



cutting through complexity

Hong Kong IPO Market Update

December 2014

Welcome to our 2014 year-end Hong Kong IPO Market Update. In this issue we review the performance and climate of the market in 2014 and set out our outlook for 2015.

2014 started strong and continued strong until the IPO market slowed from September to November. With the strong rebound we have seen in the funds raised in December, 2014 will sustain the upward trend the Hong Kong IPO market saw in 2013.

The IPO pipeline remains strong, while there are mixed factors impacting our outlook for the IPO market. We anticipate the IPO market will remain active in 2015, with the level of funds raised being stable compared to 2014.

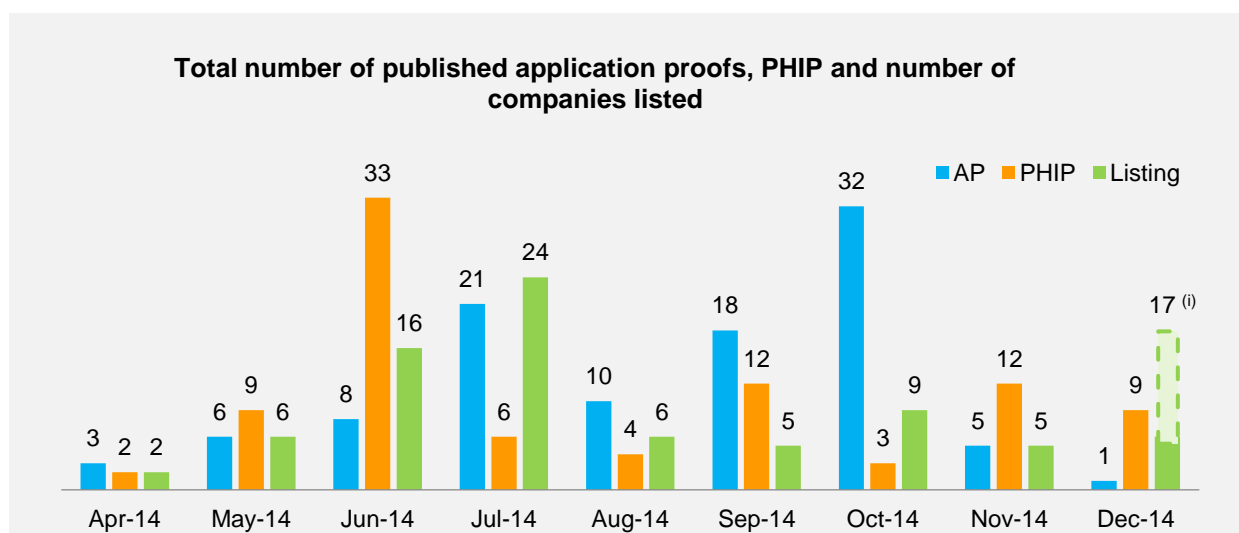
2014 Year in review: A strong boost before the year closes

2014 began with a few firsts in the history of IPOs in Hong Kong listings: the first nightclub operator, Magnum Entertainment (2080.HK), in January; the first auction house, Poly Culture (3636.HK), in March; and the first PRC theme park, Haichang (2255.HK), in March. Miko International (1247.HK) took the spotlight with the highest over-subscription rate on the retail portion since 2011 of 1,125 times. This was roundly beaten by Magnum Entertainment (2080.HK), which set a record over-subscription rate on the retail portion of the offering for IPOs in Hong Kong of 3,558 times. The largest IPO for Q1 2014 was HK Electric (2638.HK), with funds raised of HKD 24.1 billion. The total funds raised for Q1 2014 were HKD 46 billion.

In Q2 2014, the total funds raised were HKD 36 billion, a 22% drop from Q1 2014. This was due to the overall average proceeds per deal being HKD 1.5 billion compared to HKD 2.3 billion for Q1 2014. Of the IPOs launched on the main board of the Hong Kong Stock Exchange (HKEx) (Main Board), 48% were priced in the lower range compared with 33% in Q1 2014 and 42% in 2013. The withdrawal of WH Group's listing in April dampened market sentiment.

