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HONG KONG IS WORLD'S TOP IPO FUNDRAISING MARKET IN 2016 WHILE LISTED DEBT TURNOVER RISES 126% ON 2015

Equity Market

Despite dropping to an eight-year low in total funds raised, Hong Kong was the top IPO fundraising exchange in 2016. According to data¹ from the Stock Exchange of Hong Kong (**HKEx**), HK\$194.8 billion (US\$25.1 billion) was raised in 120 Hong Kong IPOs, down 25.96% on IPO funds of HK\$263.1 billion raised in 124 IPOs in 2015. The Shanghai Stock Exchange and New York Stock Exchange (**NYSE**) ranked second and third with IPO funds raised of US\$16.3 billion and US\$14.7 billion, respectively. Some have attributed the large drop in IPO fundraisings worldwide to uncertainties surrounding the slow global economic recovery from the 2008 financial crisis, the referendum for Brexit in the UK and the presidential election results and rising interest rates in the US.

Of the 120 Hong Kong IPOs, 45 listed on HKEx's second board, the Growth Enterprise Market (**GEM**), the most GEM listings since 2002. The GEM IPOs raised a total of HK\$4,591 million. The trend of more SMEs listing in Hong Kong seems to be continuing in 2017 and GEM saw 10 new listings raising HK\$637 million in the first 20 days of 2017. Seven of those raised between HK\$60 and HK\$80 million, while the smallest issue raised HK\$35 million.² The 75 Main Board listings raised HK\$190,206 million in 2016.

In terms of total equity funds raised, including post-listing equity fundraising, HKEx ranked fifth having raised US\$53.7 billion, after Shenzhen, Euronext, Shanghai and NYSE. Shenzhen

1 HKEx Market Statistics 2016 at <http://www.hkex.com.hk/eng/newsconsul/hkexnews/2017/Documents/1701092news.pdf>.

2 HKEx New Listings 2017 (up to 2017/01/20) at http://www.hkgem.com/statistics/e_default.htm.

led the field with total equity funds raised of US\$144.7 billion. HKEx continued to rank eighth in terms of market capitalisation with a total market value of US\$3,185 billion. The largest stock exchange by market capitalisation by far remains NYSE with a market value of US\$18.9 trillion, while Shanghai and Shenzhen rank fourth and fifth with market values of US\$4,282 billion and US\$3,413 billion respectively.

Hong Kong's post-IPO fund raising 2016 comprised HK\$277 billion raised by Main Board issuers and HK\$14 billion raised by GEM issuers. The types of fundraising are summarised below:

Listing Method	Funds Raised HK\$ million
Placing	145,945
Rights Issue	45,864
Open Offer	6,777

Mainland Financial Institutions Listing in Hong Kong

In China, the economic slowdown, volatility in the Chinese stock markets and the devaluation of the yuan have reduced the number of Chinese companies listing in Hong Kong as well as Mainland investor interest. Beijing's measures to slow capital outflow from the Mainland have also dampened Mainland investment into the Hong Kong stock market.

Nevertheless, 94% of all IPO funds raised were raised by Mainland Chinese companies. The largest listing in Hong Kong in 2016 was that of Postal Savings Bank of China which

raised HK\$59.15 billion in the world's largest IPO since Alibaba Group Holding's US\$25 billion IPO in New York in 2014. Other large Hong Kong IPOs included those of China Resources Pharmaceutical Group and China Zheshang Bank, which raised HK\$15.06 billion and HK\$15.03 billion, respectively.

Optimism for Hong Kong IPOs in 2017

PricewaterhouseCoopers (**PWC**) has expressed optimism about the Hong Kong IPO market in 2017, predicting 130 IPOs on HKEx raising up to HK\$220 billion (about US\$28 billion) in 2017.³ Among these, four or five are expected to be large IPOs that will raise over HKD 10 billion each. PWC is also predicting that small and medium enterprises will comprise a greater proportion of companies listing in Hong Kong, which will continue to be the best listing platform for Mainland companies (particularly Mainland banks and financial institutions).

With regards to Mainland China, PWC predicts that overall market performance will continue to stabilise, resulting in 320 to 350 new listings in the A-share markets, raising RMB 220 to 250 billion in 2017. The launch of the Shenzhen-Hong Kong Stock Connect is expected to attract more investors and more listings (particularly of technology companies) to the Shenzhen market, expanding Hong Kong's investment base and reinforcing its role in the Mainland's capital markets and as a leading international fundraising platform.

Hong Kong Bond Market

The Hong Kong bond market grew in 2016 with HK\$74 billion of HK\$-denominated bonds issued, up 46% on 2015, according to data from Dealogic.⁴ Although the market is dominated by government and public sector debt issues, there has been growth in the corporate bond sector. Corporate bond issuers were principally financial institutions which accounted for 47% of corporate issues in 2016, while energy companies and real estate companies accounted for 27% and 13% respectively.⁵

In terms of Hong Kong's listed debt market, HK\$774.7 billion was raised by 892 debt listings on HKEx in 2016, a slight increase of around 3% compared to 2015. There was however

a huge increase in trading activity in listed debt during 2016 with total turnover of HK\$21,278 million in 2016, up by 126% on 2015 total turnover of HK\$9,381 million.⁶

Recent years have seen the Hong Kong government issue retail and sukuk bonds. Another area of growth is green bonds which is being driven by China, which accounted for around one fifth of global green bond issues by volume in 2016. Green bonds are bonds that are labelled 'green' by issuers to denote that the proceeds will fund projects, assets or business that have an environmental benefit.

Hong Kong saw its first labelled green bond issue in June 2015, when Mainland wind energy firm, Xinjiang Goldwind Science & Technology, issued a US\$300 million green bond in Hong Kong. With a three-year tenor, it received orders of US\$1.4 billion and was nearly five times over-subscribed.⁷ Other green bond issuers in Hong Kong include Link Reit which issued a US\$500 million green bond in July 2016, the MTR Corporation which issued a US\$600 million 10-year green bond in October 2016 and BNP Paribas which issued a EUR 500 million green bond in November 2016.

³ Price Waterhouse Coopers. "Hong Kong topped the world in IPO funds raised in 2016".

⁴ SCMP. "Hong Kong's 2017 bond issuances may extend last year's bull run". 20 Jan 2017 at <http://www.scmp.com/business/banking-finance/article/2064044/hong-kongs-2017-bond-issuances-may-extend-last-years-bull>.

⁵ Ibid.

⁶ HKEx Market Statistics 2016 at <http://www.hkex.com.hk/eng/newsconsul/hkexnews/2017/Documents/1701092news.pdf>.

⁷ HK Financial Services Development Council. "Hong Kong as a Regional Green Finance Hub" May 2016 at <http://www.fsd.c.org.hk/sites/default/files/Green%20Finance%20Report-English.pdf>.

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