



# Mainland China and Hong Kong

2018 Mid-Year Review:  
IPOs and other  
market trends



# Foreword

In the first half of 2018, the A-share IPO market remained stable, as regulators continued their focus on 'quality-over-quantity'. The introduction of Chinese Depository Receipts provides mega-sized Chinese technology companies a channel to 'return home', enabling Chinese investors easier access to these companies.

In Hong Kong, the introduction of a new listing regime has generated significant interest from 'new economy' companies globally and has already led to several applications. The Hong Kong IPO market continued to be active, with small and medium-sized deals dominating the landscape.

This report analyses the 2018 H1 A-share and Hong Kong IPO markets. It also includes an update on the Stock and Bond Connect schemes.



# Top Performing Global Stock Exchanges

**2018 H1\***

Rank	Stock exchange	IPO proceeds (USD billion) <sup>1</sup>	IPO proceeds (HKD billion) <sup>1,2</sup>
1	New York Stock Exchange	15.8	123.4
2	NASDAQ	10.7	83.8
3	Shanghai Stock Exchange	9.6	74.8
4	Frankfurt Stock Exchange	8.6	66.7
5	The Stock Exchange of Hong Kong	4.9	38.1

**2017  
(Full year)**

Rank	Stock exchange	IPO proceeds (USD billion)	IPO proceeds (HKD billion) <sup>2</sup>
1	New York Stock Exchange	29.4	229
2	Shanghai Stock Exchange	21.3	166
3	London Stock Exchange	16.7	130
4	The Stock Exchange of Hong Kong	16.5	129
5	Shenzhen Stock Exchange	14.2	111

(1) Analysis based on data as at 15 June 2018.

(2) The exchange rate for USD/HKD is 7.8.

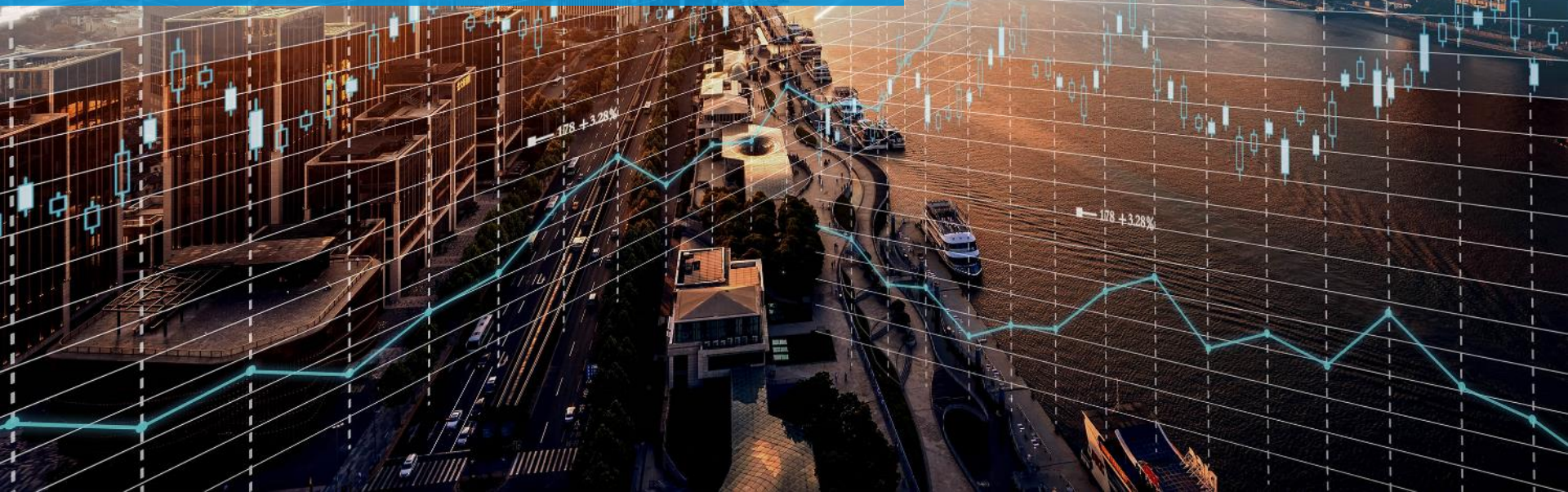
Source: Bloomberg and KPMG analysis



Mainland China IPO Market  
Hong Kong IPO Market  
Stock Connect  
Bond Connect



# Mainland China IPO Market





# A-share IPOs: 2018 H1 Highlights

Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) recorded 64 new listings for a combined RMB 93.4 billion in 2018 H1. Both the number of new listings and total fundraising were down from the same period of time last year due to a decline in listing approvals.

Industrials, Telecom, Media and Technology (TMT) and Consumer Markets IPOs continued to dominate the A-share market, comprising 75 percent of new listings. TMT, Industrials and Financial Services were major contributors in terms of total fundraising, spawning six of the largest A-share IPOs in 2018 H1.

Several tech unicorns are expected to 'return home' by issuing Chinese Depositary Receipts, providing Chinese investors easier access to these homegrown tech giants.

The A-share IPO approval rate made a recovery in 2018 Q2, ending the quarter at 57 percent compared to 2018 Q1's 43 percent. The number of listing applicants continued to decline, decreasing to 300 (as at 14 June 2018) from 2018 Q1's 363, while the number of withdrawn applications since the beginning of the year reached 139 as at 14 June 2018.

The A-share's inclusion into the MSCI index is the international community's endorsement towards China's ongoing efforts to open up its financial markets. China is poised to continue making significant strides towards improving its financial structure, laying the foundations for sustainable, long-term economic growth.

Note:

(1) All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.

