Equity Capital Markets Watch

Singapore H1 2017

July 2017

pwc

Contents

"Singapore's H1 2017 numbers suggest that apart from REITs and business trusts, niche sectors in the consumer space and professional services will be the next big growth opportunity for the local exchange. As SGX bolsters efforts in supporting technology start-ups, we can also expect to see more issuances from technology-driven activities."

– Tham Tuck Seng, Capital Markets Leader, PwC Singapore

Note
In line with PwC's Global Equity Capital Markets Briefing, the Singapore study only includes listings with a value above US$5 million. FInancial figures may differ due to exchange rate fluctuations.

Initial public offering (IPO)

Singapore's equity capital market persevered through the first half of 2017, having raised US$329 million with eight listings (Figure 1), among which include the listing of the first China-based business trust, Dasin Retail Trust, and Singapore's largest recruitment firm, HRnetGroup. Meanwhile, the volume of IPO funds raised by the end of 2017 is likely to surpass 2016 levels as we anticipate the listing of NetLink Trust, which alone is expected to raise around US$1.6 billion in the third quarter of the year[1].

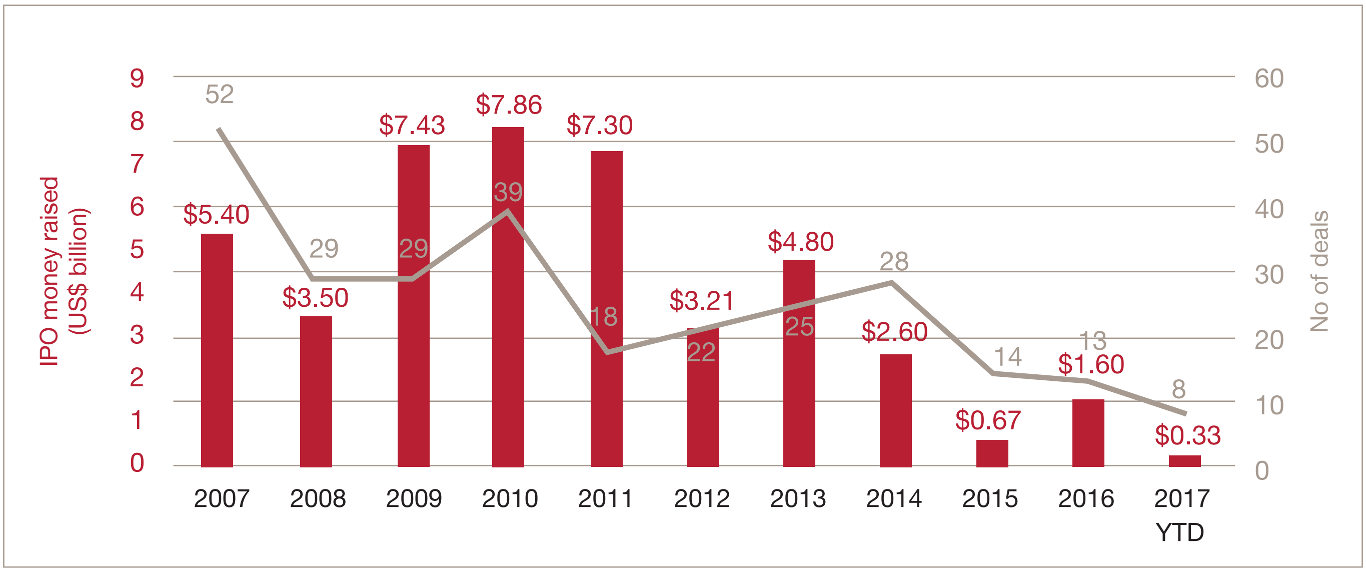
Figure 1: IPO activity value and volume in the Singapore Exchange (SGX)

	H1 2017	H1 2016	Full year FY16
No. of IPOs	8	7	13
Total funds raised (US$ million)	329	1,202	1,666