However, that effect was soon countered by the uptick in June 2014 in the number of companies listed, with 16 companies raising HKD 22.6 billion in aggregate. This is largely due to an application proof of prospectus for a listing application needing to be published on the website of the HKEx with effect from 1 April 2014.

From 1 April 2014 onwards, the pipeline yielded a large number of post-hearing information proofs (PHIPs) being published in June 2014, which was followed by a large number of companies being listed in July 2014. A large number of these listings had their applications filed prior to April 2014. The average time between the company filing the application proof and the date of listing was around 2.7 months.¹



Source: HKEx and KPMG Analysis

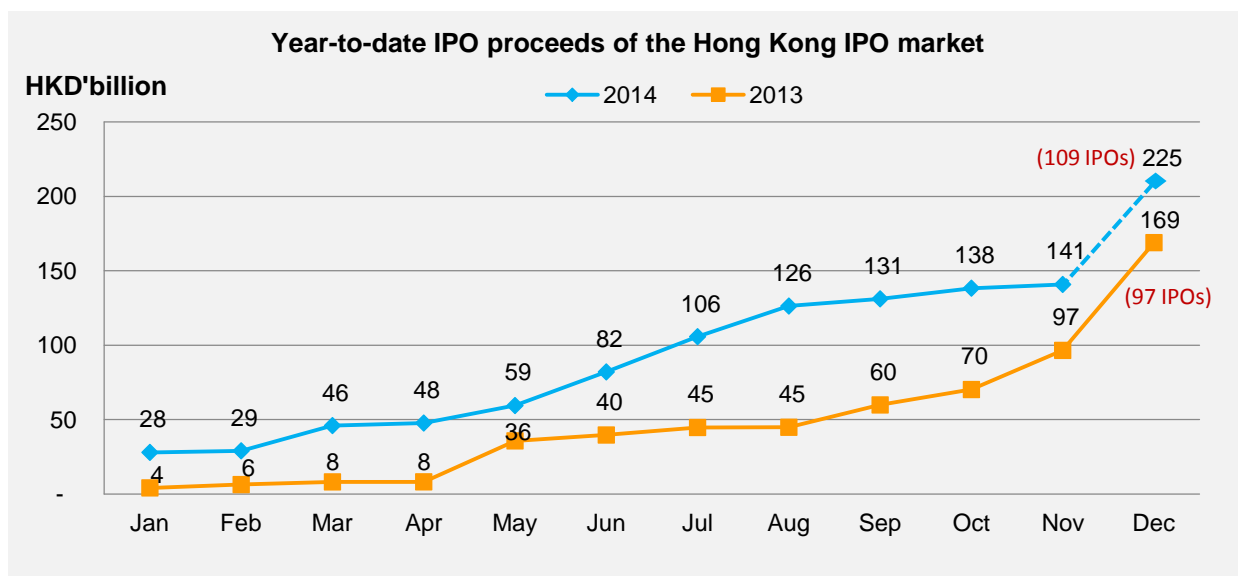
(i) The number of listings is a projected number based on the actual number of listings up to 15 December 2014 and the number of companies open for subscription as of 15 December 2014 with a reported listing date before 31 December 2014.

The largest listing in Q3 2014 was WH Group (0288.HK) in July 2014, which raised HKD 18 billion. The number of listings tapered off in the traditional slow months of August and September.

