

## IPO Activities during 2006 and their Performance

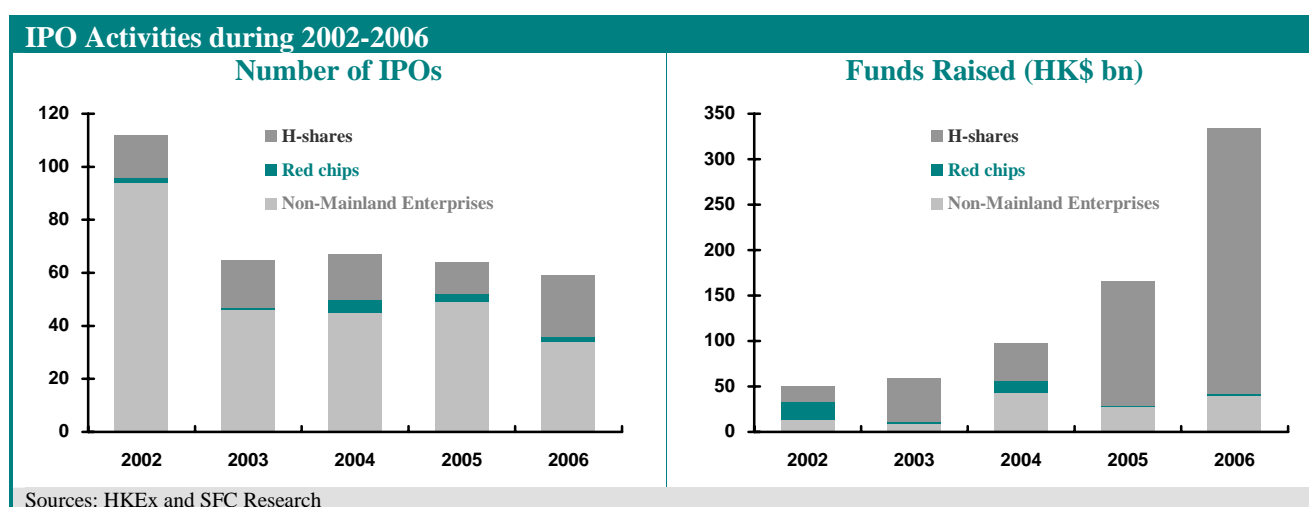
### Summary

1. *Hong Kong was the second largest IPO market in the world after London in 2006. During the year, there were a total of 59 IPOs, raising a total amount of HK\$333.9 bn (US\$42.8 bn). Mainland enterprises (i.e. H-shares and red chips) accounted for 88% of this amount.*
2. *Most IPOs performed well on debut and remained strong thereafter. The average gain for the 59 IPOs was 26% on debut and 32% one month after their listings. These gains were much larger than those made by the 64 IPOs listed during 2005 at 4% and 9% respectively.*
3. *Relative to the performance of HSI, the average gain of the 59 IPOs was 28% higher one month after their listings. For the IPOs listed during 2005, the average gain was only 7% higher than that of the HSI one month after their listings.*
4. *There appears to be no direct relation between IPO performance and size of company or the sector it belongs to. Nevertheless, the performance of IPOs of Mainland enterprises was in general better, reflecting the strong investor interest in these stocks and the robust economic growth in the Mainland.*
5. *2006 was probably a bumper year, with IPOs of Mainland stocks recording robust performance. Performance of IPOs in 2005 was relatively less satisfactory.*
6. *Whilst the overall performance of IPOs was strong, there were IPOs which traded below their IPO prices or underperformed the HSI. In 2006, nine IPOs traded below their IPO prices one month after their listings, and the performance of 12 IPOs was worse than that of the HSI, with some of them underperforming by 25-50%.*

## IPO Activities during 2006 and their Performance

### Background and Objective

7. During 2006, there were a total of 59 IPOs (Main Board and GEM combined), raising a total amount of HK\$333.9 bn (US\$42.8 bn)<sup>1</sup>. This was more than twice the amount in 2005. For 2006, Hong Kong was in fact the second largest IPO fund-raising market in the world after London (US\$56.3 bn).
8. The objective of this paper is to provide the profile of IPO activities during 2006. The post-IPO performance and factors possibly associated with such performance will also be provided.