# A-share IPOs: Overview

- The A-share IPO market recorded 64 new listings for a combined RMB 93.4 billion during 2018 H1, which was a year-on-year decrease of 26 percent. Both the SSE and SZSE recorded a **reduction in the number of new listings and total fundraising** due to a decline in listing approvals.
- The **average deal size nearly tripled** from RMB 0.51 billion (2017 H1) to RMB 1.46 billion (2018 H1) as there were two IPOs worth more than RMB 5 billion each in 2018 H1. The SZSE's average deal size of RMB 1.06 billion was the exchange's highest first-half figure since 2001.
- Regulators have continued to provide strong support for 'new economy' companies, fast-tracking the IPO applications of several firms belonging to this category. The introduction of **Chinese Depository Receipts** provides a **convenient tool for overseas-listed, mega-sized Chinese technology companies** to 'return home', enabling Chinese investors easier access to these homegrown tech giants.

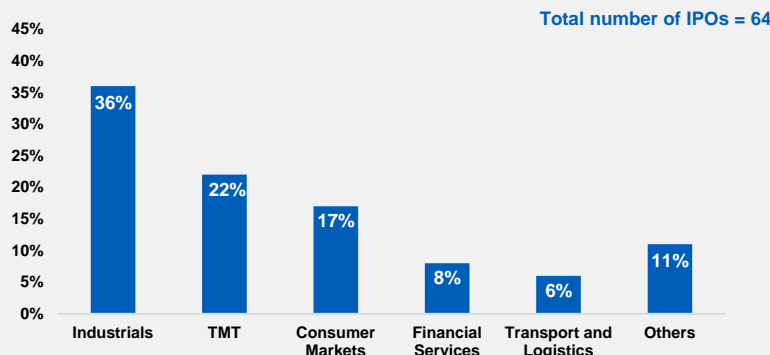
	SSE			SZSE			A-share market (SSE & SZSE)			
	Total fundraising (RMB billion)	# of IPOs	Average deal size (RMB billion)	Total fundraising (RMB billion)	# of IPOs	Average deal size (RMB billion)	# of IPOs			
							< RMB 1 billion	RMB 1-5 billion	> RMB 5 billion	Total
2018 H1	64.8	37	1.75	28.6	27	1.06	45	17	2	64
2017 H1	76.6	120	0.64	48.8	126	0.39	219	27	-	246
2017 full year	137.7	214	0.64	92.5	222	0.42	388	48	-	436
2016 H1	13.4	26	0.52	15.0	35	0.43	58	3	-	61
2015 H1	103.1	78	1.32	42.3	109	0.39	167	17	3	187
2014 H1	9.3	7	1.33	14.8	45	0.33	50	2	-	52

Note: All figures are based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listing by introduction.

Source: Wind and KPMG analysis

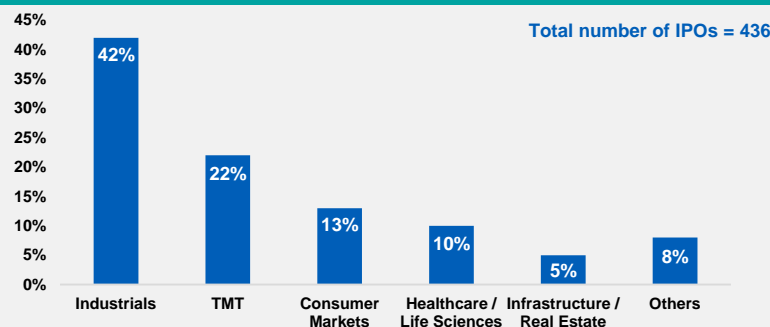
# A-share IPOs: Sector Analysis

## 2018 H1: Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

## 2017: Top 5 sectors – By number of IPOs



Source: Wind and KPMG analysis

Note: All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.



## Industrials

- The industrials sector **continued to garner the most number of new listings**, representing **36% of the IPOs in 2018 H1**. The sector's momentum is expected to continue into 2018 H2, with **106 companies in the pipeline**.
- Most of the newly-listed companies are engaged in the manufacturing of **batteries, automotive parts, industrial machinery, and construction materials**.
- China is looking to create a more self-sufficient economy through its '**Made in China 2025**' initiative and the continued **modernisation of the industrials sector**.



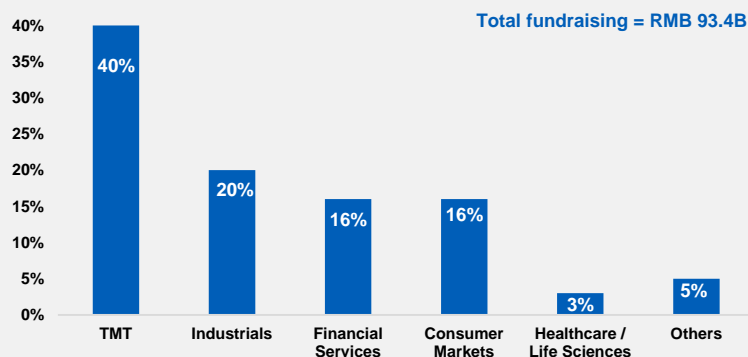
## Consumer Markets

- The consumer markets sector continued its stable performance in 2018 H1, with four sizeable IPOs accounting for 73 percent of the sector's total fundraising.
- The companies listed are mainly engaged in the production and sales of products such as **food, beverage, cigarettes, furniture and cosmetics**.
- **Consumption is slowly replacing investment as the main driver of China's economy**. The country's ongoing urbanisation, ageing population and technological developments are contributing to a rapid increase in household consumption.