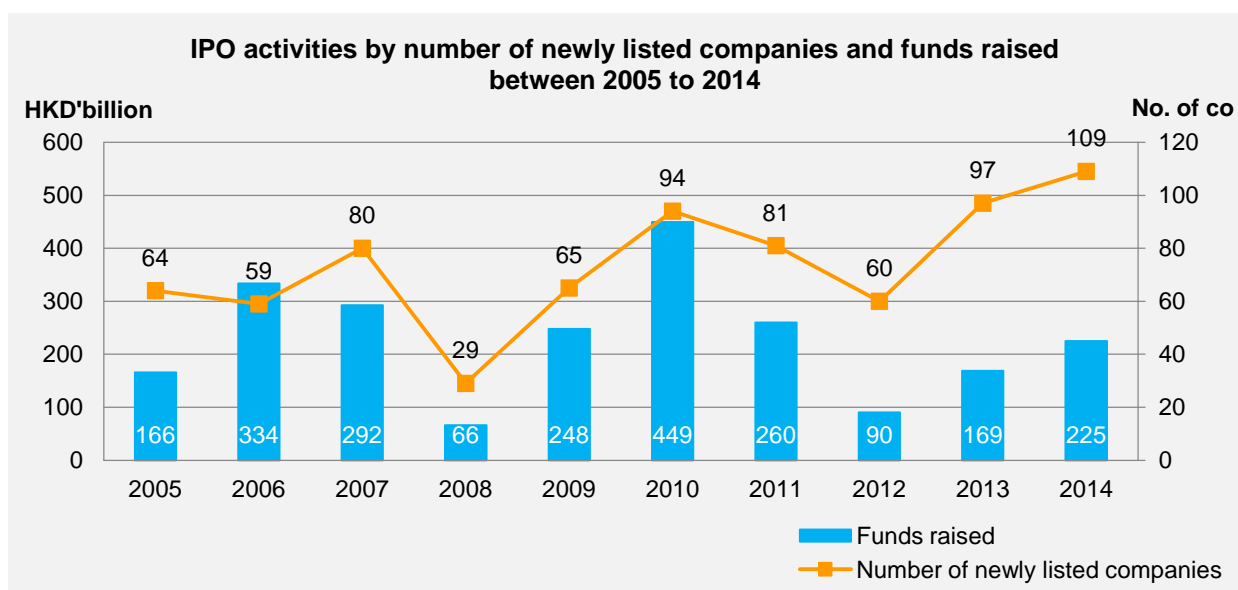
Market sentiment stayed flat in Q3 2014 with concerns over the rise of interest rate following the QE tapering in the United States (US). Only two companies newly listed in Q3 2014 raised funds over HKD 5 billion, WH Group (0288.HK) and Luye Pharma (2186.HK). Most of the other newly listed companies in Q3 2014 were smaller deals raising below HKD 1 billion.

¹ The average time is determined based on the number of months and the number of companies that published application proof and subsequently listed since 1 April 2014 available from the website of the HKEx.

The IPO market is forecasted to surge in December as it did in December 2012 and 2013, when IPO proceeds peaked for the year. The listing of CGN Power (1816.HK), together with the anticipated listings of Dalian Wanda (3699.HK), BAIC Motor (1958.HK) and Shengjing Bank (2066.HK) in the second half of December, are expected to raise up to HKD 75 billion in December 2014 reinvigorating the IPO market which had been sluggish between September and November. With the funds expected to be raised from these listings, the total funds raised for the month should set the record for the year, and meet our forecast for 2014 of 100 IPOs raising over HKD 200 billion. In fact, the number of IPOs in 2014 will likely reach 109, raising around HKD 225 billion depending on the final pricing of the December IPOs, and will be the highest number of IPOs for the past 10 years.



Source: HKEx and KPMG Analysis



Source: HKEx and KPMG Analysis

Implementation of New Sponsor Regime

The HKEx introduced a new sponsor regime in October 2013. Based on the published data as shown in the table below, the total number of listing applications submitted in 2014 will be similar to that in 2013. The numbers of applications returned, rejected or withdrawn have been higher in 2014 than in 2013, but the absolute increase is mild compared to the total number of listing applications. The introduction of the new sponsor regime does not seem to have had a negative impact on the level of IPO activities in Hong Kong.