### Profile of IPOs during 2006

#### By Stock Type

9. Mainland enterprises (i.e. H-shares and red chips) accounted for a large share of funds raised through IPOs. Of the HK\$333.9 bn raised by the 59 IPOs during 2006, HK\$294.6 bn (88.2% of the total) was raised for 25 Mainland enterprises. Of this,
  - HK\$291.8 bn was raised for 23 H-shares; and
  - HK\$2.8 bn for 2 red chips.
 It should be noted that 2006 saw the listings of mega IPOs such as Industrial and Commercial Bank of China (ICBC) and Bank of China (BOC) which together accounted for 63% of the total funds raised.
10. On average, a Mainland enterprise raised HK\$11.78 bn, compared to the average of HK\$1.15 bn for non-Mainland enterprises. Excluding ICBC and BOC, the average amount of funds raised was HK\$3.60 bn for a Mainland enterprise, which is 3 times the size of a non-Mainland enterprise.

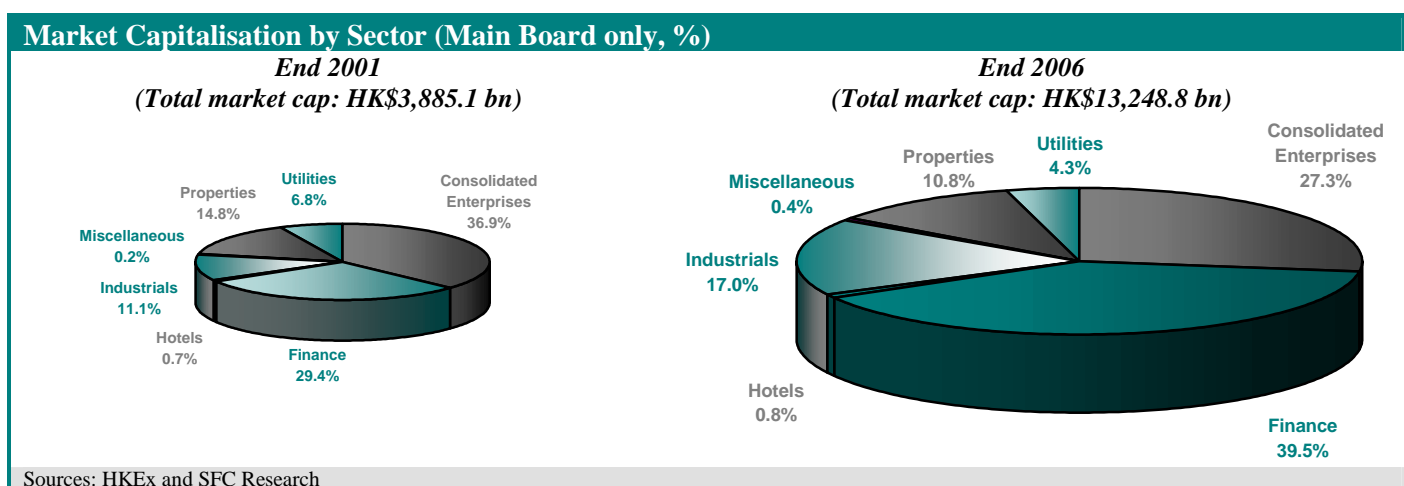
<sup>1</sup> This paper discussed equity funds only. Following the practice of HKEx, the 3 new listings which were not offered to the public (introduction) and two REITs were excluded.

## By Market Cap

11. As of the end of 2006, the total market cap of the 59 IPOs was HK\$1,127 bn or an average size of HK\$19.1 bn. On average, a Mainland enterprise had a market cap of HK\$35.6 bn as of the end of 2006, compared to the average market cap of HK\$7.0 bn for non-Mainland enterprises.

