



Promising Prospects for Hong Kong as a Listing Platform for ASEAN Enterprises

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The financial sector is one of the pillar industries of the Hong Kong economy, contributing around 18% of GDP. In 2017, Hong Kong Exchanges and Clearing Limited (HKEX) remains one of the most vibrant securities markets in the world with total market capitalization reaching a record level at HK\$34 trillion, 37.3% higher than a year earlier. Though the total funds raised through initial public offerings (IPO) retreated to HK\$128.2 billion, the number of IPO rose to a new high at 161, raising the total number of listed companies to 2,118 at the end of 2017. Over the past year, equity fundraising activities by overseas companies saw a remarkable jump. According to statistics from the World Federation of Exchanges, there were 131 overseas companies listed in Hong Kong in 2017, up from 101 a year ago, indicating a more internationalized equity mix in Hong Kong securities market.

Based on our internal estimates, most of the newly listed overseas companies in Hong Kong came from ASEAN countries (mainly Singapore and Malaysia). In 2017, there were a total of 22 ASEAN companies listed in Hong Kong, suggesting a very strong appetite for IPOs from ASEAN companies, compared to 1 and 10 listings in 2015 and 2016, respectively. In terms of the funds raised, ASEAN IPOs amounted to HK\$7.05 billion in 2017, where 10 of the deals were worth at least HK\$100 million (compared to 3 in 2016), and 12 ASEAN companies chose to list on the Main Board (compared to 4 in 2016). These figures reflected an upward trend for both the number of IPOs and deal sizes of ASEAN companies.

Following Mainland China, ASEAN is another large and fast-growing economy in Asia with tremendous potential and soaring funding needs. Also, Hong Kong has actively enhanced its economic ties with ASEAN. These macro factors will create a favorable environment for Hong Kong financial and professional services to expand into the ASEAN market and make Hong Kong an ideal listing platform for ASEAN enterprises.

1. Surging equity fundraising needs boosted by strong economic development

In recent years, ASEAN achieved stellar economic growth. The aggregate GDP of its ten member states approached US\$2.6 trillion in 2016, making ASEAN the sixth largest economy in the world. With 630-million people and more than half of them under 30 years old, the region is poised to evolve into a sizeable consumer market in future. In Dec 2017, the Asian Development Bank (ADB) expected that buoyant trade and investment activities in ASEAN would continue and thus upgraded the GDP forecast for ASEAN to 5.2% in 2017 and 2018.

Alongside strong economic development, the ASEAN corporate sector has started a rapid expansion cycle, in which the region witnessed a rise of large multinational enterprises (MNEs).

Figures from ASEAN Investment Report 2017 found that the combined assets held by the top 100 ASEAN MNEs were as high as US\$3.1 trillion. Among these MNEs, 57 had assets over US\$10 billion. Fuelled by thriving business development and rising capital expenditures, there are substantial funding needs from ASEAN enterprises. According to statistics by the World Bank, ASEAN private sector was inclined to obtain funding by means of credits in the period from 2012 to 2016. It led to a relatively stagnant development for the ASEAN securities markets, with some even contracting in the abovementioned period. The higher growth in credits could be explained by the persistent low interest rate environment around the globe, which encouraged corporates to choose loans as the primary financing option, thus crowding out the demand for listing.

However, starting from 2017, the global economy has started a new monetary tightening cycle, in which lending costs are likely to pick up. The reversal of global monetary policies may renew the incentives for the corporate sector to utilize equity financing. As a matter of fact, growth of the ASEAN securities markets has resumed. A market report by Deloitte showed that the ASEAN capital markets completed 144 IPO deals as of Nov 2017 and raised a total of US\$7.78 billion (the highest amount in the last 3 years). Taking those ASEAN companies listing in Hong Kong into account, 2017 marked an extremely active year for ASEAN companies engaging into IPO activities.

