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Hong Kong IPO Market Update

July 2015

Hong Kong regains top IPO spot in 2015 H1

KPMG forecasts a strong outlook despite competition and global market uncertainties

Hong Kong secured the world's largest IPO market position in terms of funds raised in the first six months of 2015. The market was dominated by Huatai Securities, the world's third largest and Hong Kong's largest IPO year-to-date, and GF Securities.

Heading into 2H 2015, the IPO pipeline looks promising with a number of large financial service providers moving ahead with their IPO plans to complete within the year, IPOs in pharmaceutical and environment-related sectors will also be popular. Meanwhile, China's market reforms and introduction of new fund raising channels present challenges for Hong Kong.

The full-year IPO forecast depends largely on the market performance and the timing of sizeable deals coming to market. We believe that with the strong pipeline and large deals reported to be up for listing, the full-year forecast of an estimated 110 IPOs raising over HKD200 billion is achievable, despite global market uncertainties and competition facing Hong Kong.

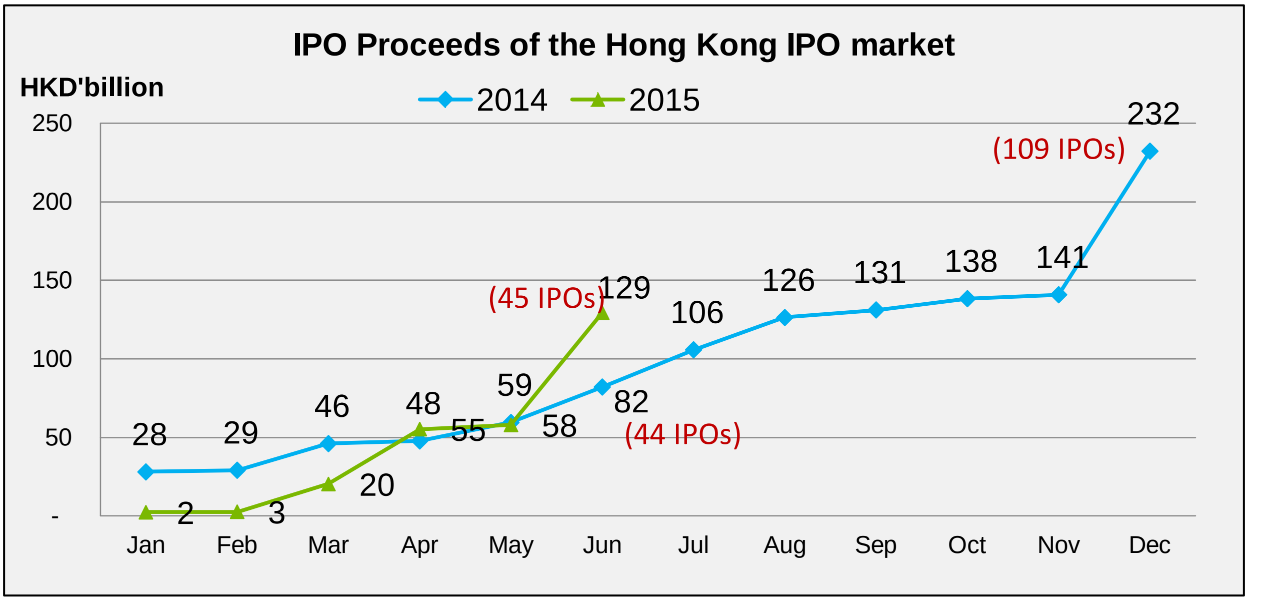
Half Year in Retrospect

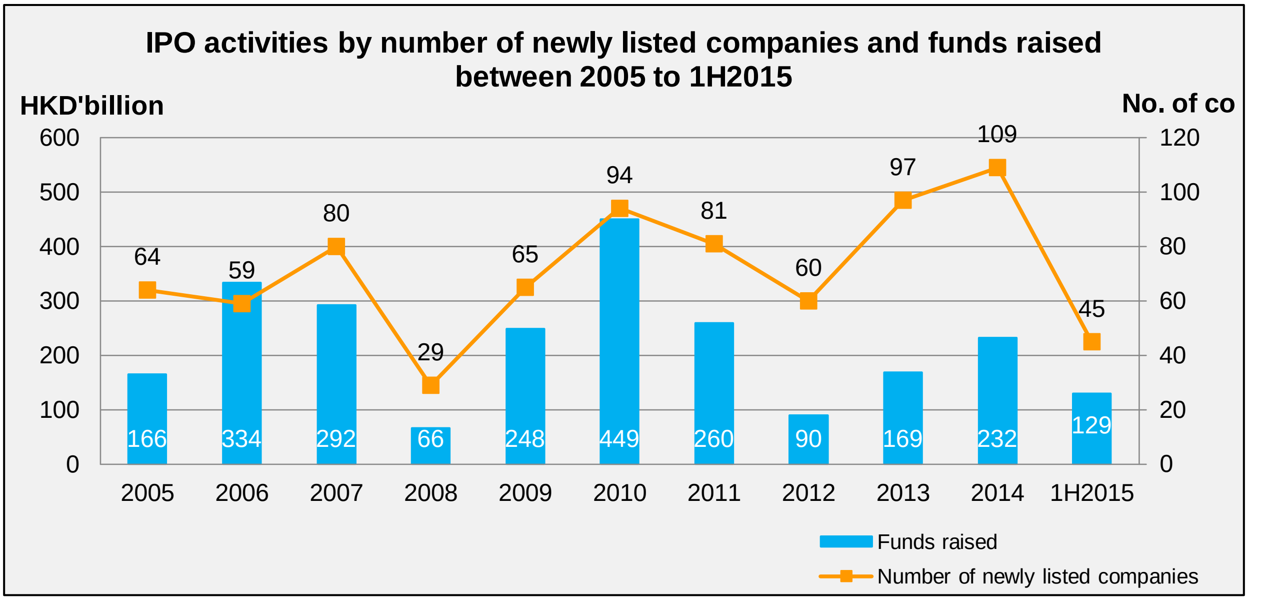
The total IPO funds raised on the Hong Kong Stock Exchange (HKEx) for the first six months of 2015 was HKD129.4 billion with 45 newly listed companies. The IPO funds raised in Hong Kong in the first six months of 2015 were dominated by the listings of two Chinese securities companies, with funds raised of HKD70.8 billion in aggregate. Huatai Securities (carrying on