



Mainland China and Hong Kong

2018 Q1 Review:
IPOs and other
market trends



Foreword

In the first quarter of 2018, the A-share IPO market consists mainly of companies from traditional sectors. The regulators are, however, considering to allow the new listings of four “new” types of companies, which would boost the A-share IPO market.

In Hong Kong, the IPO market continues to perform strongly, with a year-on-year increase in new listings and funds raised. In addition, an increase in the number of “new economy” IPOs is expected this year following the introduction of a new listing regime for companies from emerging and innovative sectors.

This report analyses the 2018 Q1 A-share and Hong Kong IPO markets. It also includes an update on the Stock and Bond Connect schemes.



Top Performing Global Stock Exchanges

2018 Q1*	Rank	Stock exchange	IPO fundraising (USD billion) ¹	IPO fundraising (HKD billion) ^{1,2}
	1	New York Stock Exchange	10.6	82.3
	2	Frankfurt Stock Exchange	5.4	42.0
	3	Shanghai Stock Exchange	3.1	24.4
	4	The Stock Exchange of Hong Kong	2.9	22.5
	5	Shenzhen Stock Exchange	2.8	21.6

2017 (Full year)	Rank	Stock exchange	IPO fundraising (USD billion) ¹	IPO fundraising (HKD billion) ^{1,2}
	1	New York Stock Exchange	29.4	229
	2	Shanghai Stock Exchange	21.3	166
	3	London Stock Exchange	16.7	130
	4	The Stock Exchange of Hong Kong	16.5	129
	5	Shenzhen Stock Exchange	14.2	111

(1) Analysis based on data as at 20 March 2018.

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

Source: HKEX and Bloomberg

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



Mainland China IPO Market



A-share IPOs: 2018 Q1 Highlights

Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) recorded 38 new listings for a combined RMB 40 billion in 2018 Q1. Both the number of new listings and total fundraising were down from the same period of time last year. This was due to a reduction in the number of listing approvals compared to 2017 Q1.

2018 Q1 saw a higher proportion of IPOs within the RMB 1 billion and RMB 5 billion range, with average deal size more than doubling from 2017 Q1. SZSE, in particular, recorded the highest first-quarter average deal size over the past decade.

Consistent with previous years, Industrial, Telecom, Media and Technology (TMT) and Consumer Markets were the top three sectors in terms of the number of new listings. Financial Services, on the other hand, was a major contributor to total fundraising. The sector recorded three sizeable new listings, all of which were among the top five largest A-share IPOs of the quarter.

Maintaining a high quality of listing applicants continues to be the regulators' primary focus. This has led to a further reduction in the IPO approval rate to 44 percent from 56 percent in 2017 Q4. The number of applicants in the pipeline has also gone down from 511 at the end of 2017 to 388 as at 15 March 2018.

Note:

(1) All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.

A-share IPOs: Overview

- The A-share IPO market recorded 38 new listings for a combined RMB 40 billion in 2018 Q1, which was a year-on-year decrease of 43 percent. Both the SSE and SZSE recorded a reduction in the number of new listings and total fundraising. This was mainly due to a lower number of listing approvals in 2018 Q1 compared to 2017 Q1.
- In contrast, the average deal size more than doubled from RMB 0.52 billion (2017 Q1) to RMB 1.05 billion (2018 Q1) as there were more IPOs within the RMB 1 billion and RMB 5 billion range. The SZSE's average deal size of RMB 0.97 billion in 2018 Q1 was the exchange's highest first-quarter figure over the past decade.

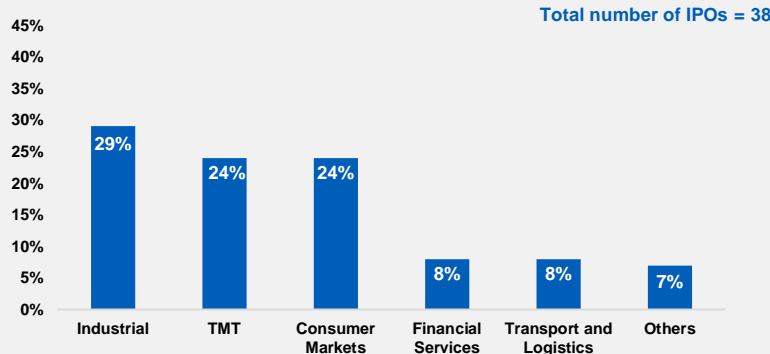
	SSE			SZSE			A-share Market (SSE & SZSE)			
	Total fundraising (RMB billion)	# of IPOs	Average deal size (RMB billion)	Total fundraising (RMB billion)	# of IPOs	Average deal size (RMB billion)	# of IPOs			
							< RMB 1 billion	RMB 1-5 billion	> RMB 5 billion	Total
2018 Q1	20.7	18	1.15	19.3	20	0.97	28	10	-	38
2017 Q1	41.8	65	0.64	27.8	69	0.40	118	16	-	134
2017 full year	137.7	214	0.64	92.5	222	0.42	388	48	-	436
2016 Q1	5.1	9	0.57	6.2	15	0.41	23	1	-	24
2015 Q1	33.4	35	0.95	14.7	35	0.42	61	8	1	70
2014 Q1	9.1	6	1.52	13.1	41	0.32	45	2	-	47

Note: All figures are based on a combination of data as at 15 March 2018 and KPMG estimates. Exclude listing by introduction.

