



Mainland China and Hong Kong

2018 Q3 Review:
IPOs and other
market trends



Foreword

The A-share IPO market remained stable during the first three quarters of 2018. The number of active listing applicants decreased significantly since the start of the year due to regulators' continued focus on "quality-over-quantity", leading to a major increase in withdrawn applications and a significant drop-off in new listing applications.

Hong Kong experienced one of the strongest quarters in history, with total fundraising in 2018 Q3 exceeding the amount raised in the entirety of 2017. The introduction of a new listing regime has generated significant interest from "new economy" companies, with three pre-revenue biotech and two weighted voting rights companies listed by the end of Q3.

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

Index

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



Top Performing Global Stock Exchanges

2018 Q3 (YTD)	Rank	Stock exchange	IPO proceeds (USD billion) ¹	IPO proceeds (HKD billion) ^{1,2}
	1	The Stock Exchange of Hong Kong	24.9	194
	2	New York Stock Exchange	20.5	160
	3	NASDAQ	19.5	152
	4	Shanghai Stock Exchange	11.4	89
	5	Frankfurt Stock Exchange	8.7	68

2017 (Full year)	Rank	Stock exchange	IPO proceeds (USD billion)	IPO proceeds (HKD billion) 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 14 September 2018.

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

Source: Bloomberg and KPMG analysis

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



Mainland China IPO Market



A-share IPOs: 2018 Q3 (YTD) Highlights

- The Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) recorded 89 new listings for a combined RMB 122.7 billion in the first three quarters of 2018. The significant drop in number of new listings from the same period last year is due to a decline in listing approvals.
- Industrials, Telecommunications, Media and Technology (TMT) and Consumer Markets IPOs continued to dominate the A-share market, accounting for 71 percent of new listings. The three largest IPOs in the first three quarters of 2018 were from the TMT, healthcare and life sciences, and industrials sectors.
- The A-share IPO approval rate in 2018 Q3 remained relatively steady at 61 percent, slightly higher than the approval rate of the previous quarter. The number of active listing applicants has decreased significantly since the start of the year from 511 to 252 (as at 14 September 2018) due to a substantial increase in withdrawn applications and a significant drop-off in new listing applications.
- Despite the ongoing China-US trade tensions, the A-share market has steadily continued to list 6 – 13 IPOs per month in the past few months. Regulators have maintained their focus on “quality-over-quantity” amid market uncertainty, as the A-share market continues to garner significant interest from global investors following its inclusion in the MSCI Index.

Note:

(1) All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.

A-share IPOs: Overview

- The A-share IPO market recorded 89 new listings for a combined RMB 122.7 billion in the first three quarters of 2018, which was a year-on-year decrease of 30 percent. Both the SSE and SZSE recorded a **decrease in the number of new listings and total funds raised** due to a decline in listing approvals.
- The **average deal size more than doubled** from RMB 0.50 billion (YTD 2017 Q3) to RMB 1.38 billion (YTD 2018 Q3) as nearly 30 percent of the IPOs in 2018 were medium or large-sized (total fundraising of more than RMB 1 billion). In comparison, only 10 percent or less of IPOs have been medium or large-sized in the past five years.
- Amid ongoing China-US trade tensions, the A-share market has **steadily continued to list 6 – 13 IPOs per month** in the past few months. Regulators' continued support for major technological initiatives such as "Internet Plus" and artificial intelligence will likely allow **TMT to remain as the sector with the most funds raised by the end of 2018**.

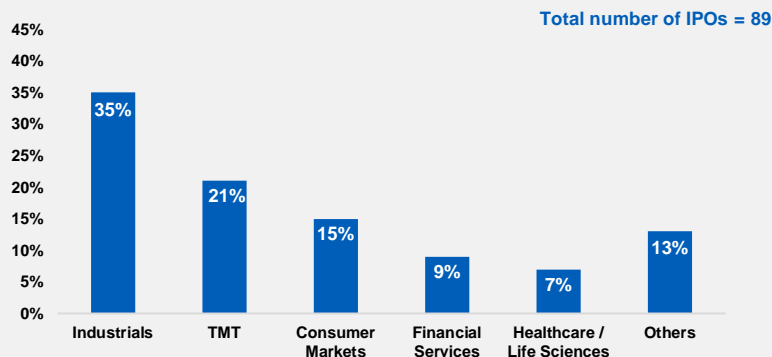
	SSE			SZSE			A-share market (SSE & SZSE)			
	Total funds raised (RMB billion)	# of IPOs	Average deal size (RMB billion)	Total funds raised (RMB billion)	# of IPOs	Average deal size (RMB billion)	# of IPOs			
							< RMB 1 billion	RMB 1-5 billion	> RMB 5 billion	Total
2018 Q3 (YTD)	77.6	52	1.49	45.1	37	1.22	63	23	3	89
2017 Q3 (YTD)	104.9	173	0.61	70.9	177	0.40	315	35	-	350
2017 full year	137.7	214	0.64	92.5	222	0.42	388	48	-	436
2016 Q3 (YTD)	49.0	54	0.91	27.8	72	0.39	116	9	1	126
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

Note: All figures are based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listing by introduction.