	FY 2014 ^(a)	FY 2013
Applications submitted for listing (excluding transfer from Growth Enterprise Market (GEM) to Main Board)	165	160
Number of application returned^(b)	4	1
Number of application rejected	12	6
Number of application withdrawn	6	2
Number of application lapsed^(c)	19	34
Average number of days taken between the date of application and the date of issue of related first comment letter	11	9
Number of listed companies	1,735	1,643
	FY 2014 ^(e)	FY 2013 ^(d)
Number of application proof outstanding^(f)	56	N/A
Number of PHIP outstanding^(g)	8	N/A

Source: HKEx and KPMG analysis

(a) Information is up to 28 November 2014.

(b) Application returned on the ground that the information in the listing application proof or related documents is not substantially complete after it was accepted for vetting.

(c) Applications with approval in principle granted but not listed prior to application lapsed.

(d) No data is available for 2013 as the requirement to publish the application proof and PHIP is effective from 1 April 2014.

(e) Information is up to 15 December 2014.

(f) Number of application proof outstanding includes applications with "active" status and excludes those with PHIP published on the website of the HKEx. An "active" status is defined by the HKEx as any valid listing or authorisation application and includes an application of which the review of a decision to return or reject the application is pending.

(g) Excludes companies that are scheduled to list in December 2014.

IPO Market Data Analysis

The number of deals, average deal size and over-subscription ratio are illustrated in the tables below:

2014						
	IPO proceeds ^(a) HKD'billion		Number of IPOs ^(b)		Average proceeds per deal HKD'billion	
	Actual	Projected	Actual	Projected	Actual	Projected
Main Board						
Above HKD 5 billion	98.4	149.5	7	10	14.1	15.0
HKD 1 to 5 billion	47.9	52.0	26	29	1.8	1.8
Below HKD 1 billion	20.7	21.0	49	51	0.4	0.4
Total – Main Board	167.0	222.5	82	90	2.0	2.5
GEM	1.2	2.5	17	19	0.1	0.1
Total	168.2	225.0	99	109	1.7	2.1
2013						
	IPO proceeds HKD'billion		Number of IPOs ^(b)		Average proceeds per deal HKD'billion	
	Actual	Projected	Actual	Projected	Actual	Projected
Main Board						
Above HKD 5 billion	91.5		6		15.2	
HKD 1 to 5 billion	59.0		28		2.1	
Below HKD 1 billion	15.3		40		0.4	
Total – Main Board	165.8		74		2.2	
GEM	3.2		23		0.1	
Total	169.0		97		1.7	

Source: HKEx and KPMG analysis

- (a) Amounts include actual proceeds raised for IPOs up to 15 December 2014 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.

IPOs launched in 2014 have experienced a split public reception: 46% of Main Board IPOs have been priced in the upper range, and 40% in the lower range, compared to 50% being in the upper range in 2013.

Q1 2014 set a few new IPO records. The pricing rested mostly in the upper range in Q1, but slipped to lower prices in the following two quarters. Pricing in Q4 is expected to continue the pendulum effect, swinging back to the upper range.

	Q4 2014 ^(b)	Q3 2014	Q2 2014	Q1 2014	FY 2014 ^(b)	FY 2013
Subscription – Main Board						
Number of deals over-subscribed on their retail portion	14	18	16	12	60	64
Average over-subscription rate ^(a)	371.0	111.8	77.4	753.5	291.4	122.2
% of Main Board IPOs priced at:						
Upper range	60	35	35	67	46	50
Lower range	20	50	48	33	40	42
Midpoint	20	15	17	0	14	8

Source: HKEx and KPMG analysis

- (a) Average oversubscription rate is calculated by the average of the number of times shares are applied for, over the number of shares offered for companies with oversubscriptions.
- (b) Q4 2014 and FY 2014 percentages are based on listings up to 15 December 2014.



