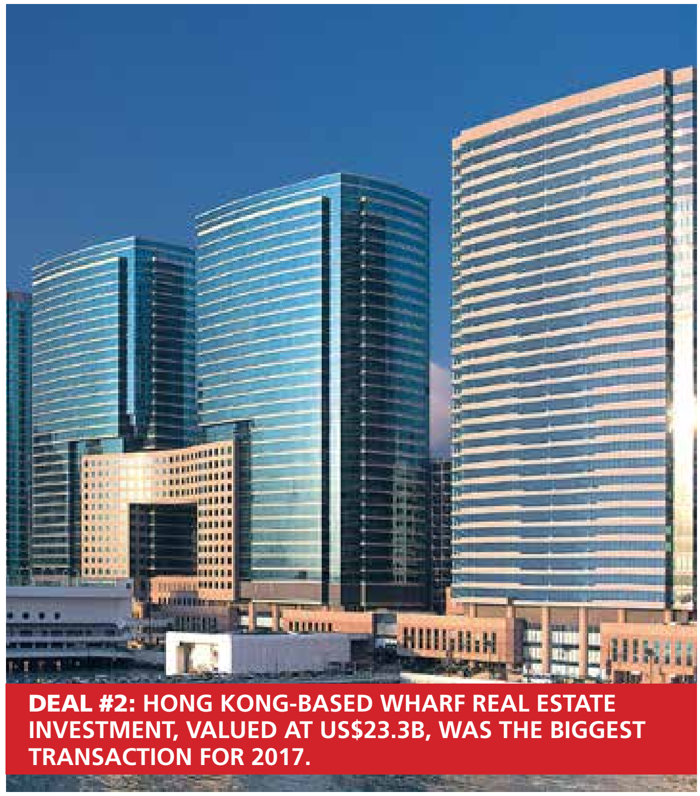
DEAL #1: THE LARGEST DEAL IN 2017 INCLUDED THE IPO OF GUOTAI JUNAN SECURITIES WHICH RAISED MORE THAN $2.1B AND WAS THE SIXTH LARGEST IPO GLOBALLY.



DEAL #2: HONG KONG-BASED WHARF REAL ESTATE INVESTMENT, VALUED AT US$23.3B, WAS THE BIGGEST TRANSACTION FOR 2017.

Why investment banks should transform their playbook in 2018

Digital innovation, workforce transition planning, and customer trust-building are but a few of the long-term strategies that, if not implemented, could set investment banks on a path of low returns and irrelevance.

Analysts warned that whilst 2018 promises growth opportunities in the Hong Kong IPO market amidst strong dealmaking confidence and reduced concern for geopolitical risks, seizing these opportunities and ensuring sustained growth will require transformational change across their organisations. Digital innovation, workforce transition planning, and customer trust-building are but a few of the long-term strategies that, if not implemented, could set investment banks on a path of low returns and irrelevance.

A year of major deals

The call for transformational change follows what has been a "generally positive" year for the Hong Kong market in 2017, said **Jan Bellens**, global banking and capital markets deputy sector leader at EY. Thomson Reuters data revealed that announced M&A deals posted strong growth at 169% year on year to $113.6b on the back of larger average deal sizes and a modest rise of 6.7% in the number of deals.

On the IPO front, EY research revealed that listings on the Hong Kong Exchange remained flat in 2017, at 72 IPOs for both 2016 and 2017. Proceeds fell to $14.8b, down 40% compared with 2016, which was largely due to the Postal Savings Bank of China's (PSBC) mammoth $7.4b IPO listing in Hong Kong in September 2016.

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"Hong Kong continues to attract interest from overseas and was the second most active cross-border IPO destination globally, behind only the US," said Bellens. "In fact, it enjoyed its highest ever annual proportion of cross-border IPOs in 2017, with 21 out of its 24 cross-border IPOs coming from ASEAN companies."

In terms of size, the largest deals in 2017 included the IPO of Guotai Junan Securities, which whilst smaller than the PSBC deal from 2016, managed to raise more than $2.1b and was the sixth largest IPO globally for the year, said Bellens. AIA Group's US$3b acquisition of CBA's life insurance business was the largest financial services deal of the year, whilst the spin-off of Hong Kong-based Wharf Real Estate Investment, valued at US$23.3b, was the biggest transaction for 2017.

The Hong Kong IPO market is likely to grow by both the number of deals and proceeds, boosted by smaller, new economy companies, and the island will attract an increasing number of cross-border IPOs from South Korea and Japan, according to Bellens.

Bellens said HKEx attracted a number of technology company IPOs in 2017, and has shown success in turning itself into a listing hub for technology and new economy players like Chinese online car retailer Yixin Group, which raised $867m, and Singaporean gaming company Razer Inc., which raised $529m.

