

2017 IPO review: spotlight on new economy sectors

An overview of HK IPOs in 2017

Attracted by strong market performance, 161 companies made their debuts on the Hong Kong equity market last year (a historical high and a 34% increase vs 2016), according to HKEx. Despite an increased number of deals, the lack of large-scale deals has cost Hong Kong its position as the world's top IPO destination. Total IPO proceeds shrank by 35% to USD16.3bn in 2017. However, the composition of newly listed companies shifted, with new economy companies taking a higher share of total funds raised. This has led to a smaller proportion of cornerstone investors and contributed to decent average returns on debut days and afterwards. Reform of listing rules and H-share convertibility pilot schemes will draw more new economy companies to Hong Kong, in our view.

Composition of raised funds tilted to new economy...

Large financial IPOs made HK the world's top venue for IPOs in the past. In 2016, financial companies took 65% of all HK IPO proceeds; last year, this number declined to 52%, and new economy companies involved in areas such as IT, education, health care, and environmental protection saw an increase in aggregate shares in raised funds. This ignited strong investor interest, as sizable IPOs (IPO size larger than USD100mn) with subscription ratios of higher than 10x were mostly new economy. Meanwhile, due to the popularity of these deals, fund raising became less dependent on cornerstone investors last year. Funds contributed by cornerstone investors dropped to 22% last year (2016: 53%), which is positive to liquidity and, therefore, valuations.

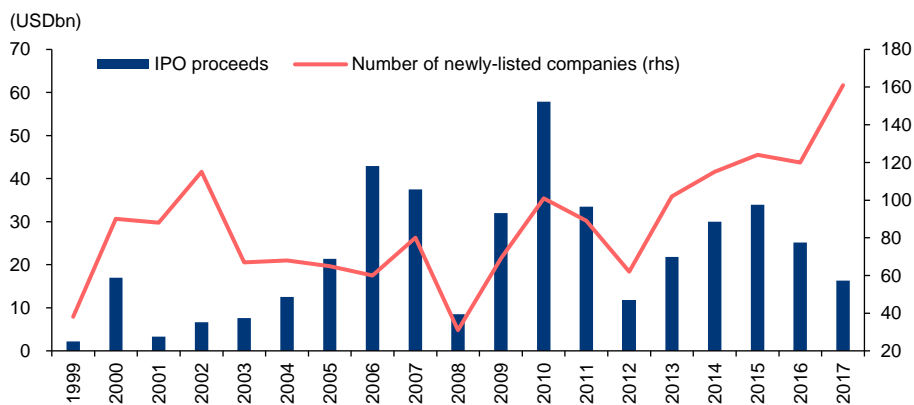
...leading to improved post-IPO performance

Sizable IPOs, on average, delivered more handsome returns in 2017. IPO investors were able to register average returns of 5.4% on launch days, plus average returns of 19.5% if they maintained their holdings till end-2017 (vs losses or small gains in 2015-16). Overall main board IPOs posted average price gains of 19% on IPO days because of the volatility of smaller deals, but only delivered 3.1% from the second day till year-end, indicating a lack of sustainability. The hottest deals, whose subscription ratios exceeded 10x, achieved the biggest gains on IPO days (average of 15.8%), followed by a mild average of 3.8% afterwards till year-end. By sector, education companies' post-IPO performance was particularly strong, including Wisdom Education, China Yuhua Education, and China New Higher. See the list of last year's largest HK IPOs in Fig.9.