The post-market performance of companies newly listed in 2014 has been mixed, with 46 out of 82 IPOs listed on the Main Board seeing their closing share price on the first day of trade exceeded the IPO subscription price.

Hong Kong IPOs with funds raised equal to or over HKD 1 billion through 15 December 2014							
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)	+/- (%)
2226	Honworld Group	1,028	4.95 - 7.15	7.15	28/01/2014	8.27	+15.66%
2638	HK Electric	24,127	5.45 - 6.30	5.45	29/01/2014	5.34	-2.02%
1622	Redco Properties	1,000	2.10 - 2.60	2.50	30/01/2014	2.51	+4.4%
3636	Poly Culture	2,917	28.20 - 33.00	33.00	06/03/2014	42.6	+29.09%
2255	Haichang Holdings	2,450	2.18 - 2.68	2.45	13/03/2014	2.02	-17.55%
2608	Sunshine 100 China	2,000	4.00 - 4.80	4.00	13/03/2014	3.70	-6.50%
6138	Harbin Bank	8,768	2.89 - 3.33	2.90	31/03/2014	2.91	-0.34%
2100	BAIOO	1,518	2.00 - 2.60	2.15	10/04/2014	1.77	-17.67%
6199	China CNR	10,028	5.00 - 6.20	5.17	22/05/2014	5.05	-2.32%
6198	Qingdao Port	2,919	3.76	3.76	06/06/2014	3.71	-1.33%
2014	Ozner Water	1,310	2.25 - 2.70	2.7	17/06/2014	2.99	+10.74%
3903	Hanhua Financial	1,863	1.55 - 2.05	1.62	19/06/2014	1.63	+0.62%
1330	Dynagreen	1,035	3.00 - 3.70	3.45	19/06/2014	3.77	+9.28%
1619	Tianhe Chemicals	5,071	1.75 - 2.25	1.8	20/06/2014	1.79	-0.56%
1375	CC Securities	1,501	2.51 - 3.14	2.51	25/06/2014	2.16	-13.94%
2298	Cosmo Lady	1,463	3.27 - 4.42	3.6	26/06/2014	3.55	-1.39%
3639	Yida China	1,421	2.30 - 2.90	2.45	27/06/2014	2.44	-0.41%
6139	Jinmao	3,581	5.35 - 5.65	5.35	02/07/2014	5.35	0%
6136	Kangda International	1,400	2.00 - 2.80	2.80	04/07/2014	3.21	+14.64%
2329	Guorui Properties	1,623	2.30 - 2.84	2.38	07/07/2014	2.40	+0.84%
1599	Beijing Urban Construction	1,067	2.75 - 3.30	2.75	08/07/2014	3.01	+9.45%
2186	Luye Pharma	6,806	5.38 - 5.92	5.92	09/07/2014	6.70	+13.18%
1980	Tian Ge	1,848	4.50 - 5.30	5.28	09/07/2014	5.72	+8.33%
1432	China Shengmu	1,063	2.39 - 2.95	2.39	15/07/2014	2.38	-0.42%
0400	Cogobuy	1,375	3.20 - 4.48	4.00	18/07/2014	3.98	-0.50%
0288	WH Group	18,306	6.20	6.20	05/08/2014	6.66	+7.42%
6166	China VAST	1,133	2.75 - 3.75	3.10	25/08/2014	3.26	+5.16%
0699	Car Inc.	4,167	7.50 - 8.50	8.50	19/09/2014	10.96	+28.94%
1811	CGN Meiya	2,033	1.57 - 1.73	1.71	03/10/2014	1.96	+14.62%
6116	La Chapelle Fashion	1,938	13.98 - 18.20	13.98	09/10/2014	14.00	+0.14%
1347	Hua Hong Semiconductor	2,573	11.15 - 12.20	11.25	15/10/2014	10.74	-4.53%
1816	CGN Power	24,534	2.43 - 2.78	2.78	10/12/2014	3.31	+19.06%
6869	Yangtze	1,181	7.39 - 10.28	7.39	10/12/2014	6.71	-9.20%