business in Hong Kong as "HTSC") (code: 6886) debuted on the exchange in June 2015, raising HKD38.8 billion, and the city moved into No.1 among global exchanges in terms of funds raised. In the first half of 2015, Huatai Securities was the largest IPO in Hong Kong and the world's third largest.

Q1 2015 was slow until HKBN Ltd (code: 1310) was listed in March, raising funds of HKD6.7 billion. This was the second largest listing in Asia at the time. The spotlight soon went to Fuyao Glass (code: 3606) listing on the last day of Q1 2015 with funds raised of HKD8.5 billion. Both IPOs were priced at the top end of the range. The number of companies listed in Q1 2015 was 25 and total funds raised were HKD20.3 billion.

The market boomed in Q2 2015 in terms of total funds raised. Total funds raised in Q2 were HKD109.1 billion, a massive 4.4 times than Q1, which is remarkable given that the number of companies listing in Q2 was 20, a drop from 25 in Q1. The leap is down to the average deal size, which was HKD5.5 billion in Q2, 5.7 times greater than Q1's average of HKD0.8 billion. The rocketing of the average was driven by the year's three biggest IPOs to date: Huatai Securities, GF Securities (code: 1776) and Legend Holdings (code: 3396) raised HKD38.8 billion, HKD32.1 billion and HKD15.2 billion respectively.

The Hong Kong Main Board's price-earning ratio ("P/E ratio") increased from 11.2 times in January 2015 to 11.8 times in June 2015, in line with the movement in the Hang Seng Index over the period. A positive move, but the ratio at end of Q2 2015 was low compared to Shanghai A-share's solid ratio of 21 times and paled next to Shenzhen A-share's 55 times.





