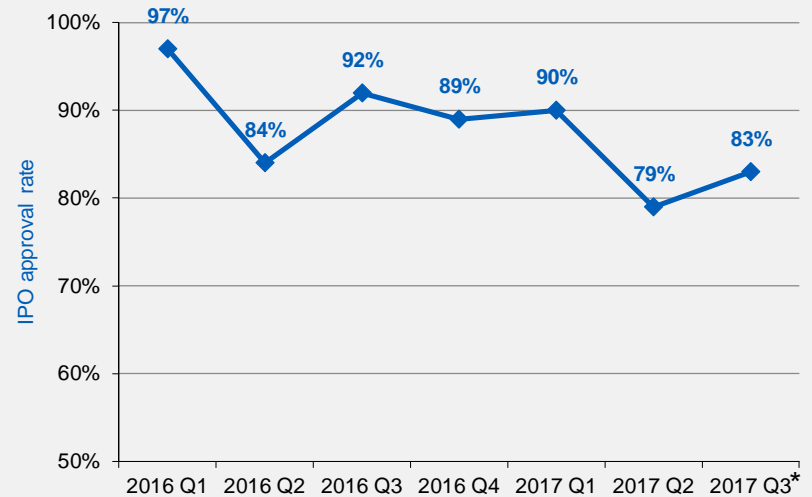
YTD A-share IPO approval rate **decreased to 83 percent** in 2017 Q3\* from more than 90 percent in 2016.



**TMT companies** have **lower approval rates** due to compliance and business sustainability issues

Note: \*Data as at 15 September 2017

A-share IPO approval rate



Source: Wind and KPMG analysis

# A-share IPOs: Outlook for the rest of 2017

**We expect the A-share IPO approval rate in the last quarter of 2017 to remain similar to the 2017 Q3 rate, with high demand for new listings and the Chinese regulators promoting IPO normalisation.**

**Companies from the industrials and TMT sectors with small to medium deal size are expected to make up the majority of the A-share IPOs for the full year.**

**In terms of IPO fundraising, SSE and SZSE are expected be the top-ranked stock exchanges for the year globally.**

**Our 2017 full year forecast for the A-share market is around 440 IPOs, with total funds raised reaching approximately RMB 230 billion.**





# Hong Kong IPO Market



# Hong Kong IPO Market - Highlights

- Hong Kong remains one of the most popular listing destinations worldwide, and this trend is expected to continue until the end of 2017.
- The Main Board recorded 51 IPOs totaling HKD 80.7 billion in the first three quarters, a 40 percent decrease from the HKD 134 billion from 43 IPOs recorded in the same period in 2016. The average deal size decreased to the lowest level since 2013 due to a lack of mega IPOs.
- Financial services, healthcare/life sciences and education remained the top contributors to the Main Board's proceeds, accounting for a combined 80 percent of the total funds raised.
- Hong Kong recorded the first “unicorn” fintech IPO in its history, and we expect to see more listings from fintech companies after relevant laws and regulations are introduced in mainland China.
- With a number of technology companies seeking to list, the market share of IPOs from the TMT sector is expected to grow in the last quarter.
- The GEM had 55 listings in the first three quarters, reaching a historic high since its establishment. The HKD 4.3 billion raised so far has almost reached the same level as in the full year of 2016.

Note: All 2017 Q3 (YTD) figures are based on a combination of data (as at September 15) and KPMG estimates

# Hong Kong IPOs: Overview

- ❑ The Main Board recorded 51 new listings for a combined HKD 80.7 billion, representing a **40 percent decrease year on year** due to a **lack of mega IPOs**. The **average deal size dropped** to its lowest level over the same period since 2013.
- ❑ With improving market sentiment, **investor appetite for IPOs was strong** as more than half of the new listings on the Main Board priced in the upper range, and around 90 percent were over-subscribed.
- ❑ **Financial services remains the top sector**, accounting for 65 percent of Main Board total proceeds in the first three quarters.
- ❑ The GEM Board had 55 new listings worth a combined HKD 4.3 billion, both of which are almost at the same level as the full year of 2016. The GEM recorded **the highest number of new listings on record**, and is expected to **remain active in the last quarter** with a healthy pipeline.