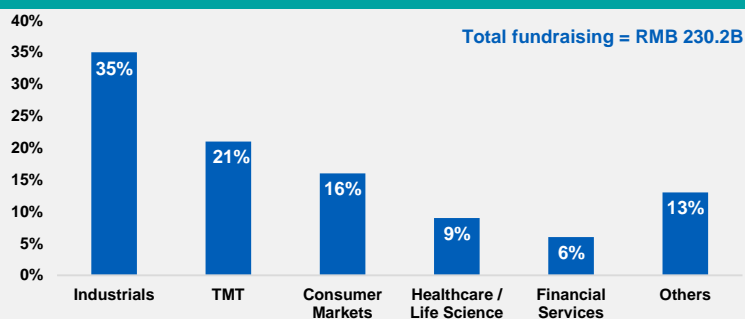
# A-share IPOs: Sector Analysis (cont'd)

## 2018 H1: Top 5 sectors – By total fundraising



Source: Wind and KPMG analysis

## 2017: Top 5 sectors – By total fundraising



Source: Wind and KPMG analysis

Note: All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.



## Telecom, Media and Technology

- **TMT was first in terms of total fundraising** during 2018 H1, mainly due to the fast-track listing of a mega-sized 'new economy' company engaged in high-tech electronic components.
- The number of mega-sized Chinese technology companies has grown significantly in recent years, in conjunction with China's emergence as a global tech and innovation powerhouse. A number of these tech giants are expected to return to the A-share market by issuing **Chinese Depository Receipts (CDRs)**, which will have a significant impact on 2018 H2.
- With **77 companies in the pipeline**, the impending debut of **CDRs** and **strong support from the Chinese government**, we expect **TMT to remain as one of the top sectors by the end of the year**.



## Financial Services

- The financial services sector experienced a jump in market share (total fundraising) **from 6 percent in 2017 to 16 percent** in 2018 H1. The sector recorded five new listings, four of which were among the top 10 largest A-share IPOs in 2018 H1.
- Of the **30 companies in the pipeline**, **three securities firms, two banks and one insurance company have passed their hearings** and are **expected to list in the near future**. The remaining companies consist mostly of **regional commercial banks**.
- The sector's performance for the rest of 2018 hinges on the regulators' vetting progress and is likely to be dominated by traditional financial services companies.

# Top 10 Largest A-share IPOs

2018 H1	Company	Exchange	Proceeds (RMB billion)	Sector
1	Foxconn Industrial Internet Co., Ltd	SSE	27.1	TMT
2	Contemporary Amperex Technology Co., Ltd	SZSE	5.5	Industrials
3	Huaxi Securities Co., Ltd	SZSE	5.0	Financial Services
4	Jiangsu Financial Leasing Corp. Ltd	SSE	4.0	Financial Services
5	Hebei Yangyuanzhui Beverages Co., Ltd	SSE	3.4	Consumer Markets
6	Red Star Macalline Group Corp. Ltd.	SSE	3.2	Consumer Markets
7	Bank of Chengdu Co., Ltd	SSE	2.5	Financial Services
8	Huabao Flavours & Fragrances Co., Ltd	SZSE	2.4	Consumer Markets
9	WuXi Apptec Co., Ltd	SSE	2.3	Healthcare / Life Sciences
10	China Securities Co., Ltd <sup>#</sup>	SSE	2.2	Financial Services

# Expected to list by the end of 2018 H1. Fund raised is based on the amount disclosed in the company's prospectus.

Source: Wind and KPMG analysis



Funds raised by top 10 IPOs

2018 H1:  
**RMB 57.6 billion**  
~ 62 percent of total proceeds



2017 H1:  
**RMB 22.9 billion**  
~ 18 percent of total proceeds



## Sector distribution

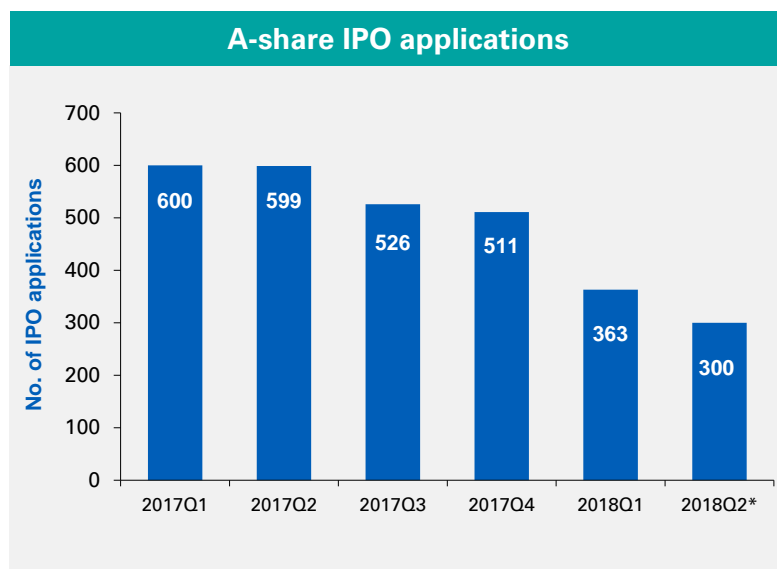
- TMT has overtaken Financial Services as the top contributor to the 10 largest IPOs in 2018 H1

2017 H1	Company	Exchange	Proceeds (RMB billion)	Sector
1	China Galaxy Securities Co., Ltd	SSE	4.1	Financial Services
2	Zheshang Securities Co., Ltd	SSE	2.8	Financial Services
3	Central China Securities Co., Ltd	SSE	2.8	Financial Services
4	Jiangsu Provincial Agricultural Reclamation and Development Co., Ltd	SSE	2.4	Consumer Markets
5	Oppein Home Group Inc.	SSE	2.1	Consumer Markets
6	Xin Feng Ming Group Co., Ltd	SSE	2.1	Industrials
7	Zhejiang Jihua Group Co., Ltd	SSE	1.7	Industrials
8	Yealink Network Technology Corp. Ltd.	SZSE	1.7	TMT
9	Guangzhou Port Co., Ltd	SSE	1.6	Infrastructure / Real Estate
10	Qingdao Liquan Department Store Group Co., Ltd	SSE	1.6	Consumer Markets