Source: Wind and KPMG analysis

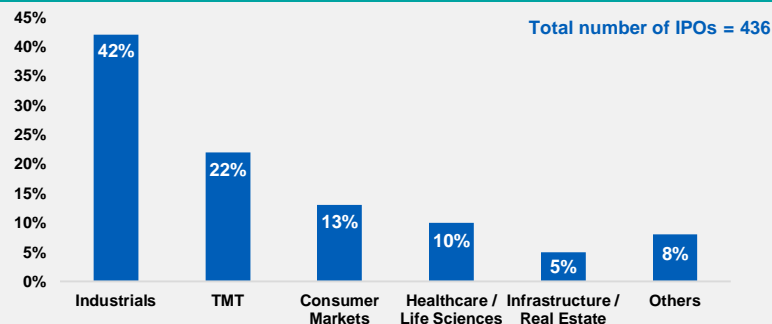
A-share IPOs: Sector Analysis

2018 Q3 (YTD): Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

2017: Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

Note: All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.



Industrials

- The industrials sector continued to be the **largest contributor in terms of number of new listings**, representing 35 percent of IPOs in the first three quarters. This trend is expected to continue into the fourth quarter, with a **strong pipeline of 85 companies seeking a listing**.
- The ongoing **trade tensions have negatively impacted the sector**, as market uncertainty led to China's lowest Purchasing Managers' Index since July 2017 (for the month of August). China will continue to strive towards a more self-sufficient economy through its **'Made in China 2025' initiative** in the long run.

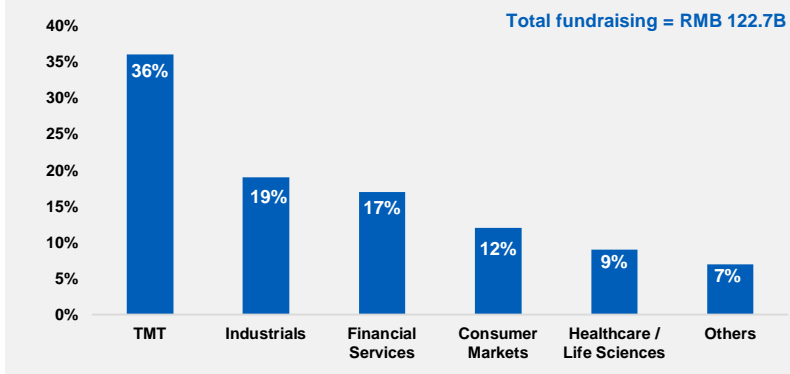


Consumer Markets

- The consumer markets sector continued its stable performance in the first three quarters, ranking **third in number of new listings and fourth in total funds raised**.
- The companies listed included **four sizeable IPOs accounting for 70 percent** of the sector's total fundraising. These companies are engaged in the production and sales of food and beverages, cigarettes, furniture and cosmetics.
- **Consumption is slowly replacing investment as the main driver of China's economy**, driven by the country's ageing population, ongoing urbanisation and rapid technological development.

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

2018 Q3 (YTD): Top 5 sectors – By total funds raised



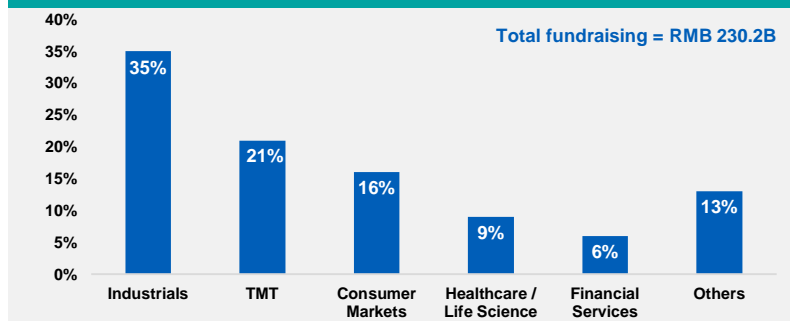
Source: Wind and KPMG analysis



Telecom, Media and Technology

- **TMT was first in terms of total funds raised**, due to the listing of a mega-sized new economy company engaged in high-tech electronic components. This accounted for over 60% of the sector's total funds raised in the first three quarters.
- Amid concerns over trade tensions and global market uncertainty, with **66 companies in the pipeline** and **strong support from the Chinese government for technological advancement**, we expect **TMT to remain one of the top sectors at the end of the year.**

2017: Top 5 sectors – By total funds raised



Source: Wind and KPMG analysis

Note: All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.



Financial Services

- The financial services sector experienced a jump in market share (total funds raised) **from 6 percent in 2017 to 17 percent in 2018 Q3**. All eight new listings raised over RMB 0.9 billion, four of which were among the top 10 largest A-share IPOs in the first three quarters of 2018.
- Eight out of 28 companies in the pipeline have already passed their hearing, with three of them expected to list in September. Of the remaining companies in the pipeline, **more than half are regional commercial banks.**
- The sector will continue to be dominated by **traditional financial services firms**, as Fintech companies unable to fulfil the A-share listing requirements are **opting for overseas listings** through the US or Hong Kong bourses.