	Main Board						GEM Board		
	Funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)	# of IPOs			Funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)
				< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion			
2017 Q3 (YTD)	80.7	51	1.58	38	9	4	4.3	55	0.08
2016 Q3 (YTD)	134.0	43	3.12	30	6	7	1.9	25	0.08
2016 full year	190.6	72	2.65	48	14	10	4.6	45	0.10
2015 Q3 (YTD)	154.6	49	3.16	34	7	8	1.8	21	0.09
2014 Q3 (YTD)	130.1	64	2.03	36	22	6	1.1	14	0.08
2013 Q3 (YTD)	58.6	29	2.02	19	7	3	1.3	11	0.12
2012 Q3 (YTD)	43.7	36	1.21	26	8	2	1.0	10	0.10

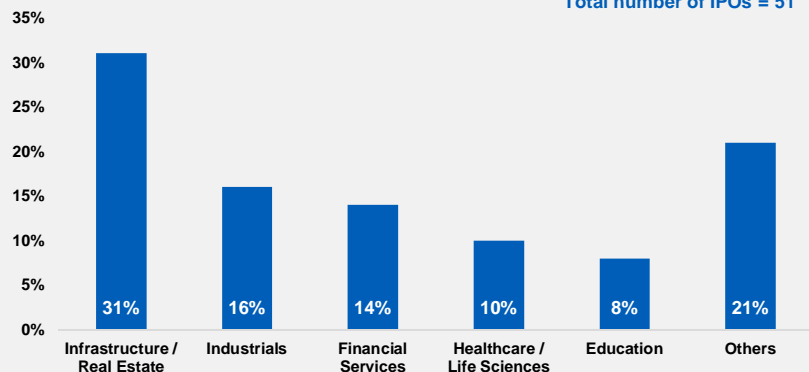
Note: All 2017 Q3 (YTD) figures are based on a combination of data (as at September 15) and KPMG estimates

Source: HKEx and KPMG analysis

# Hong Kong IPOs: Main Board Sector Analysis

## 2017 Q3 (YTD) Top 5 Sectors – By number of IPOs

Total number of IPOs = 51

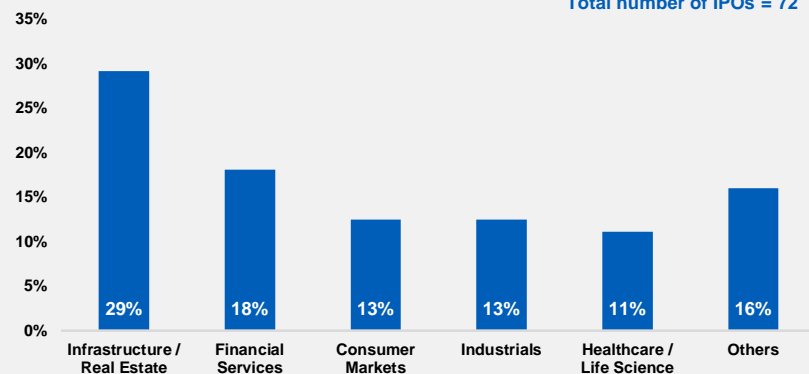


## Infrastructure/Real estate

- ❑ **Remained the top sector** in terms of number of listings, and **dominated by construction companies**.
- ❑ **This trend will continue** in the coming years due to the significant demand for infrastructure construction arising from Hong Kong's local development and the rapid urbanisation of Asian countries.
- ❑ **More companies from 'Belt and Road' Initiative countries** are considering a Hong Kong listing to take advantage of the market's abundant liquidity and strengthen their business presence in the Greater China market.
- ❑ **There have been no real estate IPOs so far this year**, but some property management and leasing companies are expected to list in the last quarter of this year.

## 2016 Full Year Top 5 Sectors – By number of IPOs

Total number of IPOs = 72



## Education

- ❑ **Increased market share** in terms of number of listings and funds raised.
- ❑ **Expected to be more active in the long run** under the PRC's second-child policy and a new PRC Law on the Promotion of Private Education, which provides more clarity on certain longstanding legal grey areas regarding private schools.