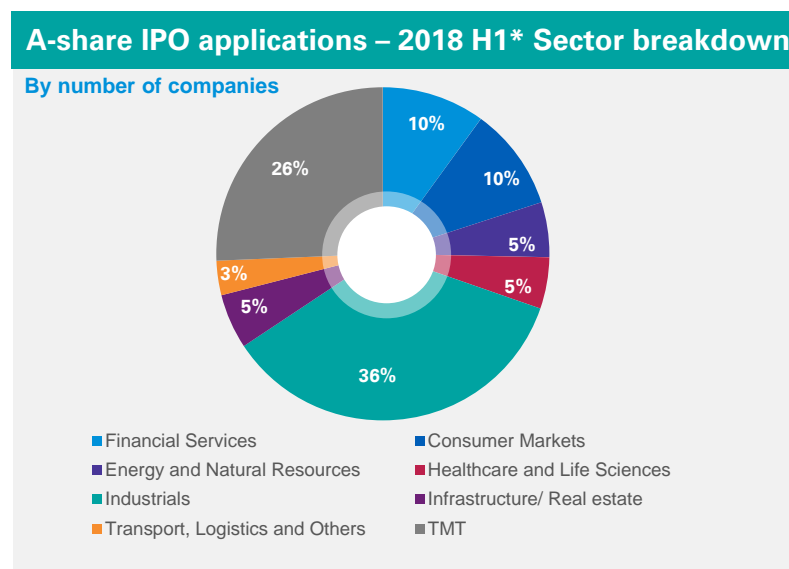
Source: Wind and KPMG analysis

# A-share IPO Pipeline

- **The number of active IPO applications continued its descent, decreasing** from 363 (2018 Q1) to 300 as at 14 June 2018 as the regulators adopt a 'quality-over-quantity' approach.
- There has been a **significant increase in the number of withdrawn applications, with 139** as at 14 June 2018 compared to just 54 in 2017 H1. This was the result of the regulators' increased scrutiny on the eligibility of listing applicants.



Note: \*Data as at 15 June 2018



Source: Wind and KPMG analysis



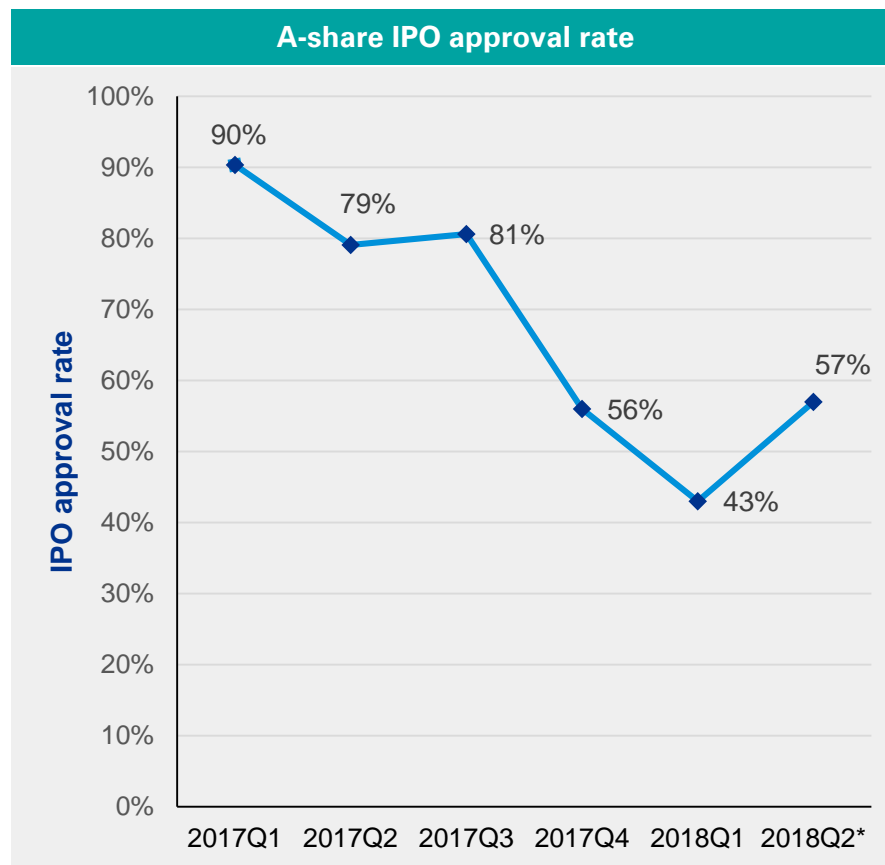
# A-share IPO Approval Rate



The **IPO approval rate recovered to 57 percent**, up from 43 percent in the previous quarter. The **IPO approval rate for May was 63 percent**.



Key vetting areas include **business sustainability, internal controls, quality of disclosures, as well as compliance with accounting policies, laws and regulations.**



Note: \*Data as at 15 June 2018

Source: Wind and KPMG analysis

# A-share IPOs: Outlook for 2018 H2

Regulators will continue to focus on 'Quality-over-quantity' for the rest of 2018 as A-shares continue to generate global investor interest following its inclusion into the MSCI index.

The industrials and TMT sectors, in particular high-end manufacturing and high-tech companies, will continue to lead in terms of the number of transactions. Meanwhile, financial services is expected to expand its market share in total fundraising.