	Q2 2015	Q1 2015	H1 2015	H1 2014	FY 2014
Subscription – Main Board					
Number of newly listed companies	15	16	31	38	90
Number of deals over-subscribed on their retail portion	15	15	30	28	71
Average over-subscription rate [(a)]	198.3	48.1	123.2	367.1	252.8
% of Main Board IPOs priced at:					
Upper range	47	31	39	47	45
Lower range	13	50	29	42	14
Midpoint	40	19	32	11	41

Source: HKEx and KPMG analysis

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

	Q2 2015		
	IPO proceeds[a] HKD'billion	Number of IPOs[b]	Average proceeds per deal HKD'billion
Main Board			
Above HKD 5 billion	99.6	5	19.9
HKD 1 to 5 billion	6.5	3	2.2
Below HKD 1 billion	2.6	7	0.4
	108.7	15	7.2
GEM	0.4	5	0.1
Total	109.1	20	5.5

	Q1 2015		
	IPO proceeds[a] HKD'billion	Number of IPOs[b]	Average proceeds per deal HKD'billion
Main Board			
Above HKD 5 billion	15.2	2	7.6
HKD 1 to 5 billion	-	-	-
Below HKD 1 billion	4.5	14	0.3
	19.7	16	1.2
GEM	0.6	9	0.1
Total	20.3	25	0.8

	H1 2015		
	IPO proceeds[a] HKD'billion	Number of IPOs[b]	Average proceeds per deal HKD'billion
Main Board			
Above HKD 5 billion	114.7	7	16.4
HKD 1 to 5 billion	6.6	3	2.2
Below HKD 1 billion	7.1	21	0.3
	128.4	31	4.1
GEM	1.0	14	0.1
Total	129.4	45	2.9

	H1 2014		
	IPO proceeds[a] HKD'billion	Number of IPOs[b]	Average proceeds per deal HKD'billion
Main Board			
Above HKD 5 billion	48.7	4	12.2
HKD 1 to 5 billion	22.9	13	1.8
Below HKD 1 billion	9.9	21	0.5
	81.5	38	2.1
GEM	0.6	6	0.1
Total	82.1	44	1.9

	FY2014		
	IPO proceeds[a] HKD'billion	Number of IPOs[b]	Average proceeds HKD'billion
Main Board			
Above HKD 5 billion	156.9	10	15.7
HKD 1 to 5 billion	52.2	29	1.8
Below HKD 1 billion	21.1	51	0.4
	230.2	90	2.6
GEM	2.1	19	0.1
Total	232.3	109	2.1

Source: HKEx and KPMG analysis

a) Amounts include actual proceeds raised for IPOs up to 30 June 2015 and have not taken into account any over-allotment subsequent to that date.
b) Numbers exclude listings by introduction or transfers from the GEM to the Main Board.

The post-market performance of companies newly listed on the Main Board in the first six months of 2015 was positive in general, with 19 out of 31 seeing 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 HKD 1 billion during 1H 2015

Stock code	Company	Funds raised (HKD'million)	IPO subscription		Date of listing	The first trading day	
			Price range (HKD)	IPO price (HKD)		Closing price (HKD)	+/- (%)
1310	HKBN Ltd	6,674	8.0 - 9.0	9.0	12 Mar 2015	9.0	–
3906	Fuyao Glass	8,495	14.8 - 16.8	16.8	31 Mar 2015	19.2	+14.29%
1776	GF Securities	32,079	15.65 - 18.85	18.85	10 Apr 2015	25.4	+34.74%
6826	Shanghai Haohai	2,362	48.5 - 59.0	59.0	30 Apr 2015	58.5	-0.85%
6839	Yunnan Water	1,918	5.0 - 5.8	5.8	27 May 2015	6.45	+11.21%
6886	Huatai Securities	38,757	24.8	24.8	1 Jun 2015	26.05	+5.0%
1530	3S Bio	6,343	8.3 - 9.1	9.1	11 Jun 2015	9.32	+2.42%
2686	AAG Energy	2,284	3.0 - 3.7	3.0	23 Jun 2015	2.78	-7.33%
1528	RS Macalline	7,219	11.18 - 13.28	13.28	26 Jun 2015	12.74	-4.07%
3396	Legend Holding	15,169	39.8 - 43.0	42.98	29 Jun 2015	42.95	-0.07%

