“THE REPORTS OF THE DEATH OF THE CHINESE STOCK MARKET HAVE BEEN GREATLY EXAGGERATED”

Discussions with Loo Choon Chiaw, Managing Partner of Loo & Partners LLP

ALB: Would you please share with us the current state of the capital markets in the region?

LCC: We are entering into the final months of 2015 and it is certainly an opportune moment to take stock of the capital markets in the region. Despite the uncertainty and adverse sentiments from January 2015 to date, the Asia Pacific region was still the leading region in terms of both deal number and proceeds raised via IPOs for 3Q2015, with $57.8bn raised via 466 IPOs, which accounted for 52% of the IPOs worldwide, according to the latest quarterly EV Global IPO Trends: 2015 3Q. I believe that the region will continue to retain its leadership position in the global IPO market for 2015, as, to the best of my knowledge, there will not be any mega IPO in the remaining days of 2015. The top five exchanges by fund raised in the region are the Hong Kong Exchange (HKEX), Shanghai Stock Exchange, Shenzhen Stock Exchange, Stock Exchange of Thailand and Australian Exchange with $19.4bn, $14.4bn, $7.2bn, $3.3bn and $3.3bn respectively, up to 3Q2015. Notably, the number and size of the proceeds raised have declined in 2015 from 2014 on a year-on-year basis.

ALB: What were the factors which have caused the severely affected IPO activities in the region?

LCC: The decline of IPO activities has been caused primarily by the deepening market volatility stemming from economic growth concerns in China and the uncertainty surrounding an interest rate hike by the Federal Reserve, which adversely affected investor confidence and market sentiments.

ALB: What were the most active sectors in the IPO market so far this year?

LCC: The active sectors were those relating to industrial, technology, health care, consumer goods and materials products in general.

ALB: How did the ASEAN region fare in general?

LCC: The ASEAN IPO markets generally has declined in 2015 compared to last year.

ALB: Were there any special reasons for the decline?

LCC: The substantial appreciation of the US dollar against the local currencies has resulted, in many cases, a significant correction of share prices. The substantial outflow of funds from the ASEAN economies further dampened investor sentiments and market confidence in the ASEAN region, which caused the investors to adopt a cautious approach to new IPOs.

ALB: How did Singapore Exchange (SGX) fare this year?

LCC: SGX did not do too well. Even if we were to include the upcoming listing of BHG Retail REIT on the Mainboard later this month, which intends to raise $329.4 million, there will only be 13 new listings on the SGX this year, with approximately $463.6 million raised, compared with 28 listings in the preceding year, which raised $536.5bn in proceeds.

ALB: In comparison with the HKEx?

LCC: While the SGX lags itself as the Asian gateway with over 37% of its total 773 listings comprised international companies (of which approximately 12% are Chinese) Exchange with $19.4bn, up to 3Q2015, compared to HKEx, the SGX has recently reported 129 new listings with an approximate $11.3bn raised, with 24 listings in the preceding year, which raised $17.6bn in proceeds.

ALB: As 2015 will be ending soon, should we be excited about 2016?

LCC: The current consensus from the leading international financial institutions on the economic outlook in the region for 2016 appears to be moderate. For instance, the International Monetary Fund in October 2015 has forecasted a GDP growth rate of 5.4% and 6.3% for Asia and emerging Asia, respectively, while the World Bank in June 2015 has forecasted a GDP growth rate of 6.7% in the East Asia and Pacific, and the Asian Development Bank has forecasted a GDP growth rate of 6% in Asia. As a born optimist, I believe institutional investors looking at the half-filled glass of water, I am optimistic about the long-term opportunity available. For instance, Singapore, in the long run, will stand to benefit from improved trade and capital flows as well as the opening up of new markets as One Belt One Road (OBOR) (or ‘一带一路’ in Chinese) gains traction. Apart from OBOR, business opportunities will flow from the upgrades of the China-Singapore Free Trade Agreement, the “China+3” project between China and Singapore, and the 1994 Suzhou Industrial Park and the 2008 Tianjin Eco-city.