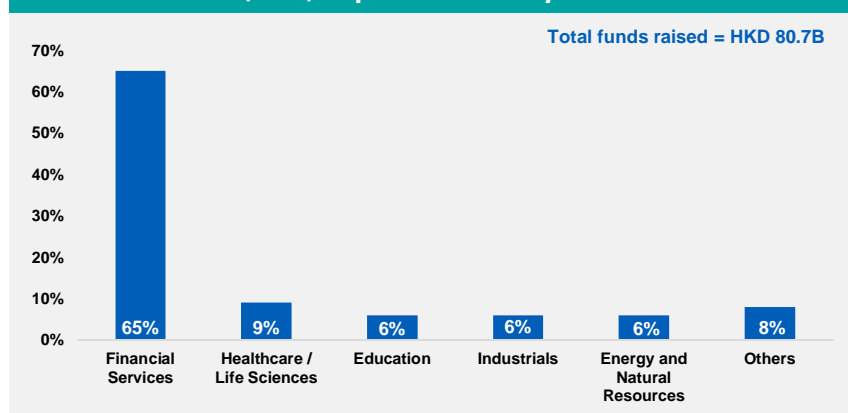
Source: HKEx and KPMG analysis

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



# Hong Kong IPOs: Main Board Sector Analysis (Cont'd)

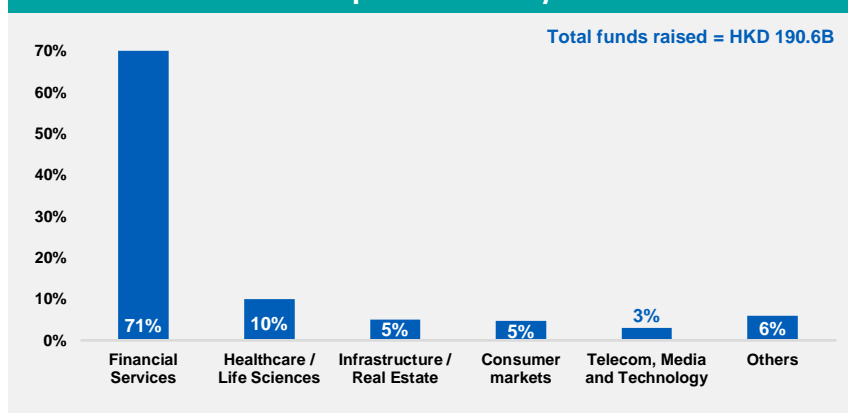
## 2017 Q3 (YTD) Top 5 Sectors – By Funds Raised



## Telecom, Media and Technology

- The TMT sector was quiet in the first three quarters, with only three new listings raising a combined HKD 436 million.
- We expect to see more listings of technology and media companies in the fourth quarter. These companies are mainly engaged in operating online platforms, developing web-based games, providing IT services and producing films.
- Hong Kong is expected to play a greater role in attracting technology companies, with the government taking strategic initiatives and providing R&D tax incentives to create a friendly environment.

## 2016 Full Year Top 5 Sectors – By Funds Raised



## Financial Services

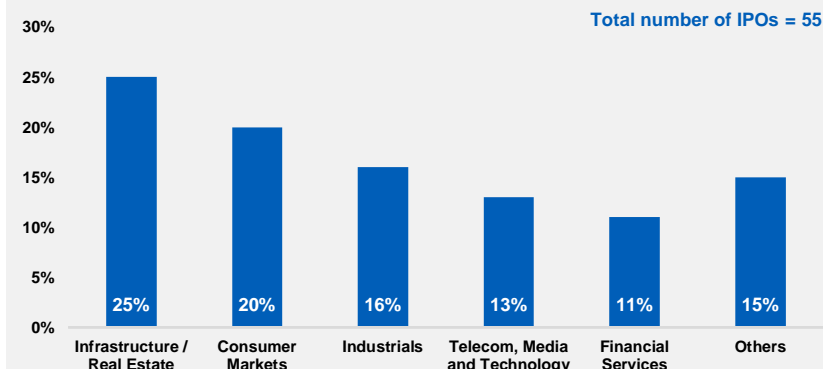
- Remained the largest contributor to total funds raised with a slight decrease in market share from 71 percent to 65 percent. This trend is expected to continue for the rest of 2017.
- Recorded the first “unicorn” fintech IPO in Hong Kong’s history. We expect to see a wave of listings by fintech companies when the mainland China authorities release more comprehensive regulations and complete the “clean-up” of online lending platforms.

