



After three consecutive years as the world's leading IPO market in terms of funds raised, Hong Kong is set to lose its crown as the leading global IPO centre this year resulting from a lack of the mega IPO deals that the Hong Kong market saw after the 2008 financial crisis. With lacklustre IPO statistics coming out over the year, some have questioned whether Hong Kong remains an attractive international IPO centre. In this issue of our Hong Kong Capital Markets Update, we discuss the climate of the Hong Kong IPO market and set out our forecast for 2013.

## 2012 IPO Market Review

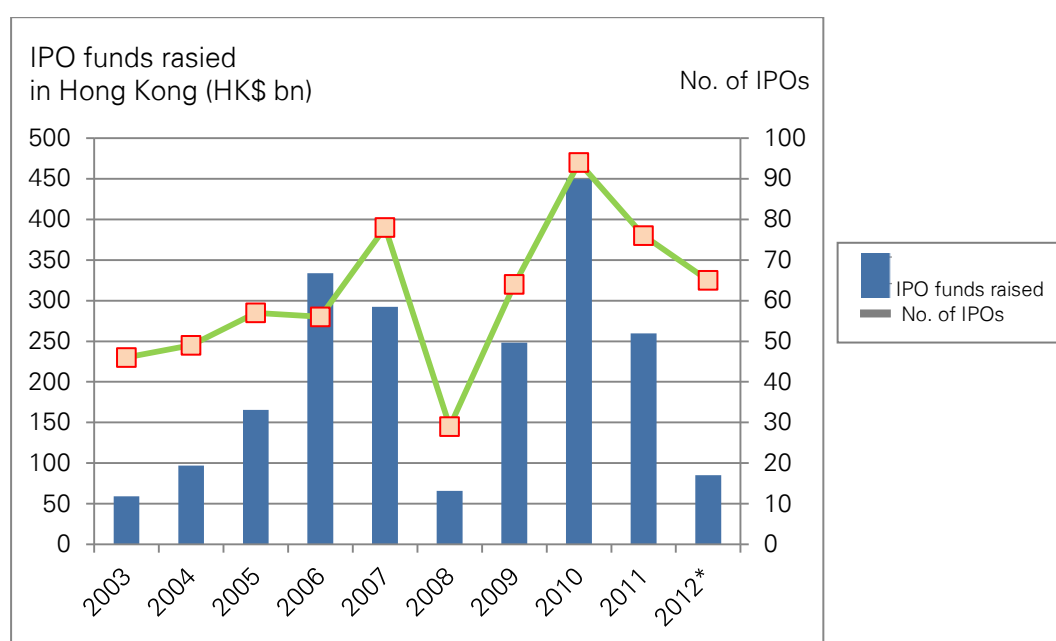
A late surge in funds raised from IPOs in Hong Kong, brought about by the listing on 7 December 2012 of The People's Insurance Company (Group) of China Limited (1339.HK) (PICC), the largest Hong Kong IPO of the year, which raised HK\$24 billion, may help Hong Kong secure a place among the top three of the world's leading stock exchanges in terms of IPO funds raised in 2012<sup>1</sup>. Without the listing of PICC and the other new listings in December, the Hong Kong Stock Exchange (the 'Exchange') would have declined even further in terms of its world ranking as it was out of the top six for most of 2012.

<sup>1</sup> Based on KPMG analysis and included IPOs pending for listing by 31 December 2012. Analysis performed based on year-to-date information available as of 12 December 2012.

The impact of the European debt crisis, concerns about the possible U.S. fiscal cliff and growth slowdown worries in China, as well as the weak aftermarket performance of recent IPOs in Hong Kong, have all had a negative impact on the confidence of investors for new listings. Total IPO funds raised in Hong Kong in 2012 will be in the range of HK\$80 - HK\$90 billion, only one-third of the total IPO proceeds of HK\$259.8 billion in 2011. A similar story is told by the number of new IPO applications. As at 30 November 2012, there had been 77 new applications for listing on the Exchange, far fewer than the 166 and 138 in all of 2011 and 2010, respectively.

### *Hong Kong IPO market performance*

There is no doubt that in terms of funds raised in new IPOs, Hong Kong had a difficult 2012, missing most if not all of the analysts' fund raising forecasts that were made at the beginning of the year. Statistics show that 2012 has been the third worst performing year since 2003 in terms of IPO funds raised, after 2003, when the market was hit by SARS outbreak, and 2008, when it suffered the financial crisis. Although there has been no such single market-crashing event in 2012, the combined effect of the various global economic uncertainties and the associated lack of investor confidence led to a disappointing year for the Hong Kong IPO market.



Source: Hong Kong Exchanges and Clearing Limited ("HKEx")

\*For the purpose of this article, the estimated IPO proceeds in 2012 is expressed at HK\$85 billion, being the mid-point of the estimated range of HK\$80 – HK\$90 billion

There have been very few sizable deals in 2012, with only 15 IPOs so far individually raising over HK\$1 billion, with possibly two more by the end of the year<sup>2</sup>. Of these 15 IPOs, 10 (67%) were under-subscribed on the retail portion of the offering, and would not have been completed had it not been for the support from cornerstone investors and institutional investors. Subscription prices for IPOs during the year have predominately fallen at the lower end of the price range and none of these 15 IPOs was able to price at the upper end of the range.

<sup>2</sup> The planned listings of China Machinery Engineering Corporation on 21 December 2012 and Wison Engineering Services Co. Ltd on 28 December 2012 with pricing at the mid-point of the respective offering price ranges would raise HK\$3.4 billion and HK\$1.9 billion respectively.

