



Mainland China and Hong Kong

2017 Review: IPOs and other market trends



Foreword

In 2017, the A-share IPO market in mainland China continued to gain momentum with a significant increase 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 and medium-sized deals. The city recorded a number of 'new economy' IPOs in the second half of the year, marking its transition into a new era.

This report analyses the A-share and Hong Kong IPO markets for 2017, and provides an outlook for 2018. It also includes an update on the Stock and Bond Connect schemes.



IPO Performances of Top Stock Exchanges Globally

2017	Rank	Stock Exchange	IPO Proceeds (USD billion)	IPO Proceeds (HKD billion) ^{1,2}
	1	New York Stock Exchange	29.1	226.8
	2	Shanghai Stock Exchange	19.7	154
	3	London Stock Exchange	15.6	122
	4	The Stock Exchange of Hong Kong	14.7	115
	5	Shenzhen Stock Exchange	12.6	98

2016	Rank	Stock Exchange	IPO Proceeds (USD billion)	IPO Proceeds (HKD billion) ²
	1	The Stock Exchange of Hong Kong	25	195.2
	2	Shanghai Stock Exchange	14.9	116.3
	3	New York Stock Exchange	14	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 30 November 2017.

(2) The exchange rate for USD/HKD is 7.8.

Source: HKEX and Bloomberg

The background of the slide features a complex financial market visualization. It includes multiple overlapping candlestick charts in white and red, set against a dark blue and black background. A prominent blue semi-transparent rectangular overlay covers the top-left portion of the image, serving as a backdrop for the text. Faint, glowing lines and patterns suggest a digital or data-driven environment.

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

Mainland China IPO Market



A-share IPO Market - 2017 Highlights

- The Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) ranked as the second and fifth¹ largest globally in terms of funds raised in 2017, with the regulators continuing to make a concerted effort to 'destock' the A-share pipeline.
- While the number of listings on the SSE doubled in 2017,² the total proceeds increased disproportionately by only 38 percent due to the lack of mega-sized IPOs. The SZSE recorded a more than 80 percent increase in both the number of listings and proceeds, and the average deal size increased by 8 percent.
- The A-share IPO market is dominated by companies from the industrials and technology, media and telecom (TMT) sectors, contributing to more than half of the total number of IPOs and funds raised. The financial services sector recorded a significant decrease in market share and only one regional commercial bank was listed during the year.
- The A-share IPO market is normalising, with regulators approving IPOs at a fast pace and simultaneously focusing on the quality of listing applicants. The number of active applicants in the pipeline decreased by around 230, which indicates that the issue of 'overstocking' has been relieved to a certain extent. With the increase in the supply of A-share IPOs, the average number of consecutive daily limit-ups after the initial listing also decreased compared to last year.

Note:

(1) The stock exchange ranking is based on information as at 30 November 2017.

(2) All 2017 A-share IPO figures are based on a combination of data as at 30 November 2017 and KPMG estimates, and exclude listing by introduction.

A-share IPOs: Overview

- ❑ The A-share IPO market recorded 440 new listings for a combined RMB 235 billion during the year, representing a significant increase of 57 percent from 2016. The **average deal size decreased** by 20 percent to RMB 0.53 billion from RMB 0.66 billion in 2016, with **no listings raising over RMB 5 billion**.
- ❑ The SSE recorded 215 new listings with total funds raised reaching RMB 140 billion. While the number of IPOs doubled, the total funds raised increased by only 38 percent due to **the lack of sizeable IPOs from the financial services sector**.
- ❑ SZSE IPO activity increased significantly during the year with 225 IPOs and RMB 95 billion raised, **both more than 80 percent higher than the 2016 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	140	215	0.65	95	225	0.42	393	47	-	440
2016	101.7	103	0.99	47.9	124	0.39	204	20	3	227
2015	108.7	89	1.22	48.9	130	0.38	198	18	3	219
2014	31.2	43	0.73	35.5	81	0.44	114	9	1	124
2013	-	-	-	-	-	-	-	-	-	-
2012	33.4	26	1.28	70.1	129	0.54	132	23	-	155

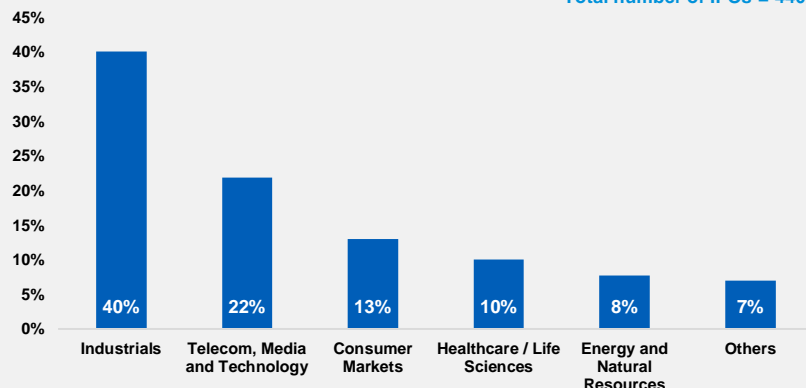
Source: Wind and KPMG analysis

Note: All 2017 A-share IPO figures are based on a combination of data as at 30 November 2017 and KPMG estimates, and exclude listing by introduction.

