DEAL #1: The biggest IPO deal in Hong Kong is the listing of financial services company Guotai Junan Securities for $2.2b on the Hong Kong Exchange in April.

DEAL #2: The sale of PCCW's $1.1b stake in telecommunications unit HKT Trust & HKT is the largest block trade done in the first quarter of the year.

Why IPO volume could reach record highs

Hong Kong will remain as the region's leading international fundraising hub, as the special administrative region's initial public offerings (IPOs) and equities landscape remain bullish with 72 new listings.

Hong Kong's IPO market remained active in the first half of 2017, achieving increases in both number of listings and funds raised. A vibrant market in small to medium-sized IPOs contributed to more-than-double listings and funds raised on the Growth Enterprise Market (GEM) board of the Hong Kong stock exchange. This is despite the economic and political uncertainties around the world.

PwC Capital Markets service partner for Hong Kong **Eddie Wong** shared in a statement that they saw significant growth in the IPO market in the first half of 2017, comparing year on year, credited to improving market sentiment and economic conditions, which has also enhanced the quality of Hong Kong's capital markets.

He added that the segmentation of IPOs was more evenly distributed and that they are pleased to see companies from different industries and geographies all proactively looking for listing opportunities in Hong Kong. Overall pricing and P/E ratios, Wong said, are improving, which indicates that investors are relatively optimistic about the future.

PwC data suggested that in the first half of 2017, there were a total of 72 new listings in Hong Kong — an 80% increase on the same period last year. Total funds raised reached HK$53.6b, increasing 23% year on year. The trend is the same for GEM board, with 35 IPO deals amounting to HK$2.6b in total fundraising, a 133% increase in number of firms and 136% in terms of funds raised. There were also 37 new listings on the main board within the period, with total funds raised standing at HK$51b, which is a 48% increase in IPOs and a 20% increase in funds raised. Companies seeing IPOs are mainly from these sectors: industrial, retail, consumer goods, and services.

> **Total funds raised reached HK$53.6b, increasing 23% year on year. The trend is the same for GEM board, with 35 IPO deals amounting to HK$2.6b in total fundraising.**

"Hong Kong listed Equity volume is up year on year with $16.7b raised via 229 deals in [the first half of 2017] compared to $13b via 179 deals in [the same period] in 2016," said **Trafford Blekinsopp**, APAC head of equity capital markets at Dealogic.

Major statistics

Hong Kong's close proximity — both in the cultural and geographical sense — to mainland China is proving to be a boon to the IPO and equities sectors. Some of the biggest deals in the first half of 2017 have ties, one way or another, to firms or financial institutions from the mainland.

The biggest IPO deal for Hong Kong was the listing of financial services company Guotai Junan Securities for $2.2b on the Hong Kong Exchange (HKEX) in April. There was also the largest block trade done by Goldman Sachs with the sale of billionaire Richard Li's PCCW Limited's $1.1b stake in telecommunications unit HKT Trust & HKT Limited in the first quarter of this year.

In the whole region, the largest IPO deal for the first half of 2017 was that of technology firm Netmarble games, South Korea's largest mobile games maker, raising $2.3b in the Korea Exchange (KRX).

Average deal size — excluding companies that raised funds of more than HK$10b — however, declined 17% in the first half of 2017 compared to the same period last year at HK$1 billion, according to data from PwC. Industries comprising the majority of new listings to the main board of HKEX for the first half of 2017 include industrial products (49%); retail, consumer goods, and services (30%); financial services (13%); information technology and telecommunications (5%); as well as energy and mining related (3%).

For the GEM board of HKEX, majority of industries comprising new listings for the first half of the year include industrial products (37%); retail, consumer goods, and services (37%); financial services (14%); information technology and telecommunications (9%); as well as energy and mining related (3%).

Boost factor

Asia Pacific, with its size and the stellar economic growth of its countries over the past few years, remains the biggest and most significant region in terms of growth and development in the IPO and equities markets in the first half of 2017. With the region headlining the strongest first half rally in nearly a decade, the global IPO market saw proceeds reach $83.4b — a 90% rise from the same period last year — with the number of deals also rising significantly by 70% to 772 registered IPOs compared to the first half of 2016, according to data by Ernst & Young.

