DEAL #1: CHINESE SMARTPHONE MAKER XIAOMI'S LACKLUSTRE IPO RAISED $4.7B IN LATE JUNE.

DEAL #2: CHINESE TECH GIANT TENCENT'S $5B BONDS IS THE COMPANY'S LARGEST-EVER BOND SALE AND THE LARGEST BY ANY CHINESE TECH COMPANY.

Hong Kong's equity capital market set to raise $250b; debt market turns sour

Whilst the equity capital market is in full swing, the debt capital market landscape has been relatively quiet.

Hong Kong's equity capital market looks on track to have a record-breaking year in 2018 and once again become the world's largest venue for initial public offerings (IPOs) with expected total fundraisings between $200b to $250b. **Eddie Wong**, partner of capital markets for PwC Hong Kong, noted that the new listing regulations allowing biotech firms to list in the local bourse have helped in sustaining the healthy growth of the territory's equity capital market.

"The market response regarding listing opportunities has been very encouraging following the implementation of the new listing regulations for Hong Kong's IPO market in April 2018," he said.

The big-ticket list includes are Chinese drug developers, Suzhou Kintor Pharmaceuticals and Frontier Biotechnologies,.Kintor, which develops treatments for cancer and cardiovascular diseases, earlier delisted from China's National Equities Exchange and Quotation in June. Frontier, on the other hand, is a clinical-stage drug developer that focuses on HIV treatments.

The two companies are said to be planning IPOs that could raise roughly US$300m each, as they join about half a dozen such firms taking advantage of sweeping reforms to Hong Kong's listing regime. A slew of companies from Amazon-backed Grail to Shanghai-based Hua Medicine are already lining up or mulling a local listing, in a win for the Hong Kong bourse which seeks to compete against New York and Nasdaq in global IPO rankings.

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On the losing end

Meanwhile, Hong Kong's debt capital market is another story. Data from Wind showed that the issuance of dim sum bonds is on a continuous decline in recent years. Total issuance of dim sum or yuan-denominated bonds in Hong Kong slid from US$6.8b in the second quarter of 2016 to US$2.68 in the second quarter of 2017, falling further to $1.72b in the third quarter 2017 before rebounding slightly to $2.98b in the fourth quarter of 2017, the highest quarterly issuance in a year, according to Thomson Reuters data. In 2018, the amount of Panda bonds that have been issued is also slightly above that of dim sum bonds, coming in at $3.34b compared with $2.9b as of March.

"Since the beginning of this year, several macroeconomic factors have caused a downturn in the market sentiments for Chinese bonds: Sino-US trade war tensions, US tightening monetary policy (i.e. rising interest rates from the Fed Reserve), a slowdown of the Chinese economic and the devaluation of the yuan," noted **Gordon Ng,** head of corporate finance, **Enoch Wong** and **Lee Man**

Chiu, corporate finance partners at Denton's Hong Kong.

"This downturn has been further compounded by microeconomic factors such as rising defaults from Chinese corporate issuers and restrictions placed by the National Development and Reform Commission on overseas financing on Chinese property companies, which account a majority of high-yield deals," they said.

This is significant since an overwhelming majority of the bond issuances in Hong Kong and Asia have been comprised of Chinese-domiciled issuers. Most of the deals for Hong Kong originate from issuers in the following industries, according to the Dentons official: financial institutions, real estate, conglomerates—which is a mixture of IT, healthcare, pharmaceuticals, infrastructure, finance, securities, tourism, and property development—and technology companies.

James Fong, partner at Bird & Bird Hong Kong, echoed this sentiment, noting that Hong Kong's debt capital market, in terms of funds raised, have experienced a slight downturn in 2018, although the slump in total funds raised is relatively minor compared to the major slumps in Europe and the United States. But he quickly noted that Hong Kong's debt capital market will likely pick up in the next half year as the pipeline for bond issuances for the rest of 2018 remains strong.

Lacklustre mega IPOs

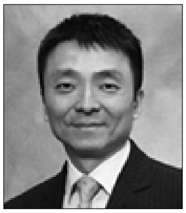
Hong Kong's IPO market continued to be active in 2018 with small and medium-sized deals dominating the landscape, whilst new economy players will continue to boost the territory's upbeat outlook for equity capital market for the rest of the year.

Some of the most notable deals for Hong Kong's equity capital market, include the listing of some high-profile names in the technology, media, and telecom (TMT) sector, including Xiaomi Corporation and China Tower Corporation Limited. However, some industry experts and observers have been billing the Xiaomi IPO as a deal that is not exactly living up to expectations on the back of the inconsistency with the company's valuations vis-à-vis its unique business model. **Keith Pogson**, senior financial services partner for EY Hong Kong, acknowledged that whilst there have been some uncertainties, the whole situation shouldn't be looked at as a negative deal so soon, and instead be looked at in the proper context.