Top 10 Largest A-share IPOs

2018 Q3	Company	Exchange	Proceeds (RMB billion)	Sector
1	Foxconn Industrial Internet Co., Ltd	SSE	27.1	TMT
2	Shenzhen Mindray Bio-Medical Electronics Co., Ltd*	SZSE	6.3	Healthcare / Life Sciences
3	Contemporary Amperex Technology Co., Ltd	SZSE	5.5	Industrials
4	Huaxi Securities Co., Ltd	SZSE	5.0	Financial Services
5	Jiangsu Financial Leasing Corp. Ltd	SSE	4.0	Financial Services
6	Avary Holding (Shenzhen) Co., Ltd*	SZSE	3.7	TMT
7	Hebei Yangyuanzhihui Beverages Co., Ltd	SSE	3.4	Consumer Markets
8	Red Star Macalline Group Corp. Ltd.	SSE	3.2	Consumer Markets
9	Bank of Zhengzhou Co., Ltd*	SZSE	2.8	Financial Services
10	Bank of Changsha Co., Ltd*	SSE	2.7	Financial Services

* Expected to list by the end of September 2018

Source: Wind and KPMG analysis



Funds raised by top 10 IPOs

2018 Q3 (YTD):
RMB 63.7 billion
 ~ 52 percent of total proceeds

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



Sector distribution

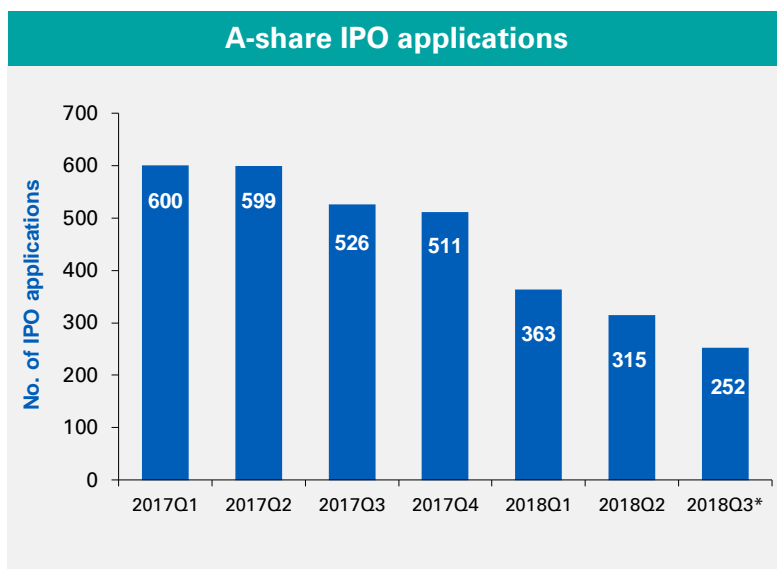
- While the largest IPO was a TMT company, **Financial Services** dominated the remainder of the top 10 largest A-share IPOs

2017 Q3	Company	Exchange	Proceeds (RMB billion)	Sector
1	China Galaxy Securities Co., Ltd	SSE	4.1	Financial Services
2	Zheshang Securities Co., Ltd	SSE	2.8	Financial Services
3	Central China Securities Co., Ltd	SSE	2.8	Financial Services
4	Jiangsu Provincial Agricultural Reclamation and Development Co., Ltd	SSE	2.4	Consumer Markets
5	Oppein Home Group Inc.	SSE	2.1	Consumer Markets
6	Xin Feng Ming Group Co., Ltd	SSE	2.1	Industrials
7	Electric Connector Technology	SZSE	2.0	TMT
8	Zhejiang Jihua Group Co., Ltd	SSE	1.7	Industrials
9	Yealink Network Technology Corp. Ltd.	SZSE	1.7	TMT
10	Guangzhou Port Co., Ltd	SSE	1.6	Infrastructure / Real Estate

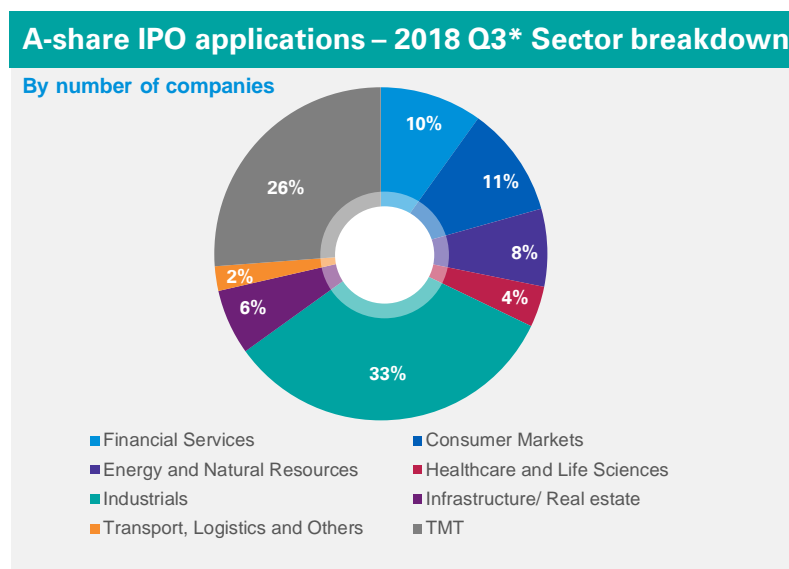
Source: Wind and KPMG analysis

A-share IPO Pipeline

- The number of active IPO applications has decreased significantly since the start of the year from **511 to 252*** due to a substantial increase in withdrawn applications and a significant drop-off in new listing applications.
- Regulators' continued focus on “**quality-over-quantity**” has led to a **substantial increase in the number of withdrawn applications** from 76 (for the first three quarters of 2017) to 162 (up to 14 September 2018). This has also led to a **significant drop-off in new IPO applications** from 542 (for the first three quarters of 2017) to 214 (up to 14 September 2018).