Of this record figure, the Asia-Pacific region accounted for 61% or 468 of IPO deals and 44% or $37b of all proceeds of the global IPO market — this is the highest first half of activity for the region since 2002. This is a remarkable development despite the continuous uncertainty in the global economic landscape.

EY ASEAN and Singapore managing partner Max Loh said that the Asia Pacific region's position as the leading centre of IPO activity is unlikely to be challenged throughout the remainder of 2017 with Greater China leading the way. He also added that the region's sustained growth and development momentum underpinned by stable fundamentals have continuously painted a positive economic and financial outlook over the years.

The influence and boost by mainland China to Hong Kong's IPO and equities growth was also highlighted by **David Holland,** Asia Pacific head of capital markets at Baker McKenzie. "The biggest influence on overall cross-border capital markets activity in Asia Pacific are Chinese companies listing on the Hong Kong exchange, which fell in the first half of 2017.

Outlook

Whilst the number of transactions increased from the low base in 2016, transactional activity hasn't tracked the strong equity markets across the region," he said. "Looking forward, we think we will see a modest increase in transactional activity overall across the region. Capital flows out of China continue to represent the biggest area of uncertainty in capital markets in Asia Pacific."

Experts agree that outlook for Hong Kong's IPO and equities sector for the rest of the year is upbeat. PwC forecasts a vibrant IPO market for Hong Kong driven by small and medium-sized enterprises that could result in a record-breaking 150 IPOs over the course of the year. There is still also a chance for some mega-sized IPOs before year-end, making Hong Kong one of the three strongest markets globally, with total fundraising of HK$220b.

This is echoed by findings and analysis of Baker & McKenzie saying that the Stock Exchange of Hong Kong surpasses London (both Mainboard and AIM), the New York Stock Exchange, and the NASDAQ as the preferred hub for cross-border listings globally.

"The second half of 2017 could be more challenging. Market sentiment may be affected by economic and political risk factors around the world," said PwC Hong Kong entrepreneur group leader **Benson Wong** in a statement, adding that geopolitical issues, slow global economic recovery, and Brexit can dampen business sentiment. He also expects a slowdown in IPO activity in mainland China after a spurt of listings in the first half of the year.

Wong explained, however, that with the Chinese economy still maintaining mid to high-growth, this is "encouraging the development of Chinese companies and increasing demand for fundraising." The Chinese government's One Belt, One Road Initiative will also likely to play a big boon to Hong Kong's economy in general.

Hong IPOs to hit record high

Norton Rose Fulbright partner **Winnie Chan** said that they are positive on the Hong Kong IPO market in 2017. "Going forward with the Belt and Road Initiative, it is anticipated that more overseas companies are expected to see Hong Kong as their funding choice and seek listings here, she explained.

"Besides, the Hong Kong Stock Exchange's recent public consultation on the proposal to launch a New Board, or the so-called Third Board — on top of the main board and the Growth Enterprise Market (for growth companies that do not fulfill the requirements of profitability or track record) — may introduce more flexible rules to attract technology firms."

Chan added that it is believed that the ability of Hong

Benson Wong

David Holland

Eddie Wong

Winnie Chan

Trafford Blenkinsopp

Top exchanges for cross-border IPOs

Source: Baker McKenzie

Kong to allow dual-class shares companies and attract technology firms are the key issues for Hong Kong's IPO market in the future. In terms of deals for the rest of the year, an expected IPO for Zhongyuan Bank Company Limited will be the biggest for Hong Kong at $1.1b. Regionally, it will be China Tower's $10b IPO valuation expected to be completed by the third or fourth quarter of this year, according to Dealogic's Blekinsopp.

According to PwC analysis, the number of IPOs in 2017 could reach a record high of 160 whilst the fund to be raised will depend on whether large-sized IPOs can succeed as scheduled. An expected market trend of companies and investors focusing more on GEM Board paints a positive view of an emphasis of good performance in the second half of 2017.

Hong Kong's upper hand

Experts and observers all over Asia Pacific are in consensus that there will be greater competition for stock markets and listings in the region. And being the region's leader in financial and commercial activities, Hong Kong will be at the heart of it all.