"I think we have to look at this in context as Xiaomi was coming from a pretty strong multiple and valuation. It has gone through a series of private funding rounds, so obviously there was a lot of speculation in the market as to how the numbers would go," he said, adding that there are a number of factors that need to be considered: one is that people should look at the valuations in a more realistic way, and second is to consider what's really going on in the global market with the ongoing trade discussions between the US and China. "It's also about timing in the market."

Another notable deal is the listing of the first biotech company to take advantage of the new listing regime, Hangzhou-based pharmaceutical company Ascletis Pharma Inc—something that experts are seeing is the first of many for biotech companies listing in the Hong Kong equity capital market. The firm is aiming to raise as much as US$457m in its IPO that has already lured Singapore sovereign wealth fund GIC as cornerstone investor.


Eddie Wong


Gordon Ng


Enoch Wong


Lee Man Chiu


James Fong

Other noteworthy transactions include the listing of Ping An Healthcare and Technology Ltd from the healthcare sector; Jiangxi Bank Co. Ltd and Bank of Gansu Co. Ltd from the financial services sector; and Zhenro Properties Group Ltd and A-Living Services Co. Ltd from the real estate sector.

Notable debt deals

For Hong Kong's debt capital market, Fong noted that real estate/property sector as well as the finance sector continued to dominate Hong Kong's debt capital market in 2018. One notable deal, according to the Bird & Bird official is the $6.4b senior bond offering in six tranches by China National Chemical Corp (ChemChina) in March 2018, with the bond's proceeds offering used to refinance debt incurred by ChemChina for its $43b takeover of Swiss seed maker Syngentia in 2017.

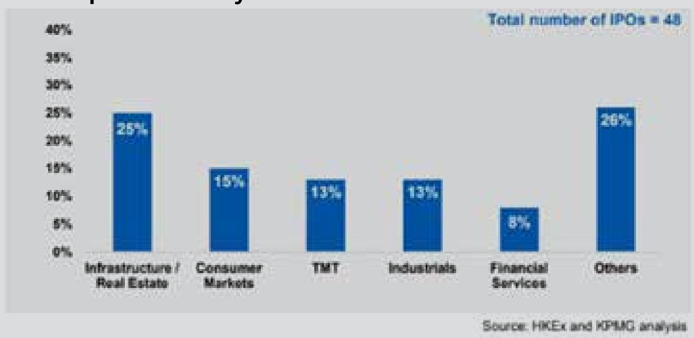
"This deal was notable for its large size, the backing of a large syndicate group of 18 firms, and the relatively high yields offered in the backdrop of the relatively quiet market compared to 2017," he said. These firms include Bank of America Merrill Lynch, Barclays, BNP Paribas, BOC International, China Citic Bank International, Commerzbank, Crédit Agricole, Credit Suisse, First Abu Dhabi Bank, HSBC, Industrial Bank Co Hong Kong branch, Morgan Stanley, MUFG, Natixis, Rabobank, Santander, Société Générale, and Unicredit.

Other notable deals, Ng noted, is the issuance by Chinese tech giant Tencent in January 2018 of about $5b of bonds that mature in 5, 10, and 20 years, which is the company's largest-ever bond sale and the largest by any Chinese tech company.

"Tencent's bond issuance marked the latest in a string of Chinese technology companies issuing more debt as their market caps swelled," the Dentons official explained. "Investor demand for its bonds was so strong that it managed to lower the spread for its bonds over the US Treasury Yields and LIBOR, as applicable, as compared to its issuance of bonds three years ago."

In terms of outlook, analysis from KPMG noted

2018 H1: Top 5 sectors - by numbers of IPOs



Source: KPMG

that the TMT sector looks set to boost the Hong Kong IPO market along with the expected surge of biotech companies in the local bourse."The implementation of the new listing rules for emerging and innovative companies has driven market sentiment and attracted the attention of companies, which were previously seeking US listings," said **Maggie Lee,** head of capital markets development group of KPMG Hong Kong. "We anticipate at least 10 biotech companies to apply for Hong Kong IPOs by the year-end. In addition, a number of TMT firms are also eyeing large Hong Kong listings."

Surge in biotechs

Some of the expected biotech firms, considered as new economy companies, that have already filed applications for listing in the Hong Kong equity capital markets include US-based Stealth BioTherapeutics Inc as well as China's Hua Medicine Ltd and AOBiome Therapeutics Inc.

Fong noted that given the impending mega-sized technology listing after the introduction of the new listing regime, "Hong Kong's equity capital market is in prime position to nab a place in the top three in terms of IPO proceeds."