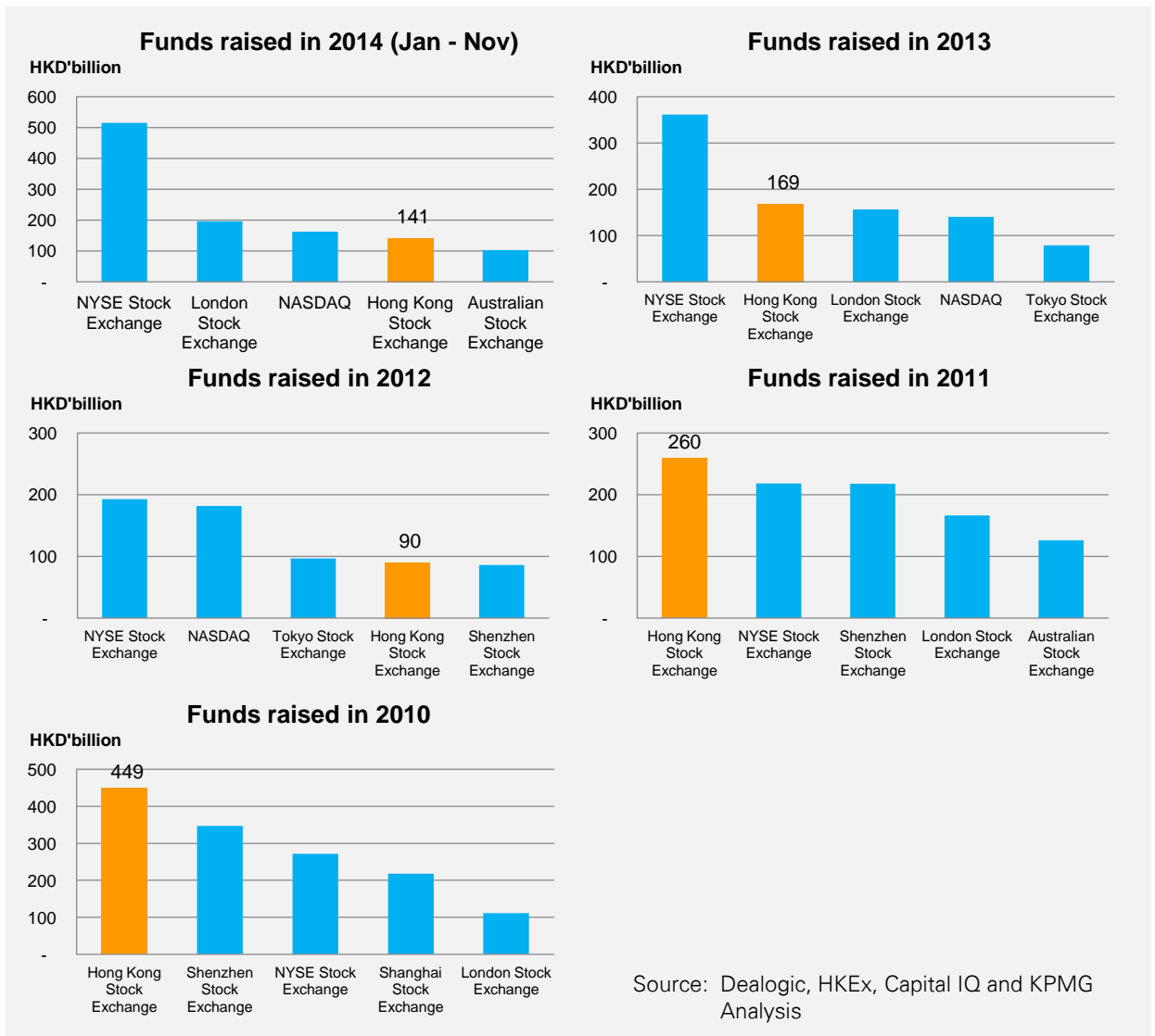
Source: HKEx and KPMG analysis



HKEx among the Global Exchanges

Based on the accumulated funds raised up to November 2014, the HKEx ranks fourth among global exchanges and first among Asian exchanges. The HKEx has been one of the world's top five stock exchanges in IPO fundraising since 2002. Among the Asian exchanges, the HKEx has consistently ranked the top exchanges since 2010 except for 2012.

