# THE YEAR OF THE REBOUND

Following a weak 2016, the Asia-Pacific IPO market is set to bounce back this year. ALB asks lawyers in key markets to predict trends they expect to see in that space.

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WITH ADDITIONAL INPUTS FROM REUTERS

The year 2016 was a weak one for initial public offerings in the Asia-Pacific region, but all signs point to a rebound in the Year of the Rooster. Deal flow is expected to get a boost from mainland China's recent move to relax approvals for IPOs, according to Reuters, as the country seeks to help control the rapid build-up in corporate debt and cushion its slowing economy. "With a strong pipeline of companies ready to list and investor sentiment unaffected by political shockwaves elsewhere in the world, we expect Greater China exchanges to remain the world's most active markets for IPOs in 2017," says Ringo Choi, Asia-Pacific IPO leader at consulting firm EY.

Equity capital market activity in Asia Pacific dropped in 2016 as weak IPO performance curbed demand for new listings in the region and listed companies slashed secondary offerings because of volatile markets. The $207.4 billion of equity offerings were the lowest since the $159 billion raised in 2013, according to preliminary Thomson Reuters data. Nevertheless, Asia Pacific was the epicenter of global IPO activity last year, accounting for 54 percent of global capital raised and 60 percent of IPOs by volume, marking the region's third year of successive gain in share of global activity by deal number, according to EY. And with investor confidence cautiously creeping back, 2017 could be even better.

## HONG KONG

Hong Kong, the world's top venue for IPOs for a second straight year, is forecast to have about $26 billion of new listings in 2017, slightly higher than the $25 billion in 2016, according to EY. Potential large listings in the city next year include those of Lufax and Alibaba's Ant Financial unit, which was last valued at $60 billion. Either of those IPOs would be the largest by a financial technology company globally, says Reuters. Chinese startups that have raised billions of dollars and experienced fast growth over the past several years are also lining up IPOs in 2017 or 2018.

"Although we have seen the increase of the number of A-share IPOs, Hong Kong will still maintain its position as the most attractive overseas listing venue for most of the Chinese companies," says Tim Wang, co-managing partner of Clifford Chance's China offices. "Financial institutions will continue to lead the league table… and we will see more small-to-medium sized IPOs, Chinese fintech companies will line up for Hong Kong listings in the next couple of years, given their rapid business growth in recent years."

Financial services companies that dominated Asian equity offerings in 2016 will continue the trend next year, reports Reuters. Likely Hong Kong IPOs include Guangzhou Rural Commercial Bank's up to $1.5 billion deal, an up to $1 billion IPO from China United Insurance Holding Corp and Ping An Securities' up to $1 billion deal. Apart from IPOs, some already-listed financial services companies are expected to seek secondary offerings in different exchanges to raise money for expansion,

including Chinese brokerage Guotai Junan Securities Co Ltd, which plans to raise at least $2 billion in Hong Kong.

Of course, the big point of discussion at present is a plan to reform the city's listing regulation by Securities and Futures Commission (SFC) and Hong Kong Exchanges & Clearing (HKEx). In June last year, the two bodies proposed changes to Hong Kong's stock market listing regime that are designed to curb the regulatory powers of the exchange and hand more authority to the watchdog, says Reuters. The proposals aim to address possible conflicts of interest in the current framework, where HKEX acts as both the profit-driven market operator and regulator of IPOs.

However, the proposal was mired amid growing controversy last year, pitting the city's banks and The Chamber of Hong Kong Listed Companies (CHKLC), who oppose the changes, against international asset managers, who back the reform, according to Reuters. The CHKLC and the banking sector are pushing back on the reforms, which they fear could give the SFC too much power and potentially stymie the IPO market. This has put them at odds with asset managers and corporate governance activists, who have come out publicly in favour of reform.

## JAPAN

Last year, Japan's largest IPO was that of Kyushu Railway, which raised around $4 billion as the government privatised part of its railway system. While it made waves as the first railway listing since the 1990s, the Kyushu IPO was dwarfed by the Japan Post IPO from 2015 that raised $12 billion. Between these two IPOs, however, the listings generated considerable enthusiasm for new issues. And analysts say that 2017 might even see a hat trick of massive state asset sales, either through a second tranche of Japan Post or Tokyo Metro, whose privatisation has long been speculated.

"The IPO market will be generally active this year due to high market price, while this is subject to the uncertainty of the policies of the new U.S. government and slower growth of China," says Katsumasa Suzuki, a partner with Mori Hamada & Matsumoto. "Further, the Japanese government started to elect the lead managers for its sales of Japan Post Holding shares. If the deal size is the same as its IPO in 2015, the follow-on offering may have negative impact on the IPO market this year."