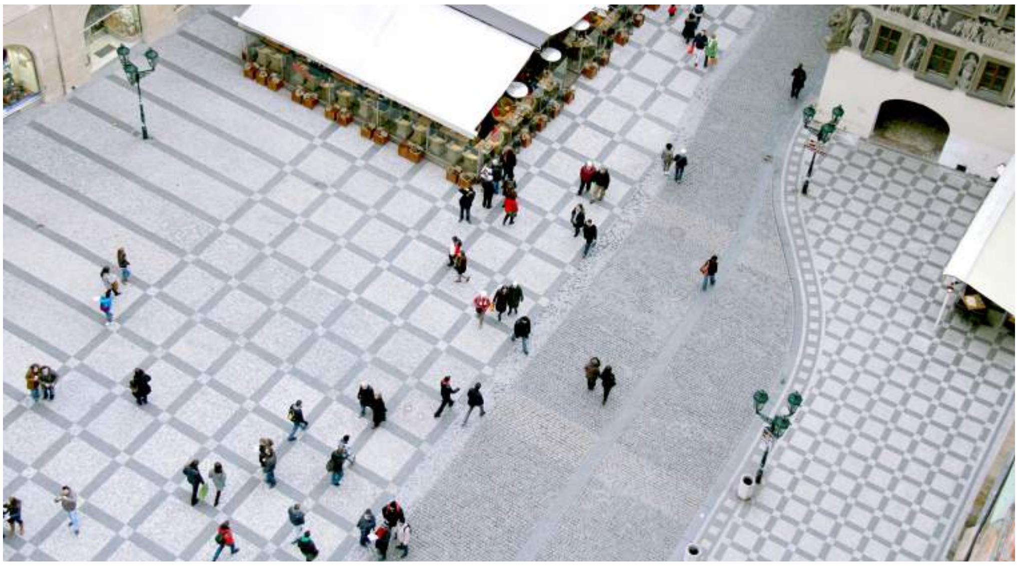
Over the past 10 years (Figure 2), SGX saw the highest number of listings (52) in 2007, mainly driven by a surge of China-based companies (also known as S-chips). Among the notable S-chips that contributed to this wave was Yangzijiang Shipbuilding, which raised around US$400 million of proceeds in 2007.

We also observed a consistent trend where over the years, the total amount of funds raised on an annual basis ranged between US$2-8 billion, with the exception of 2015 where the number of funds raised was less than US$1 billion (US$670 million). On that note, out of 14 companies that went public in 2015, only two were listed on SGX's Main Board while the rest (12 out of 14) were listed on the Catalist Board. Furthermore, 2015 also marked the year in which the local offshore and marine sector – a traditionally strong industry player in Singapore's capital market – suffered from plunging oil prices.

Figure 2: IPO funds raised and number of deals



[1] *NetLink Trust IPO to fetch S$2.3b to S$2.7b, The Business Times, June 2017*



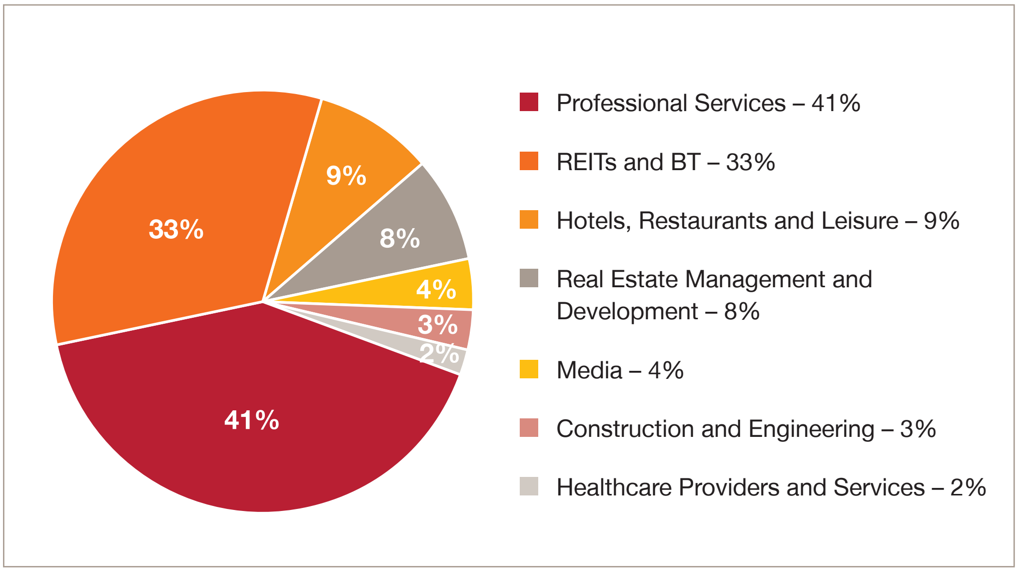
Looking at IPO performance by industry sector in the first half of 2017 (Figure 3, page 5), real estate investment trusts and business trusts (REITs and BTs), a long-standing anchor of Singapore's capital market, continues to secure top position, having raised a total of US$1.6 billion through the listing of four REITs and BTs since 2016.