Note: *Data as at 14 September 2018



Source: Wind and KPMG analysis

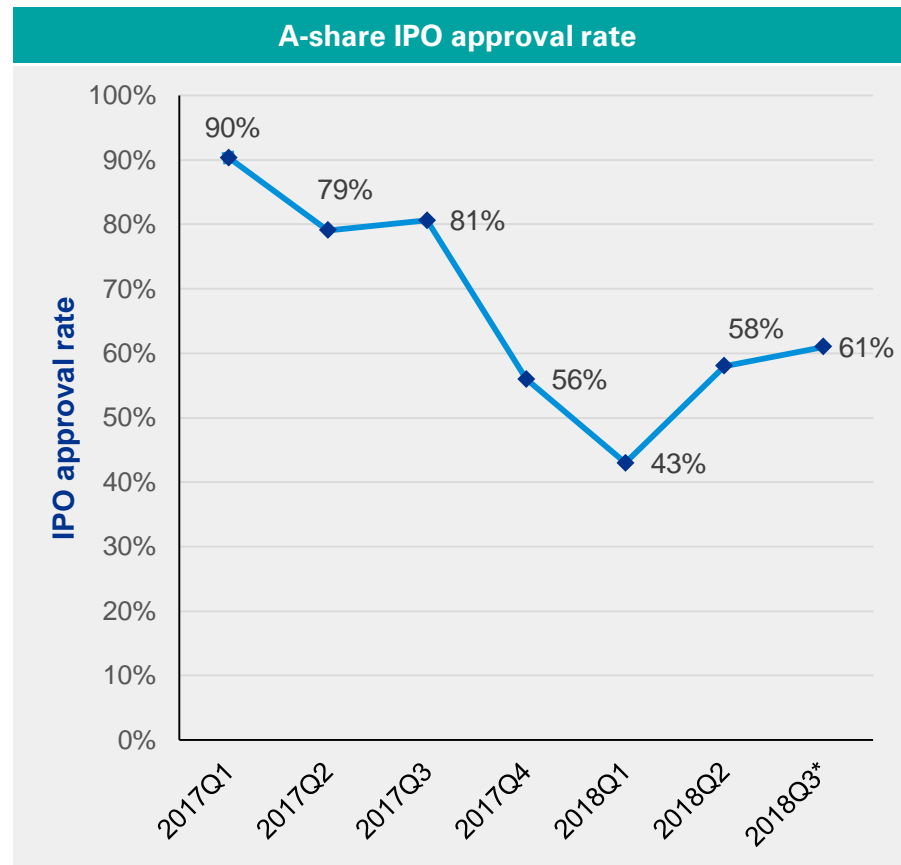
A-share IPO Approval Rate



The IPO approval rate has remained relatively steady at 61 percent in 2018 Q3*.



Key vetting areas include business sustainability, internal controls, quality of disclosures, as well as compliance with accounting policies, laws and regulations.



Note: *Data as at 14 September 2018

Source: Wind and KPMG analysis

A-share IPOs: Outlook for the rest of 2018

Regulators will continue to focus on 'quality-over-quantity' as the A-share market continues to stabilise amid market concerns over the China-US trade tensions.

The industrials and TMT sectors, in particular high-end manufacturing and high-tech companies, will continue to lead in terms of the number of transactions and total funds raised. Meanwhile, the financial services sector is expected to increase its market share following the listing of several medium to large-sized financial institutions in the fourth quarter.

China will continue to open up its financial markets after the success of its first trial of 'full circulation of H-shares', with more test trials expected in the future.

We anticipate the A-share IPO market to maintain its steady flow of IPOs for the remainder of the year. Consequently, the two Mainland stock exchanges will likely remain near the top of the global rankings at the end of the year.

Hong Kong IPO Market



Hong Kong IPOs : 2018 Q3 (YTD) Highlights

The Main Board had one of the strongest quarters in history, with total funds raised in Q3 reaching HKD 190 billion, exceeding the total funds raised in the entirety of 2017. The Main Board recorded 88 new listings for a combined HKD 238.2 billion year to date, placing Hong Kong at the top of global exchanges at the end of 2018 Q3.

The new listing regime for biotech companies that do not meet financial eligibility tests and high growth innovative companies with weighted voting rights (“WVR”) structures has generated significant international interest. This has led to the listing of three biotech companies and two WVR companies by the end of Q3.

The new listing regime is also transforming the Hong Kong bourse into a hub for “new economy” companies. Over 20 percent of IPOs in 2018 (YTD) listed through traditional requirements were new economy companies, compared to less than 10 percent in 2017.