Moreover, ADB published a report in Feb 2017, urging that ASEAN needs to invest US\$210 billion annually from 2016 to 2030, in order to fill the infrastructure gap in transport, energy, telecommunications and other public service facilities. Indeed, ASEAN member states generally maintain sound financial conditions, sufficient foreign reserves and budgetary discipline. Hence, ASEAN governments tend to adopt public-private partnership (PPP) model in building infrastructure projects. PPP projects have the merits of involving the private sector's participation in large-scale infrastructure projects, reducing governments' financial burden. And PPP projects will spur private investment expenditures. Due to increasing infrastructure spending in the region, the demand for equity financing from ASEAN enterprises will likely continue to grow.

2. Closer cooperation with ASEAN attracts more enterprises to list in Hong Kong

For years, Hong Kong has maintained close economic ties with ASEAN. The private sectors of both sides have also built broad understanding through various levels of exchanges. In terms of merchandise trade, Hong Kong is ASEAN's sixth largest trading partner, while ASEAN is Hong Kong's second largest trading partner. In the first 11 months of 2017, the bilateral trade between Hong Kong and ASEAN climbed to a historical high at US\$109.2 billion. And Hong Kong is one of the major sources of foreign direct investment in ASEAN. In 2016, Hong Kong invested US\$9.88 billion in ASEAN member states. Besides, Hong Kong is a popular destination for MNCs to set up a regional base for their businesses in Asia. The presence of ASEAN enterprises in Hong Kong is also increasing. As of June 2017, ASEAN enterprises established 58 regional headquarters, 142 regional offices and 386 local offices in Hong Kong. In addition, Hong Kong is geographically close to ASEAN compared to other global financial centers such as New York and London. Flights between Hong Kong and major ASEAN cities are just about three to four hours long. Given the long-standing cooperation between Hong Kong and ASEAN, Hong Kong financial and professional services sector will have immense potential to expand in the ASEAN market.

In Nov 2017, Hong Kong and ASEAN signed a Free Trade Agreement and a related Investment

Agreement. The agreements will bring better and freer market access for Hong Kong service providers. Also, business travelers and professionals will be given more convenience on immigration arrangements. These preferential treatments will generate positive impacts for the economic cooperation between the two sides. In fact, the HKSAR Government attaches great importance to the commercial relations with ASEAN and implements a series of initiatives to enhance mutual exchanges and connection. For instance, the 2017 Policy Address announced the establishment of a third Economic and Trade Office in ASEAN, with the latest information revealing that the new office will be set up in Bangkok. High-level exchanges with ASEAN governments are getting more extensive as well. Since taking office in Jul 2017, Hong Kong Chief Executive Mrs Carrie Lam visited Singapore, Thailand, Myanmar and Vietnam in August, September and November respectively. Given HKSAR Government's continuous push for economic integration with ASEAN, closer official ties will facilitate further expansion by Hong Kong businesses into the ASEAN market. In 2017, HKEX opened its first overseas office in Singapore as a regional base for business development in Asia. The new office is tasked with extending HKEX's services in ASEAN by reaching out to more potential clients in the region.

With deepening bilateral ties between Hong Kong and ASEAN, Hong Kong financial market has the potential to leverage its comparative advantages by meeting the increasing capital needs of ASEAN member states and become a primary listing platform for ASEAN enterprises.

3. Benefits for ASEAN enterprises listing in Hong Kong

In preparation for listing in a foreign capital market, firms usually have to pay higher costs to comply with the laws and regulations of the foreign exchange. However, apart from raising capital, companies listing in Hong Kong may enjoy further benefits, increasing the value of going public.

Firstly, as a global financial center, Hong Kong provides businesses with world-class infrastructure facilities, a fair and transparent legal system, free and open financial markets, and a versatile talent pool. While most ASEAN member states have their own securities markets, due to the differences in institutional environment and development level, HKEX still has a leading position in various dimensions such as fundraising capacity in both initial and secondary offerings, level of internationalization, vibrancy of capital market, and governance requirements for listing corporations. For example, HKEX recorded US\$11 billion of average daily turnover in 2017, whereas Thailand and Singapore exchanges (top two securities market in ASEAN) both had less than US\$1.5 billion of average daily turnover. By listing in Hong Kong, ASEAN enterprises can obtain better support currently not available in their domestic markets.