Reforms to draw more new economy companies

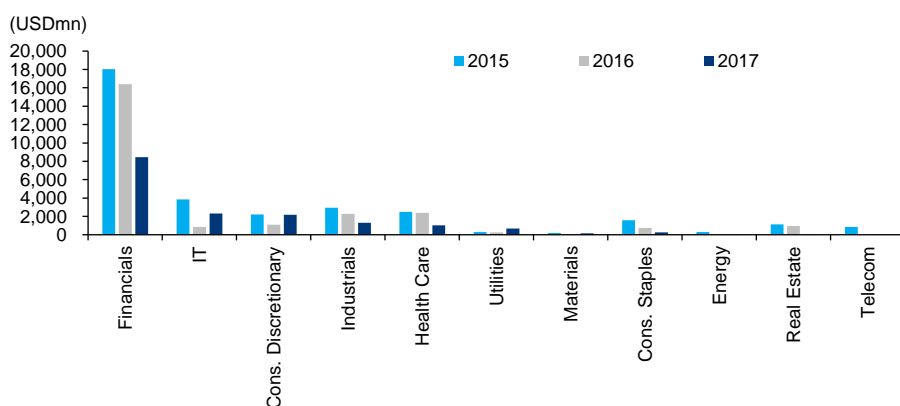
We highlighted in our [annual outlook](#) (4 December) that new economy will outshine old economy sectors this year against a backdrop of slower macro-economic growth. We believe potential reforms on HK listing rules and an [H-share convertibility pilot scheme](#) will help draw more vibrant new economy companies and help shore up investor interest and lift valuations. Looking back on the past three years, a large proportion of financial IPOs and their sluggish performance were among the factors that weighed on the HK market's overall valuation. Hence, quality and growth potential matter more than the quantity and size of new listings, in our view. Furthermore, as the A-share market listing process is expedited and tightened liquidity diminishes the excessive returns of A-share IPOs, additional new economy listings in HK are likely to attract more attention from mainland investors.