We expect China to continue opening up its financial markets following the first test trial for the 'full circulation of H-shares', with more test trials to occur by the end of the year.

CDRs from tech unicorns will have a significant impact on the A-share IPO market in 2018 H2. Consequently, the two Mainland stock exchanges are expected to remain near the top of the global rankings by the end of the year.



# Hong Kong IPO Market





# Hong Kong IPOs : 2018 H1 Highlights

The introduction of a new listing regime to allow listings of biotech companies that do not meet financial eligibility tests and high growth innovative companies with weighted voting rights has generated significant international interest. It has also strengthened the city's credentials as the financing hub for 'new economy' companies.

Hong Kong was fifth<sup>1</sup> globally in terms of total fundraising in 2018 H1, but is expected to end the year with a place in the top three as a result of a number of impending mega-sized technology IPOs.

The Main Board recorded 48 IPOs totaling HKD 46.8 billion<sup>2</sup>, which was a 11 percent decrease compared to the HKD 52.3 billion raised in 2017 H1. The average deal size also decreased in 2018 H1, but is expected to recover by the end of the year.

The Infrastructure / Real Estate sector was first in terms of total fundraising, but the largest IPO came from the Healthcare / Life Sciences sector, with one of its listings accounting for one-fifth of 2018 H1's total fundraising.

GEM recorded 50 new listings in 2018 H1 – the highest half-year figure since its establishment. The HKD 3.4 billion raised represented a 31 percent increase over 2017 H1.

Note:

(1) Rankings are based on information as at 15 June 2018.

(2) All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.

# Hong Kong IPOs: Overview

- The Main Board recorded 48 new listings for a combined HKD 46.8 billion, which was an 11 percent decrease in total fundraising. The average deal size went down compared to 2017 H1, but the situation is expected to reverse in 2018 H2 as a result of a number of major technology IPOs.
- **The introduction of a new listing regime for companies from emerging and innovative sectors has generated significant interest from 'new economy' companies globally.** Moreover, the first batch of companies with weighted voting rights structure and pre-revenue biotech applicants are starting to emerge.
- GEM recorded 50 new listings – the highest half-year figure since its **establishment** – for a combined HKD 3.4 billion.

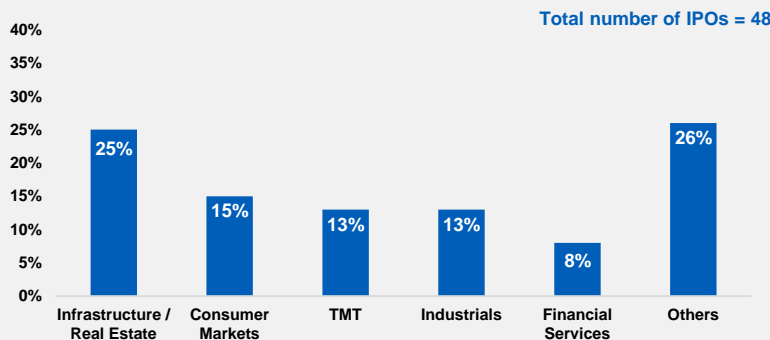
	Main Board						GEM		
	Total fundraising (HKD billion)	# of IPOs	Average deal size (HKD billion)	# of IPOs			Total fundraising (HKD billion)	# of IPOs	Average deal size (HKD billion)
				< HKD 1 billion	HKD 1-5 billion	> HKD 5 billion			
2018 H1	46.8	48	0.98	39	6	3	3.4	50	0.07
2017 H1	52.3	33	1.58	24	7	2	2.6	35	0.07
2017 full year	122.6	80	1.53	59	15	6	5.9	80	0.07
2016 H1	42.4	23	1.84	16	4	3	1.1	15	0.07
2015 H1	128.5	31	4.15	20	4	7	1.0	14	0.07
2014 H1	81.5	38	2.15	21	13	4	0.6	6	0.10

Note: All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction. .

Source: HKEx and KPMG analysis

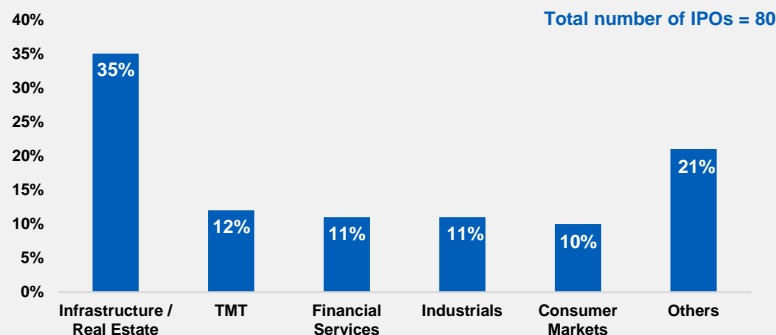
# Hong Kong IPOs: Main Board - Sector Analysis

## 2018 H1: Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis

## 2017: Top 5 sectors – By number of IPOs



Source: HKEx and KPMG analysis

Note: All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.



## Infrastructure / Real Estate

- The sector **leads the market in the number of listings and is second in total fundraising** despite a modest showing in the second quarter.
- The sector's **average deal size tripled** from 2017 as a result of **two major real estate IPOs**, raising a combined HKD 8.6 billion.
- Construction IPOs are expected to continue its momentum** in the coming years, with opportunities arising from the Greater Bay Area's development and the region's need to enhance infrastructure and connectivity.