Thanks to a number of sizable IPOs completed or anticipated to come through in December 2014, Hong Kong could potentially climb up the ranking ladder to a number two position globally by the end of 2014.



Source: Dealogic, HKEx, Capital IQ and KPMG Analysis



Outlook for 2015: The IPO market will remain active

The Hong Kong IPO market in 2014 has followed a trend similar to 2013's and will end on a high note. Certain sizeable IPO deals are anticipated to be complete by the end of 2014, driving the IPO market to a peak in December. We expect that market sentiment will remain positive and IPO activity will remain robust in 2015, evidenced by a promising IPO pipeline and optimistic economic outlook. On the other hand, there are also factors that could potentially have a negative impact on the IPO market, such as an increase in exchange rates and competition from other global exchanges.

Economic Outlook

The 2015 economic outlook for China remains optimistic, with a GDP growth rate projected at 7-7.5%. The People's Bank of China announced an interest rate cut in November 2014, the first since 2012, reducing the benchmark deposit rate from 3% to 2.75% and the lending rate from 6% to 5.6%. It sent a clear signal to the market about the government's intention to support the economy through stimulus policies.

In October 2014, thanks to improvements in key economic data, the Federal Reserve in the US officially ended its quantitative easing program, ceasing the monthly bond purchases it had been making since 2008. There are a lot of debates in the market about the impact of cessation of bond purchases on the overall economy, while the new high of Dow Jones Industrial Average recorded in December 2014 had sent a positive message to the market.

Impact of re-opening of A-share IPO market

The A-share IPO market reopened in January 2014 after a freeze since October 2012. From the re-opening of the A-share IPO market in January through to 30 November 2014, 104 companies listed on the Shanghai and Shenzhen Stock Exchanges, raising RMB 47 billion, with average funds raised of RMB 457 million. The re-opening up of this listing platform could potentially trigger PRC companies to reconsider the place of listing, but the impact on the Hong Kong IPO market is expected to be limited in the near future. Hundreds of companies are waiting in the queue to list in the A-share market, and it should take years to clear the backlog. The Hong Kong IPO market will attract companies wishing to list in a shorter term.

Shanghai-Hong Kong Stock Connect

The Shanghai-Hong Kong Stock Connect was initially announced in April and officially launched on 17 November 2014. The market response towards the scheme was weaker than expected. Northbound trading used up the daily quota on the date of launch but has not since. The volume of southbound trading has been weaker, with the unused daily quota resting at a level above 90% for most of the trading days since the launch of the scheme.

The weak market reception brought disappointments to investors speculating on a short-term boost of the Hong Kong stock market. There are, however, other longer term benefits arising from the scheme which should not be undermined. The scheme is a big step forward for the internationalisation of the Renminbi and has reinforced Hong Kong's position as a gateway to investment in China. The integration of China's A-share market and the Hong Kong stock market could eventually make them one of the world's largest and most active stock markets.

With the trend for the internationalisation of the Renminbi, we have seen Hong Kong Airlines planning for the city's first dual-currency IPO. Hui Xian REIT completed Hong Kong first's Renminbi-denominated IPO in May 2011 but the development of Renminbi listing has been subtle since. We expect the development in this area to grow stronger, in line with the larger trend.



Sizeable deals anticipated by market

The pipeline for sizable IPOs remains strong, primarily leaning towards the financial services sector. The market anticipates listings of banks owned by the PRC local governments, including Bank of Beijing, Bank of Shanghai and China Guangfa Bank, and Chinese insurance companies Anbang Insurance, Taikang Life Insurance and Sunshine Insurance.