Source: Wind and KPMG analysis

A-share IPOs: Sector Analysis

2018 Q1: Top 5 sectors – By number of IPOs



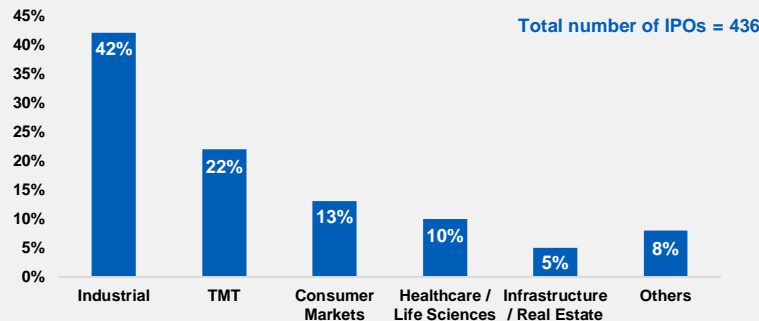
Source: Wind and KPMG analysis



Industrial

- The Industrial sector **continued to garner the most number of new listings**. This trend is expected to continue into the rest of the year, with **141 companies in the pipeline**.
- The sector is behind Consumer Markets and Financial Services in terms of total fundraising due to a **lack of sizeable IPOs**.
- Key strategic initiatives such as “Made in China 2025” and the promotion of high-end manufacturing are driving the **modernisation of the Industrial sector**.

2017: Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

Note: All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.

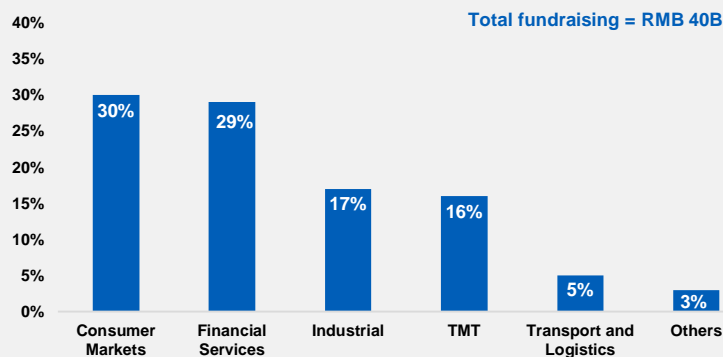


Telecom, Media and Technology

- **TMT remained second** in terms of the number of new listings.
- Its market share (by total fundraising) decreased from 21 percent in 2017 to 16 percent in 2018 Q1. The sector is expected to recover some of the lost ground in the remainder of the year as the Chinese government is promoting **high quality technology companies to go public**.
- Among the TMT companies to have listed in 2018 Q1, most engage in the **manufacturing of electronic components, equipment and industrial communication devices as well as information and communications technology services**.

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

2018 Q1: Top 5 sectors – By total fundraising



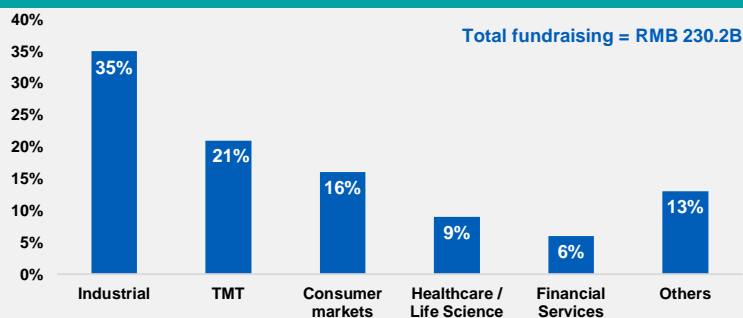
Source: Wind and KPMG analysis



Consumer Markets

- Consumer Markets was joint second in 2018 Q1 based on the number of new listings and is **expected to maintain its momentum thanks to a stable IPO pipeline**.
- Its **market share in terms of total fundraising increased to 30 percent** from 16 percent in 2017. This was mainly due to three sizeable IPOs, which accounted for almost 75 percent of the sector's total fundraising this quarter.
- The companies in the consumer markets sector that have gone public in 2018 Q1 mostly engage in the production and sales of products such as **food, beverage, cigarettes, furniture and cosmetics**.

2017: Top 5 sectors – By total fundraising



Source: Wind and KPMG analysis

Note: All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.