There is still a large number of medium-sized new economy companies planning to list in Hong Kong, including multiple online e-commerce platforms, two bitcoin-related companies and two online education platforms.

Note:

(1) Rankings are based on information as at 14 September 2018.

(2) All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.

Hong Kong IPOs: Overview

- The Main Board had one of the strongest quarters in history, with total funds raised in Q3 reaching HKD 190 billion, exceeding the total funds raised in the entirety of 2017. The Main Board recorded 88 new listings for a combined HKD 238.2 billion year to date, placing Hong Kong at the top of global exchanges at the end of Q3.
- **The new listing regime for companies from emerging and innovative sectors has generated significant interest from new economy companies globally. Three pre-revenue biotech companies and two with weighted voting right structures will complete their IPOs by the end of Q3.**
- The GEM recorded 67 new listings, the highest Q3 (YTD) figure since its **establishment**, for a combined HKD 4.6 billion.

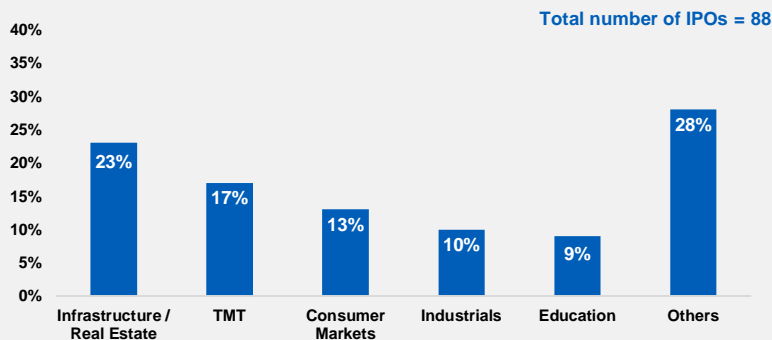
	Main Board						GEM		
	Total funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)	# of IPOs			Total funds raised (HKD billion)	# of IPOs	Average deal size (HKD billion)
				< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion			
2018 Q3 (YTD)	238.2	88	2.71	63	19	6	4.6	67	0.07
2017 Q3 (YTD)	83.2	51	1.63	38	9	4	4.3	55	0.08
2017 full year	122.6	80	1.53	59	15	6	5.9	80	0.07
2016 Q3 (YTD)	134.0	43	3.12	30	6	7	1.9	25	0.08
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

Note: All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.

Source: HKEx and KPMG analysis

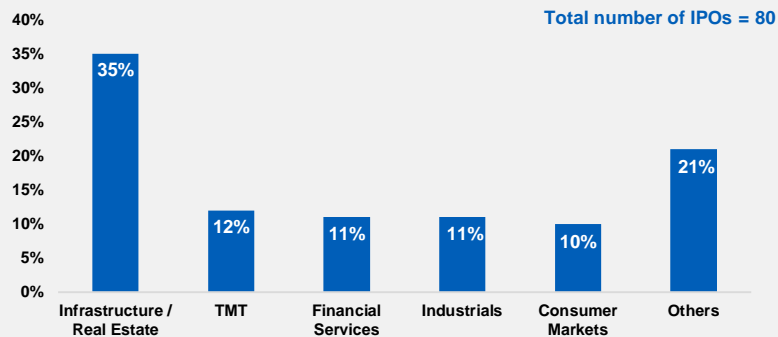
Hong Kong IPOs: Main Board - Sector Analysis

2018 Q3 (YTD): Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis

2017: Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis

Note: All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.



Infrastructure / Real Estate

- The sector **led the market in number of listings**, but ended up **fourth in terms of total funds raised** despite the fact that the sector's average deal size more than tripled compared to 2017.
- A **new economy company**, which provides real estate big data and serves customers through its online platform, was **listed in the real estate sector** this year.
- **Construction IPOs are expected to continue their momentum** in the coming years, with opportunities arising from the Greater Bay Area's development.

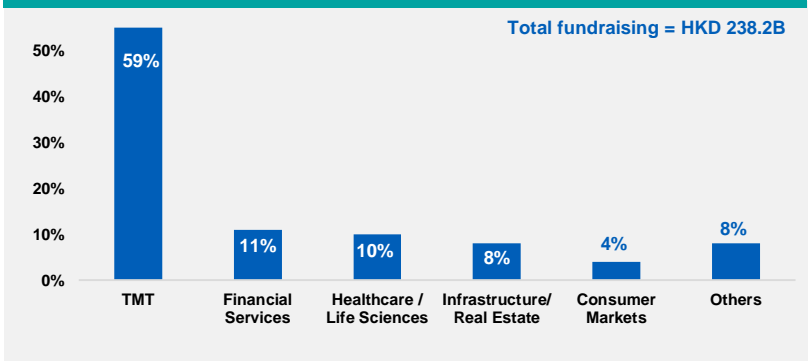


Telecom, Media and Technology

- TMT had **one of the most dynamic quarters in Main Board history**, with **nearly HKD 140 billion in total funds raised** in the third quarter alone, eclipsing the entire 2017 total funds raised.
- **The introduction of WVRs** has generated significant interest from Chinese technology companies. **Two companies with WVR structures** were listed by the end of Q3.
- The new listing regime is also transforming the Hong Kong bourse into a hub for new economy companies. Over 20 percent of IPOs in 2018 (YTD, as at 14 September 2018) listing through traditional requirements are new economy companies, compared to less than 10 percent in 2017 (full year).