China International Capital Corporation Limited, China's first home-grown investment bank founded in 1995, was reported to have an initial plan for listing in Hong Kong in 2014. However, the departure of the company's senior management in October 2014 delayed the IPO plan to next year according to market news.

China's Ministry of Finance established four financial asset management companies, one for each of the four commercial state-owned banks: China Cinda, China Huarong, China Orient and Great Wall. China Cinda raised HKD 21.9 billion in Hong Kong in December 2013 and it is anticipated that China Huarong and China Orient will come next.

We do not expect that all these companies will complete their listing in 2015 but this promising pipeline, together with a high number of active listing applications submitted to the HKEx, solidifies our IPO market forecast for the coming year. As at 15 December 2014, there were 56 application proofs in the pipeline excluding those companies that are scheduled to list in December 2014. Considering that most of these 56 application proofs were filed in October 2014 and the average time between filing an application proof and listing is 2.7 months as explained above, the outlook for companies completing listings in Q1 2015 is positive.

Other than financial services companies, we expect environmental protection and pharmaceutical sectors will be the hot picks of the markets.



Uncertainties and competitions

The market expects that the Federal Reserve may start raising interest rates in the middle of next year – the exact timing will depend on the economy. With the existing near zero interest rate in the US, there is only room for upside movement. The stock market generally reacts negatively to interest rate increases; therefore, this adds uncertainty to the IPO activities.

Market participants of the world's top IPO markets are more active in organising seminars and promotional activities in the region to attract overseas companies to listing in their countries. Hong Kong has unique advantages given its close proximity to China and the integration of the Hong Kong and China markets. However, Hong Kong has to watch out surrounding competition and should not take previous success for granted. Rather, it should find ways to maintain its competitiveness through improving the operating environment.

In March 2014, the Chinese e-commerce giant Alibaba ruled out changing its partnership structure in order to meet Hong Kong Exchange's regulations. It finally listed in the US in September 2014, becoming the world's biggest IPO ever. Taking this positively, by rejecting a proposal that could potentially impair investors protection, Hong Kong regulators showed that they place investor protection as a top priority. On the other hand, it is worth exploring the possibility of flexing the rules to accommodate the fast changing environment. The HKEx published a concept paper on weighted voting rights in August 2014, collecting opinions on whether different shareholder structures should be allowed other than the "one share one vote" structure, which has been in place since 1989. Whilst this topic is highly debatable, we consider the market is moving in the right direction by allowing investors and market participants to express their views and re-examining the existing rules and practices.

2015 forecast

The IPO proceeds achieved in 2014 attributable to a number of sizable deals makes it a target not easy to beat in 2015. The Hong Kong IPO market recovered from a trough in 2012 and there are no apparent signals showing that the trend will end. However, the achievement of a new peak in 2015 depends heavily on whether sizeable deals will come to fruition next year.

With the factors set out above, our forecast is that Hong Kong IPO market activities will remain active, with the level of funds being raised remaining stable compared to 2014. We are forecasting an estimated 110 IPOs raising over HKD 200 billion in 2015, with the actual performance of the market heavily dependent on the success of those sizeable deals expected to come through in the year.

Contact us

Hong Kong Capital Markets Group, KPMG China



Rebecca Chan
Partner (Head)

Tel. +852 2140 2821
rcc.chan@kpmg.com



Wing Fong
Partner

Tel. +86 755 2547 1228
wing.fong@kpmg.com



John Fung
Partner

Tel. +86 21 2212 2629
john.fung@kpmg.com



Louis Lau
Partner

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



Charles Zhang
Partner

Tel. +86 10 8508 7305
charles.h.zhang@kpmg.com



Bruce Zirlen
Partner

Tel. +86 10 8508 7086
bruce.zirlen@kpmg.com

kpmg.com/cn

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. © 2014 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.