Other significant listings included China's online-only insurer ZhongAN Online P&C Insurance, one of the first major fintech listings in the Hong Kong market, at $1.5b, and e-book publisher China Literature, which raised $1.2b, according to Bellens.

"It's been a very positive year compared to the year before," echoed **Robert Rooks**, sector leader at Deloitte China Banking and Securities, citing client conversations. "We have seen, over last year, a significant number of new banking licence applications in Hong Kong, particularly for institutions coming out of the mainland," he said, noting one of the key trends in the past year. "We've seen a rise in the level of interest in establishing financial services companies, family offices, and investment companies in Hong Kong, which is positive for Hong Kong as a financial services hub."

The generally strong performance came in spite of the challenges the market faced in 2017, which have remained constant, according to Rooks, such as how to manage margins and how to maintain profitability amid the rapid technology changes and evolving regulatory regimes. "Our clients have consolidated a lot further, share prices look good, capital has been returning to investors—a very positive underlying trend."

High level of interest

Judith Lee, Head of Global Investment Banking, Asia at Royal Bank of Canada (RBC) Capital Markets, said the bank is focusing on assisting clients in the region acquire targets overseas by providing both advisory expertise and balance sheet support. The strategy comes as the bank expects Chinese government policy and market fundamentals to continue to be supportive of increasing levels of activity in Greater China outbound M&A.

"We continue to see our clients having a high level of interest in pursuing good quality opportunities. In general, target valuations remain robust as there is a large amount of global capital chasing a limited number of opportunities," Lee said.

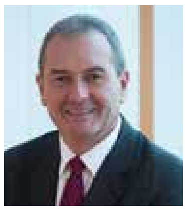
"The Greater China investment banking market is growing and changes quickly, with many global and regional banks competing for market share. In order to succeed and deliver the best results to clients, banks must align their local strategy with their global competitive advantage," she sadded.

Lee, citing Dealogic data, said Greater China announced outbound M&A activity in 2017 totalled US$166.b, down 11% from 2016 levels, excluding the February 2016 US$45b ChemChina and Syngenta transaction, but still represented a large increase when compared to other prior years.

Investment firms will also benefit from the robust dealmaking confidence in the region. Bellens cited EY's Asia-Pacific Capital Confidence Barometer survey released in November 2017, which showed 57% of Asia-Pacific companies expecting to actively pursue acquisitions in the next 12 months. Across the region, 56% of Asia-Pacific


Jan Bellens


Judith Lee


Robert Rooks


Thomas Olsen

companies expect deal completions to rise year on year and 52% forecast that the local M&A market will see improvements in 2018.

The catch though is that amidst these growth opportunities, investment banks continue to face a barrage of challenges in costs, competition, and client value. Simply put, those that fail to start transforming their business to the new reality will find it hard to press an advantage.

Restoring client trust

Bellens reckoned that amongst the key areas of transformation "progressive" investment banks should focus on in the coming months, one of the most important ones is to put a concerted focus on clients' needs such as how value will be added and how they will be served.

"This is particularly important as millennials are rising to positions of influence and have less tolerance for poor conduct, low value add, and out-dated service. We expect to see greater competition for customer retention in the future, given their high propensity to switch service providers," he said.

Client trust has eroded due to recent bad press involving scandals, fines, and legal settlements, so Bellens said rebuilding client confidence is a top priority. "To rebuild trust, they need to move from being product-centric to become more client-centric," he said. "They need to demonstrate true value to clients and retain the ability to innovate, yet also ensure they uphold risk management best practices and regulatory adherence."

Gone are the days when all investment banks can promise to be everything to their clients, especially in the face of growing competition and rising costs. "Whilst a small number may prevail with this strategy, there should be greater focus and specialisation, perhaps augmented by greater interoperability," said Bellens.

Cost management and digitalisation

For investment banks that want to lead the pack in 2018, cost management will be a core concern. Bellens said investment banks have spent the recent years grappling with falling revenues whilst managing costs, which have risen due to a heightened need for regulatory compliance

IPO vs Equity Funds raised

Sources: PWC

Top 10 largest Hong Kong IPOs

2017	Company	Funds raised (HKD billion)	Sector
1	Guotai Junan Securities	17.2	Financial Services
2	Zhongan Online P&C Insurance*	13.7	Financial Services
3	Zhongyuan Bank	9.3	Financial Services
4	Guangzhou Rural Commercial Bank	9.3	Financial Services
5	China Literature*	8.3	TMT
6	Yixin Group Limited*	6.8	Financial Services
7	WuXi Biologics	4.6	Healthcare / Life Sciences
8	Razer*	4.1	TMT
9	Crystal International Group	4	Consumer Markets
10	Jilin Jiutai Rural Commercial Bank	3.5	Financial Services

* New economy companies

Sources: KPMG

and legacy IT maintenance.