PwC analysis suggested that Hong Kong continues to be the most popular market for fund raising, attracting more overseas and mainland companies to get listed. This is echoed by experts around the region.

Deloitte Singapore deputy managing partner for markets **Ernest Kan** said that they are witnessing a development — that of companies in Singapore going for Hong Kong listings. "There is the perception that Hong Kong listings ensure better valuations and liquidity. However, the valuation of a stock is a reflection of the company's earnings and business performance," he shared.

An example is that of Osim International's decision — which operates 172 stores in mainland China, 35 in Hong Kong, and 26 stores in Singapore — to launch an IPO in Hong Kong as V3 Group, described as an Asian luxury group in the lifestyle and wellness markets after officially delisting from the Singapore Stock Exchange in April.

Tham Tuck Seng, capital markets leader of PwC Singapore, shared that Hong Kong is already proving to be a stiff competition for Singapore and other Southeast Asian economies in terms of IPOs for companies originating from those markets.

Hong Kong doesn't seem to plan on resting on its laurels. PwC analysis suggested that there are reforms put forward by HKEX to clarify and strengthen the function of both mainboard and GEM board to respond to market demand and help attract more companies of various types and categories (e.g. startups, "new economy" companies, etc.) to get listed in Hong Kong. "The proposal clearly defines the functionality of the different boards … [as] it addresses the funding needs of different kinds of companies and helps them to source and match appropriate investors. It also clears the obstacles to the development of the city's capital markets," said PwC's Wong in a statement.

He concluded that these suggestions could help "attract a certain amount of startups, 'new economy' companies, and Chinese companies listed overseas, to relocate their listing to Hong Kong."


Max Loh


Tham Tuck Seng


Ernest Kan

SINGAPORE VIEW

Why 2017 could be a blockbuster

Singapore's IPOs for the first half of this year raised $450m (US$329m), according to the latest data and figures from PwC Singapore. The volume of IPO funds raised by the end of 2017 is also projected to surpass 2016 levels with a number of IPO deals expected to be closed in the coming months (before the end of the calendar year).

There were nine IPO deals — for both domestic and overseas stock markets — closed in the first half of this year, including one business trust transaction. If including one registration and three lodgements made in the first six months of 2017, IPO fund-raising is expected to hit $3.03b during the period, according to data from Deloitte. This is the highest figure since 2013 for Singapore IPOs.

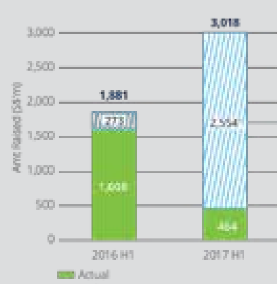
"We are seeing a great start to the IPO activity this year," said **Dr Ernest Kan**, deputy managing partner (markets) for Deloitte Singapore. "If we take into consideration the one registration and three lodgements as of 30 June, we are seeing unprecedented level of funds raised since 2013. This performance reinforces positive investor sentiments for Singapore's equity market."

For the two main SGX Mainboard listings, the largest IPO was HRnetGroup Limited with the highest funds raised at $174m and market capitalisation of $867m, followed by Dasin Retail Trust which raised $154m with a market capitalisation of $440m. Fibre network owner NetLink NBN Trust announced its initial public offering (IPO) price at $0.81 per unit. The offering price values the market capitalisation of the trust at about $3b. The $2.3b IPO is also the biggest in Singapore since 2011 when Hutchison Port Holdings Trust raised $7.6b, and the second largest IPO in Asia this year after the listing of Netmarble Games Corp in South Korea.

PwC's analysis suggests that rising sectors such as consumer and professional services will continue the uptrend with Singapore's position as one of the main business and financial services centres in the region. Healthcare is also expected to maintain its position as a strong contributor to Singapore IPO.

The nine IPOs in the first six months of 2017 have a total approximate capitalisation of $2.14b, according to data from Deloitte. Eight company IPOs raised $310m with $1.7b market capitalisation, whilst the one Business Trust transaction on the SGX mainboard raised $154m in proceeds and $440m in market capitalisation. In comparison, despite 2016 having only seven IPOs in its first half, in terms of overall value, the first six months of last year had a bigger market capitalisation of $2.24b.

Amount raised in 2016 H1 and 2017 H1



Source: Deloitte