Fig.1. IPO size and number of newly-listed companies in HK



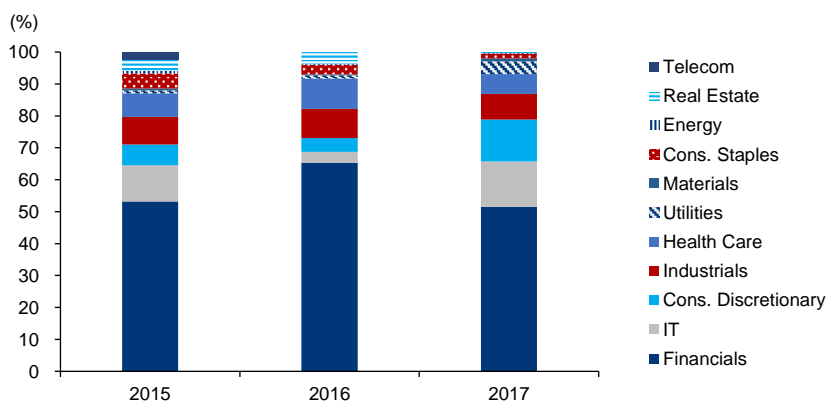
Source: HKEx, Huatai HK Research

Fig.2. IPO proceeds by sector in 2017



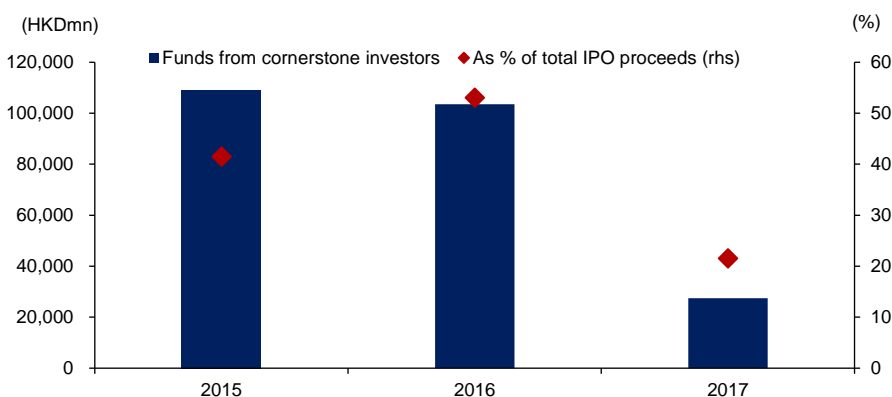
Source: Bloomberg, Huatai HK Research

Fig.3. Growing share of new economy companies in raised funds



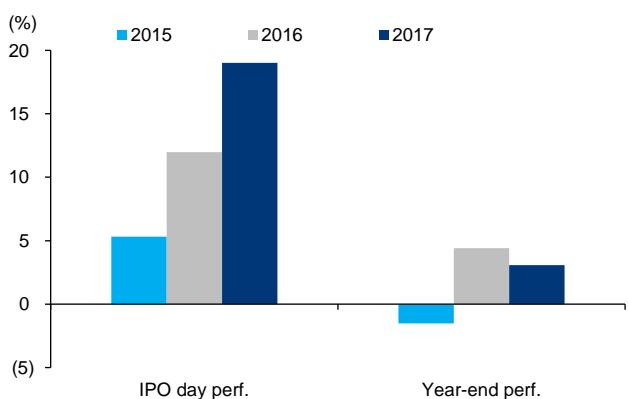
Source: Bloomberg, Huatai HK Research

Fig.4. Importance of cornerstone investors has diminished



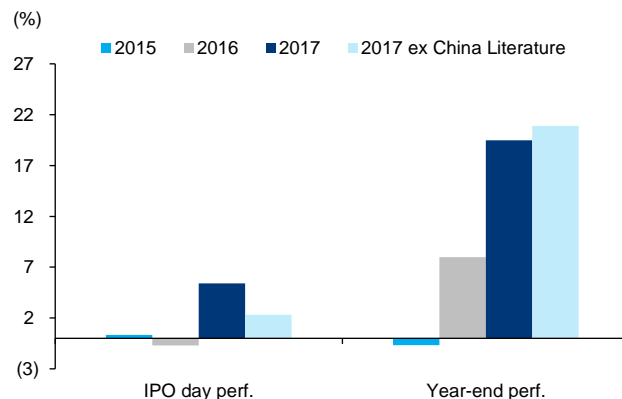
Source: Bloomberg, Wind, Huatai HK Research

Fig.5. Average performance of mainboard IPOs



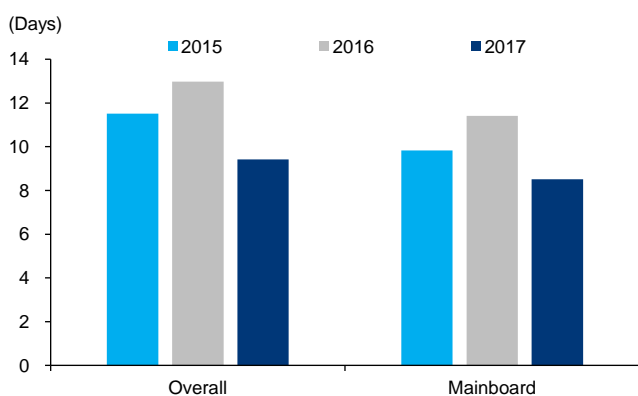
Note: excludes outliers with returns exceeding 500%; year-end performance does not include performance on IPO day
Source: Bloomberg, Wind, Huatai HK Research

Fig.6. Avg. performance of large IPOs (size>USD100mn)



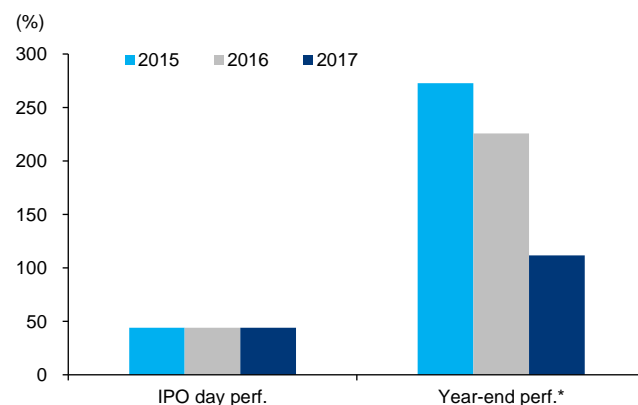
Note: year-end performance does not include performance on IPO day
Source: Bloomberg, Wind, Huatai HK Research

Fig.7. Avg. days of consecutive limit-ups post A-shr IPOs



Note: excludes stocks still hitting consecutive limit-ups as of end-2017
Source: Wind, Huatai HK Research

Fig.8. Avg. performance of A-share IPOs



Note: *excludes stocks still hitting consecutive limit-ups as of year-end; year-end performance does not include performance on IPO day
Source: Huatai HK Research