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

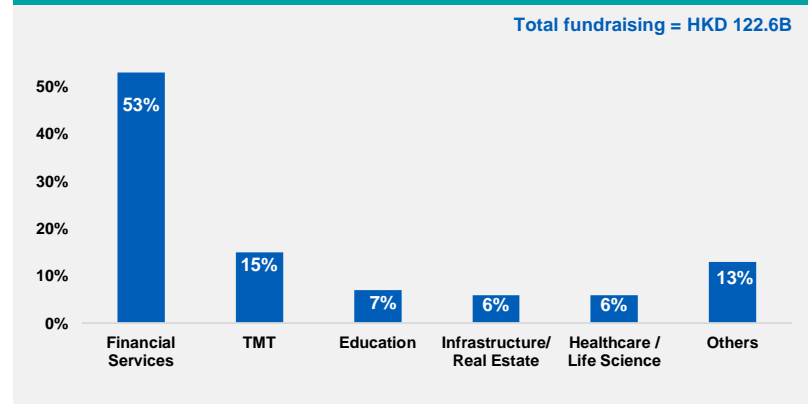
2018 Q3 (YTD): Top 5 sectors – By total funds raised



Healthcare / Life Sciences

- The sector was **third in terms of total fundraising**, aided by the **listing of three biotech companies** under the new listing regime.
- The introduction of the new listing regime for emerging and innovative sectors has **garnered significant interest from biotech companies globally**, with **eight active applications as at 14 September 2018**.
- We expect **six to ten biotech companies to complete their IPOs by the end of the year**.

2017: Top 5 sectors – By total funds raised



Financial Services

- The sector **was second** in terms of total fundraising, supported by the listing of three regional commercial banks.



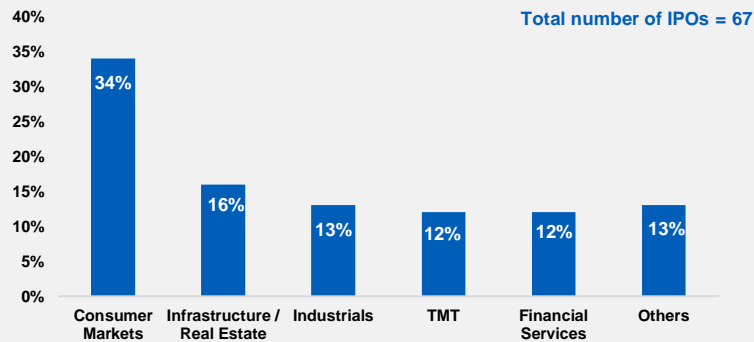
Education

- The education sector continues to heat up, with **five IPOs in the third quarter alone**, compared to five IPOs for the whole of 2017.
- There is an increasing emphasis on the **application of the internet on the education industry through the 'Internet Plus' initiative**, as noted by the **two online educational platforms which have already submitted their listing applications**.
- **The sector's long-term prospects are bright as a result of the mainland's two-child policy**, as well as the government's aim to deepen the talent pool and further its technological development.

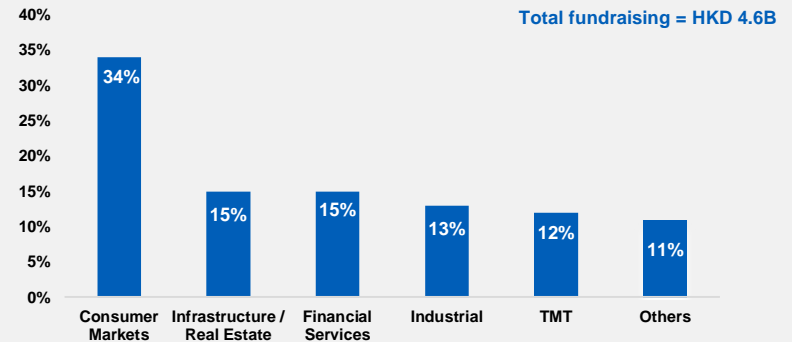
Note: All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.

Hong Kong IPOs: GEM - Sector Analysis

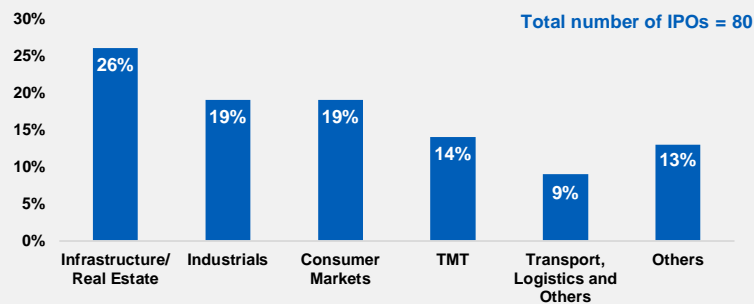
2018 Q3 (YTD): Top 5 sectors – By number of IPOs



