

HK loses mega IPOs glitter but still strong for fund raising

Despite the recent city's stock market rally which topped the world in attracting new listings in previous years, Hong Kong's stock exchange may not be favored again by large initial public offerings this year, but the bourse's fund raising allure will continue. **Li Tao** reports.

While there is a sense of cautious optimism in equity markets, both in Asia and, as a result of the recent positive indicators in the US and the initial efforts to resolve the Greek credit issues, Jones Day, a global lawfirm does not see anything like a kick-off for mega IPO listings in Hong Kong.

After declining almost 20 percent in 2011, the city's benchmark Hang Seng Index has surged by 11.7 percent so far this year after a strong rebound started during the fourth quarter of last year.

"We suspect that most market professionals would be more than happy to see the present trickle of transactions widen slowly, but consistently, and do not expect to see any type of dramatic surge in activity in the immediate term," David Neuville, a partner at Jones Day said.

According to a PricewaterhouseCoopers release earlier this year, Hong Kong once again became the number one listing hub last year in terms of the number of funds raised. However, total funds raised through IPOs in Hong Kong stood at HK\$271.4 billion in 2011, which is 40 percent less than the HK\$449.5 billion a year earlier. In comparison, the number of IPOs totalled 102 last year, down 11 percent compared with the year before.

A number of major IPOs kicked off in Hong Kong last year, including global fashion brand Prada SpA as well as local Chow Tai Fook Jewellery Group. At the same time, a number of offerings to the city were shelved last year due to a lukewarm market demand.

Some of them will restart the process this year, Neuville believes. China Everbright Bank

set aside its proposed \$5.6 billion stock sale in the city in late June last year while Haitong Securities Co in December also delayed its \$1.67 billion Hong Kong IPO. Reasons cited for the IPO postponements included

market volatility and cut-back in demand.

As most national banks and insurance companies have already wound up their offerings in the city, some regional mainland banks and mid-size insurance companies are also likely to consider Hong Kong listings in the near future, according to Neuville.

Roy Lo, deputy managing partner of Assurance and Business Advisory Services from Shinewing (HK) CPA Ltd, said the city's stock exchange has gradually become the play-

ground of second-tier state-owned enterprises as well as private enterprises after the large enterprises from the mainland have completed their public listings in the wave of IPOs which flooded the city during the past few years.

Despite most companies from the mainland not having any exposure of their businesses in Hong Kong, the city's global reach provides a very broad and international platform for these players to assess overseas investors interested in investing in the mainland market through

their fund-raising activities in the future, Lo told China Daily in an interview.

"But we have to watch the quality of listings in Hong Kong carefully. I believe more than 60 percent of new IPOs here are not worth investing," said Lo.

Increasingly more mainland small and medium (SME) companies are flooding the Hong Kong IPO market these days, while the red-hot scenes could not conceal the facts that many of the new entrants have gone underwater after reporting poor operating results following their IPO exercises.

"These mainland companies that could expect notable business growth, or in need

of huge amount of cash for future expansion should consider IPOs in Hong Kong," said Lo, adding that he is in favor of retail and consumer-related sectors which could benefit from the ongoing buoyant domestic demand on the mainland.

With a steady growth of funds in the market over the past year, new issuances and listings on the city's stock exchange have exceeded those in other markets in each of the last three calendar years, and the trend is likely to persist particularly as Hong Kong continues to make efforts to bring its regulatory framework in line with the best global practices, according to Joseph Lee, another partner with Jones Day.

"The three year story is not a fluke or an accident, but rather is the result of regulatory enhancement, continuing growth of interest by Asian and non-Asian investors in the Hong Kong market, and successful marketing by the Hong Kong stock exchange," said Lee, who expects the inflow of mining and resource companies to continue after the city's exchange introduced new listing rules - the New Chapter 18 - to lift the bourse's status in line with other international mining capital centers.

A Deloitte report released earlier estimated about 100 companies are expected to list on the Hong Kong bourse to raise funds this year, with total proceeds amounting to HK\$230 billion. Among them, 40 would be IPOs that were shelved in 2011 due to the economic uncertainties, the accounting firm added.



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Ronald Arculli (right), chairman of Hong Kong Exchanges & Clearing Ltd, and Charles Li, chief executive officer, strike a gong to start the first day of trading after Chinese New Year. Hong Kong's IPOs totalled 102 last year, down 11 percent compared with the year before.