Source: HKEx and KPMG analysis

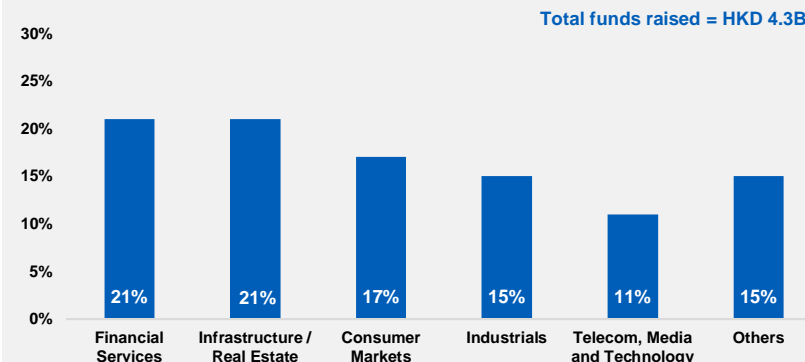
Note: Analysis is based on a combination of data (as at September 15) and KPMG estimates

# Hong Kong IPOs: GEM Sector Analysis

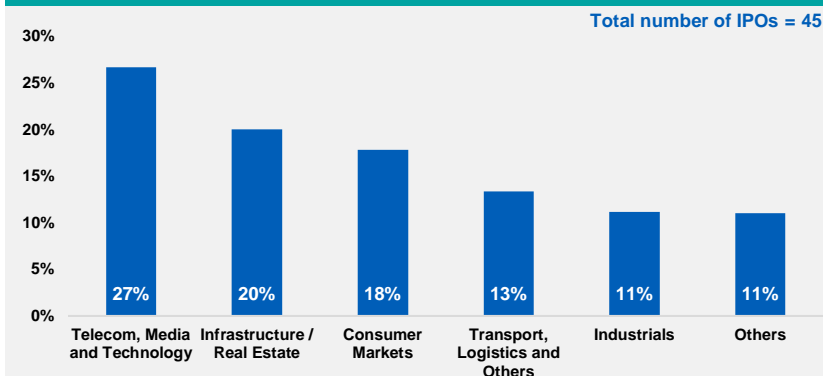
## 2017 Q3 (YTD) Top 5 Sectors – By number of IPOs



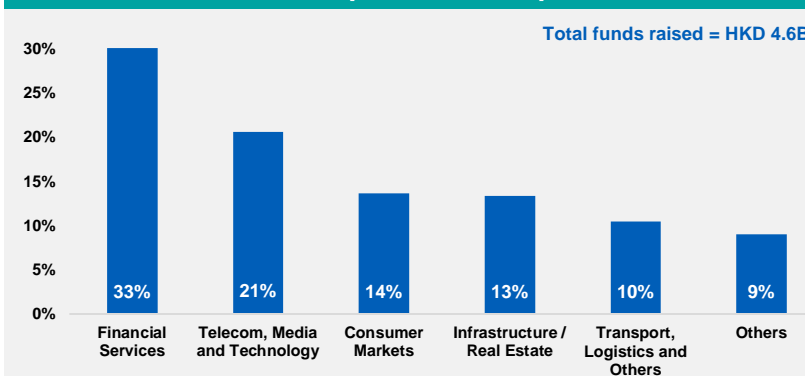
## 2017 Q3 (YTD) Top 5 Sectors – By Funds Raised



## 2016 Full Year Top 5 Sectors – By number of IPOs



## 2016 Full Year Top 5 Sectors – By Funds Raised



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

Source: HKEx and KPMG analysis



### Infrastructure/Real estate

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



### Financial Services

- Remained a major contributor to funds raised with a lower market share due to the decrease in average deal size.
- Mainly companies engaged in lending, corporate finance advisory services or securities brokerage.

# Top 10 Largest Hong Kong IPOs

2017 Q3	Company	Funds raised (HKD bn)	IPO P/E Ratio	Sector
1	Guotai Junan Securities	17.2	12.5x	Financial Services
2	Zhongan Online P&C Insurance*	11.3	7,738.1x	Financial Services
3	Zhongyuan Bank	9.3	12.7x	Financial Services
4	Guangzhou Rural Commercial Bank	9.3	8.7x	Financial Services
5	WuXi Biologics	4.6	148.0x	Healthcare / Life Sciences
6	Jilin Jiutai Rural Commercial Bank	3.5	13.0x	Financial Services
7	China Everbright Greentech	3.4	17.2x	Energy and natural resources
8	FIT Hon Teng	3.1	13.6x	Industrials
9	BOCOM International	2.0	20.4x	Financial Services
10	China YuHua Education	1.8	17.6x	Education

\* Expected to list by the end of September 2017. Funds raised is estimated based on mid price.