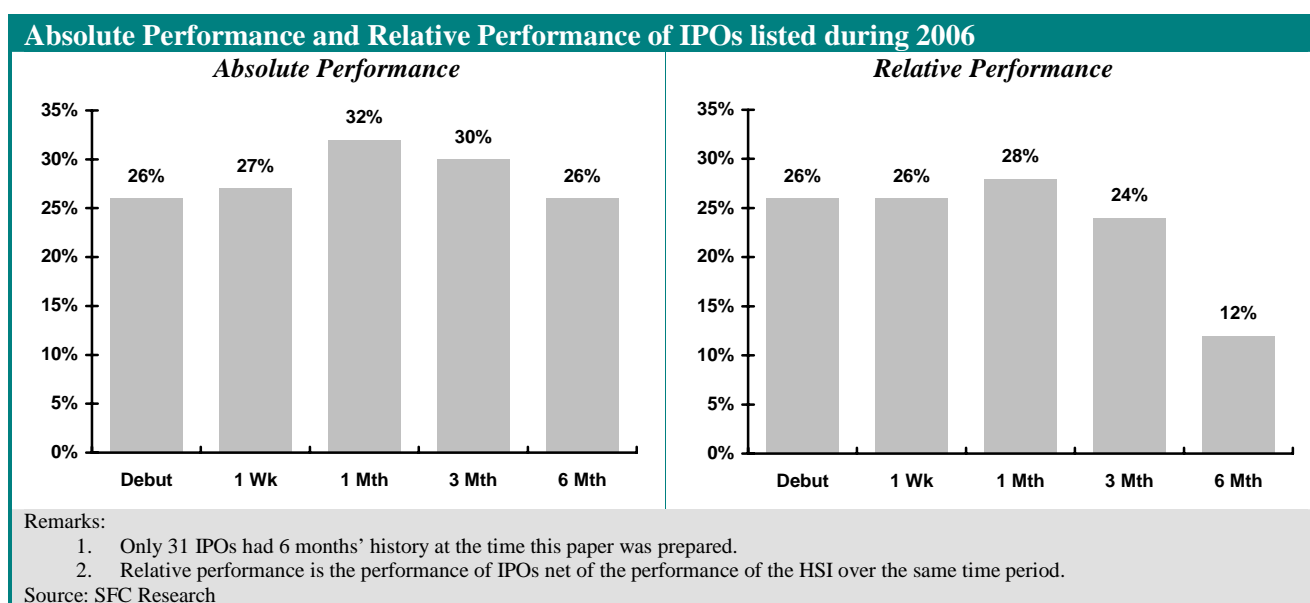
## By Sector

12. The listing of Mainland enterprises seemed to have a significant impact on the composition of the Hong Kong stock market. Based on the classification system of HKEx, the finance sector grew significantly from HK\$1,142.4 bn (29.4%) of total market cap at end 2001 to HK\$5,229.5 bn (39.5%) at end 2006, whilst the industrial sector grew from HK\$431.3 bn (11.1%) to HK\$2,253.7 bn (17.0%).
13. Among other factors, the growth in the finance sector was due to the listing of a number of large Mainland financial enterprises during the period. These included:
- PICC P&C and China Life Insurance in 2003;
  - Ping An Insurance in 2004;
  - Bank of Communications and China Construction Bank in 2005; and
  - BOC, China Merchants Bank and ICBC in 2006.
14. For the industrial sector, the rise was due to the growth in the market cap of Mainland energy companies. Compared with their end 2001 market cap,
- PetroChina increased 858% from HK\$24.3 bn to HK\$232.5 bn;
  - Sinopec increased 573% from HK\$17.9 bn to HK\$120.8 bn; and
  - CNOOC increased 430% from HK\$60.4 bn to HK\$320.2 bn as at end of 2006.