A-share IPOs: Sector Analysis

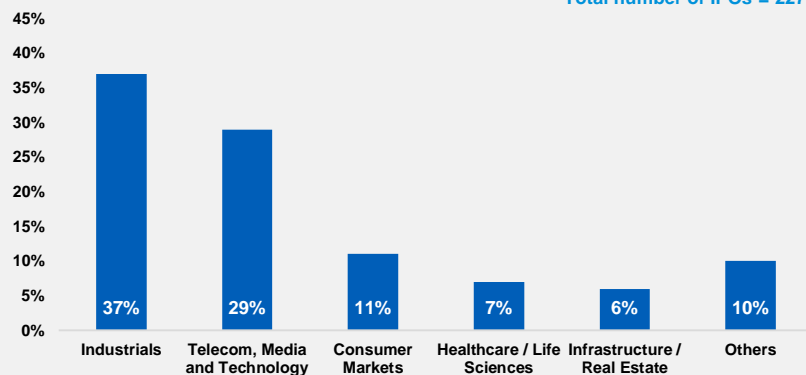
2017 Top 5 Sectors – By number of IPOs

Total number of IPOs = 440



2016 Top 5 Sectors – By number of IPOs

Total number of IPOs = 227



Source: Wind and KPMG analysis



Telecom, Media and Technology

- While the market share decreased by 7 percentage points in terms of number of listings, the TMT sector is expected to **continue to be a key driver for the IPO market in the long run** as China transforms into a digital economy.
- The companies listed are **mainly engaged in the manufacturing of electronic products, provision of IT solutions, and multimedia production.**
- China is looking to **become a global leader in artificial intelligence (AI)**, and is aiming to develop an AI industry worth RMB 150 billion by 2020 and RMB 1 trillion by 2030. AI development is expected to fuel **significant changes in all industries.**



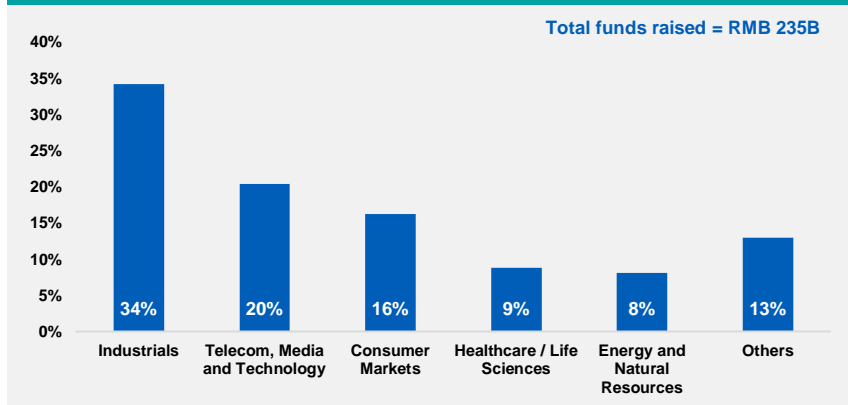
Healthcare / Life Sciences

- The number of Healthcare/Life Science companies that listed **more than doubled** during the year as the regulators sped up IPO approvals.
- The companies listed are mainly engaged in the manufacturing of **pharmaceuticals, medical devices and other biological products.**
- China is **undertaking a series of reforms in the pharmaceutical industry**, such as encouraging R&D in new medicines and speeding up the approval of medicine registrations. With an ageing population in China, the Healthcare/Life Sciences sector is **expected to be a key player in the IPO market in the longer term.**

Note: Analysis is based on a combination of data as at 30 November 2017 and KPMG estimates, and excludes listing by introduction.

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

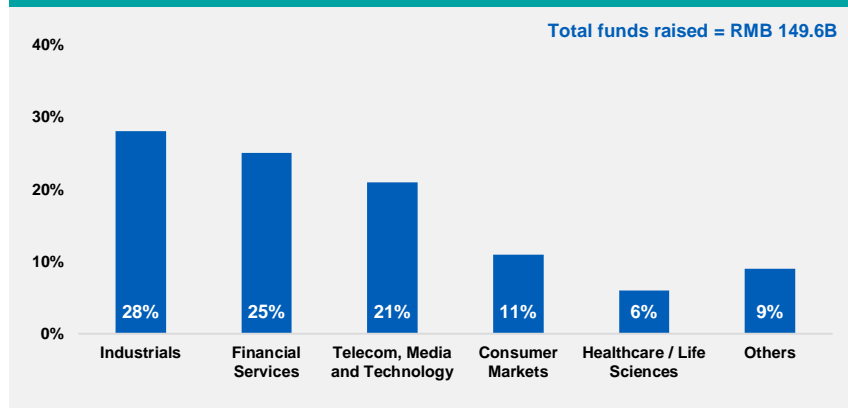
2017 Top 5 Sectors – By Funds Raised



Industrials

- ❑ The industrials sector continued to be **the largest contributor to both the number of new listings and total funds raised**, and this trend is expected to continue in the near future.
- ❑ The companies listed are mainly engaged in the manufacturing of **automotive parts, industrial machinery, electrical equipment and chemicals**.
- ❑ The integration of the key national strategies – “Belt and Road” initiative, “Internet Plus” and “Made in China 2025” – will likely encourage the **modernisation of the industrials sector**. The construction of network infrastructure in industrial enterprises will promote **greater interconnectivity between firms within the industrial value chain**.