## Sector distribution

- Out of the top 10 IPOs, the Financial Services sector has fewer listings and less funds raised so far this year, compared to the same period in 2016.
- One or two technology company listings in the fourth quarter are expected to make it into the top 10 largest IPOs.



## Funds raised by top 10 IPOs

2017 Q3 (YTD):  
**HKD 65.5 billion**

- 77 percent of total proceeds



2016 Q3 (YTD):  
**HKD 121.6 billion**

- 91 percent of total proceeds

2016 Q3	Company	Funds raised (HKD bn)	IPO P/E Ratio	Sector
1	Postal Savings Bank	59.2	9.5x	Financial Services
2	China Zheshang Bank	15.0	9.9x	Financial Services
3	Everbright Securities	8.9	6.6x	Financial Services
4	BOC Aviation	8.7	10.9x	Financial Services
5	DFZQ	8.4	5.9x	Financial Services
6	Bank of Tianjin	7.7	8.5x	Financial Services
7	China Development Bank Financial Leasing	6.3	20.7x	Financial Services
8	China Logistics Property	3.6	6.9x	Transport, Logistics and Others
9	Virscend Education	2.0	70.0x	Education
10	Ronshine China Holdings	1.8	10.8x	Infrastructure / Real Estate

Source: HKEx and KPMG analysis



# Hong Kong IPOs: Outlook for the rest of 2017

**We forecast that there will be around 90 Main Board IPOs and 95 GEM IPOs worth a combined HKD 150 billion for the full year.**

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

**Construction company IPOs will continue to be key in light of the rising demand for infrastructure development in Hong Kong and mainland China. TMT company IPOs are expected to pick up with a few technology companies seeking to list in the fourth quarter.**

**More overseas companies are expected to list in Hong Kong due to the market's abundant liquidity. A majority of these companies are from Singapore, and are engaged in construction, property leasing and property management work.**

**While the GEM is expected to be active due to an influx of listing applications resulting from the consultation on GEM reform, the approval rate of GEM listings in the last quarter may be affected by the recent updates on the guidance letter in respect of listing applications.**

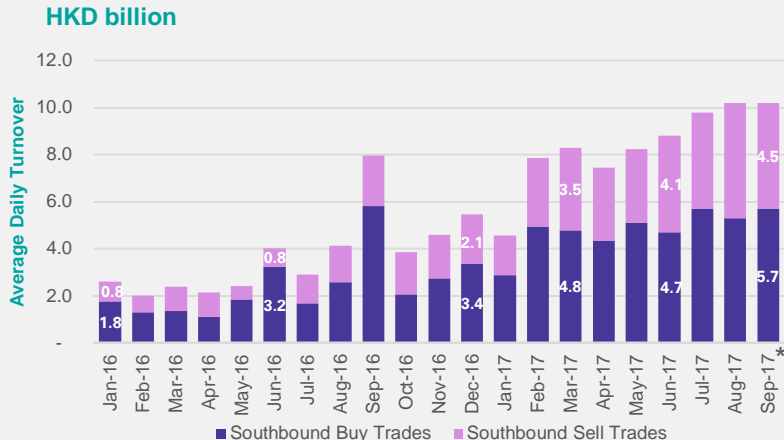


Stock Connect

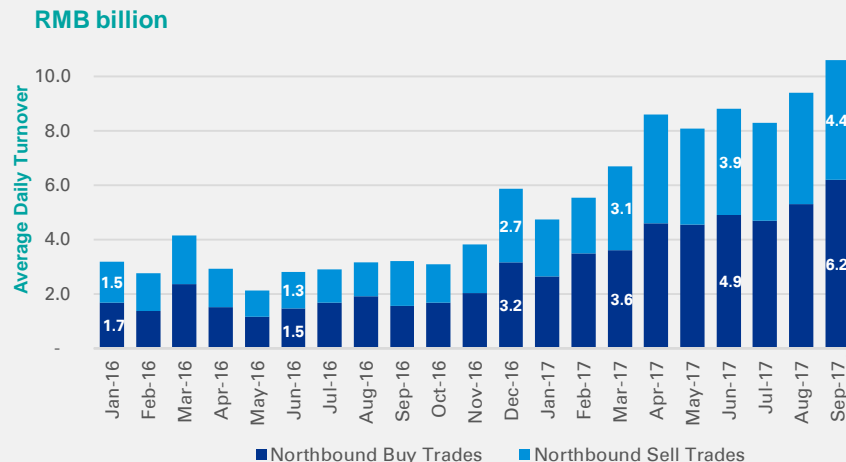
# Stock Connect

- ❑ The average daily turnover of both Southbound and Northbound investment has been increasing over the past year, symbolising **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 the Stock Connect. They are **primarily medium to large-cap companies**, which represent over 80 percent of the three stock exchanges' combined market capitalisation.