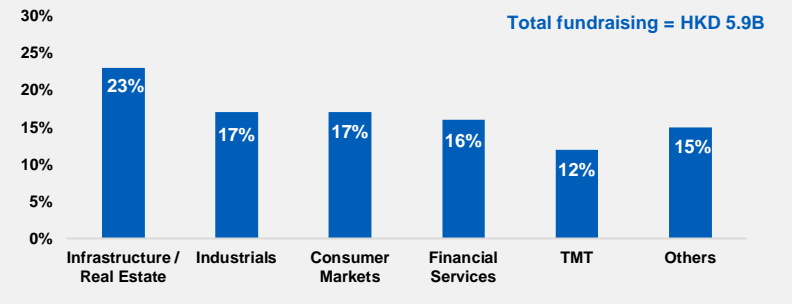
2018 Q3 (YTD): Top 5 sectors – By total funds raised



2017: Top 5 sectors – By number of IPOs



2017: Top 5 sectors – By total funds raised



Note: All analysis based on a combination of data as at 14 September 2018 and KPMG estimates. Excludes listings by introduction.

Source: HKEx and KPMG analysis



Consumer Markets

- The sector **dominated both the number of listings and total funds raised** in the first three quarters of 2018.
- **More than half of the IPOs** in the sector are related to **food and drinks**.



Infrastructure / Real Estate

- The sector was **second in both the number of listings and total funds raised**.
- Mainly consists of companies engaged in **engineering consultancy and interior fit-out services**.

Top 10 Largest Hong Kong IPOs

2018 Q3	Company	Proceeds (HKD billion)	Sector
1	China Tower Corporation Ltd	58.8	TMT
2	Xiaomi Corporation	42.6	TMT
3	Meituan Dianping*	33.1	TMT
4	Ping An Healthcare and Technology Co., Ltd	8.8	Healthcare / Life Sciences
5	Jiangxi Bank Co., Ltd	8.6	Financial Services
6	BeiGene, Ltd	7.1	Healthcare / Life Sciences
7	Haidilao International Holdings Ltd*	6.9	Consumer Markets
8	Bank of Gansu Co., Ltd	6.8	Financial Services
9	Shandong Gold Mining Co., Ltd*	5.4	Energy and Natural Resources
10	E-House (China) Enterprise Holdings Ltd	4.7	Infrastructure / Real Estate

* Expected to list by the end of September 2018.

Source: HKEx and KPMG analysis



Funds raised by top 10 IPOs

2018 Q3 (YTD):
HKD 182.8 billion
~ 75 percent of total proceeds



2017 Q3 (YTD):
HKD 67.9 billion
~ 78 percent of total proceeds



Sector distribution

- The TMT sector recorded the three largest IPOs by a significant margin in the third quarter

2017 Q3	Company	Proceeds (HKD billion)	Sector
1	Guotai Junan Securities Co., Ltd	17.2	Financial Services
2	ZhongAn Online P&C Insurance Co., Ltd	13.7	Financial Services
3	Zhongyuan Bank Co., Ltd	9.3	Financial Services
4	Guangzhou Rural Commercial Bank Co., Ltd	9.3	Financial Services
5	Wuxi Biologics (Cayman) Inc	4.6	Healthcare / Life Sciences
6	Jilin Jiutai Rural Commercial Bank Corp Ltd	3.5	Financial Services
7	China Everbright Greentech Ltd	3.4	Energy and Natural Resources
8	FIT Hon Teng Ltd	3.1	TMT
9	BOCOM International Holdings Co., Ltd	2.0	Financial Services
10	China YuHua Education Corp Ltd	1.8	Education

Source: HKEx and KPMG analysis

Hong Kong IPOs: Outlook for the rest of 2018

We forecast that there will be over 200 IPOs worth over HKD 300 billion for the full year. Globally, Hong Kong will likely be the largest or second largest destination in terms of total funds raised for 2018.

Following the first batch of IPOs under the new listing regime, we expect companies seeking to list under the new regime to remain active in the fourth quarter. In particular, we anticipate six to ten pre-revenue biotech companies to list by the end of the year.

TMT companies and other new economy companies will continue to dominate headlines for the remainder of the year, as there are still a lot of medium to large-sized new economy applicants in the pipeline awaiting listing approvals.

Despite concerns over the stability of global markets, Hong Kong has proven its ability to weather the storm through its robust financial system and ability to quickly adapt to change. We remain optimistic about Hong Kong's position as both an international financial centre, and a key market for IPO applicants and investors.

