



Hong Kong

April 2020

## HKEX IPO MARKET Q1 2020

Despite the COVID-19 pandemic impacting global IPO markets, Hong Kong and Mainland China's IPO markets performed well in Q1 2020, with the Shanghai Stock Exchange (SSE) claiming the top spot in terms of IPO funds raised (US\$ 9.9 billion), mainly due to the popularity of the STAR Market, and the Hong Kong Stock Exchange taking fifth place in terms of IPO funds raised (US\$ 1.8 billion) (compared to its second place position for Q1 2019 with IPO proceeds of US\$ 2.6 billion).<sup>1</sup> NASDAQ, Thailand and the NYSE ranked second, third and fourth, respectively.<sup>2</sup>

The global IPO market however remained robust in the first two months of Q1 2020, with momentum from Q4 2019 being carried over, translating into 11 percent more deals and 89 percent more proceeds raised (as compared to Q1 2019).<sup>3</sup>

Coupled with the expectation of some geopolitical uncertainties subsiding, mainly more clarity on Brexit and trade tensions easing, it was anticipated that the IPO market was primed for activity, however March saw markets slow considerably owing to developments in the pandemic and impacts on economies around the world.

By deal numbers, Hong Kong led the way, followed by Shanghai, Tokyo and NASDAQ, with industrials, technology and healthcare being the most active sectors.<sup>4</sup>

The following provides an overview of Hong Kong and Mainland China's IPO market performance in Q1 2020 and the outlook for the remainder of the year.

### 1. Hong Kong IPO Market Performance Q1 2020

There were 37 IPOs on the Hong Kong Stock Exchange in the first quarter of 2020, 35 on the Main Board and 2 on GEM, which raised a total of HK\$ 14.1 billion, 31% less than in Q1 2019,<sup>5</sup> but a slight increase in terms of the number of listings.<sup>6</sup> The drop in IPO funds raised was due to a lack of mega and medium-sized listings, with the majority of listings (32) being less than HK\$ 1 billion.<sup>7</sup>

In terms of sectors, infrastructure and real estate dominated the market, accounting for 34% of all IPOs and 26% of total funds raised, followed by industrials (20% of all IPOs and 7% of total funds raised) and TMT (17% of all IPOs and 18% of IPO funds raised).<sup>8</sup> The infrastructure and real estate sector is expected to see continued activity with the development of the Greater Bay Area and Hong Kong's domestic projects (Cyberport and the Science Park), and with COVID-19 increasing reliance on distance-based services, the TMT sector is also anticipated to grow.<sup>9</sup>

1 <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2020/03/mainland-china-and-hong-kong-2020-q1-review-ipos-and-other-market-trends.pdf>

2 [https://www.ey.com/en\\_lb/growth/ipo-trends-2020-q1](https://www.ey.com/en_lb/growth/ipo-trends-2020-q1)

3 [https://www.ey.com/en\\_gl/news/2020/03/covid-19-pandemic-cuts-global-ipo-momentum-short-in-q1-2020](https://www.ey.com/en_gl/news/2020/03/covid-19-pandemic-cuts-global-ipo-momentum-short-in-q1-2020)

4 Ibid.

5 <https://www2.deloitte.com/cn/en/pages/about-deloitte/articles/pr-q1-2020-ml-hk-ipo-review-outlook.html>

6 <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2020/03/mainland-china-and-hong-kong-2020-q1-review-ipos-and-other-market-trends.pdf>

7 Ibid.

8 Ibid.

9 Ibid.

Notable IPOs in Q1 included the HK\$ 2.5 billion IPO of Jiumaojiu International, a Chinese restaurant operator and brand manager, in the quarter's largest Hong Kong IPO, and the HK\$ 2.2 billion IPO of drug developer, InnoCare Pharma, which listed under HKEx's Chapter 18A for pre-revenue biotech companies in March 2020 in the second largest IPO of the quarter, bringing the total number of pre-revenue biotech companies listed under the chapter to 15.

## 2. Mainland China IPO Market Performance Q1 2020

Fifty-one IPOs raised RMB 78.1 billion on Mainland China's stock exchanges in the first quarter of 2020, a 65% and 205% increase in the number of IPOs and IPO funds raised, respectively, compared to Q1 2019.<sup>10</sup> The SSE and SSE-Science and Technology Innovation Board (**SSE-STAR**) collectively saw 34 of those new listings, raising RMB 68.5 billion, while the Shenzhen Stock Exchange (**SZSE**) contributed 17 listings, raising RMB 9.6 billion.<sup>11</sup>

Shanghai's top ranking was due in part to the RMB 30.7 billion listing of Beijing-Shanghai High Speed Railway Co., the largest A-share IPO of Q1 2020,<sup>12</sup> which saw keen interest from investors.

Another factor was the continued popularity of the STAR market (launched in July 2019) which saw 24 of Shanghai's 34 IPOs, and raised RMB 29.4 billion.<sup>13</sup> Of the top 10 largest A-share IPOs in Q1 2020, the SSE-STAR was the listing choice for six, including Beijing Roborock Technology Co., and China Resources Microelectronics Limited.<sup>14</sup> With the SSE-STAR accommodating innovative companies in China through inclusion of WVR and red-chip structures, it is anticipated that it will continue to play an important role in China's IPO market.

## 3. Outlook for the Hong Kong IPO Market in 2020

It is anticipated that global market conditions will continue to be volatile and stemming the COVID-19 pandemic will be crucial to regaining stability in the markets. Nevertheless, the IPO pipeline is building and activity is expected to pick up in

the medium to long-term in major markets in light of economic stimulus and relief packages.

As for Hong Kong, it is expected that companies unaffected by market volatility, particularly those in the healthcare and TMT sectors, will continue IPO preparations by adapting to the current situation and Government regulations through digital roadshows and other means, with possible IPOs including Tencent-backed WeDoctor, an online healthcare provider, and China's e-commerce giant, JD Logistics.<sup>15</sup>

Hong Kong also has the potential to be bolstered by a number of factors including:

- increasing numbers of Chinese companies steering away from listing in the US owing to geopolitical implications and the post-IPO performances of Chinese companies that debuted in the US in Q4 2019;<sup>16</sup>
- the expected increase in Chinese "take-private" deals and possible subsequent relisting in Hong Kong or Shanghai;<sup>17</sup> and
- HKEx's Consultation Paper on Corporate WVR Beneficiaries<sup>18</sup>, which would allow corporates to benefit from WVR.

<sup>10</sup> <https://www2.deloitte.com/cn/en/pages/about-deloitte/articles/pr-q1-2020-ml-hk-ipo-review-outlook.html>

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2020/03/mainland-china-and-hong-kong-2020-q1-review-ipos-and-other-market-trends.pdf>

<sup>14</sup> Ibid.

<sup>15</sup> <https://www.scmp.com/business/banking-finance/article/3077611/shanghai-overtakes-hong-kong-worlds-top-ipo-destination>

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> <https://www.charltonslaw.com/hkex-publishes-consultation-paper-on-corporate-wvr-beneficiaries/>

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