2016 Top 5 Sectors – By Funds Raised



Source: Wind and KPMG analysis



Financial Services

- ❑ Listing proceeds from the financial services sector **plummeted**, with market share **declining from 25 percent to 6 percent**. **Only one regional commercial bank listed** in 2017, compared to seven in the previous year.
- ❑ The sector has **a stable IPO pipeline** consisting of 29 financial services companies, around half of which are **regional commercial banks**.
- ❑ The sector **continued to be dominated by traditional financial services firms**. **Fintech companies are currently seeking overseas listings** in the US or Hong Kong, as most of them are unable to fulfill the “profit-making” requirement in the A-share IPO market.

Note: Analysis is based on a combination of data as at 30 November 2017 and KPMG estimates, and excludes listing by introduction.

Top 10 Largest A-share IPOs

2017	Company	Exchange	Proceeds (RMB billion)	Sector
1	China Galaxy Securities	SSE	4.1	Financial Services
2	Caitong Securities	SSE	4.1	Financial Services
3	Huaneng Lancang River Hydropower [#]	SSE	3.9	Energy and Natural Resources
4	Zheshang Securities	SSE	2.8	Financial Services
5	Central China Securities	SSE	2.8	Financial Services
6	Shandong Publishing & Media	SSE	2.7	TMT
7	Jiangsu Provincial Agricultural Reclamation and Development	SSE	2.4	Consumer Markets
8	Oppein Home Group	SSE	2.1	Consumer Markets
9	Xin Feng Ming Group	SSE	2.1	Industrials
10	Electric Connector Technology	SZSE	2	TMT

[#] Expected to be listed in December 2017.



Funds raised by top 10 IPOs

2016:
RMB 48.4 billion
~ 32 percent of total proceeds



2017:
RMB 29 billion
~ 12 percent of total proceeds



Sector distribution

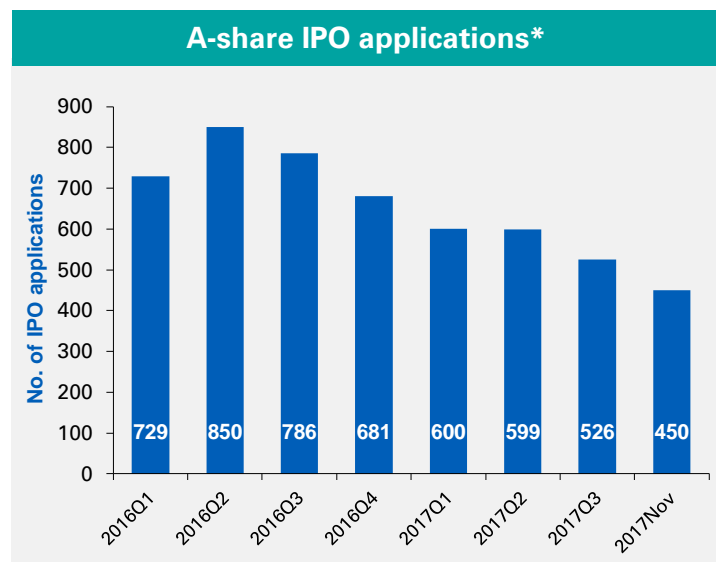
- Financial services IPOs remained the **largest contributor** to the top 10 largest A-share IPOs.
- These financial services companies are **all securities firms**, while those that listed in 2016 were mainly banks.

2016	Company	Exchange	Proceeds (RMB billion)	Sector
1	Bank of Shanghai	SSE	10.7	Financial Services
2	Bank of Jiangsu	SSE	7.2	Financial Services
3	Huaan Securities	SSE	5.1	Financial Services
4	Triangle Tyre	SSE	4.4	Industrials
5	Bank of Guiyang	SSE	4.2	Financial Services
6	China Film	SSE	4.2	TMT
7	Shandong Buchang Pharmaceuticals	SSE	3.9	Healthcare / Life Sciences
8	Bank of Hangzhou	SSE	3.8	Financial Services
9	Shandong Linglong Tyre	SSE	2.6	Industrials
10	First Capital Securities	SZSE	2.3	Financial Services

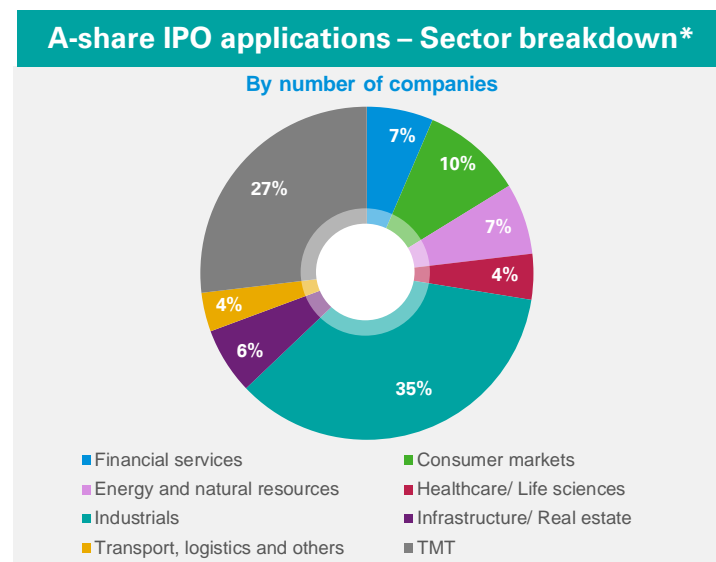
Source: Wind and KPMG analysis

A-share IPO Pipeline

- ❑ With an accelerated IPO approval process, **the number of active applications decreased** from 681 at the end of 2016 to 450 as at 30 November 2017. The pipeline is **expected to be cleared by the end of 2019** if the regulators maintain the current approval pace.
- ❑ With the regulators continuing to focus on the quality of listing applicants, **an increasing number of applicants are being rejected** and **certain companies are withholding the submission of their listing applications**. This is also indirectly contributing to the 'destocking' of the pipeline.
- ❑ **With the increase in IPO supply**, the A-share market recorded **a decline in the average number of consecutive daily limit-ups right after the initial listing** (2017: 9.4*; 2016: 13), a positive sign that the A-share market is normalising.