Meanwhile, the professional services sector leads the curve in the first half of 2017 in the amount of IPO funds raised. This is predominantly driven by HRnetGroup having raised the highest volume of funds (US$126 million), outperforming that of REITs and BTs in the first half of the year. Taking into consideration that Singapore is driven by a knowledge-based economy with a high demand for educated and digitally-ready talent, this result is indicative of the country's stronghold in professional services, which can potentially grow into a formidable niche sector in the local capital market. Among other professional services companies listed in Singapore are Axcelasia, Boardroom, Kingsmen Creatives, Rowsley, ZICO Holdings, and more.

The IPO funds raised by the hotels, restaurants and leisure cluster increased five-fold from US$6 million in 2016 to US$31 million in the first half of 2017, wholly driven by the listing of food and beverage (F&B) company, Kimly. On that note, the F&B sector continues to deliver an impressive IPO performance following the listing of Jumbo Group in 2015, when it raised a total of nearly US$16 million in IPO funds. This vitality is succeeded by the listing of Kimly, which is also a top three IPO performer in Singapore's capital market since 2016 (Figure 5, page 6).

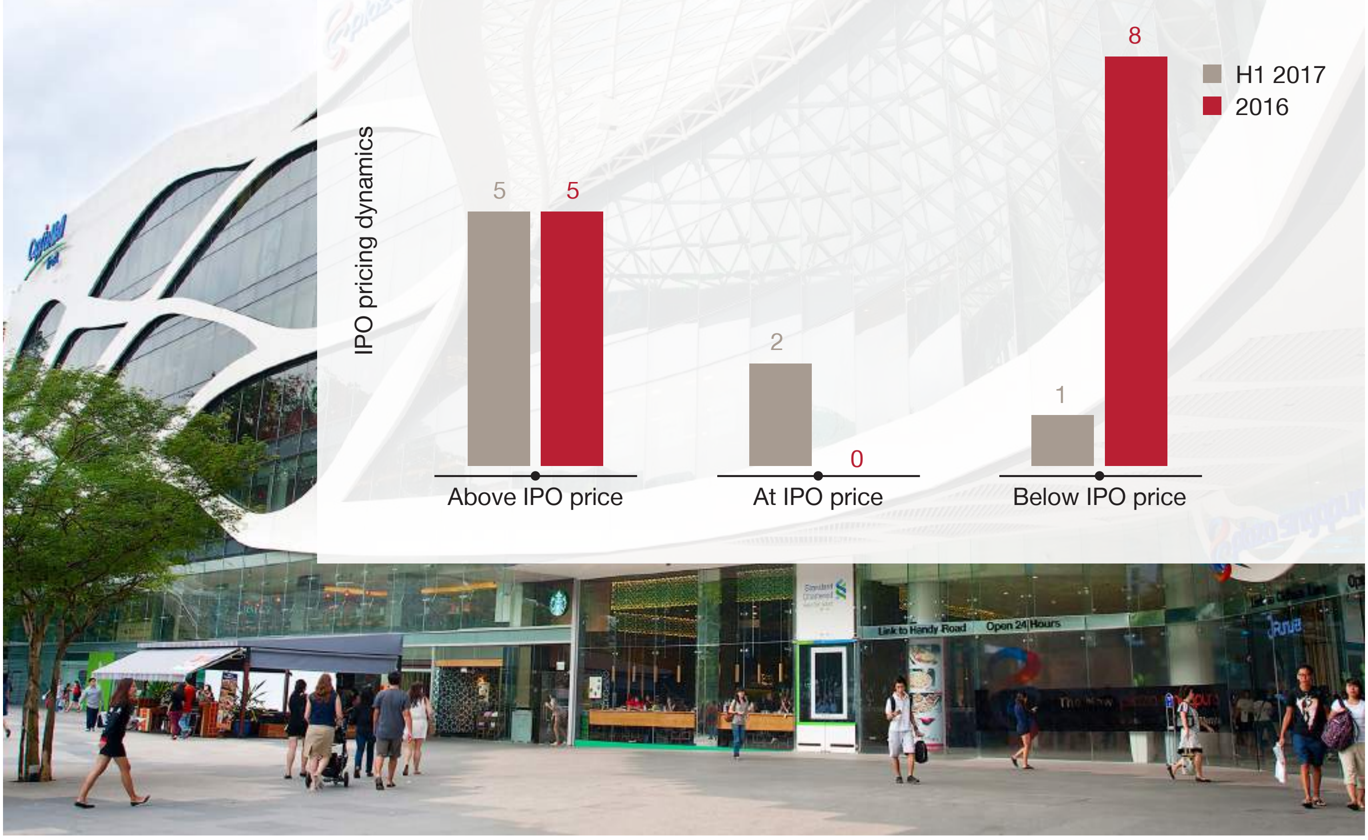
While IPO activity from the healthcare providers and services cluster has been low, an increasingly ageing population will fuel the already growing demand for healthcare services, medical technology and bio-technology (medtech & biotech) which in turn can potentially spur an increase in medtech & biotech stocks, thus boosting the local healthcare sector's capital market activities.