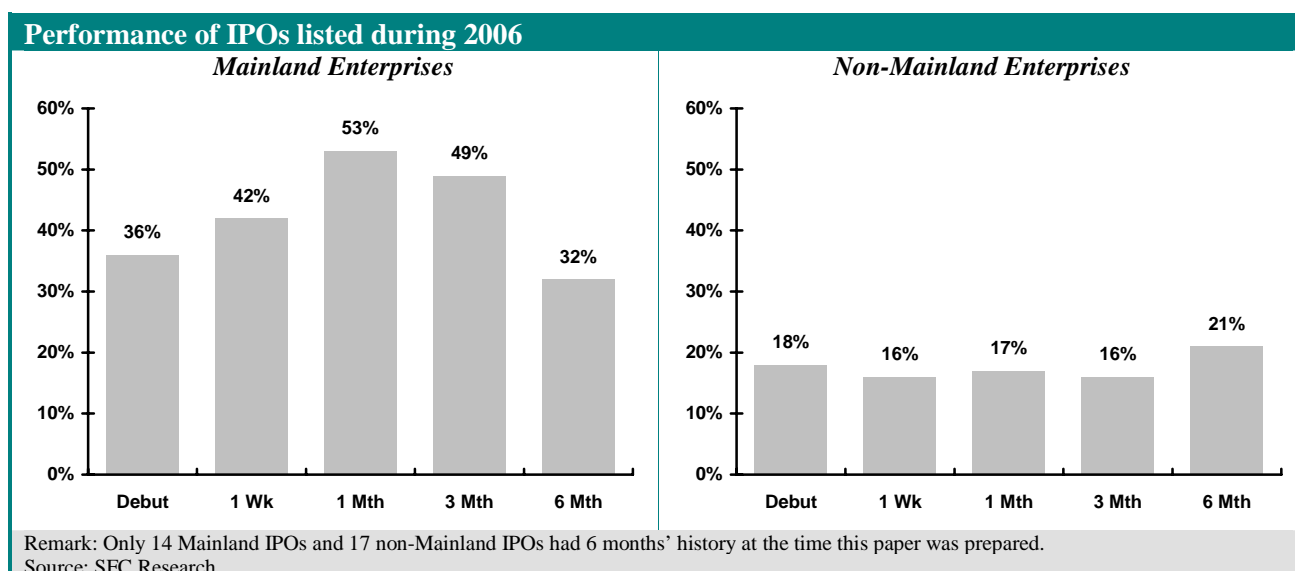
## Performance of IPOs

15. Most IPOs performed well on debut and remained strong thereafter. The average gain for the 59 IPOs was 26% on debut and 32% one month after their listings. These gains were much larger than those made by the 64 IPOs listed during 2005 at 4% and 9% respectively. (Please refer to the Appendix for greater detail of IPO performance in 2006 as well as 2005.)
16. It is also useful to understand relative performance (i.e. comparing the absolute performance of IPOs with the performance of the HSI). The average gain of the 59 IPOs was 28% higher than that of the HSI one month after their listings. For the IPOs listed during 2005, the average gain was only 7% higher than that of the HSI one month after their listings.
17. It should be noted that whilst the overall performance of IPOs was strong, there were IPOs which traded below their IPO prices or underperformed the HSI. In 2006, nine IPOs traded below their IPO prices one month after their listings and the performance of 12 IPOs was worse than that of the HSI, with some of them underperforming by 25-50%. For the IPOs listed during 2005, 23 IPOs traded below their IPO prices and 26 IPOs underperformed the HSI one month after their listings.



## Performance of IPOs by Stock Type

18. The average performance of IPOs of Mainland enterprises was significantly better than the overall average, reflecting the strong investor interest in these stocks and the robust economic growth in the Mainland. For instance, for the 25 IPOs of Mainland enterprises, the average gain one month after their listings was 53%, compared with 17% for the 34 IPOs of non-Mainland enterprises. It is interesting to note that the HSCEI surged 94% during 2006 whilst the HSI gained 34%. The same phenomenon – that the average performance of IPOs of Mainland enterprises was better than that of non-Mainland enterprises – is also observed for the IPOs during 2005.



### Performance of IPOs by Size of Company

19. There appears to be no direct relation between size of company and IPO performance. In other words, large cap companies did not necessarily produce larger gains and for IPOs in 2006 analysed below, the small cap companies underperformed relative to the average. Similarly, for IPOs in 2005, while large cap companies did not necessarily produce larger gains, the small cap companies underperformed relative to the average.

**Performance of IPOs listed during 2006 by Size of Company**

Size	Number of IPOs	Debut	1 Wk Change	1 Mth Change	3 Mth Change	6 Mth Change
<HK\$1 bn	21	18%	21%	16%	10%	2%
HK\$1-5 bn	24	36%	36%	46%	40%	33%
>HK\$5 bn	14	19%	20%	33%	43%	77%
<i>Total</i>	59	26%	27%	32%	30%	26%

Remark: Only 31 IPOs had 6 months' history at the time this paper was prepared.  
Source: SFC Research

### Performance of IPOs by Sector<sup>2</sup>

20. Most sectors performed well on debut and remained strong thereafter. For instance, IPOs in the finance sector had an average gain of 22% on debut. Such gains extended to 36% one month after their listings. Similarly, IPOs in most other sectors had strong gains on debut and extended gains one month after their listings. The exception is the property sector where the gain was only 5% on debut and extended gains slightly to 6% after one month. As all companies in the property sector are non-Mainland enterprises, this may at least partially explain why the sector underperformed. In other words, the better performance of most other sectors appears to reflect the bullish performance of Mainland enterprises rather than sector-specific factors. Again, for 2005, no sector appeared to have a definite better performance over other sectors.