Note: *Data as at 30 November 2017



Source: Wind and KPMG analysis

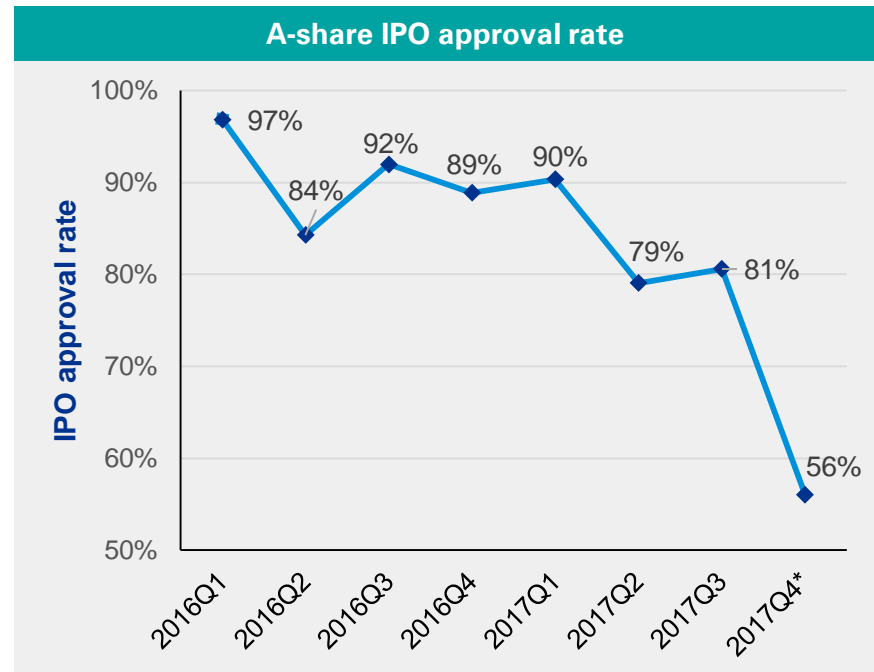
A-share IPO Approval Rate



The **IPO approval rate further decreased to 56 percent*** after the new Public Offering Review Committee (PORC) members took over in October 2017. Regulators continued to focus on **business sustainability, non-compliance issues and accounting abnormalities**.



Further measures will be implemented to uphold the high quality of IPO reviews, including proposals to **establish a supervisory committee** over PORC and **impose life-long accountability** on PORC members.



Note: *Data as at 30 November 2017

Source: Wind and KPMG analysis

A-share IPOs: Outlook for 2018

Mainland China aims to increase the proportion of direct financing and promote the development of multi-level capital markets in order to assist enterprises in deleveraging and reducing financing costs. In light of the important role of IPOs in direct financing, regulators will continue to promote IPO normalisation by approving new listings at an accelerated pace and putting greater emphasis on the quality of listing applicants.

The SSE and SZSE are expected to remain among the top-ranked stock exchanges globally in 2018 in terms of IPO fundraising, commensurate with the funding needs and scale of mainland China's economy.

Small and medium-sized companies from the industrials and TMT sectors are expected to make up a majority of the A-share IPOs. Healthcare/Life Sciences listings will also be a new driver of growth.

Hong Kong IPO Market



Hong Kong IPO Market - 2017 Highlights

- Hong Kong ranked as the fourth¹ largest globally in terms of funds raised in 2017, and will continue to be one of the most popular listing destinations worldwide in 2018.
- The Main Board recorded 80 IPOs totalling HKD 124 billion during the year,² a 35 percent decrease from the HKD 191 billion from 72 IPOs recorded in 2016. The average deal size decreased to the lowest level in the past decade due to a lack of mega IPOs.
- The financial services sector remained the top contributor to the Main Board's proceeds, accounting for a combined 53 percent of the total funds raised. The TMT sector rebounded in the last quarter with the listings of China Literature and Razer, both of which are among the largest IPOs for the year.
- Hong Kong saw a wave of listings from 'new economy' companies in the second half of 2017. All of them were heavily oversubscribed by local investors and recorded first-day trading gains, demonstrating Hong Kong investors' strong appetite for 'new economy' IPOs.
- The GEM had 80 listings, reaching a historic high since its establishment. The HKD 6 billion raised represented a 30 percent increase compared to the previous year.

Note:

(1) The stock exchange ranking is based on information as at 30 November 2017.

(2) All 2017 Hong Kong IPO figures are based on a combination of data as at 30 November 2017 and KPMG estimates, and exclude listing by introduction.