Cost pressures continue to build up, as reflected in EY's Investment Banking Quarterly report for the third quarter of 2017 which showed the average cost-to-income ratio for investment banks worsened year on year to 71.1% from 67.9%. "Consequently, investment banks in Asia-Pacific are maintaining a strict focus on managing non-compensation costs—such as legal and restructuring expenses—whilst looking to develop new operating models to leverage information technology, partnerships, and industry utilities to improve service and increase efficiencies," said Bellens.

"Although investment banks in Hong Kong have been reducing headcount, there seems to have been a reversal of late as they selectively seek IT talent to help achieve their digitalisation objectives," said Bellens. "They are also looking towards hiring to bolster their transaction advisory teams in the TMT sectors, as they prepare for more such listings in 2018." Fintech collaborations must also be accelerated in order to stay one step ahead of more nimble rivals.

Organisational alignment and transformation

Aside from effective cost management and digitalisation, investment banks must also grapple with the challenges of workforce alignment and business transformation to ensure their long-term vitality. Bellens said demographic shifts are afoot, with senior managers in investment banks in Hong Kong being displaced due to cost cuts or leaving for non-bank institutions.

"This is leaving behind a less experienced workforce that have to step up into senior management roles," he said. "Investment banks need succession planning programs in place to ensure that relevant knowledge is transferred as part of standard best practice." Analysts also argue that banks can no longer afford to stay in reactive mode.

"Anxiety about these massive shifts leads many bank management teams and boards to focus overwhelmingly on the short game, especially the next quarter's stock performance," said **Thomas Olsen,** partner, Bain & Company. "Waiting indefinitely to see how these themes unfold is not a viable option," said Olsen.

"Instead, senior banking teams benefit by committing to an explicit set of investments that prepare their organizations to seize the opportunities that unfold. That's a more effective approach than scrambling reactively and allowing rivals or the external environment to define the rules of competition." he concluded.

Cost pressures continue to build up with the average cost-to-income ratio for investment banks worsened year on year to 71.1% from 67.9%

SINGAPORE VIEW

Tapping into regional deal hunger

Singapore-domiciled companies tapping the equity capital markets raised $6.9b so far as of mid-December 2017, a 44.0% rise in proceeds compared to 2016 and reaching four-year highs. Activity picked up during the second half of 2017, raising $5.8b compared to S$1.1b during the first half. IPOs by Singaporean companies in domestic and overseas stock market bolstered activity, raising $4.2b as of mid-December, up 52.7% from the year-ago proceeds, as the number of IPOs climbed by nearly half.

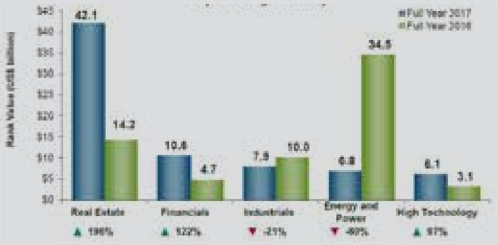
In 2017, Singapore also saw a lot of interest from Chinese companies seeking opportunities to align with their government's Belt and Road economic initiative, said **Jan Bellens**, global banking and capital markets deputy sector leader at EY. He said these included the sale of warehouse operator Global Logistics Properties to China Vanke and a Chinese private equity consortium for $11.5b, making it one of the biggest transactions in 2017. Other listed Singapore logistics companies sold to Chinese players last year include CWT, which was acquired by HNA Group for $2.1b.

Aside from GLP and CWT, other notable privatisation deals in Singapore in 2017 were the acquisitions of Poh Tiong Choon Logistics and Cogent Holdings, according to **Edmund Leong**, head of group investment banking at United Overseas Bank, Meanwhile, Bellens added that Japanese financial services players looking to expand in the region led to billion-dollar deals. Mitsui Sumitomo Insurance acquired Singapore insurer First Capital Insurance for $6.1b, whilst Temasek is selling its majority 73.8% stake in Indonesia Bank's Bank Danamon to Bank of Tokyo-Mitsubishi UFJ for an acquisition price that would reach $5.9b.

Active year for bonds

2017 also saw one of the most active years in its bond market, with total issuance volume rising 30% year on year to about S$25b, Leong said, citing Bloomberg data. He added that institutional investors, in search for better absolute yield, have been favouring longer-term bonds instead of the medium-term issuances that used to be more popular. IPOs by Singapore and regional ASEAN companies look set to rise on annual basis in 2018, according to Bellens, with particularly strong opportunities in real estate, consumer industries and technology. "We envision Singapore remaining the hub for IPO activity by ASEAN companies, although Hong Kong will provide some stiff competition as an alternative listing hub," he said.

Any singapore involvement announced M&A Top five target industry



Source: Thomson Reuters