Financial Services

- The **Financial Services** sector saw its market share in terms of total fundraising **increase to 29 percent** from 6 percent in 2017, with three sizeable IPOs, all of which were among the top 5 largest A-share IPOs this quarter.
- The sector boasts a **stable IPO pipeline**. There are 29 financial services companies awaiting listing approval, of which 15 are regional commercial banks.
- The sector's performance in 2018 hinges on the regulators' vetting progress and is likely to be dominated by traditional financial services companies.

Top 10 Largest A-share IPOs

2018 Q1	Company	Exchange	Funds raised (RMB billion)	Sector
1	Huaxi Securities Co., Ltd	SZSE	5.0	Financial Services
2	Jiangsu Financial Leasing Corp. Ltd	SSE	4.0	Financial Services
3	Hebei Yangyuanzhui Beverages Co., Ltd	SSE	3.4	Consumer Markets
4	Red Star Macalline Group Corp. Ltd.	SSE	3.2	Consumer Markets
5	Bank of Chengdu Co., Ltd	SSE	2.5	Financial Services
6	Huabao Flavours & Fragrances Co., Ltd	SZSE	2.4	Consumer Markets
7	Xiamen Intretech Inc.	SZSE	1.7	TMT
8	Keshun Waterproof Technologies Co., Ltd	SZSE	1.5	Industrial
9	Ktk Group Co., Ltd	SSE	1.4	Industrial
10	Runjian Communication Co., Ltd	SZSE	1.3	TMT

Source: Wind and KPMG analysis



Funds raised by top 10 IPOs

2018 Q1:
RMB 26.4 billion
~ 66 percent of total fundraising

2017 Q1:
RMB 18.9 billion
~ 27 percent of total fundraising



Sector distribution

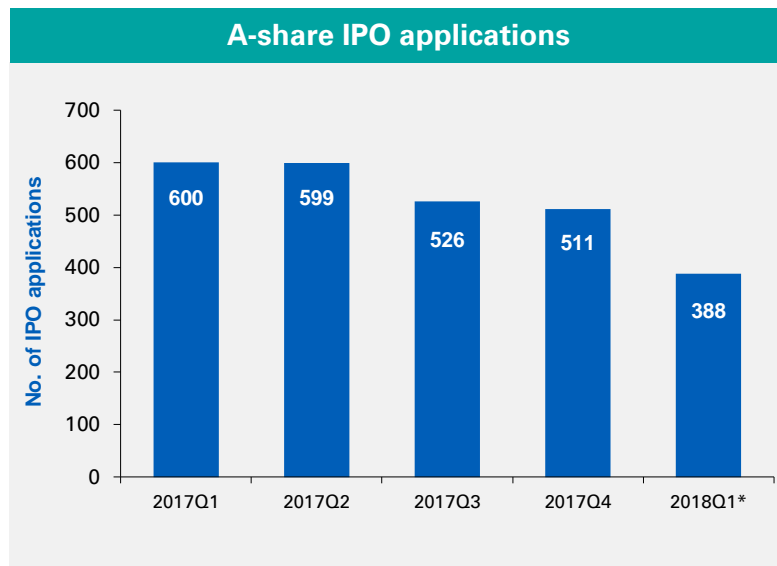
- Financial Services and Consumer Markets continue to be the key contributors to the top 10 largest A-share IPOs.

2017 Q1	Company	Exchange	Funds raised (RMB billion)	Sector
1	China Galaxy Securities Co., Ltd	SSE	4.1	Financial Services
2	Central China Securities Co., Ltd	SSE	2.8	Financial Services
3	Oppein Home Group Inc.	SSE	2.1	Consumer Markets
4	Yealink Network Technology Corp. Ltd.	SZSE	1.7	TMT
5	Guangzhou Port Company Limited	SSE	1.6	Infrastructure / Real Estate
6	Guangzhou Shangpin Home Collection Co., Ltd	SZSE	1.5	Consumer Markets
7	Guangdong Pak Corporation Co., Ltd.	SZSE	1.4	Consumer Markets
8	Shenzhen Kedali Industry Co., Ltd.	SZSE	1.3	Industrial
9	Huada Automotive Technology Corp., Ltd.	SSE	1.2	Industrial
10	Baiyin Nonferrous Group Co., Ltd.	SSE	1.2	ENR