Figure 3: IPO funds raised by sectors in H1 2017



The IPO pricing performance in the first half of 2017 emerged positive. Of the eight companies listed in Singapore since the beginning of the year, five saw an increase in their share prices (Figure 4). This trend is consistent with the Straits Times Index's (STI) movement which has risen from 2% for the full year of 2016 to 11% for the first half of 2017.

Figure 4: Reference price as of 2016
(performance as of 30 June 2017 vs IPO debut price)



Top IPO performers

A subsidiary of mm2 Asia Ltd, UnUsUal Ltd (an event and concert production and promotion company), emerged as the top IPO performer over the past one-and-a-half years, seeing a 150% increase in their share price since going public in April 2017, ahead of HC Surgical Specialists, and Kimly (Figure 5).

We believe that the results are attributable to Singapore's expanding live entertainment sector, where consumer spend is expected to grow over 4% per annum over the next five years according to PwC's latest Entertainment and Media Outlook 2017 – 2021[2]. The rising popularity of live entertainment is likely to have been propelled by Singapore's conducive infrastructures and venues to host live events (e.g. Singapore Sports Hub).

Figure 5: Top three IPO performers in Singapore 2016 – H1 2017

Issuer name	Sector	Pricing date	Offer Price (S$)	Funds raised (US$mn)	Closing price (S$)	% Change
UnUsUal Ltd	Media	03-Apr-17	0.20 (US$0.14)	13.88	0.51 (US$0.36)	150%
HC Surgical Specialists Ltd	Healthcare Providers and Services	25-Oct-16	0.27 (US$0.19)	5.81	0.62 (US$0.44)	128%
Kimly Ltd	Hotels, Restaurants and Leisure	08-Mar-17	0.25 (US$0.18)	30.79	0.36 (US$0.26)	44%

Sources: SGX & Bloomberg

[2] *Global entertainment and media outlook 2017–2021, PwC, 2017*

Today's rising interest rate environment (Federal Fund Rate has risen from 0.4% in June 2016 to 1.16% in June 2017[3]) has contributed to higher costs of borrowing from banks, especially for companies with variable loan rates. The capital market therefore becomes a vital fundraising platform for companies, where they can raise FOs to reduce interest costs.