Hong Kong IPOs: Overview

- ❑ The Main Board recorded 80 new listings for a combined HKD 124 billion, representing a **35 percent decline** compared to 2016 due to a **lack of mega IPOs**. The average deal size dropped to its lowest level in the past decade.
- ❑ 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 95 percent were over-subscribed.
- ❑ **Financial services remained the largest sector**, despite a decrease in its share of the Main Board's total proceeds from 71 percent to 53 percent. The **TMT sector also gained significant ground** during the year, accounting for 16 percent of the Main Board's total proceeds.
- ❑ The GEM Board had 80 new listings worth a combined HKD 6 billion, **recording the highest number of new listings on record**. With the new Main Board and GEM Board listing requirements taking effect, we expect the number of GEM Board listings to remain at a similar level in the coming year.

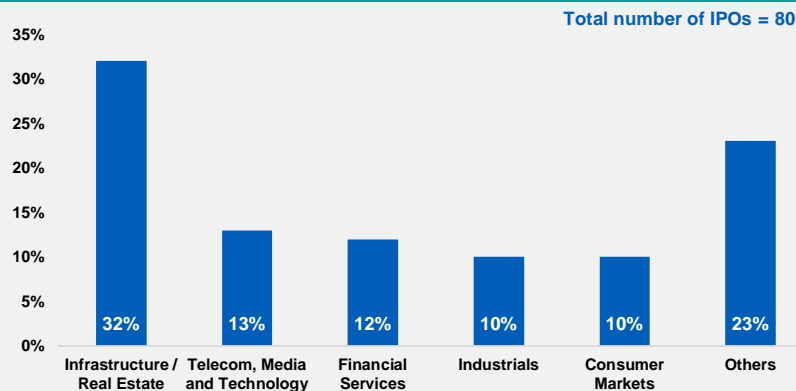
	Main Board						GEM Board		
	Funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)	# of IPOs			Funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)
				< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion			
2017	124	80	1.55	57	17	6	6	80	0.08
2016	190.6	72	2.65	48	14	10	4.6	45	0.10
2015	260.4	87	2.99	57	15	15	2.5	34	0.07
2014	230.2	90	2.56	51	29	10	1.9	19	0.10
2013	165.8	74	2.24	40	28	6	3.2	23	0.14
2012	88.9	48	1.85	31	14	3	1.1	12	0.09

Note: All 2017 Hong Kong figures are based on a combination of data as at 30 November 2017 and KPMG estimates, and exclude listing by introduction.

Source: HKEx and KPMG analysis

Hong Kong IPOs: Main Board Sector Analysis

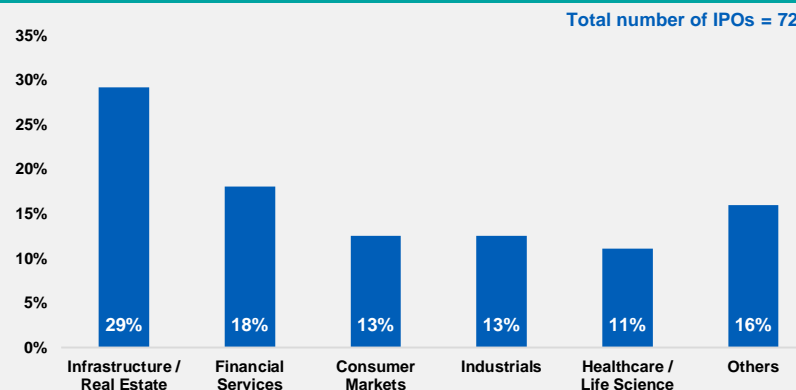
2017 Top 5 Sectors – By number of IPOs



Infrastructure/Real Estate

- ❑ Remained the **top sector** in terms of number of listings. A **majority of the companies listed are construction companies**.
- ❑ Continued support for development and construction by the Hong Kong government.
- ❑ Maintained its position as the **most popular sector for IPOs originating from overseas (mainly Singapore)** with five successful listings this year, representing more than 40 percent of all Main Board new listings from overseas issuers.

2016 Top 5 Sectors – By number of IPOs



Healthcare/Life Sciences

- ❑ The companies listed are mainly engaged in operating hospitals and manufacturing pharmaceuticals and medical devices.
- ❑ Recorded the **first ever IPO by an elderly home care services provider**.
- ❑ While the **market share decreased** in terms of number of listings and funds raised in 2017, the sector is **expected to become more active in the longer term** with an ageing population in Asia, and mainland China relaxing its one-child policy.

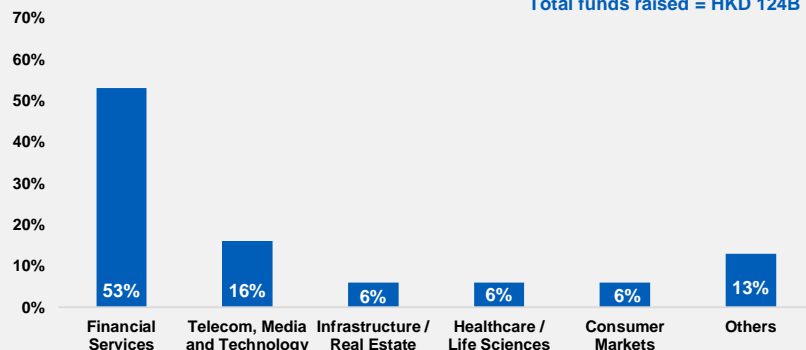
Source: HKEx and KPMG analysis

Note: Analysis is based on a combination of data as at 30 November 2017 and KPMG estimates, and excludes listing by introduction.