Source: HKEx and KPMG analysis

A promising outlook for the rest of 2015

With the listing of Huatai Securities in June and other large listings in Q2 2015, Hong Kong ranks No. 1 for listing venue in terms of funds raised for the first half of 2015. Huatai Securities is the largest brokerage firm by market share in terms of trading volume in mainland China. The listings of two Chinese securities companies in the first half of 2015 stirred up the market: GF Securities had an oversubscription of 180 times and Huatai Securities 280 times.

Promising pipeline

Following suit, a number of Chinese financial service providers are planning to launch their IPOs in Hong Kong in the coming months. Bank of Jinzhou and Guangdong Join-Financing Guarantee are among the brokerages and financial service providers that have already filed their applications with the HKEx. A number of companies including Guolian Securities and Luzheng Futures have launched their IPOs, and expect to list in early July and China International Capital Corp is pushing ahead its plan to IPO in the second half of the year according to market news.

In March, the Shanghai-listed Chinese brokerage firm, Everbright Securities Co said it is planning to list in Hong Kong. China Reinsurance (Group) Corp, the largest re-insurer in China, was reported to be seeking an IPO in the second half of 2015. China Huarong Asset Management Co, one of the largest bad-loan buyers in China, also said in March that the company is planning its IPO in Hong Kong this year and expects that the IPO will likely top the China Cinda IPO in 2013. The Shanghai-listed China Merchants Securities, China's sixth largest brokerage firm by total assets, made an announcement in May that it plans to launch an IPO in Hong Kong, hoping to raise up to HKD43.7 billion and possibly surpass Huatai Securities to become the largest listing in the city.

The pipeline is promising with these companies planning to complete their listing on the HKEx in the last half of 2015, joining the 62 active listing applications as at 30 June 2015. Other sectors are represented in the plans as well, and the ones coming to market to seek a flotation meet our expectations. The future also promises listings from pharmaceutical and environmental protection companies, and all the varied sectors.

Among the active listing applications, IMAX China Holding Inc filed its application in May. The company is a spin off of the China business by IMAX Corp. This will be the first IPO by a major global brand since 2011.

Shenzhen-Hong Kong Stock Connect

The Shenzhen-Hong Kong Stock Connect is around the corner following the launch of the Shanghai-Hong Kong Stock Connect in November last year. The Shenzhen-Hong Kong Stock Connect, as an extension to the existing scheme, will increase the varieties of stocks that can be traded and boost fund flows between the regions.

The Shenzhen stock market comprises mainly small and medium sized companies, including those in their early growth stages. It supplements the offerings made available by the Shanghai-Hong Kong Stock Connect and the additional choices are expected to attract interest from overseas investors.

The schemes are beneficial to stock markets in both regions. Integration with the Hong Kong bourse helps open up the mainland stock markets to overseas investors and quickens internationalisation of Renminbi. Hong Kong benefits from the schemes through the added liquidity in the local stock market and reinforcement of its position as a gateway to investment in the mainland. The stock connect schemes also arouse interest of international companies in launching their IPOs in Hong Kong to take advantage of access to the mainland investors.