This is echoed by **Benson Wong,** entrepreneur group leader of PwC Hong Kong, when he said that Hong Kong's IPO market is in a unique position to be able to offer investors worldwide access to one of the fastest growing markets in the world—China.

"We welcome the recent agreement between HKEX and China's National Equity Exchange and Quotations (NEEQ), which opens the door for NEEQ-listed firms to float in Hong Kong under a dual-listing model," he said, adding that this will help Hong Kong's local bourse to attract more Chinese tech and innovative companies to list, whilst promoting mutual access to the financial markets of mainland China and Hong Kong.

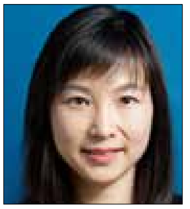
Credit conditions

For the rest of 2018, the territory's debt capital looks set to pick up as a strong pipeline for bond issuances will most likely remain for the rest of 2018 given China's escalated deleveraging efforts onshore and Chinese issuers' continuous needs for offshore funding, although this still depends on prevailing market conditions.

"Credit conditions in the onshore Chinese debt capital market will have a huge impact on the Hong Kong debt capital market," Fong said. "If credit conditions loosen for issuers onshore, it will the pressure off the dollar market. Otherwise, more default cases may surface in relation to Chinese issuers, which may further dampen investors' appetites in the Hong Kong bond market."

In terms of trends, there is an expected increase on issuances by Chinese technology companies whilst bond issuances by Chinese property companies in Hong Kong is projected to decline over macro and microeconomic factors, according to Ng. As for the outlook, however, Ng has maintained a more restrained outlook for Hong Kong's debt capital market given inherent domestic and global economic uncertainties at the time being.


Keith Pogson


Maggie Lee


Benson Wong

SINGAPORE VIEW

Equities up, bond markets down

Singapore's equity capital market (ECM) has been abuzz with activity with companies raising US$3.8b in Q3 2018, according to Thomson Reuters. The expansion in proceeds represents double-digit growth of 10.4% that are also the highest since 2016. This could be attributed to a robust quarterly ECM performance in Q2 which hauled US$2.34b but lost some of its momentum in the coming quarter.

"The larger equity deals this year have been mainly by the real estate investment trusts such as Mapletree Logistics Trusts and Manulife US REIT, reflecting that investors in the equity capital market remain yield driven," said Edmund Leong, head of group investment banking at United Overseas Bank (UOB), although he noted that recent global developments in trade have led to challenging market conditions and continued concerns around emerging markets. "This contributed to the subdued post-listing performance for new IPOs this year, with only two out of 11 trading above their IPO price."

Decline in debt deals

Meanwhile, Singapore's bond issuance in Q3 2018 saw a decline, with primary bond offerings from Singapore-domiciled issuers reaching US$12.3b down by 7.1%, according to data from Thomson Reuters. Total bond proceeds by the end of Q3, saw a massive 73% rebound at S$8.8b from the dismal show in the April-to-June quarter at S$2.2b. In September alone, S$3.7b in deals were recorded, mainly from banks and government offices such as the Housing Development Board and the Land Transportation Authority. Bank perpetuals made a comeback in Q3. OCBC, DBS and HSBC issued perpetuals which were lapped up by investors. Investment-grade bond offerings from Singaporean companies, on the other hand, slowed down, raising $9.5b, which is a 21.3% decrease in proceeds and a 43.7% decline in the number of investment-grade bond issuance.

In terms of sectors, financials have captured 73% of the share of Singapore's bond market and raised $10.5b, which is an 18.1% increase in proceeds compared to the same period last year. The same sector also got 72.7% of the share in total bond proceeds issued by Singaporean borrowers. Luke Pais, partner for EY Singapore and ASEAN M&A leader for Ernst & Young Solutions LLP, noted that both debt and equity markets in the city-state have so far been stable for the first half of 2018, but prospect for the rest of the year for both markets will be mixed.

Singapore ECM by Issue Type

Issue Date	Issuer	Proceeds (US$Mil)	Exchange	Industry
8-Mar-18	Sasseur Reit	$ 300.7	Singapore	Real Estate
11-Apr-18	SLB Development Ltd	$ 41.8	SGCatalist	Real Estate
3-May-18	HPC Holdinigs Ltd	$ 22.4	Hong Kong	Industrials
15-Jan-18	ZACD Group Ltd	$ 20.5	HK GEM	Real Estate
18-Jan-18	LY Corporation Ltd	$ 14.9	SGCatalist	Consumer Products and Services

Note: Includes original IPO issuance from Singapore-domiciled companies in local and global stock exchang

Source: http://dmi.thomsonreuters.com/