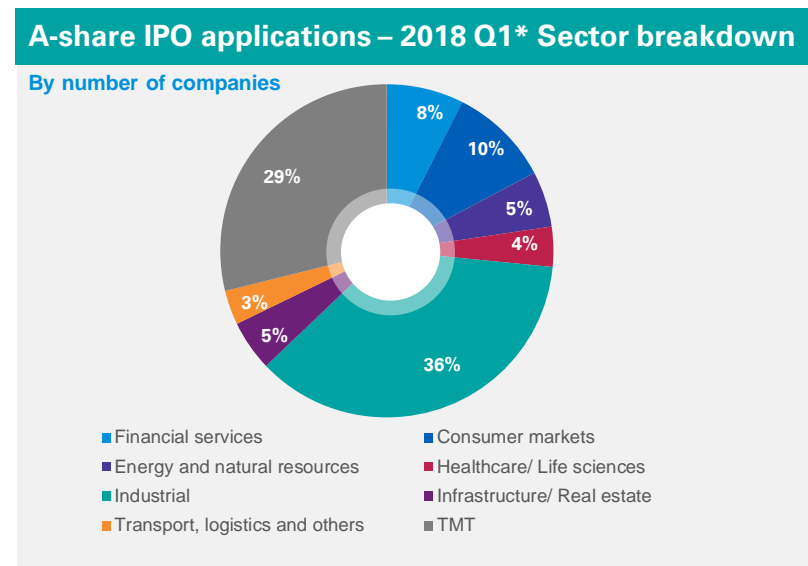
Source: Wind and KPMG analysis

A-share IPO Pipeline

- **The number of active IPO applications decreased** from 511 at the end of 2017 to 388 as at 15 March 2018, with the regulators favouring a “quality-over-quantity” approach.
- **An increasing number of applicants withdrew their listing applications since 2017 Q4** - the result of the regulators’ increased scrutiny and assessments conducted by sponsors on the eligibility of listing applicants.



Note: *Data as at 15 March 2018



Source: Wind and KPMG analysis

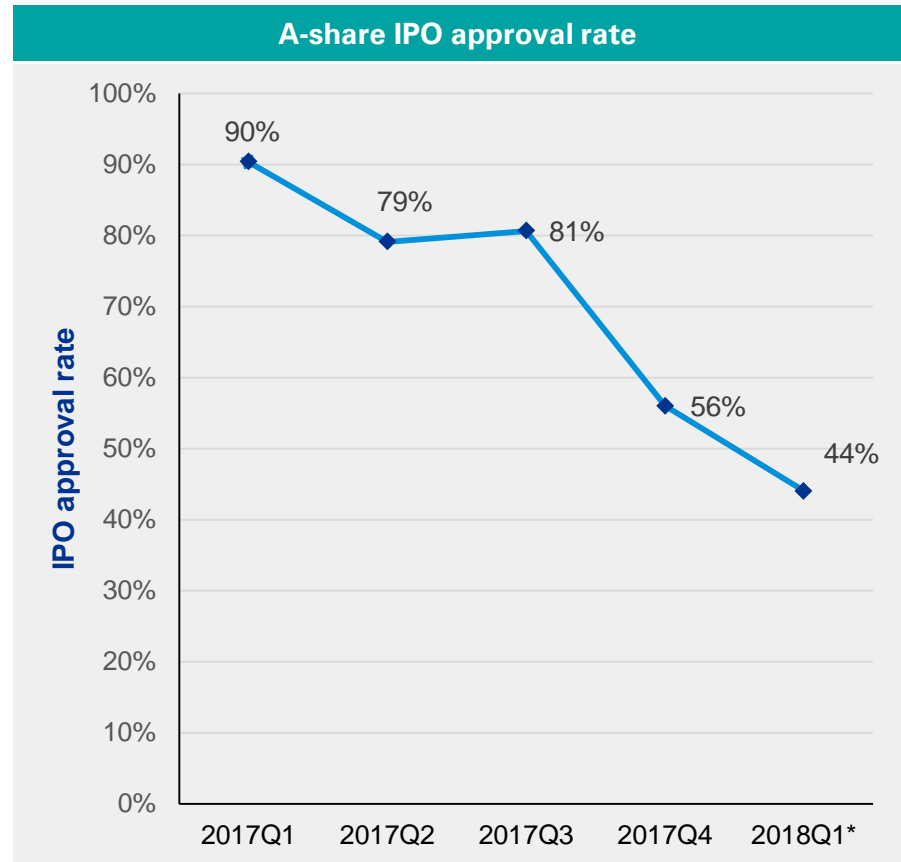
A-share IPO Approval Rate



The **IPO approval rate has declined to 44 percent***. Regulators are continuing their focus on the quality of applicants, while vetting committee members are now subjected to life-long accountability.



Key vetting areas include **reasonableness of revenue, related-party transactions, business sustainability and compliance with laws and regulations.**



Note: *Data as at 15 March 2018

Source: Wind and KPMG analysis

Hong Kong IPO Market



Hong Kong IPOs : 2018 Q1 Highlights

- Hong Kong was fourth¹ globally in terms of total fundraising in 2018 Q1 and its status as one of the most popular listing venues globally is likely to continue throughout the year.
- The Main Board recorded 29 IPOs totaling HKD 22.1 billion², which was an 83 percent increase over the HKD 12.1 billion raised in 2017 Q1.
- The Infrastructure / Real Estate sector was first in terms of total fundraising as a result of two sizeable listings from a developer and a property management company. The Financial Services sector was second thanks to a major bank listing this quarter.
- GEM recorded 33 new listings in 2018 Q1 – the highest quarterly figure since its establishment. The HKD 2.3 billion raised represented a 77 percent increase over 2017 Q1.
- The introduction of a new listing regime for companies from emerging and innovative sectors is likely to attract significant interest from “new economy” companies in mainland China as well as globally. It also strengthens the city’s intention to become the financing hub for “new economy” companies.