Figure 6: FO activity value and volume

	H1 2017	H1 2016	Full year FY16
No. of FOs	10	6	22
Total funds raised (US$ million)	610	338	2,567

Data as of 15 June 2017

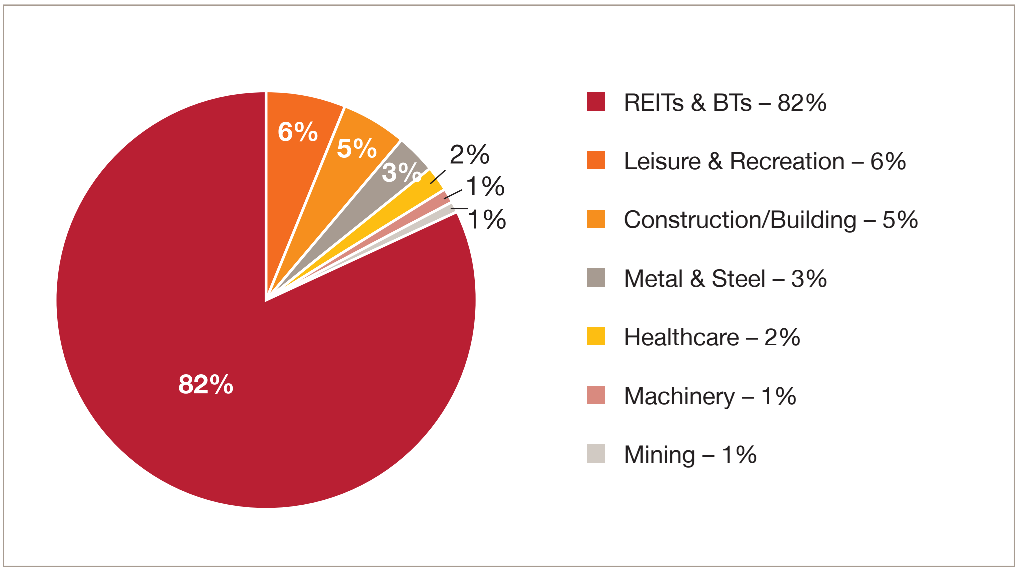
Figure 7: FO funds raised and number of deals

Data as of 15 June 2017

[3] *The Federal Reserve, June 2017*

Based on the FO performance in the first half of 2017, the real estate sector continues to dominate the market (Figure 8). Since 2016, a total of ten REIT and BT counters have raised funds via SGX amounting to US$2.1 billion. Based on the FO circulars issued by these counters, eight out of 10 of these counters are deploying the FO funds raised to acquire properties, while the remaining two are utilising them to pay loans and borrowings.

Figure 8: FO funds raised by sectors in H1 2017



Data as of 15 June 2017

Niche sectors on the rise

Technology

SGX has been bolstering efforts in supporting technology start-ups through signing a series of memorandums of understanding (MOU) with both public and private organisations such A*Star's EPTL, the Info-communications Media Development Authority of Singapore (IMDA), PwC's Venture Hub, and more. These collaborations are aimed at helping technology start-ups unlock their growth potential, access capital, and promote Singapore as an attractive ecosystem for start-ups and fast-growing innovative companies.

These efforts may start showing signs of fruition in the last quarter of 2017 through to 2018 as more technology companies go public.

Healthcare and biomedical technology

Singapore's strong reputation as a medical centre of excellence in the region and the attractive market trading valuation for its healthcare sector (which sees the price-earnings ratio hovering in the range of 30 to 40 times)[4] make it more attractive for industry players to list in the country. Among the major healthcare players listed in Singapore is IHH Healthcare, one of the world's largest listed healthcare operators by market capitalisation[5].

Globally, the expanding affluent class and ageing population is also expected to drive up demand for medical technology products[6]. Singapore's established healthcare system – coupled with its robust economy and local regulatory efforts to accelerate its biomedical sciences industry – further makes it a draw for medical technology players. In addition to the incentives provided by the Economic Development Board of Singapore (EDB) and SPRING Singapore, dedicated infrastructure for the bio-community (such as Biopolis and the Tuas Biomedical Park) contributes to a conducive environment to further attract and anchor foreign medical technology players.