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

2017 Top 5 Sectors – By Funds Raised

Total funds raised = HKD 124B

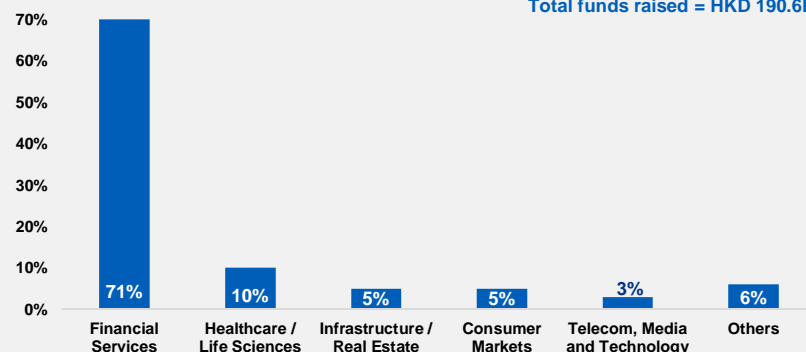


Financial Services

- Despite a decrease in both the number of listings and total funds raised, **the financial services sector remained the largest contributor of funds raised.**
- The sector is **transforming from traditional financial services to 'new economy' financial services**, with around one-third of the funds contributed by Fintech companies.
- Hong Kong is working to **catch up with the US bourses in attracting Fintech company listings**. We expect to see **more Fintech companies list in Hong Kong in 2018.**

2016 Top 5 Sectors – By Funds Raised

Total funds raised = HKD 190.6B



Source: HKEx and KPMG analysis



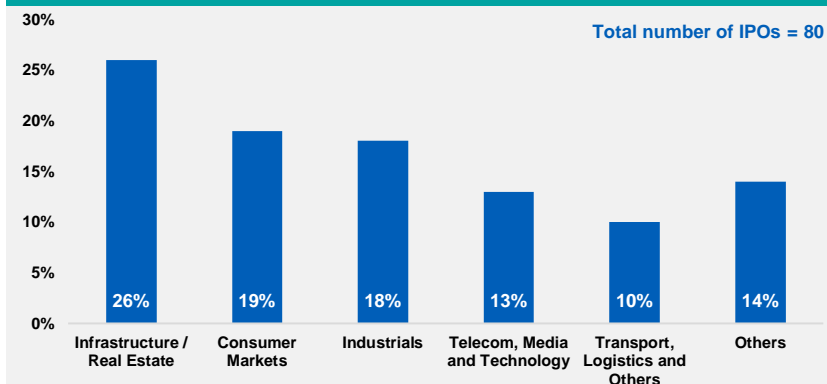
Telecom, Media and Technology

- The sector was quiet in the first three quarters of 2017, but **rebounded in the fourth quarter** with two of the largest IPOs of the year.
- We **expect to see more listings of technology and media companies from both Hong Kong and mainland China in 2018**. These companies are mainly engaged in operating online platforms, providing IT solutions, and film production.
- Hong Kong **may record a mega-sized IPO by a company operating telecommunications network towers in the coming year**, depending on the progress of state-owned enterprise (SOE) reform.

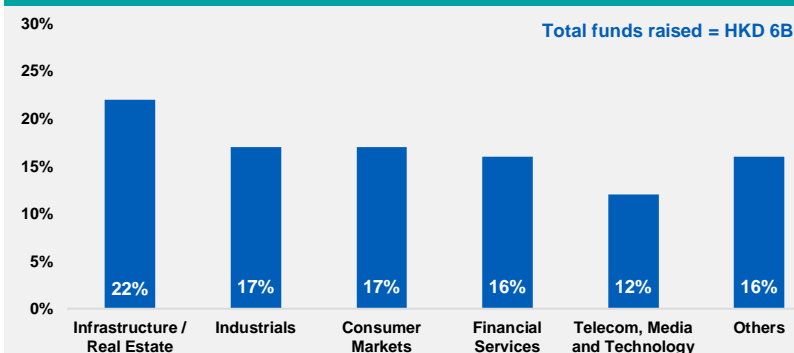
Note: Analysis is based on a combination of data as at 30 November 2017 and KPMG estimates, and excludes listing by introduction.