Note:

(1) Rankings are based on information as at 20 March 2018.

(2) All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.

Hong Kong IPOs: Overview

- The Main Board recorded 29 new listings for a combined HKD 22.1 billion, representing an **83 percent increase in total fundraising**. The **average deal size went up** compared to 2017 Q1 and is **expected to further increase due to upcoming IPOs by several major technology companies** later this year.
- The introduction of a new listing regime for companies from emerging and innovative sectors is likely to attract significant interest from “new economy” companies in mainland China as well as globally.
- GEM recorded 33 new listings worth a combined HKD 2.3 billion - the **most number of new listings in a single quarter since its establishment**.

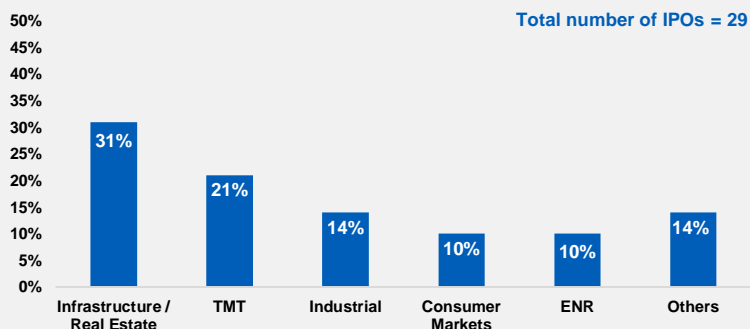
	Main Board						GEM		
	Total fundraising (HKD billion)	# of IPOs	Average deal size (HKD billion)	# of IPOs			Total fundraising (HKD billion)	# of IPOs	Average deal size (HKD billion)
				< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion			
2018 Q1	22.1	29	0.76	25	3	1	2.3	33	0.07
2017 Q1	12.1	20	0.61	17	3	-	1.3	19	0.07
2017 full year	122.6	80	1.53	59	15	6	5.9	80	0.07
2016 Q1	29.9	13	2.30	8	3	2	0.3	6	0.05
2015 Q1	19.7	16	1.23	13	1	2	0.6	9	0.07
2014 Q1	45.6	15	3.04	8	5	2	0.5	5	0.10

Note: All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction. .

Source: HKEx and KPMG analysis

Hong Kong IPOs: Main Board - Sector Analysis

2018 Q1: Top 5 sectors – By number of IPOs



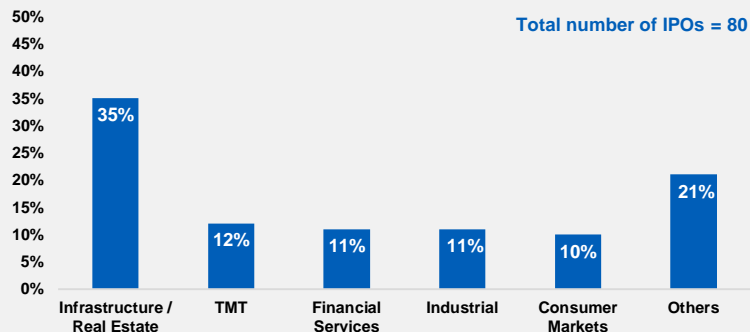
Source: HKEx and KPMG analysis



Infrastructure / Real Estate

- Not only did the sector retain its title of having the **most number of listings**, it also came top in terms of **total fundraising**.
- The sector's **average deal size more than tripled** from 2017 as a result of **two major real estate IPOs**, raising a combined **HKD 8.6 billion**.
- Construction IPOs will remain strong** in the coming years, with the sector benefitting from major projects such as the Hong Kong-Shenzhen Innovation and Technology Park and the "Greater Bay Area Initiative".