<sup>2</sup> Classification follows that of HKEx.

Performance of IPOs listed during 2006 by Sector						
Sector	Number of IPOs	Debut	1 Wk Chg	1 Mth Chg	3 Mth Chg	6 Mth Chg
Finance	4	22%	23%	36%	43%	57%
Utilities	0	NA	NA	NA	NA	NA
Properties	5	5%	7%	6%	16%	62%
Consolidated Enterprises	8	28%	36%	40%	31%	35%
Industrials	33	25%	23%	30%	25%	10%
Hotels	1	73%	72%	101%	101%	NA
Miscellaneous	2	29%	32%	32%	44%	143%
GEM stocks	6	33%	44%	42%	42%	5%

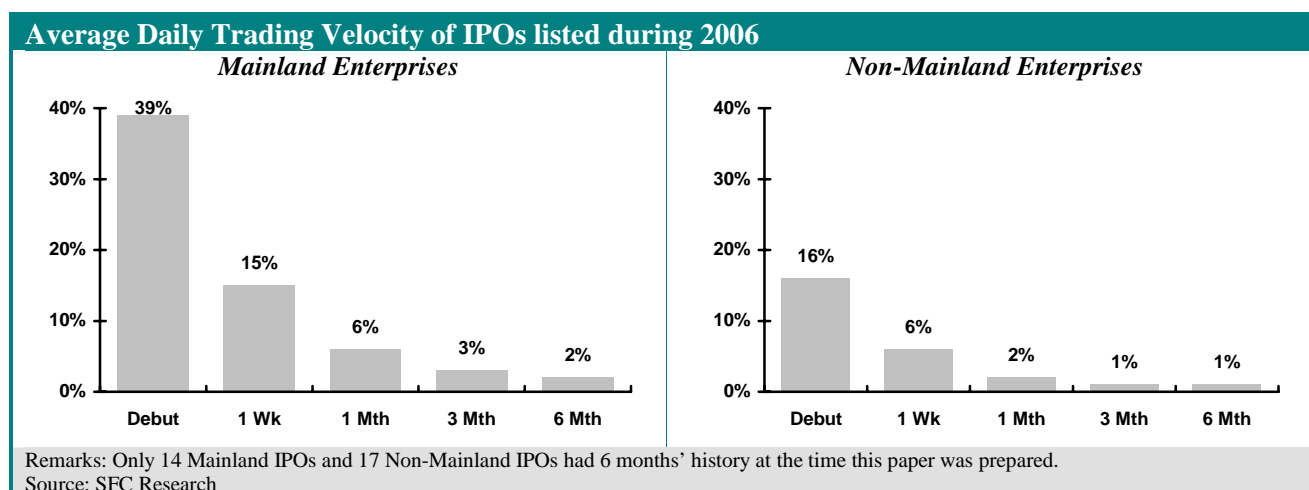
Remarks:

- Only 31 IPOs had 6 months' history at the time this paper was prepared.
- Sectors are based on HKEx classification.

Source: SFC Research

## Trading of IPOs

21. Another important aspect of IPOs is the trading activity after listing. However, the trading value of each stock varies significantly such that the aggregate trading value can be dominated by a few stocks. For instance, BOC and ICBC accounted for over 40% of the turnover of all the 59 IPOs on debut, and continued to dominate the trading of newly listed IPOs thereafter. Therefore, to analyse the trading of IPOs, trading velocity has been utilised, i.e. relating the number of shares traded to the total number of issued shares.
22. Most IPOs were traded actively on debut, but trading declined significantly afterwards. On average, 26% of the issued shares were traded on debut for all 59 IPOs. During the first month after listing, this fell to 4% which is in line with market average.
- For the 25 Mainland enterprises, an average of 39% of the issued shares were traded on debut. This fell to 6% during the first month after listing.
  - For the 34 non-Mainland enterprises, an average of 16% of the issued shares were traded on debut. This fell to 2% during the first month after listing.