ALB: As a specialist practitioner in this field, would you please share your advice to IPO aspirants to steer through the choppy waters given the challenging times in volatile market?

LCC: IPOs will always be on a look out for investment opportunities, IPO aspirants should be able to attract investors’ attention over other investment opportunities, such as M&As. To attract the investors’ money, not only must an IPO aspirant show that it has an excellent financial track record, it must also impress the investors with the quality of its management team, in particular, the vision of its top management. When an IPO is launched, its success or otherwise will often be affected by the level of commitment of the cornerstone investors, especially when the market confidence is weak.

ALB: Can you further elaborate on the role of cornerstone investors?

LCC: Cornerstone investors become a common feature in most IPOs. The presence acts as a hedge to provide more proceeds to a new issue, it also signals a clear endorsement for the IPO, which will be helpful from the marketing perspective, especially when the cornerstone investors are household names. For instance, China Huarong Asset Management’s IPO on HKEx has raised a total proceeds of $2.3bn, of which approximately 70% of the share offerings were allotted to a diverse band of ten cornerstone investors including the State Grid. Closer to home and albeit at a much smaller scale, Jumbo Group recently made a strong listing debut on the Catalist despite the surrounding adverse business sentiments, with more than 8 times oversubscriptions. The presence of a Temasek-linked fund as a 6.2% cornerstone investor cannot be over-emphasised.

ALB: What were the most active sectors in the IPO market so far this year?

LCC: The active sectors were those relating to industrial, technology, health care, consumer goods and materials products in general.

ALB: Did SGX introduce any measures to gain lost ground?

LCC: SGX has been pro-active. The newly appointed CEO, Loh Boon Chye, has taken the leading role in improving the local stock market and to expand the existing market-maker-rich IPO provider programme to generate trading interest. Market makers are now offering buy and sell quotes continuously throughout the trading day, which makes trading shares easier. A more sophisticated and liquid market is essential for SGX to attract more IPOs both in terms of deal size and quality.

ALB: Did SCX introduce any measures to gain lost ground?

LCC: SCX has been proactive. The newly appointed CEO, Loh Boon Chye, has taken the leading role in improving the local stock market and to expand the existing market-maker-rich IPO provider programme to generate trading interest. Market makers are now offering buy and sell quotes continuously throughout the trading day, which makes trading shares easier. A more sophisticated and liquid market is essential for SCX to attract more IPOs both in terms of deal size and quality.

ALB: Some suggest that the Chinese stock market is dead citing the stock turmoil in mid-2015. Do you share the same view?

LCC: I do not think so. The stock market in China is very different from the matured markets. It is highly speculative. Retail investors behaved differently from institutional investors. Indeed, retail investors have very small exposure to market fluctuations. It is estimated that only about 5.5% of private sector fund raising in China comes from the stock market itself. China’s stock market does not reflect the country’s economic health in the same way as the matured markets. Interestingly, China Securities Regulatory Commission (CSRC) has recently lifted its embargo on new stock market listings, following a fierce imposed in July 2015 during the dramatic fall in stock prices. This must be taken as an indication of the Chinese authorities’ confidence that losses have been well learnt by the investors from the recent stock turmoil. The resurrection of the Chinese IPO markets may witness the listing of the first 28 companies, which had previously received approval, to list on the Shanghai or Shenzhen stock exchanges. Incidentally, there is a further crop of more than 600 companies in China awaiting the CSRC’s final approval to list on stock exchanges. The China’s stock market is very much alive. If I may paraphrase Mark Twain, ‘the reports of the death of the Chinese stock market have been greatly exaggerated’.

ALB: In your opinion, what were the most active sectors in the ASEAN region so far this year?

LCC: The ASEAN IPO markets generally has declined in 2015 compared to last year. Notable, the number of IPOs and proceeds in the ASEAN region has declined in 2015 compared to last year.

ALB: Are the ASEAN IPO markets generally has declined in 2015 compared to last year?

LCC: The ASEAN IPO markets generally has declined in 2015 compared to last year.

ALB: Were there any significant developments in the ASEAN region so far this year?

LCC: The ASEAN IPO markets generally has declined in 2015 compared to last year.