2017: Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis



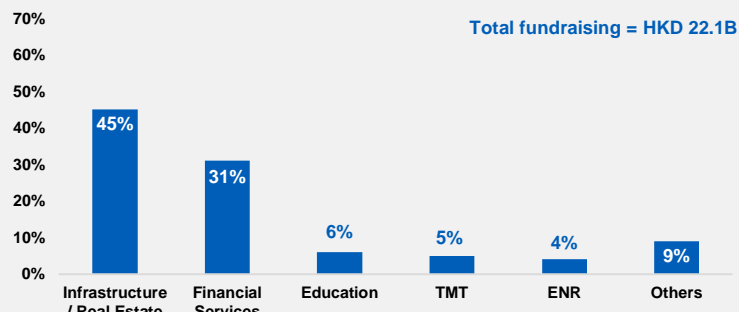
Telecom, Media and Technology

- Continuing its strong momentum from last year, the TMT sector was **second in the number of listings this quarter**.
- Allowing applicants with weighted voting rights structure to list will bolster Hong Kong's attractiveness as an IPO venue for technology companies** from mainland China as well as globally.
- Hong Kong is **likely to record several mega-sized TMT IPOs** this year from companies focusing on **technology and smart phone & electronics**. These IPOs will strengthen HKEX's grip as a top global exchange.

Note: All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.

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

2018 Q1: Top 5 sectors – By total fundraising



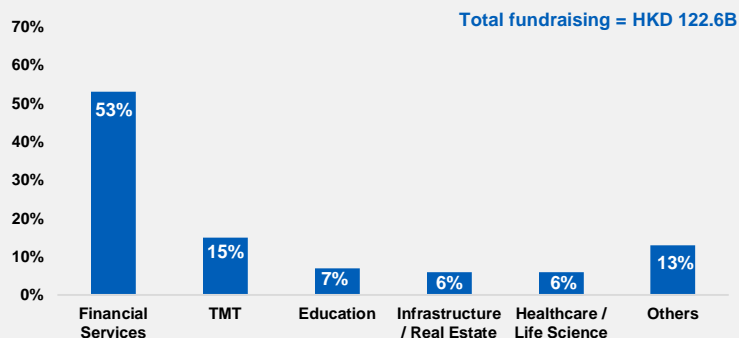
Source: HKEx and KPMG analysis



Financial Services

- The sector was **second in terms of total fundraising**, with the listing of Bank of Gansu - the largest IPO in 2018 Q1 – playing a significant role.
- Enhancing the financial sector continues to a key agenda of the Hong Kong Government, which includes the development of Fintech.
- Efforts are underway to strengthen the city's ability to attract Fintech companies to list in Hong Kong as the city seeks to compete with the US bourses. **More Fintech listings are expected in the future.**

2017: Top 5 sectors – By total fundraising



Source: HKEx and KPMG analysis



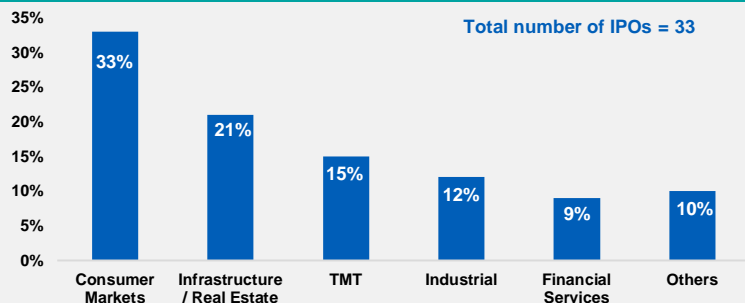
Healthcare / Life Sciences

- Although there has been a **decrease in both the number of listings and total fundraising**, the sector is **expected to pick up in the second half of 2018**, with Hong Kong set to allow the listing of pre-revenue biotech companies. This development will generate significant interest from biotech companies in mainland China and globally.
- In the long run, the sector is expected to become a **key driving force of the Hong Kong IPO market**. This is driven by developments in China, including changes to the medicinal registration regime and relaxation of the one-child policy, as well as the broader ageing population in Asia.

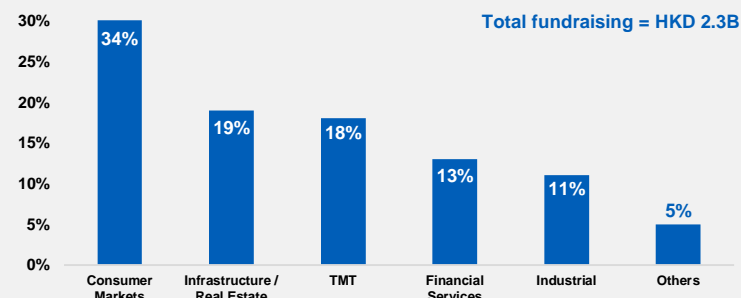
Note: All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.