Fig.9. List of largest IPOs (size>USD100mn)

Ticker	Name	Total mkt cap (USD mn)	Industry Group	IPO size (USD mn)	IPO date	IPO day perf.	Year-end perf.	Subscription ratio
2611 HK	GUOTAI JUNAN S-H	19,068	Diversified Financials	2,220	11 Apr	0.0	9.8	3.6
6060 HK	ZHONGAN ONLINE-H	12,470	Insurance	1,751	28 Sep	9.2	6.3	392.7
772 HK	CHINA LITERATURE	9,558	Software & Services	1,228	8 Nov	86.2	(18.6)	626.0
1216 HK	ZHONGYUAN BANK-H	5,806	Banks	1,191	19 Jul	1.6	3.2	0.4
1551 HK	GUANGZHOU RURA-H	6,614	Banks	1,190	20 Jun	0.2	19.8	0.5
2858 HK	YIXIN GROUP LTD	5,116	Diversified Financials	866	16 Nov	5.5	(22.8)	561.2
2269 HK	WUXI BIOLOGICS C	6,355	Pharmaceuticals, Biotechnology	586	13 Jun	37.1	54.7	37.5
1337 HK	RAZER INC	4,480	Tech Hardware & Equipment	529	13 Nov	18.0	(15.7)	291.2
2232 HK	CRYSTAL INTERNAT	2,628	Consumer Durables & Apparel	512	3 Nov	5.2	(4.2)	10.4
6122 HK	JILIN JIUTAI R-H	2,468	Banks	446	12 Jan	6.8	9.8	1.1
1257 HK	CHINA EVERBRIGHT	1,774	Utilities	434	8 May	(1.9)	35.8	2.4
839 HK	CHINA EDUCATION	1,692	Consumer Services	413	15 Dec	(1.9)	3.9	4.0
6088 HK	FIT HON TENG LTD	5,067	Tech Hardware & Equipment	394	13 Jul	16.7	69.5	2.4
1697 HK	SHANDONG INTER-H	1,478	Diversified Financials	378	8 Dec	(3.1)	0.0	1.1
3329 HK	BOCOM INTERNATIO	896	Diversified Financials	253	19 May	1.5	(2.6)	2.5
1727 HK	HEBEI CONSTRUC-H	998	Capital Goods	247	15 Dec	0.0	0.0	1.0
6169 HK	CHINA YUHUA EDUC	1,403	Consumer Services	228	28 Feb	2.0	90.1	1.5
1569 HK	MINSHENG EDUCATI	787	Consumer Services	181	22 Mar	9.4	6.0	2.1
3768 HK	KUNMING DIANCH-H	338	Utilities	171	6 Apr	(1.3)	(25.9)	1.2
1649 HK	INNER MONGOLIA-H	492	Capital Goods	161	18 Jul	(1.3)	5.7	0.5
3358 HK	BESTWAY GLOBAL H	409	Consumer Durables & Apparel	148	16 Nov	(24.2)	2.7	7.7
1696 HK	SISRAM MEDICAL L	342	Health Care Equipment & Service	128	19 Sep	(8.6)	(19.3)	17.6
1518 HK	NEW CENTURY HEAL	590	Health Care Equipment & Service	123	18 Jan	(0.1)	35.1	1.2
1475 HK	NISSIN FOODS CO	432	Food, Beverage & Tobacco	122	11 Dec	(4.8)	(2.7)	33.7
6068 HK	WISDOM EDUCATION	1,125	Consumer Services	118	26 Jan	(0.6)	181.6	1.5
1571 HK	XIN POINT HOLDIN	537	Automobiles & Components	112	28 Jun	(5.6)	57.0	60.0
2001 HK	CHINA NEW HIGHER	767	Consumer Services	102	19 Apr	0.0	46.2	2.0
Avg						5.4	19.5	
Avg of deals with subscription ratios>10x						15.8	3.8	

Note: data as at 29 Dec 2017; year-end performance does not include performance on IPO day
 Source: Bloomberg, Wind, Huatai HK Research

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