Hong Kong IPOs with funds raised over HK\$1 billion through 17 December 2012							
Stock code	Company	Funds raised (HK\$*million)	IPO subscription		Date of listing (dd/mm/yy)	The first day	
			Price range (HK\$)	Price (HK\$)		Closing price (HK\$)	+/- (%)
1339	PICC	24,006	3.42 – 4.03	3.48	07/12/12	3.72	+6.9%
6837	Haitong Securities	14,383	10.48 – 11.18	10.60	27/04/12	10.58	-0.2%
3948	Inner Mongolia Yitai Coal	7,009	43.00 – 53.00	43.00	12/07/12	43.00	-
2012	Sunshine Oilsands	4,487	4.86 – 5.08	4.86	01/03/12	4.71	-3.1%
2196	Shanghai Fosun Pharmaceutical	3,966	11.80 – 13.68	11.80	30/10/12	10.84	-8.1%
816	Huadian Fuxin Energy	2,677	1.60 – 1.76	1.65	28/06/12	1.73	+4.9%
564	Zhengzhou Coal Mining Machinery	2,295	10.38 – 12.28	10.38	05/12/12	9.47	-8.8%
1030	Future Land Development	2,056	1.45 – 1.79	1.45	29/11/12	1.47	+1.4%
1258	China Nonferrous Mining	1,956	2.10 – 2.80	2.20	29/06/12	2.20	-
3669	China Yongda Automotive	1,673	6.60	6.60	12/07/12	6.60	-
884	CIFI Holdings	1,669	1.33 – 1.65	1.33	23/11/12	1.31	-1.5%
6889	Dynam Japan	1,568	14.00 – 16.00	14.00	06/08/12	12.54	-10.4%
2068	China Aluminium International Engineering	1,427	3.93 – 4.73	3.93	06/07/12	3.57	-9.2%
1266	Xiwang Special Steel	1,325	2.65 – 3.36	2.65	23/02/12	2.13	-19.6%
1277	Kinetic Mines and Energy	1,171	1.26 – 1.51	1.26	23/03/12	1.23	-2.4%

Source: HKEx and KPMG analysis

Insufficient demand for IPOs has delayed a number of planned listings, even for cases that had already received Exchange approval. The ratio of the number of lapsed listing applications<sup>3</sup> which had been approved to the number of new listing applications increased by 57% from 0.35 in 2011 to 0.55 in 2012 year-to-date, based on information from the Exchange.

	Number of lapsed listing applications which had been principally approved*	Number of new listing applications*	Ratio
<b>2012</b>	42	77	0.55
<b>2011</b>	58	166	0.35

\*Included listing applications for the Main Board of the Exchange only. The statistics of 2012 are up to 30 November 2012.

Source: HKEx

<sup>3</sup> Include any application where approval in principle granted but not listed prior to application lapsed

## *Unsatisfactory post-market performance*

Of the 15 deals referred to above, only three saw their closing share prices on the first day of trading above the IPO subscription price, while five posted a first-day drop in their share prices of at least 8%. As at 17 December 2012, nine of these 15 IPOs were trading below their initial IPO prices, which does not compare positively with the 22% increase in the Hang Seng Index since the beginning of 2012.

The unsatisfactory post-market performance undoubtedly deterred local issuers from launching their IPOs but the number of international offerings in 2012 has also declined significantly. Compared with 2011, when 19 international companies were listed on the Exchange and contributed 52% of the total IPO proceeds that year, there have been only three international listings, representing only 7% of the total funds raised.

## Our forecast for 2013 – IPO proceeds of HK\$125 billion

Looking ahead, we expect that while market volatility will persist, a backlog of deals will be launched as soon as market sentiment improves. Although the IPO uptake in December may not provide much momentum into the first half of 2013, we do expect the market to pick up from the middle of next year, with some easing of economic uncertainty, particularly as it relates to China. We forecast growth in Hong Kong IPO market activity, with an estimated 85 IPOs raising approximately **HK\$125 billion** in 2013.

The revival of China's economy will be a key factor in stabilising the IPO market and attracting listing applicants to re-launch their IPOs in Hong Kong. According to KPMG research<sup>4</sup>, China's economy is showing signs of a softer landing. The latest monthly economic statistics showed growth in both industrial production and retail sales and inflation under control. We believe that Chinese enterprises looking to expand and raise funds will once again try to tap the IPO market as sentiment improves. With most of the large Chinese state-owned enterprises having already gone public in the last decade, private-sector enterprises will be a key driver for the upturn in Hong Kong IPO market activity.

Listings of international companies in Hong Kong have played a crucial role in boosting IPO proceeds in the past few years. However, mega international listings such as AIA Group Limited (1299.HK) in 2010 and Glencore International plc (805.HK) in 2011 have been absent in 2012. While 2012 IPO activities in Hong Kong for international companies have been severely hindered by market volatility, recent research and interviews conducted by KPMG<sup>5</sup> with various stakeholders revealed that Hong Kong is still viewed as a nexus for Chinese companies looking for expansion abroad and overseas companies looking to write a China story for their businesses.

The Exchange has also been actively taking measures to attract more foreign companies. These include clarifying and streamlining the requirements for listing overseas companies and providing a disclosure-based approach to secondary listings of seasoned issuers from reputable overseas exchanges. As a result, we anticipate an increase in overseas listed companies coming to Hong Kong.

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<sup>4</sup> [“KPMG Quarterly Review of China's Economic Globalization \(2012, Q3\)”](#), KPMG, November 2012

<sup>5</sup> [“Hong Kong – Asia's Global Market: A Destination for International Listings”](#), KPMG, September 2012

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