Hong Kong IPOs: GEM - Sector Analysis

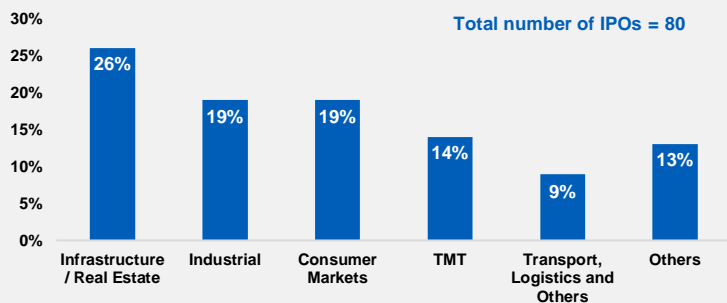
2018 Q1: Top 5 sectors – By number of IPOs



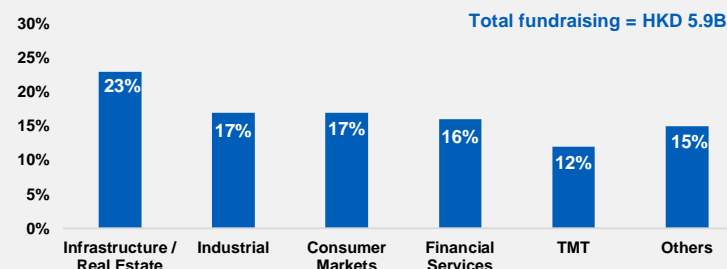
2018 Q1: Top 5 sectors – By total fundraising



2017: Top 5 sectors – By number of IPOs



2017: Top 5 sectors – By total fundraising



Note: All analysis based on a combination of data as at 15 March 2018 and KPMG estimates. Excludes listings by introduction.

Source: HKEx and KPMG analysis



Consumer Markets

- Both the number of listings and total fundraising increased significantly, with multiple restaurant operators going public in 2018 Q1.



Infrastructure / Real Estate

- Although the sector experienced year-on-year growth in the number of listings and total fundraising, its market share declined and had to settle for second place on both counts.

Top 10 Largest Hong Kong IPOs

2018 Q1	Company	Fund raised (HKD billion)	Sector
1	Bank of Gansu Co., Ltd.	6.8	Financial Services
2	Zhenro Properties Group Ltd.	4.5	Infrastructure / Real Estate
3	A-Living Services Co., Ltd.	4.1	Infrastructure / Real Estate
4	China Xinhua Education Group Ltd.#	1.3	Education
5	C-MER Eye Care Holdings Ltd.	0.7	Healthcare / Life Sciences
6	China Boqi Environmental (Holding) Co., Ltd.	0.6	Energy and natural resources
7	CSmall Group Ltd	0.5	Consumer Markets
8	MECOM Power and Construction Ltd.	0.4	Infrastructure / Real Estate
9	Pentamaster International Ltd.	0.4	TMT
10	Ruifeng Power Group Co., Ltd.	0.3	Industrial

Expected to list by the end of 2018 Q1. Fund raised is estimated based on mid price.

Source: HKEx and KPMG analysis



Funds raised by top 10 IPOs

2018 Q1:
HKD 19.6 billion
~ 80 percent of total fundraising



2017 Q1:
HKD 10.9 billion
~ 81 percent of total fundraising



Sector distribution

- Traditional sectors such as **Financial Services** and **Real Estate** were the largest contributors to the top 10 largest IPOs.

2017 Q1	Company	Funds raised (HKD billion)	Sector
1	Jilin Jiutai Rural Commercial Bank Corp Ltd.	3.5	Financial Services
2	China YuHua Education Corp Ltd.	1.8	Education
3	Minsheng Education Group Co., Ltd.	1.4	Education
4	New Century Healthcare Co., Ltd.	1.0	Life Sciences / Healthcare
5	Wisdom Education Int'l Holdings Ltd.	0.9	Education
6	Able Engineering Holdings Ltd.	0.6	Infrastructure / Real Estate
7	Luzhou Xinglu Water (Group) Co., Ltd.	0.5	Infrastructure / Real Estate
8	Hospital Corporation of China Ltd.	0.5	Life Sciences / Healthcare
9	Chanhigh Holdings	0.4	Infrastructure / Real Estate
10	Morris Holdings Ltd.	0.3	Consumer Markets