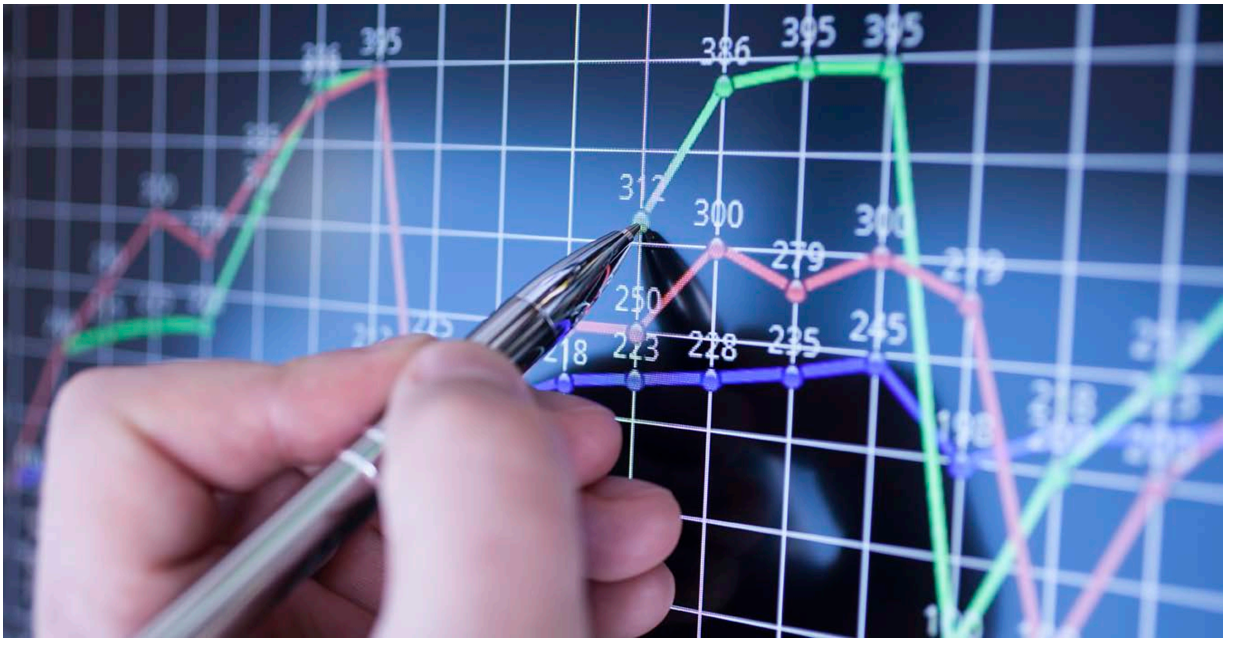
The restless market

The Hang Seng Index became bullish starting in early April 2015 after the China Securities Regulatory Commission (CSRC) allowed non-QDII mutual funds to invest in Hong Kong shares through the Shanghai-Hong Kong Stock Connect scheme. The upward trend continued as a result of several factors: President Xi Jinping made ambitious remarks on the 'One Belt One Road' initiative during the Boao Forum, the chief of the People's Bank of China (the "PBoC") warned against deflationary risk in China signalling further monetary easing, the PBoC cut its reserve requirement ratio by one percentage point to boost banking liquidity and the Securities and Futures Commission and CSRC jointly announced the mainland-Hong Kong mutual recognition of funds agreement. These policies fuelled the market and pushed both Hong Kong and A-share markets to new highs.

The bullish market dipped in June as the market adjusted to current developments. The CSRC is proposing amendments to the existing rules on margin trading and short selling. Margin trading has been a major driver behind the recent bull run in the A-share market given its popularity as a funding mechanism. The A-share market slumped when Chinese investors became skeptical about the central government's policy on illegal margin financing by securing their profit after an eight-month long bull run in the A-share market. The effect was also felt in the Hong Kong market with a drop in the Hang Seng Index and most IPOs pricing toward the low end of the range.

The SSE composite index more than doubled over the past 12 months, inflaming worries about overheating markets. Stock market trends are influenced by the central government's stimulus policies as well as its measures to control market overheating. Whether and for how long the bullish market can be sustained will direct the performance of the Hong Kong IPO market.

The market remains unsettled as the US Federal Reserve will likely maintain its interest rate increases to the end of the year after their June meeting and the Greek debt crisis continues.