Professional services

An emerging niche sector in Singapore's capital market, the professional sector's IPO performance in the first half of 2017 (Figure 3, page 5) is reflective of its potential for growth in the space. Furthermore, as Singapore continues to strengthen its position as one of the main business and financial services centres in the region, demand for business and professional services solutions is expected to increase as companies based in the country are pressured to "level up their game" through innovation, internationalisation, and becoming future-ready in an age of disruption.

REITs and BTs will persevere

Singapore's pro-business environment – whereby Singapore-listed REITs (S-REITs) will not be subject to Singapore tax if they distribute at least 90% of their taxable income – and transparent tax and regulatory regime make it the destination of choice for REIT listing.

On that note, 69% of SGX-listed REITs (27 out of 39) hold assets out of Singapore which reflects the exchange's strength as a listing destination of choice for real estate players worldwide. Recently, we observed a growing interest from China-based real estate companies seeking REITs or business trust listing in Singapore. To date, there are three China-based REITs/business trusts listed on the SGX mainboard – BHG Retail REIT, EC World REIT and Dasin Retail Trust. This trend is expected to grow as China-based industry players pursue alternative funding to mitigate the credit crunch faced in their local market.

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4 Bloomberg & Singapore Exchange, November 2016
5 Annual Report 2016, IHH Healthcare, 2017
6 Singapore well-positioned as gateway to region's medtech sector: Iswaran, Channel NewsAsia, August 2017

Pessimism remains in the offshore and marine sector

The offshore and marine sector was traditionally a high performing industry in Singapore's capital market. However, global economic headwinds such as fluctuating commodity prices have taken a toll on its revenue and outlook in recent years, systemically impacting local capital market performance. Although oil prices appear to be recovering, it may take a while before the sector's capital market activities rebound to pre-crisis levels.

Introduction of dual class shares (DCS)

Back in February 2017, SGX launched a public consultation on DCS, whereby certain classes of shares offer greater voting rights. If followed through, the adoption of a DCS structure can potentially empower management teams with more independence and flexibility in strategic decision making and in the operation of their business. That being said, companies that decide to adopt a DCS structure will also need to weigh in and address potential disadvantages (e.g. reduced shareholder influence) which may dampen investor appeal.

Taking into consideration that at least eight companies from multiple industries in Singapore already amended their constitution to empower themselves with the ability to issue shares with varied voting rights[7], a regulated DCS structure can help businesses navigate the risks involved in issuing DCS, and may be well received by market players.