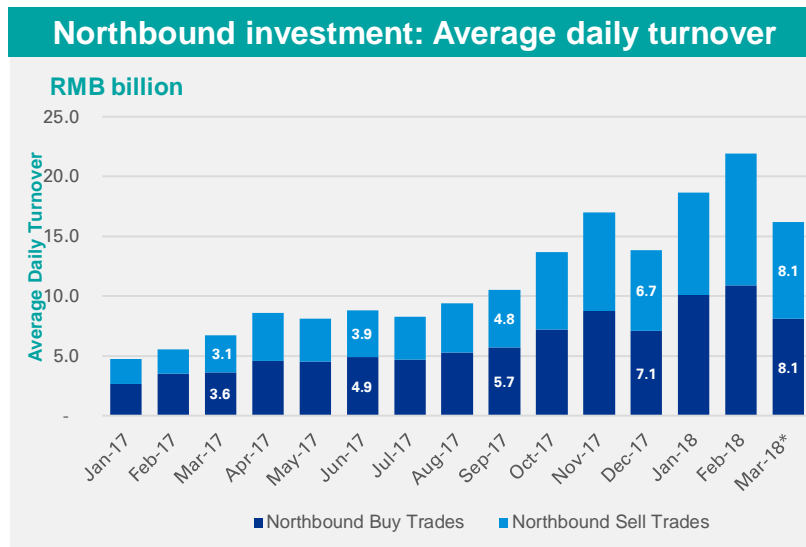
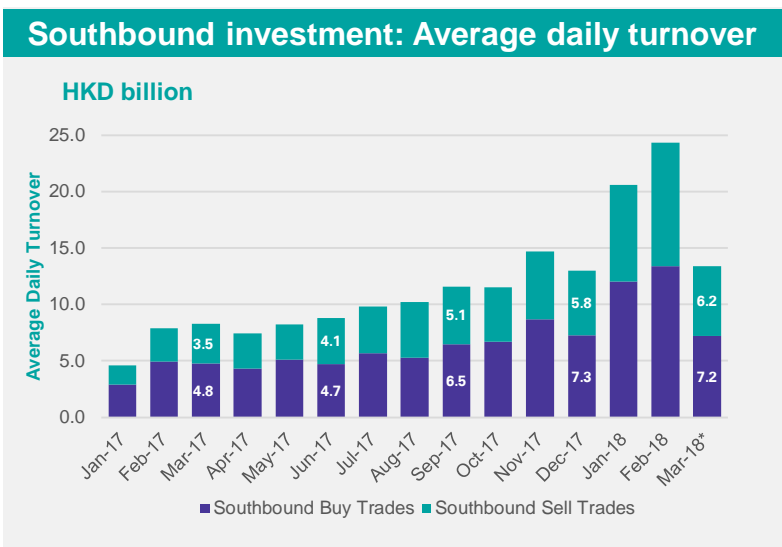
Source: HKEx and KPMG analysis

Stock Connect



Stock Connect

- The average daily turnover of both Southbound and Northbound investment has been rising steadily as a result of the ongoing integration between the **Hong Kong and mainland China capital markets**.
- The upcoming **inclusion of A-shares in MSCI's benchmark indexes** in June 2018 is an important **milestone for the internationalisation of China's capital markets**. Northbound capital flow is expected to **increase significantly due to the growing global interest in A-shares**.
- Southbound capital flow is likely to continue increasing and **solidify Hong Kong's position as an international financial market for companies** seeking to access the mainland China investor base.



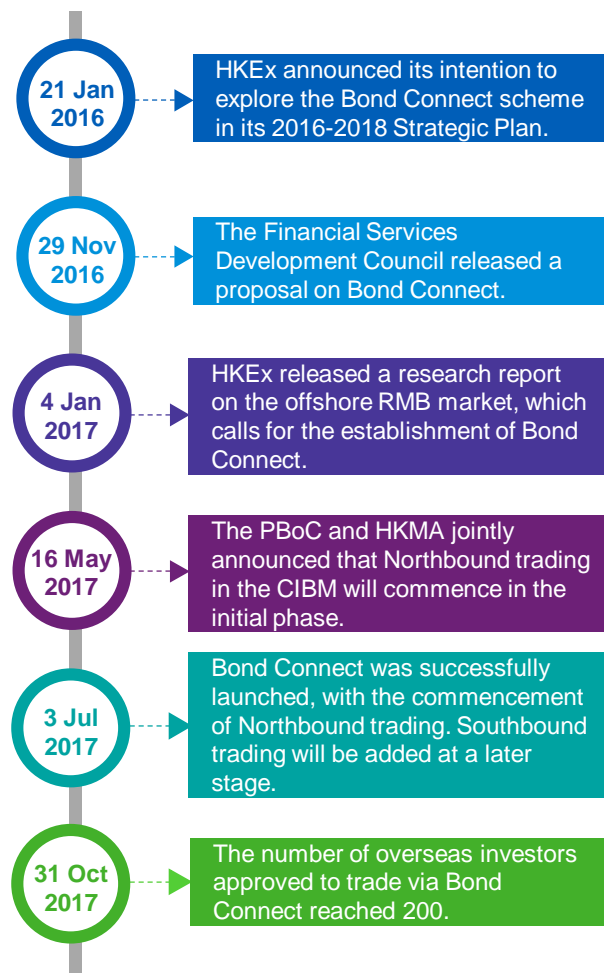
* Analysis based on data as at 15 March 2018

Source: HKEx

Bond Connect



Bond Connect



Foreign participation in China's bond market

- China boasts the world's 3rd largest domestic bond market, with RMB 75.6 trillion outstanding as at 15 March 2018.
- Bond connect provides a simplified, streamlined mechanism for international investors to participate in China's onshore bond market. Since its launch in July 2017, the number of overseas registrants have already exceeded 200.
- Trading activities via the Bond Connect is expected to **be more active in the long run**, especially when certain tax arrangements are clarified and Chinese bonds are included in international bond indexes.

Source: Wind, Bond Connect Company Limited

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