## Southbound Investment Average Daily Turnover



## Northbound Investment Average Daily Turnover



\* As at 15 September 2017

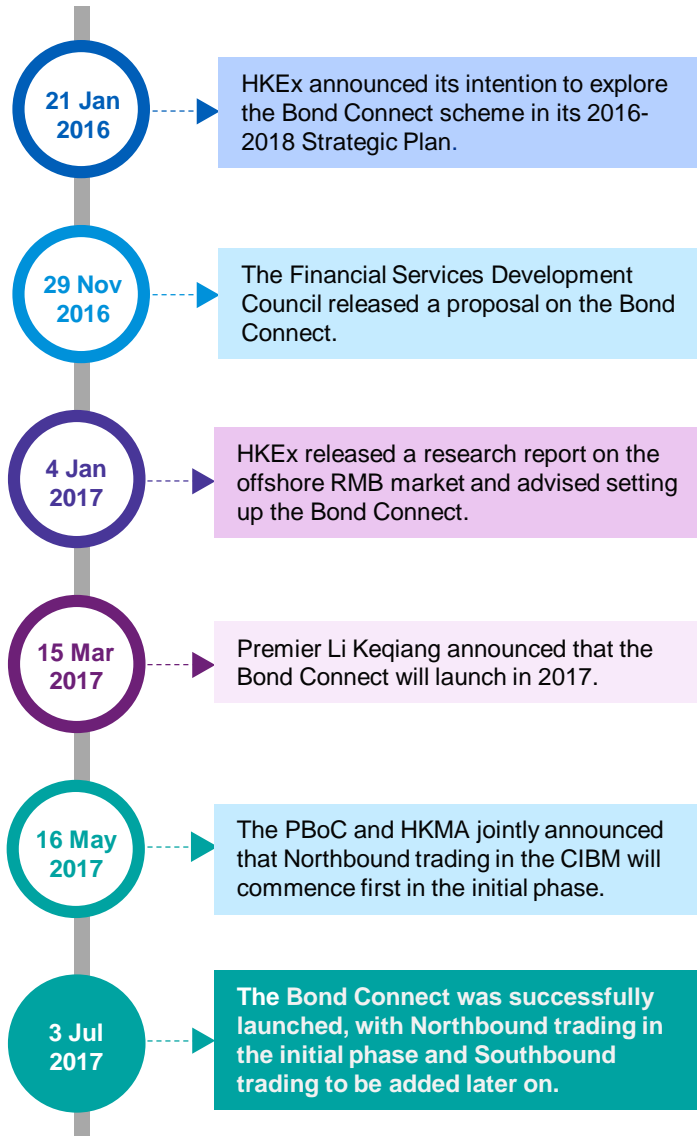
Source: HKEx



# Bond Connect

The background of the slide is a complex financial visualization. It features multiple overlapping candlestick charts in various colors (blue, red, white) and line graphs. A prominent blue rectangular overlay covers the top-left portion of the image, containing the text 'Bond Connect'. The overall color palette is dominated by blues and teals, with a warm, reddish-orange glow emanating from the center-right area, suggesting a sunrise or sunset behind the financial data.

# Bond Connect: Northbound trading commences



## Mainland China bond market

- ❑ China is the **world's 3rd largest** domestic bond market with RMB 72 trillion outstanding as at 15 September 2017. Eighty-eight percent of bonds outstanding were issued in the China Interbank Bond Market (CIBM).
- ❑ **Only 2 percent of outstanding bonds are held by foreign investors.** Government bonds and policy bank bonds currently account for more than 90 percent of the bonds held by these foreign investors.
- ❑ The launch of the Bond Connect allows international investors additional access to China's significant onshore bond market.
- ❑ Trading via the Bond Connect is expected to be **more active in the long run** once there is more clarity on tax arrangements, and Chinese bonds are included in major international bond indexes.

Source: Wind



# Contact us



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