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Hong Kong IPO Market Update

April 2014

Welcome to our 2014 first-quarter Hong Kong IPO Market Update. Hong Kong IPO market witnessed a strong recovery in Q4 2013. In this issue we review how the market has been performing since the start of 2014 and set out the outlook for the rest of the year.

As anticipated in the December 2013 edition of our Capital Markets Update, the momentum in the market continued in Q1 2014. With the changes in listing plans of Alibaba and AS Watson, a mixed outlook is forecast for the remaining of 2014.

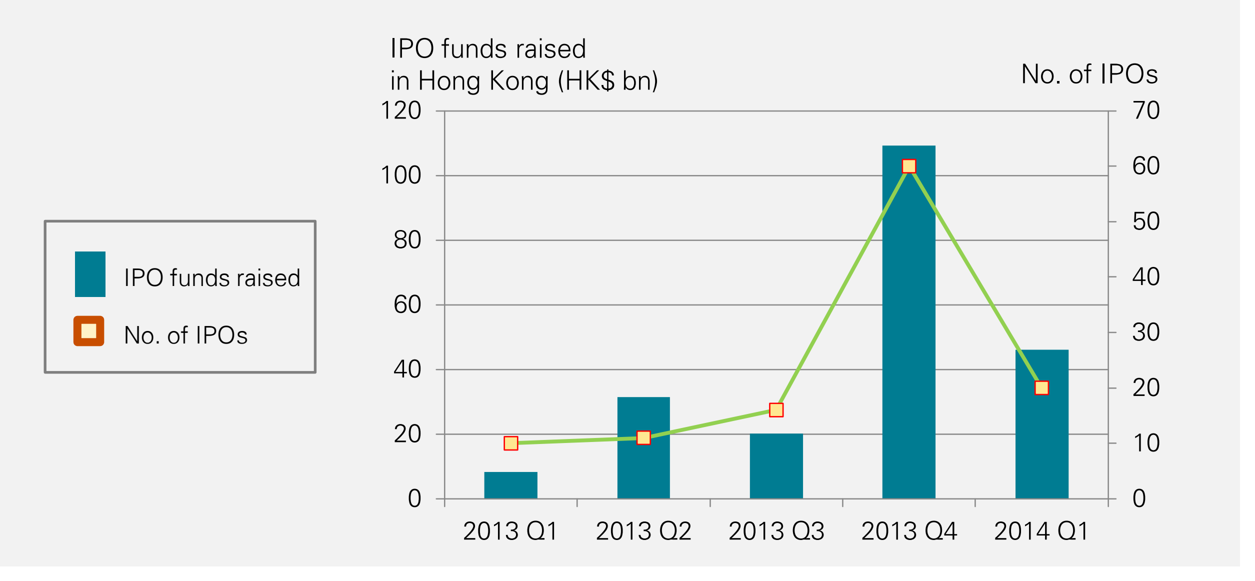
First quarter of 2014: The momentum continued with HK$46 billion funds raised

2013 ended on a high note for the Hong Kong IPO market, thanks to a strong uptick in listings in Q4 2013. Moving into Q1 2014, HK Electric (2638.HK) and Harbin Bank (6138.HK), the two largest IPOs so far this year, raised HK$24.1 billion and HK$8.8 billion respectively, setting the momentum. Together with a number of IPOs with funds raised equal to or over HK$1 billion, including Honworld Group (2226.HK), Redco Properties (1622.HK), Poly Culture (3636.HK), Haichang Holdings (2255.HK) and Sunshine 100 China (2608.HK) which together raised HK$9.4 billion, the accumulated funds raised in Q1 2014 reached HK$46 billion.

The companies listed in Q1 2014 are involved in a wide variety of businesses and a number of which have set the record for the Hong Kong IPO market. Magnum Entertainment (2080.HK) was the first nightclub operator to go public in Hong Kong; Poly Culture (3636.HK) was the first auction house IPO while Haichang (2255.HK) was the first PRC theme park IPO in Hong Kong.