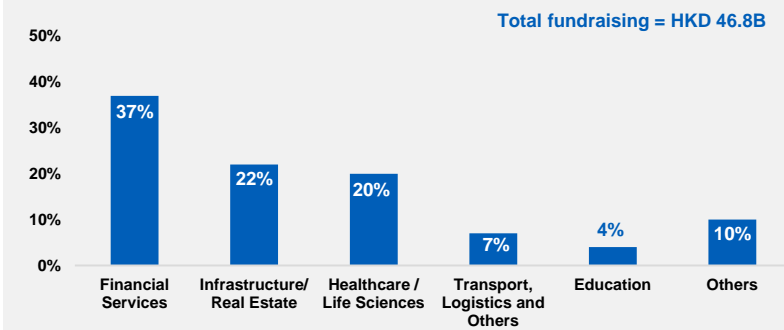
## Telecom, Media and Technology

- TMT was **dominated by small and medium-sized companies**. The sector was **second in the number of listings**, but only had a two percent market share in terms of total fundraising. However, this is expected to change in 2018 H2 due to a number of mega-sized technology IPOs.
- More 'new economy' companies are planning Hong Kong listings. This includes multiple **online gaming companies**, a **live streaming platform** as well as a large **bitcoin mining system developer** in the mainland.
- The introduction of weighted voting rights (WVR)** has generated significant interest from Chinese technology companies. One company with WVR structure has already applied for a Hong Kong IPO.



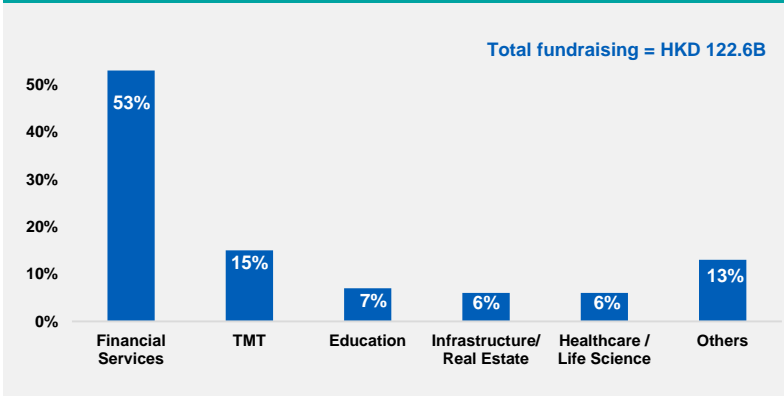
# Hong Kong IPOs: Main Board - Sector Analysis (Cont'd)

## 2018 1H: Top 5 sectors – By total fundraising



Source: HKEx and KPMG analysis

## 2017: Top 5 sectors – By total fundraising



Source: HKEx and KPMG analysis

Note: All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.



## Healthcare / Life Sciences

- The sector was **third in terms of total fundraising**, with Ping An Healthcare and Technology's IPO accounting for nearly one-fifth of funds raised in 2018 H1.
- The introduction of the new listing regime for emerging and innovative sectors has prompted **two biotech companies to apply for Hong Kong IPOs** as at 15 June 2018.
- There is significant interest from biotech companies globally. We expect **at least 10 such companies to submit their listing applications by the end of the year**.



## Financial Services

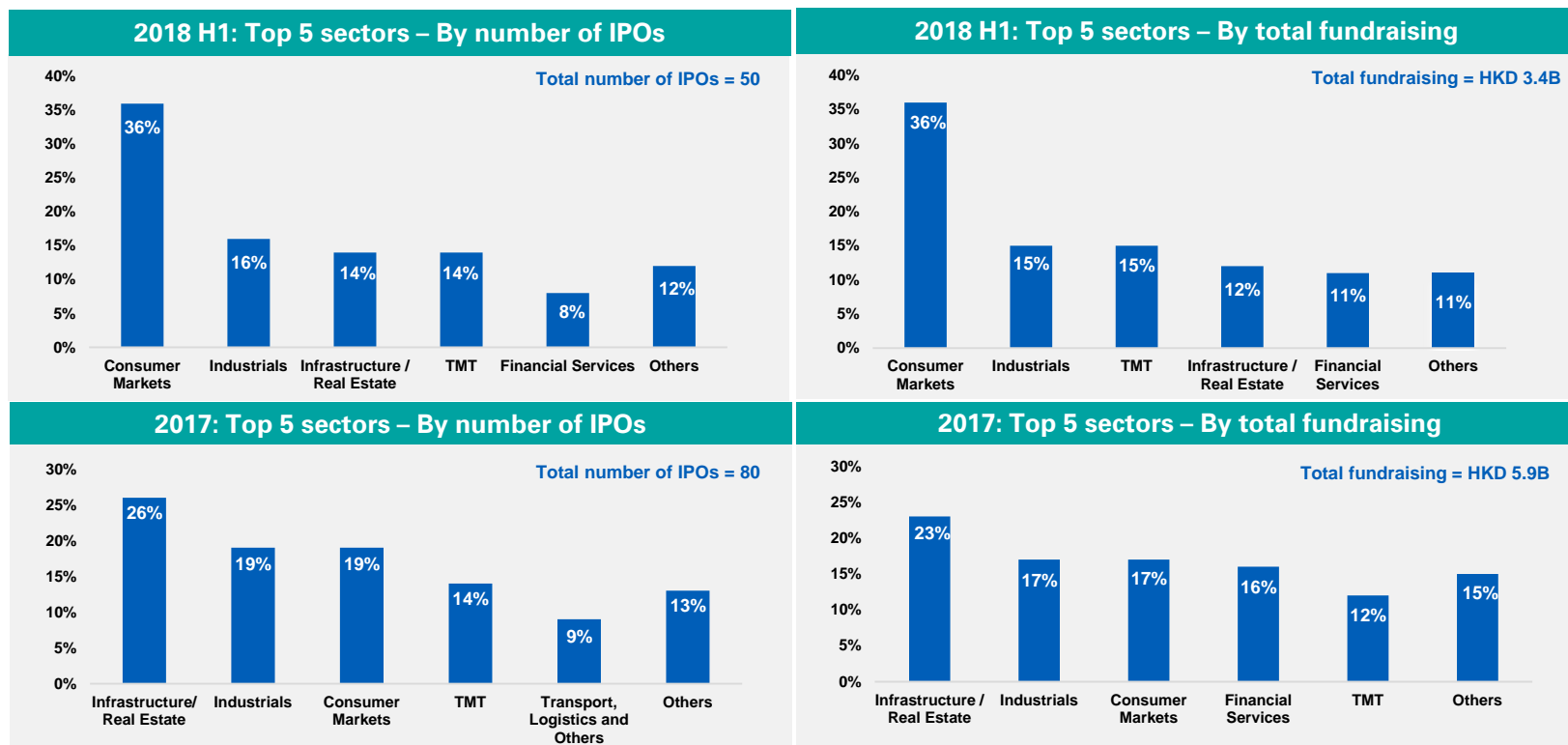
- The sector **maintained its leading position** in terms of total fundraising, accounting for four of the largest IPOs in 2018 H1.