Secondly, free flows of capital and the presence of international investors. Hong Kong has a broad and diversified investor base attracted by a number of factors including: no restrictions on cross-border capital and foreign exchange, the pegged exchange rate system between HK\$ and US\$, and a highly liberalized investment environment. A number of large international fund management companies have offices in Hong Kong. Both domestic and international investors accounted for around 40% of the total turnover in Hong Kong. Most of the trades from international sources were done by institutional investors. In this regard, ASEAN enterprises can use Hong Kong as a listing platform to access the institutional investors from China, the U.S., the Europe, Japan and Hong Kong. And the enhanced recognition will facilitate their business expansion in overseas markets.

Thirdly, adoption of international standards and high-level regulatory requirements. In comparison to ASEAN markets, Hong Kong market is more mature with a higher global ranking. Therefore, ASEAN enterprises listed in Hong Kong can signal to investors that their internal governance is on par with international standards. The improved corporate image will have positive implications for the firm's valuation. In addition, there are over 2,000 listed companies in Hong Kong spanning across a wide spectrum of traditional and emerging industries (ASEAN securities markets have less than 1,000 listed companies each). These market conditions provide ASEAN enterprises with a broader reference of share prices, allowing issuers to set a reasonable range of listing prices. In addition, some studies found that firms listed on a more prestigious overseas market will enjoy higher valuation. Previously, some ASEAN companies revealed that a higher IPO pricing was one of the major considerations for them to list in Hong Kong.

4. Listing reform can cement Hong Kong's competitiveness

Despite rising ASEAN IPO projects in recent years, Hong Kong still face stiff competition in the global IPO market. For instance, a Southeast Asia digital startup Sea Group, which was backed by Tencent, decided to list in New York, raising about US\$0.9 billion of funds. The deal was the fourth largest IPO in ASEAN over the last three years. In fact, whether in market size or prestige, Hong Kong does not compare any less favorably with other global financial centers. Hong Kong even possesses a time-zone advantage for serving the ASEAN market. However, Asian startups still prefer to list in New York, where dual-class stock structures are allowed. In particular, Sea Group also listed in New York under this "unequal" voting system.

At present, ASEAN already has a number of unicorn startups, which are valued at over US\$1 billion, including: ride-hailing platforms Grab and Go-jek, hotel and flight booking platform Traveloka, online shopping company Lazada. These fast-growing startups are very likely to seek IPO on a foreign exchange. In Dec 2017, HKEX proposed a listing reform to attract emerging and innovative companies with dual-voting-right structures. The new measures are expected to enhance the global competitiveness of Hong Kong stock market and lure more tech companies coming to Hong Kong for listing, especially those in ASEAN.

Furthermore, to be eligible for listing on HKEX, overseas companies outside Hong Kong, Mainland China, the Cayman Islands and Bermuda have to demonstrate that their shareholder protection standards are at least equivalent to those of Hong Kong. For the past few years, HKEX has accepted a number of overseas jurisdictions, providing respective country guides in assisting overseas companies to comply with Hong Kong's shareholder protection standards. Among the ten ASEAN member states, Singapore is one of the eligible overseas jurisdictions. Recognizing the ongoing improvement of corporate governance in ASEAN, more ASEAN countries could be included as eligible overseas jurisdictions in future, providing more convenience for their enterprises to list in Hong Kong.

Looking ahead, with solid growth prospects for the ASEAN corporate sector and deepening bilateral ties between Hong Kong and ASEAN, the demand for ASEAN enterprises to list in Hong Kong is expected to increase, becoming a new driver for the development of Hong Kong's capital market. To capitalize on the opportunities ahead, Hong Kong should strive to improve its institutional structure and regulations, strengthen its comparative advantages, and become the most preferred listing platform for ASEAN enterprises.