The strong market sentiment and investors' confidence was reflected by the record-breaking over-subscription rates on the retail portion of certain offerings. In the beginning of 2014, Miko International (1247.HK) was over-subscribed by 1,125 times, the highest since 2011. In less than two weeks, the spotlight was then on Magnum Entertainment (2080.HK), which recorded an over-subscription rate of 3,558 times, the highest ever in the history of IPO in Hong Kong. The momentum continued in February as Huisheng International (1340.HK) recorded an over-subscription rate of 2,187 times, which came second in the history of IPO in Hong Kong.

Though both the number of IPOs and the total funds raised in Q1 2014 dropped as compared to the previous quarter, it represented a substantial growth over the corresponding period in 2013. The quarterly performance of the Hong Kong IPO market in 2013 and Q1 2014 are illustrated below:



IPOs launched in Q1 2014 have experienced good public reception as 67% of Main Board IPOs were priced at the upper range, comparing to 50% for the full year of 2013.

The number of deals, average deal size and over-subscriptions ratio are illustrated in the tables below:

	Q1 2014			Q1 2013		
	IPO proceeds[(a)] HKD'billion	Number of IPOs[(b)]	Average proceeds per deal HKD'billion	IPO proceeds[(a)] HKD'billion	Number of IPOs[(b)]	Average proceeds per deal HKD'billion
Main Board						
Above HKD 5 billion	32.9	2	16.5	Nil	Nil	N/A
HKD 1 to 5 billion	9.4	5	1.9	4.4	2	2.2
Below HKD1 billion	3.2	8	0.4	3.7	7	0.5
	45.5	15	3.0	8.1	9	0.9
GEM	0.5	5	0.1	0.1	1	0.1
Total	46.0	20	2.3	8.2	10	0.8

	Q1 2014	Q1 2013	2013 full year
Subscription – Main Board			
Number of deals over-subscribed on their retail portion	12	9	64
Average over-subscription rate [(c)]	753.5	344.5	122.2
% of Main Board IPOs priced at:			
Upper range	67	89	50
Lower range	33	11	42
Mid-point	0	0	8

Source: HKEx and KPMG analysis

(a) Q1 2014 amounts include actual proceeds raised for IPOs up to 31 March 2014 and have not taken into account any over-allotment subsequent to that date.

(b) 2013 and Q1 2014 numbers exclude listings by introduction or transfers from the GEM to the Main Board.

(c) Average over-subscription rate is calculated by the average of number of times of applied shares over offered shares for companies with over-subscription.

The newly listed companies in Q1 2014 have mixed post-market performance. More than half of them saw their closing share price on the first day of trade exceed the IPO subscription price.

Hong Kong IPOs with funds raised equal to or over HKD1 billion during Q1 2014

			IPO subscription			The first trading day	
Stock code	Company	Funds raised (HKD'million)	Price range (HKD)	IPO price (HKD)	Date of listing (dd/mm/yy)	Closing price (HKD)	+/- (%)
2638	HK Electric	24,127	5.45 – 6.30	5.45	29/01/14	5.34	-2.02%
6138	Harbin Bank	8,768	2.89 – 3.33	2.90	31/03/14	2.91	+0.34%
3636	Poly Culture	2,917	28.20 – 33.00	33.00	06/03/14	42.6	+29.09%
2255	Haichang Holdings	2,450	2.18 – 2.68	2.45	13/03/14	2.02	-17.55%
2608	Sunshine 100 China	2,000	4.00 – 4.80	4.00	13/03/14	3.70	-6.50%
2226	Honworld Group	1,028	4.95 – 7.15	7.15	28/01/14	8.27	+15.66%
1622	Redco Properties	1,000	2.10 – 2.60	2.50	30/01/14	2.51	+4.40%

Source: HKEx and KPMG analysis

The remaining of 2014: A mixed outlook

The first quarter has set the stage for a strong-performing year of the Hong Kong IPO market. A number of companies endeavoured to submit listing applications to the Exchange before 1 April 2014, prior to the new listing rules requiring publication of draft listing documents come into effect. This built a strong IPO pipeline and the momentum is expected to reveal further in the rest of 2014.