23. Though, at a somewhat different magnitude, the same pattern can be observed for IPOs listed during 2005. On debut, an average of 9% of the issued shares were traded for all 64 IPOs. During the first month after listing, this fell to 1%.

## Conclusion

24. It should be noted that whilst the overall performance of IPOs was strong, there were IPOs which traded below their IPO prices or underperformed the HSI. In 2006, nine IPOs traded below their IPO prices one month after their listings and the performance of 12 IPOs was worse than that of the HSI, with some of them underperforming by 25-50%. 2006 was probably a bumper year, with IPOs of Mainland stocks recording robust performance. Performance of IPOs in 2005 was relatively less satisfactory.

## Appendix – Performance of IPOs

Performance of IPOs listed during 2006					
	Debut	1 Wk Chg	1 Mth Chg	3 Mth Chg	6 Mth Chg
<b>Total Number of IPOs</b>	59	59	59	59	31
<b>Average Gain in Share Price (above IPO price)</b>	26% (26%)	27% (26%)	32% (28%)	30% (24%)	26% (12%)
<b>Number of IPOs whose share price increased after IPO</b>	53 (52)	49 (50)	50 (47)	43 (42)	19 (19)
<b>% Increase</b>					
>100%	0 (0)	1 (0)	4 (2)	4 (4)	3 (1)
50-100%	8 (8)	10 (11)	12 (13)	13 (13)	5 (6)
25-50%	19 (20)	16 (17)	13 (10)	11 (6)	8 (4)
0-25%	26 (24)	22 (22)	21 (22)	15 (19)	3 (8)
<b>Number of IPOs whose share price closed flat after IPO</b>	1 (0)	0 (0)	0 (0)	1 (0)	0 (0)
<b>Number of IPOs whose share price decreased after IPO</b>	5 (7)	10 (9)	9 (12)	15 (17)	12 (12)
<b>% Decrease</b>					
0-25%	5 (7)	9 (8)	7 (9)	9 (10)	6 (2)
25-50%	0 (0)	1 (1)	2 (3)	5 (6)	5 (6)
50-100%	0 (0)	0 (0)	0 (0)	1 (1)	1 (4)
Remarks:					
1. Only 31 IPOs had 6 months' history at the time when this paper is prepared.					
2. Relative performance (figures in brackets) is the performance of IPOs net of the performance of the HSI over the same time period.					
Source: SFC Research					

Performance of IPOs listed during 2005					
	Debut	1 Wk Chg	1 Mth Chg	3 Mth Chg	6 Mth Chg
<b>Total Number of IPOs</b>	64	64	64	64	64
<b>Average Gain in Share Price (above IPO price)</b>	4% (4%)	4% (4%)	9% (7%)	24% (18%)	41% (32%)
<b>Number of IPOs whose share price increased after IPO</b>	38 (41)	36 (39)	38 (38)	44 (41)	46 (40)
<b>% Increase</b>					
>100%	0 (0)	0 (0)	0 (0)	6 (5)	13 (12)
50-100%	0 (0)	0 (1)	2 (2)	9 (8)	6 (3)
25-50%	6 (6)	6 (5)	13 (12)	10 (9)	8 (8)
0-25%	32 (35)	30 (33)	23 (24)	19 (19)	19 (17)
<b>Number of IPOs whose share price closed flat after IPO</b>	7 (0)	7 (0)	3 (0)	1 (0)	0 (0)
<b>Number of IPOs whose share price decreased after IPO</b>	19 (23)	21 (25)	23 (26)	19 (23)	18 (24)
<b>% Decrease</b>					
0-25%	19 (23)	20 (24)	20 (21)	13 (15)	12 (16)
25-50%	0 (0)	1 (1)	3 (5)	6 (7)	5 (6)
50-100%	0 (0)	0 (0)	0 (0)	0 (1)	1 (2)
Remark: Relative performance (figures in brackets) is the performance of IPOs net of the performance of the HSI over the same time period.					
Source: SFC Research					