Suzuki expects pre-IPO roadshows and the distribution of pre-deal research report, which were both made legally possible in 2015, to become increasingly common. "The Tokyo Stock Exchange (TSE) announced guidelines for re-listing after MBO last year, after considering several precedents which it thinks were inappropriate from the general investors' point of view," he adds. "The TSE is not expected to change the past practice drastically, but we need to check whether this is indeed the case."

## KOREA

South Korea is expected to have a strong year for new listings, with mobile gaming company Netmarble Games looking to raise $1.8 billion and Lotte Group likely reviving the $4.5 billion IPO of Hotel Lotte, according to Reuters.

"The SGX introduced rules some years ago benefiting mineral, oil and gas companies in their listings and oil and gas industry listings could return in the mid-term once the oil price environment stabilises,"

**— Sharon Lau, Latham & Watkins**

Another anticipated big IPO is that of Celltrion Healthcare, the marketing and sales affiliate of biopharmaceutical giant Celltrion, which has applied to list on the Kosdaq market, or the Korean equivalent of Nasdaq in the U.S. Meanwhile, the two affiliates of Korea Electric Power Corp. – Korea South-East Power Co. and Korea East-West Power Co. – are also expected to list, one in each half of the year.

"It is expected that the Korean IPO market will have another big year – the biggest since 2010 – when total offering value reached 10 trillion won ($860 million) in 2010," says Jin Kook Lee, a partner at Yulchon. "Market players are anticipating about 13 trillion won to be offered this year. Due to a weak global economy and a rather inactive capital market, a number of big Korean companies reluctantly shelved their listing plans last year. We expect to see many of those companies getting back on track, and see the RFPs for underwriters and legal counsel being delivered from other applicants."

In addition, startups have received a shot in the arm, says Lee, from the Kosdaq's so-called "Tesla Test." "This allows start-ups – both from Korea and overseas – which haven't recorded any profits to be listed, only if they hit the threshold market cap and show growth capabilities," he notes. "Also from 2017, if the big investment banks, in their capacity as lead underwriter, evaluate and recommend the growth capabilities of startups, those startups are also allowed to list on Kosdaq."

Lee also expects the Korea Exchange (KRX) will consider making the overall listing requirements more flexible. "We understand the KRX wants more new technology and biotech companies on the market, and is making various efforts to open the gates to them."

## SINGAPORE

According to a Reuters report, Singapore is set to be 2017's hottest spot for IPOs in Southeast Asia. The Singapore Exchange (SGX) has promoted itself as a centre for business trusts and real estate investment trusts (REITs), which offer stable dividends. That has helped it partly make up for a drop in major share sales as large Chinese firms favour the higher valuations and liquidity of Hong Kong.

Fundraising via IPOs in Singapore hit $1.7 billion last year, up fivefold from 2015 when it slumped to its lowest since 1998, Thomson Reuters data showed. "REITs and business trusts have been the flavour for some time because they give a steady income stream for investors, and typically, the play in Singapore has been dividend-focused rather than pure capital gains-focused," says Srividya Gopalakrishnan, managing director of corporate finance advisor Duff & Phelps Singapore. Major expected IPOs this year include that of Singapore Telecommunications Ltd's broadband unit NetLink Trust – a deal that could raise about $2.5 billion.

"SGX will likely see a few jumbo listings, mostly in the REIT and business trust space," says Sharon Lau, the Singapore office managing partner of Latham & Watkins. "As these are yield-driven investments, investor interest is expected to remain strong since macroeconomic factors remain uncertain, and the SGX benefits from being an established market for such vehicles."

Last year, SGX announced a plan to allow listings of companies with different classes of shares as it looked to attract IPOs. While this is expected to result in more companies considering Singapore and help distinguish the market from regional peers, the structures have been criticised by corporate governance activists as they typically give one set of shareholders greater voting rights than others. "The investor community is currently waiting to see whether SGX will allow dual-class share structures, which has been the subject of significant public commentary," says Lau.

She adds that there is currently interest in IPOs from companies in the consumer sector, particularly in FMCG. "Valuations of existing consumer companies globally are relatively high which could spur on other aspiring listing candidates," says Lau. "In particular, mass market products continue to be relatively stable as they are priced for consumption from the low to middle-income segment of the population."

Lau additionally notes that it will be interesting to see if recent oil production output cuts on will have any short to mid-term impact