## Education

- The **education sector continues to be a consistent source of medium-sized IPOs**, providing stable returns for long-term investors.
- **AI and 'Internet Plus'** are two key technological advancements that are being tested and implemented in Chinese schools in order to improve educational standards
- **The sector's long-term prospects are bright as a result of the mainland's second-child policy** as well as the government's aim to deepen the talent pool and further its technological development.

# Hong Kong IPOs: GEM - Sector Analysis



Note: All analysis based on a combination of data as at 15 June 2018 and KPMG estimates. Excludes listings by introduction.

Source: HKEx and KPMG analysis



## Consumer Markets

- Both the number of listings and total fundraising increased significantly, with multiple restaurant operators going public.



## Industrials

- The sector mainly consists of companies engaged in textiles, plastics and printing services.

# Top 10 Largest Hong Kong IPOs

2018 H1	Company	Proceeds (HKD billion)	Sector
1	Ping An Healthcare and Technology Co., Ltd	8.8	Healthcare / Life Sciences
2	Jiangxi Bank Co., Ltd <sup>#</sup>	7.4	Financial Services
3	Bank of Gansu Co., Ltd	6.8	Financial Services
4	Zhenro Properties Group Ltd	4.5	Infrastructure / Real Estate
5	A-Living Services Co., Ltd	4.1	Infrastructure / Real Estate
6	Wise Talent Information Technology Co., Ltd <sup>#</sup>	2.8	Transport, Logistics and Others
7	Huifu Payment Ltd	1.7	Financial Services
8	Vcredit Holdings Ltd <sup>#</sup>	1.5	Financial Services
9	China Xinhua Education Group Ltd	1.3	Education
10	C-MER Eye Care Holdings Ltd	0.7	Healthcare / Life Sciences

<sup>#</sup> Expected to list by the end of 2018 H1. Fund raised is estimated based on mid price.

Source: HKEx and KPMG analysis



## Funds raised by top 10 IPOs

2017 H1:  
**HKD 45.5 billion**  
~ 83 percent of total fundraising



2018 H1:  
**HKD 39.6 billion**  
~ 85 percent of total fundraising



## Sector distribution

- **Financial Services continued to dominate the top 10 largest IPOs, while Healthcare / Life Sciences was also a major contributor in 2018 H1**

2017 H1	Company	Proceeds (HKD billion)	Sector
1	Guotai Junan Securities Co., Ltd	17.2	Financial Services
2	Guangzhou Rural Commercial Bank Co., Ltd	9.3	Financial Services
3	Wuxi Biologics (Cayman) Inc	4.6	Healthcare / Life Sciences
4	Jilin Jiutai Rural Commercial Bank Corp Ltd	3.5	Financial Services
5	China Everbright Greentech Ltd	3.4	Energy and Natural Resources
6	BOCOM International Holdings Co., Ltd	2.0	Financial Services
7	China YuHua Education Corp Ltd.	1.8	Education
8	Minsheng Education Group Co., Ltd	1.4	Education
9	Kunming Dianchi Water Treatment Co., Ltd	1.3	Infrastructure / Real Estate
10	New Century Healthcare Co., Ltd.	1.0	Healthcare / Life Sciences

Source: HKEx and KPMG analysis

# Hong Kong IPOs: Outlook for 2018 H2

Hong Kong will continue to be among the top listing destinations and is likely to end the year within the top three of the global IPO rankings.

The introduction of the new listing regime for companies from emerging and innovative sectors has generated significant interest globally. The first batch of companies with WVR-structures and pre-revenue biotech firms have already applied for Hong Kong listings. We expect more 'new economy' companies to emerge in 2018 H2 following the initial wave of IPOs.

In addition to several mega-sized technology companies, the Main Board is expected to be dominated by small and medium-sized IPOs in 2018 H2. The continued integration between technology and life sciences will play a significant role in second half listings.

We forecast total proceeds for 2018 to exceed HKD 250 billion. This is dependent on the listings of companies from emerging and innovative sectors as well as a number of mega-sized IPOs.