Hong Kong IPOs: GEM Sector Analysis

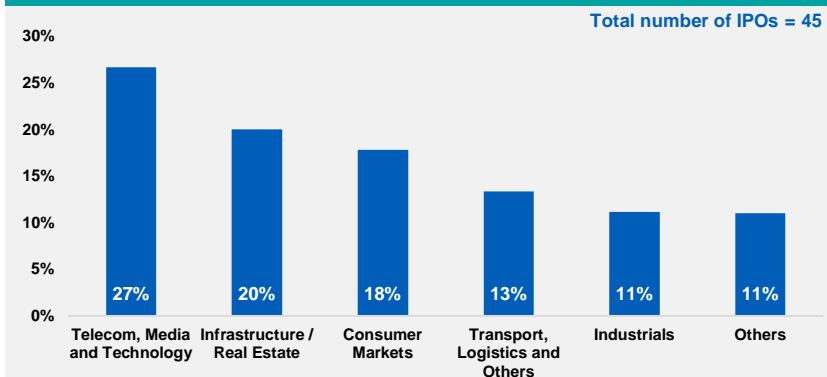
2017 Top 5 Sectors – By number of IPOs



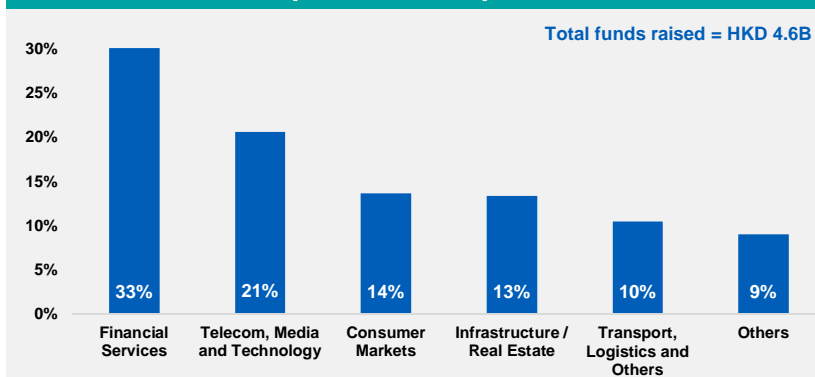
2017 Top 5 Sectors – By Funds Raised



2016 Top 5 Sectors – By number of IPOs



2016 Top 5 Sectors – By Funds Raised



Note: Analysis is based on a combination of data as at 30 November 2017 and KPMG estimates, and excludes listing by introduction.

Source: HKEx and KPMG analysis



Infrastructure/Real estate

- ❑ The number of listings and funds raised nearly doubled due to a steady stream of listing applicants.
- ❑ Continues to be dominated by construction companies.



Industrials

- ❑ Significant increase in market share in terms of both the number of listings and funds raised.
- ❑ The GEM is gaining recognition within the region, with around one-third of industrial IPOs coming from ASEAN companies.

Top 10 Largest Hong Kong IPOs

2017	Company	Funds raised (HKD billion)	Sector
1	Guotai Junan Securities	17.2	Financial Services
2	Zhongan Online P&C Insurance [#]	13.7	Financial Services
3	Zhongyuan Bank	9.3	Financial Services
4	Guangzhou Rural Commercial Bank	9.3	Financial Services
5	China Literature [#]	8.3	TMT
6	Yixin Group Limited [#]	6.8	Financial Services
7	WuXi Biologics	4.6	Healthcare / Life Sciences
8	Razer [#]	4.1	TMT
9	Crystal International Group	4	Consumer Markets
10	Jilin Jiutai Rural Commercial Bank	3.5	Financial Services

'New economy' companies



Funds raised by top 10 IPOs

2016:
HKD 148.2 billion

~ 76 percent of total proceeds



2017:
HKD 80.8 billion

~ 62 percent of total proceeds



Sector distribution

- **Financial services IPOs remained the largest contributor to the top 10 largest IPOs in 2017, but had a lower contribution to total funds raised compared to 2016.**
- **Four 'new economy' companies feature in the top 10 largest IPOs, reflecting the technology-led transformation of the economy.**

2016	Company	Funds raised (HKD billion)	Sector
1	Postal Savings Bank	59.2	Financial Services
2	China Resources Pharmaceutical	15.1	Healthcare / Life Sciences
3	China Zheshang Bank	15	Financial Services
4	China Merchants Securities	10.7	Financial Services
5	Everbright Securities	8.9	Financial Services
6	BOC Aviation	8.7	Financial Services
7	DFZQ	8.4	Financial Services
8	CSC Financial	8.2	Financial Services
9	Bank of Tianjin	7.7	Financial Services
10	China Development Bank Financial Leasing	6.3	Financial Services

Source: HKEx and KPMG analysis

Hong Kong IPOs: Outlook for 2018

Hong Kong will continue to be among the top listing destinations in 2018, and will benefit from a number of government policies and market developments:

- **The city is expected to conclude consultations on ‘new economy’ companies with a non-standard governance structure to allow these companies to list by the end of 2018.**
- **A significant number of mainland ‘new economy’ companies that are currently at the pre-profit stage are seeking overseas listings to finance their further development.**
- **Overseas companies are showing greater interest in seeking a Hong Kong listing to take advantage of the city’s abundant liquidity and high valuations.**
- **SOE reforms are set to accelerate with an array of new government policies to be published after the 19th National Congress of the Communist Party of China.**

Hong Kong is expected to be dominated by small and medium-sized IPOs in the coming year, and the number of GEM listings is likely to remain at a similar level with the new Main Board and GEM Board listing requirements taking effect.

We forecast that the total proceeds for 2018 will exceed HKD 200 billion, depending on the choice of listing locations for a few mega-sized IPOs and the progress of SOE reforms.

Stock Connect

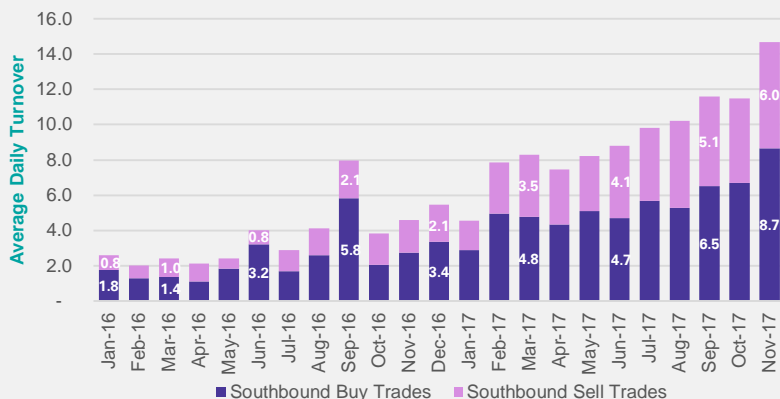


Stock Connect

- ❑ The average daily turnover of both Southbound and Northbound investment has been increasing steadily due to an **improved market sentiment and the gradual integration between Hong Kong and mainland China's capital markets.**
- ❑ The upcoming inclusion of A-share stocks in major international indices is expected to further boost Northbound capital flows due to **growing overseas enthusiasm for mainland Chinese stocks.**
- ❑ Southbound trading enables Hong Kong to benefit from the strong financial clout of mainland Chinese investors, **solidifying Hong Kong's position as an attractive IPO destination for overseas issuers.**