In March 2014, the Chinese e-commerce giant Alibaba ruled out changing partnership structure in order to meet Hong Kong Exchanges' regulations; it also announced plans for floatation in the US, which could be one of the biggest ever IPO in the US. This ended the long debate in Hong Kong as to whether the regulators should amend rules to accommodate to Alibaba's listing. Though Alibaba's decision will very likely put Hong Kong out of race with the US for the number one IPO destination in 2014, this case has boosted investors' confidence over Hong Kong regulators' determination towards investor protection.

In late March 2014, Hutchison Whampoa announced the sale of 25% stake in AS Watson, the health and beauty products retailer, to Singapore's state investment arm Temasek for HK$44 billion, as well as its decision to delay the listing of AS Watson. Consequently, this highly anticipated IPO is not going to happen in 2014. Instead it is likely to take place in two to three years' time.

Alibaba and AS Watson are not the only mega IPOs the market anticipate for this year. Other mega IPOs in the pipeline include the PRC meat processor Shuanghui International and one of China's biggest nuclear-energy companies, China General Nuclear Power Corporation. Successful listing of these mega IPOs is key to securing the growth of Hong Kong's IPO market in 2014. We expect IPOs in 2014 to mainly come from such sectors as IT and financial services.

In February 2014, Facebook announced its acquisition of WhatsApp for US$19 billion. In March 2014, Forgame Holdings (484.HK), a PRC web game developer and publisher, announced its acquisition of 21% stake in Magic Feature, a Hong Kong based mobile game developer, for US$70 million. With such strong share price performance in the IT sector, more acquisitions or IPOs of software companies are expected to happen in 2014.

The People's Bank of China has tightened credit repeatedly over the past few years and the trend continues in 2014. While such policy slows down credit growth at PRC banks it simultaneously created a huge non-bank financial market. The non-bank lending industry is experiencing a drastic growth and the outlook for this industry remains positive in light of the huge demand. It is anticipated that more lending company will plan for an IPO this year.

The A-share IPO market re-opened in late 2013 while there are hundreds of companies waiting in the queue to go public. It is expected to take 2 to 3 years to clear the existing backlog. So far we have not observed any significant impact brought by the re-opening of the A-share market on the Hong Kong IPO market and we do not believe that it will happen in the near future. In the other side of the world, the US IPO market is expected to stay hot throughout 2014. With Alibaba, the US IPO market has almost secured its number one position in terms of funds raised in 2014.

On the other hand, the uncertainties associated with QE tapering remain and are expected to continue influencing the market sentiment. However, the market participants will gradually become more comfortable with the QE tapering with time. Taking this positively, QE tapering could be interpreted as a sign of the economy picking up. But the unstable political environment, in particular the conflicts between Russia and Ukraine among others, also add uncertainties to the markets.

Right towards the end of Q1 2014, CITIC Group announced its plan to list in Hong Kong, to be effected through its Hong Kong-listed subsidiary CITIC Pacific acquiring the group's main operating arm, CITIC Limited. CITIC Group is the largest state-owned conglomerate and its move to list in Hong Kong is a catalyst for the state-owned enterprise (SOE) reform in China, which seeks to promote securitisation of national assets. It is anticipated that other SOEs will consider overall listing in Hong Kong through different means, boosting the Hong Kong IPO market in the medium term.

While the overall outlook is positive, the IPO market's performance lie in the success of the anticipated mega IPOs, the timing of the QE tapering, the stability of the overall political environment, the credit tightening by the PRC government and the method that SOEs choose to list in Hong Kong. With these uncertainties in mind, we maintain our full year forecast of proceeds raised in the HK IPO market of over HK$200 billion, representing a growth by over 25 percent compared to 2013.

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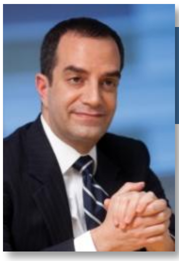

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