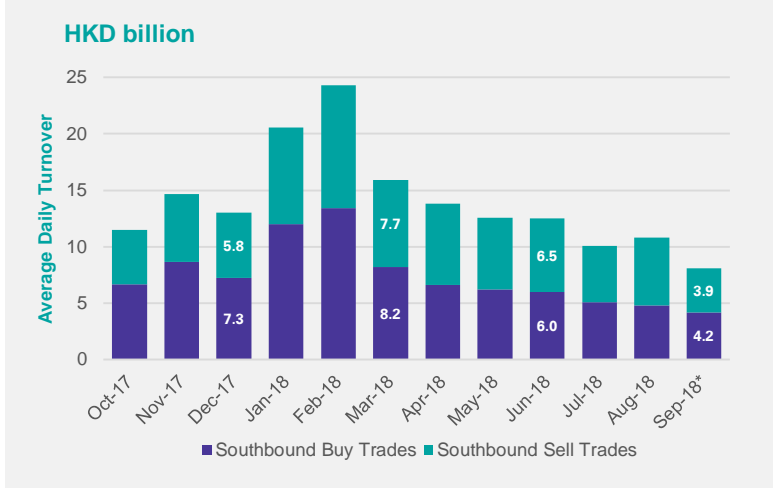
Stock Connect



Stock Connect

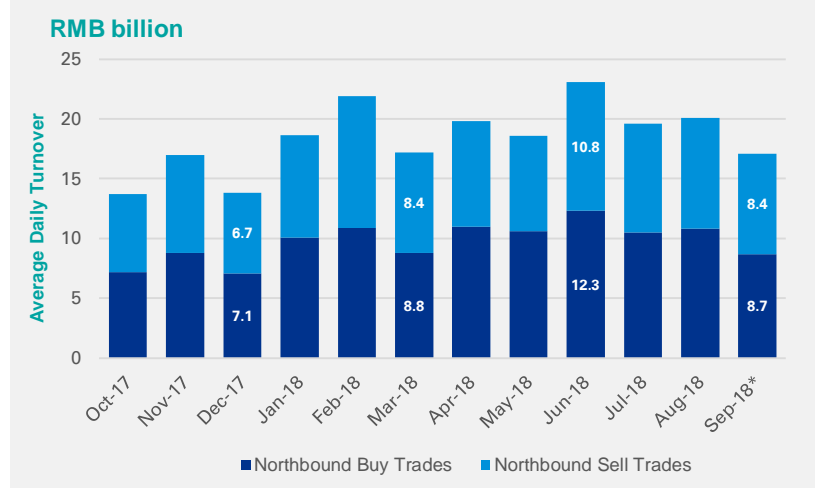
- The **Shanghai-London Stock Connect is expected to commence by the end of 2018**. The scheme symbolises another step towards China opening up its financial market to the rest of the world.
- **Northbound and Southbound investments have remained relatively stable** despite concerns over global market conditions, signifying investor confidence in **Hong Kong's position as an international financial centre**.
- **WVR-structured companies are currently excluded from Southbound trading** under the Stock Connect. There is a need to consider the maturity and regulatory practices of the two markets as Mainland investors are not yet familiar with WVR companies.

Southbound investment: Average daily turnover



* Analysis based on data as at 14 September 2018

Northbound investment: Average daily turnover

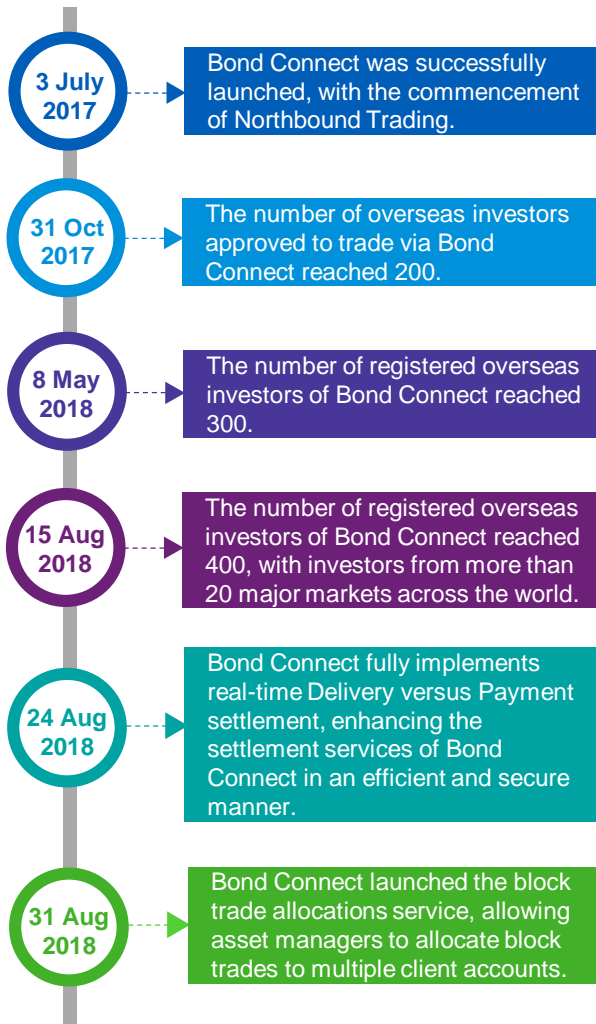


Source: HKEx

Bond Connect



Bond Connect



Foreign participation in China's bond market

- China boasts **one of the world's largest domestic bond markets**, with RMB 81.1 trillion outstanding as at 14 September 2018.
- Bond Connect provides a simplified and streamlined mechanism for international investors to participate in China's onshore bond market. A little more than one year since its launch, the **number of registered overseas investors has already reached 400**.
- The full implementation of real-time Delivery versus Payment settlement and Block Trade Allocations **are two of three conditions for the inclusion of Chinese debt securities in the Bloomberg Barclays Global Aggregate Index**, which is expected to accelerate participation in Bond Connect by global investors.

Source: Wind, Bond Connect Company Limited

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