Competition facing Hong Kong

China's securities regulator is pushing ahead with reform of its stock issuance regime. In April, the proposal to replace the existing approval-based system with the registration-based system for China's stock issuance regime was presented to the Standing Committee of the National People's Congress. The proposed registration-based system will see delegation of the review and approval of IPOs moves from the CSRC to possibly the stock exchanges, lifting certain approvals as long as the disclosures in the listing documents are true and complete. The proposals may significantly shorten the time for an IPO and provide an additional venue for mainland companies to seek funding locally.

Over-the-counter equity exchange in China has become increasingly popular for smaller companies to raise funds since the listing on the Shanghai or Shenzhen stock exchange might take years to complete. The National Equities Exchange and Quotations (NEEQ), commonly known as the new third board, provides an alternative source of funding to small and medium-sized companies such as start-ups. Companies can apply directly to the NEEQ with no regulatory approval required. The less stringent qualification requirements and lower costs to get traded on the NEEQ attract tremendous interest of small-cap companies.

The Shanghai Stock Exchange proposed to the CSRC in March to launch a board for companies in emerging industries (Emerging Board). The Emerging Board is aimed toward emerging and creative businesses that have passed the start-up stage and grown to a certain size and have a clear strategy such as overseas-listed red chips or Internet companies. It is expected that the launch of the Emerging Board together with the registration-based system may significantly shorten the listing process and streamline listing requirements.

Since the listing of Sina on NASDAQ in 2000, variable interest entities ("VIE") structures have been widely adopted by mainland companies operating in sensitive industries wishing to gain access to international capital markets. VIE structures were initially created to confer upon a foreign invested enterprise the right to enjoy all economic beneift, exercise management control over the operations and prevent leakages of assets and values to shareholders of the operating companies in the mainland and the right to consolidate the financial results and the rights to acquire the equity interest, if and when permitted by the relevant laws and regulations in mainland for a nominal price that would otherwise restrict from foreign investment in sensitive or restricted industries like Internet, telecommunications and media in the mainland. VIE structures involve a series of contractual arrangements among a couple of parties and the associated legal risks attract official scrutiny all along. With the price-premiums offered by A-share market and potential restrictions on VIE structures following the release of a draft new foreign investment law by the PRC Ministry of Commerce in January 2015, more mainland technology companies currently listed or seeking to list in the US or HK are now considering a return to the domestic A-share market. Unwinding VIE structures however involves complex legal and taxation matters, which is not expected to happen shortly. If it happens Hong Kong will have to compete more severely with the A-share market in attracting mainland technology companies to list in the city.

Weighted Voting Rights

With China pushing ahead with its market reforms and proposals for the introduction of the new board to offer additional funding venue for enterprises that are traditionally turned away by the major stock exchanges, the competition to Hong Kong is increasing. Hong Kong will have to find ways to maintain its competitiveness through improving the operating environment.

In June, the HKEx published the consultation conclusions to the concept paper on weighted voting rights that was initially published in August 2014. The paper sought views and opinions from market participants on allowing different shareholder structures other than the "one share one vote" structure. The HKEx concluded that it would launch a second stage consultation in third quarter of 2015 on proposed rule changes to allow weighted voting rights structures in Hong Kong for "certain companies in certain circumstances and with certain safeguards." The second stage consultation, among other matters, will also consider the ability for companies with weighted voting rights structures to have a secondary listing on the HKEx. On 25 June 2015, the SFC made an announcement that its Board has unanimously concluded that it does not support the draft proposal for primary listings with weighted voting rights structures in Hong Kong. Should the proposals for secondary listing be adopted, Hong Kong may attract large US listed Chinese technology companies to seek a secondary listing in Hong Kong.

Outlook for the second half of 2015

With the strong pipeline and a number of sizeable deals up for listing in the second half of the year, we maintain our forecast for 2015 for an estimated 110 IPOs raising over HKD200 billion despite global market uncertainties and competition facing Hong Kong. The anticipated launch of Shenzhen-Hong Kong Stock Connect in the second half of 2015 is expected to boost the Hong Kong stock market and positively impact IPO activities. The actual performance of the market will largely depend on the timing of larger deals coming to market and external factors such as the Greek debt crisis and a potential increase in interest rates.

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