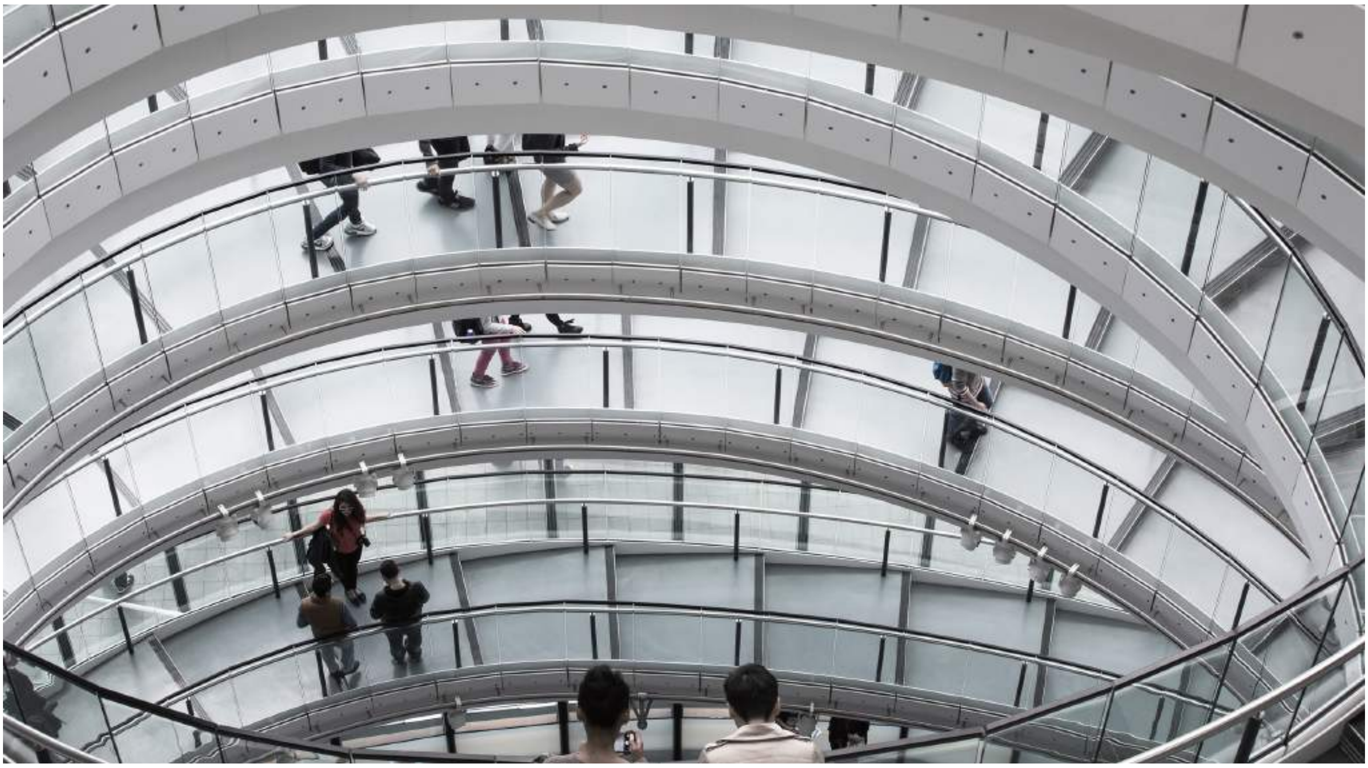
The SGX is now faced with time pressure to launch its DCS structure. Competition in this space is likely to increase as Hong Kong Exchanges and Clearing (HKEx) is expected to launch its Third Board which also provides companies the option and flexibility of adopting a DCS structure[8].

Intense competition from Asian counterparts

HKEx poses as a dual threat to the Singapore market. In addition to the race to secure first mover advantage through providing a DCS structure, HKEx's Third Board is also aimed at attracting technology firms to list in Hong Kong. Further competition from regional counterparts is expected to intensify as The Stock Exchange of Thailand (SET) plans to set up a new exchange for listing start-ups in the third quarter of 2017[9].

Meanwhile, Malaysia's stock exchange, Bursa Malaysia (KLSE), has released the listing requirements for its Leading Entrepreneur Accelerator Platform (LEAP), which is targeted at SMEs along with its existing Equity Crowdfunding (ECF) platform[10].

[7] *Eight other companies found to have tweaked their charters to allow dual-class shares, The Business Times, January 2017*
[8] *HKEx shares jump on proposal for third stock board, Nikkei Asian Review, June 2017*
[9] *Thailand Announces Startup Stock Exchange: What Can We Expect?, Forbes, December 2016*
[10] *Bursa's new platform for small firms to seek listing, The Star, June 2017*



At PwC, we have a team of specialists who provide a broad range of services to companies in connection with capital markets transactions.

As advisors, we can advise you from the beginning to the end of the IPO process in order to maximise the value, including:

- Advising on and assessing your company's readiness for becoming a public company
- Assisting in the evaluation, preparation and execution of the IPO
- Advising on the restructuring and re-organisation to effectuate the IPO
- Advising on establishment or assessment of internal audit and corporate governance for a listed company
- Assisting and advising on accounting conversion projects and assisting in drafting any required financial reporting procedures
- Facilitating and assisting in strategic business planning
- Assisting in securing pre-IPO investor funding
- Assisting in finance function transformation including related technology infrastructure
- Conducting market study

As reporting auditors, PwC will provide assurance on the historical financial statements and provide due diligence for the underwriters by means of comfort letter procedures on the historical financial information included in the prospectus.

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