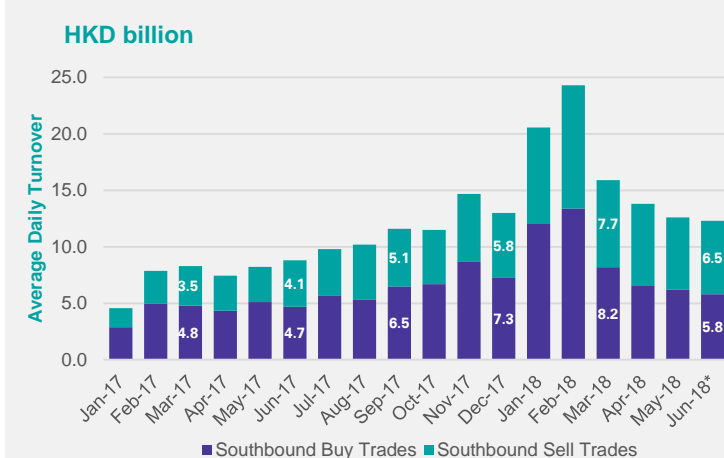
# Stock Connect



# Stock Connect

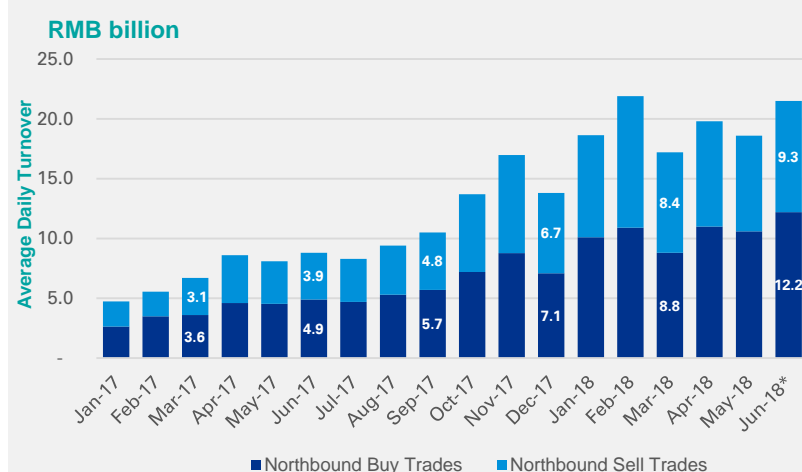
- To accommodate for the inclusion of A-shares into MSCI's benchmark index, the **daily quotas for Southbound and Northbound investments had quadrupled to RMB 42 billion and RMB 52 billion, respectively.**
- Stock Connect provides a **convenient route for global investors** to access the 234 A-share companies included in the **MSCI Emerging Markets Index** and help them maintain their MSCI-indexed portfolios, solidifying **Hong Kong's position as an international financial market.**
- Southbound capital flow is expected to follow the broader market sentiment and **trend upwards in the long run**, with mainland Chinese investors particularly attracted by 'new economy' companies.

## Southbound investment: Average daily turnover



\* Analysis based on data as at 15 June 2018

## Northbound investment: Average daily turnover



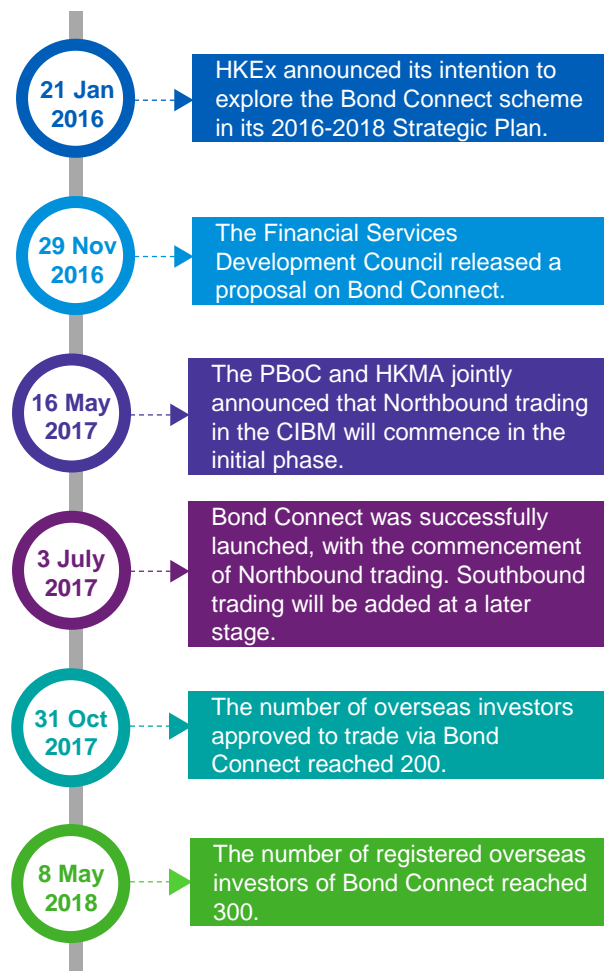
Source: HKEx



# Bond Connect



# Bond Connect



## Foreign participation in China's bond market

- China boasts **one of the world's largest domestic bond market**, with RMB 78.2 trillion outstanding as at 19 June 2018.
- Bond connect provides a simplified, streamlined mechanism for international investors to participate in China's onshore bond market. Less than one year since its launch, the **number of registered overseas investors have already reached 300**.
- The Hong Kong Monetary Authority has maintained close dialogue with the People's Bank of China on improvements to the Bond Connect, including the **possible introduction of southbound trading and inclusion of "green bonds"**.

Source: Wind, Bond Connect Company Limited



# Contact us



**Paul Lau**

Partner, Head of Capital Markets  
KPMG China

Tel: +852 2826 8010  
paul.k.lau@kpmg.com



**Katharine Wong**

Partner, Capital Markets Advisory Group  
KPMG China

Tel: +852 2978 8195  
katharine.wong@kpmg.com



**Louis Lau**

Partner, Capital Markets Advisory Group  
KPMG China

Tel: +852 2143 8876  
louis.lau@kpmg.com



**Terence Man**

Director, Capital Markets Advisory Group  
KPMG China

Tel: +86 1085085548  
terence.man@kpmg.com