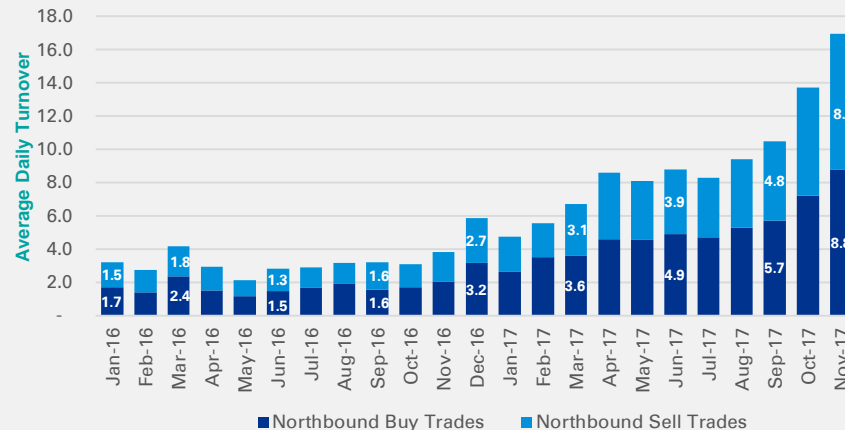
Southbound Investment Average Daily Turnover

HKD billion



Northbound Investment Average Daily Turnover

RMB billion



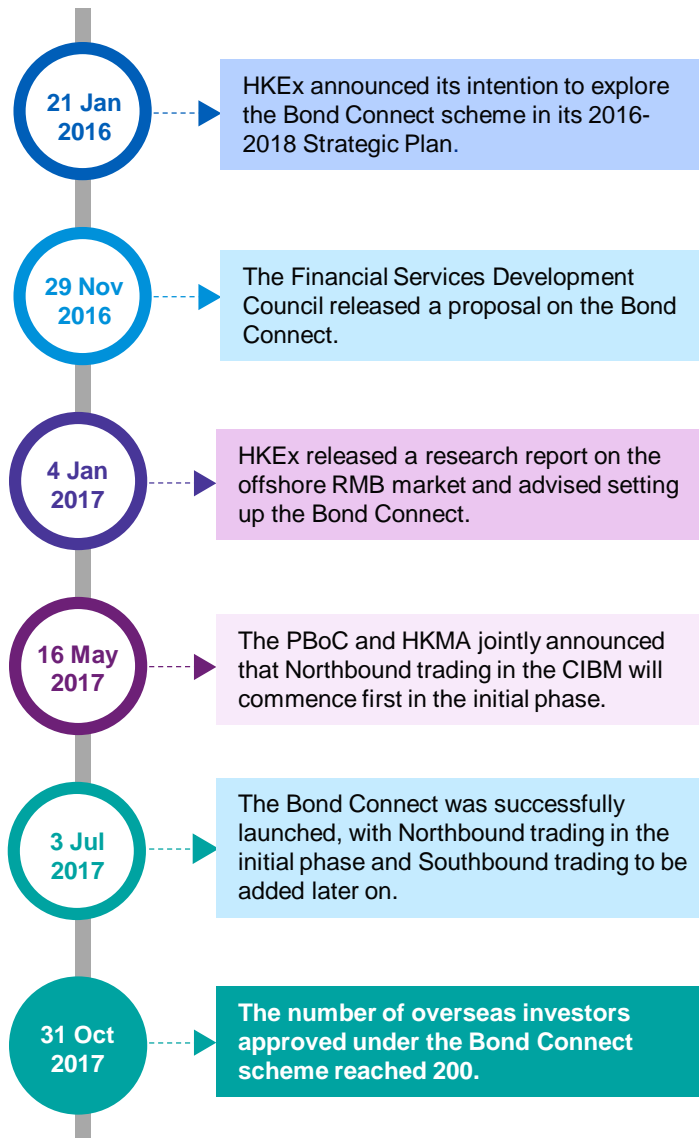
Source: HKEx

Bond Connect

Bid	Offer
61.00	61.25
60.75	61.50
60.50	61.75
60.25	62.00
60.00	62.25



Bond Connect: The Number of Registrants Reaches 200



Foreign participation in the mainland China bond market

- ❑ Foreign participation in the onshore bond market has been growing for eight consecutive months, with the total outstanding value exceeding RMB 1 trillion at the end of November 2017.
- ❑ The Bond Connect scheme offers international investors an additional channel to participate in the China Interbank Bond Market (CIBM) under a more streamlined and simplified admission procedure.
- ❑ The Bond Connect has been operating smoothly since its launch in July, and the number of overseas registrants reached 200 at the end of October.
- ❑ Trading via the Bond Connect is expected to become **more active in the long run** once Chinese bonds are included in major international bond indices.

Source: Wind, Bond Connect Company Limited

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