

15th China International Finance Forum (CFFF), Shanghai 15 December 2018

Session 6: Overseas Stock Listing Summit

Overseas Financing and Stock Listing

ALEX ERSKINE
15 DECEMBER 2018

ALEX@ERSKINOMICS.COM
SHANGHAI, PRC

Note: This is **NOT** general or specific advice – get your own professional advice

1

15th China International Finance Forum (CFFF), Shanghai 15 December 2018

1. The Opportunity

- EQUITY CAPITAL VITAL FOR INVESTMENT EXPANSION, CONTAINING LEVERAGE AND INSURANCE
- COMPANY STRATEGY ON CROSS-BORDER GROWTH, REPUTATIONAL GAINS AND DIVERSIFICATION

2

15th China International Finance Forum (CFFF), Shanghai 15 December 2018

2 main forms of listing on a foreign exchange

<p><u>Company lists IPO</u></p> <p>No listing in home market</p> <p>e.g. N-shares: Chinese companies incorporated outside the mainland</p>	<p><u>Company cross-lists existing shares</u></p> <p>Same shares as in home market issued on foreign market</p> <p>May be “exempt” from some regulatory requirements</p>
--	--

3

15th China International Finance Forum (CFFF), Shanghai 15 December 2018

China’s companies have been more active in domestic **and** foreign issuance

Many have taken up the opportunity for big issues in foreign markets

Data for 1990 – 2014 (25 years) for 17,682 companies from 25 emerging markets

Equity Issuance Activity by Country

Country	No. of firms	Domestic Equity Issuance		Foreign Equity Issuance	
		Av. annual value	Av. annual value/firm	Av. annual value	Av. annual value/firm
	#	USD m	USD m	USD m	USD m
China	3,445	27,085	11	19,496	19
24 other emerging markets	14,237	62,765	8	13,829	13

Source: Calomiris, Larrain and Schmukler. 2018. Capital Inflows, Equity Issuance Activity, and Corporate Investment. World Bank Policy Research WP8405 – author re-working of Table 1, which is Thomson Reuters SDC Platinum data.

4

15th China International Finance Forum (CFFF), Shanghai 15 December 2018

Listing in a foreign market

Pros	and	Cons
<p>Source of equity capital</p> <p>List on a “main board”</p> <p>Can raise firm’s visibility and value by increasing market liquidity, market segmentation, disclosure and investor protection – in home market as well as foreign market</p> <p>Can overcome investors’ “home bias” in the foreign market</p>		<p>Regulatory and other requirements</p> <p>Listing costs may offset expected benefits (which may not materialise)</p> <p>Price disparities for dual-listed shares?</p> <p>May contribute little to a company’s total trading volumes</p> <p>Conflicting findings on net benefits of cross-listing: e.g. on cost of capital or firm value</p>

5

15th China International Finance Forum (CFFF), Shanghai 15 December 2018

2. Path of Investment and Financing

- STILL TOO FEW TAKING UP THE EQUITY OPPORTUNITY
- THE OUTLOOK FOR ISSUING ABROAD HAS DARKENED

6

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

So far, cross-border equity issues are only a minor part of cross-border financing ...

Most overseas financing involves banks, sovereigns and portfolio investors

- Not corporates
- Not FDI and
- Not cross-border equity raising

Bankers without Borders
The title of the World Bank Global Financial Development Report 2017/2018

It will be a long time before a Global Financial Development Report is titled **Stock Issuers without Borders**

BIS researchers "Gross Capital Flows by Banks, Corporates and Sovereigns" (S. Avdjiev, B. Hardy, S. Kalemli-Mozcan and L. Servén) BIS Working Papers No 760 Dec. 2018

ALXERSKINOMICS.COM 7

7

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

... and the opportunity has dimmed in Australia

Surge in Chinese share issues on Australian stock exchange in 2014 – 2016 has faded, some have delisted and several applicants apparently rejected

The exchange and the regulator were concerned by poor disclosure and reporting standards: all new applications will be considered on their merits

Returns on previous Chinese listings have generally been poor: would-be investors likely to be sceptical in future

ALXERSKINOMICS.COM 8

8

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

And now the outlook is darker: New challenges for those listing abroad

1. Rising interest rates and volatility
2. Re-regulation, tax and more transparency
3. UK Brexit from EU
4. US – China trade war
5.?

Figure 10. The connecting world of world trade, January 1926–March 1911: Total imports of 75 countries (monthly values in units of real US\$; gold dollars) (millions)

ALXERSKINOMICS.COM 9

9

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

3. Stock Market Listing in Australia

AUSTRALIA OPEN FOR FOREIGN ISSUERS
BUT WANTS BETTER QUALITY ISSUERS

ALXERSKINOMICS.COM 10

10

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

Australia is attractive for equity issuers*

1 AS\$ = US\$0.72

Steady growth, low inflation and flexible exchange rate

Also NSX & SSX

ASX A\$1.8–2.0tr market capitalisation
2010 domestic & 142 foreign stocks
A\$31bn initial capital raising and A\$59bn secondary (12m.t.Oct)
A\$5.1bn daily av. turnover (12m.t.Oct); 45% foreign investors

Superannuation A\$2.8tr pool of investable funds

Market integrity & high prudential standards

* Of course, "past performance is not a reliable indicator of future performance"

ALXERSKINOMICS.COM 11

11

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

Australia's superannuation system creates an equity-oriented market

1. 20-year growth in pension assets +12.1% p.a. (mandated contributions, competitive funds and defined contributions)

2. US, Australian and UK funds have highest allocations to equity

Thinking Ahead Institute Global Pension Assets Study 2018

Asset allocation 2017

Country	Equity	Bonds	Other	Cash
Australia	49%	34%	22%	15%
Canada	45%	31%	22%	2%
Japan	30%	96%	10%	4%
Netherlands	33%	50%	17%	0%
Switzerland	33%	34%	28%	4%
UK	47%	35%	16%	2%
US	50%	21%	28%	1%
P7	46%	27%	25%	2%

Source: Willis Towers Watson and secondary sources

ALXERSKINOMICS.COM 12

12

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

Get up-to-date professional specific advice

ASX's listing rules for foreign issuers

Foreign Incorporated Companies listing under the profits or assets tests

<p>Profits test Consolidated profit of A\$0.5m+</p> <p>Minimum "free float": 20%+ of shares, i.e. not restricted securities or subject to voluntary escrow arrangements or held by non-affiliated security holders</p> <p>Spread test: >300 non-affiliated security holders who each hold securities worth AU\$2,000 (or more)</p> <p>– Or – Foreign Exempt Listing If listed on an acceptable foreign exchange and market capitalisation of A\$2bn+ or NTA of A\$2bn+</p>	<p>Assets test Net tangible assets of A\$4m+, <u>or</u> Market capitalisation of A\$15m+ Audited accounts for 2 or 2½ years+ Working capital of A\$1.5m+</p>
---	---

alex@erskinomics.com 13

13

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

Get up-to-date professional specific advice

Once listed, many market integrity obligations

<p>ASX ASX Listing Rules and Guidance Notes All interlocking Focus on continuous disclosure requirements Query in 2017 about capital flow/currency conversion restrictions</p>	<p>ASIC REPORT 521 Further review of emerging market issuers April 2017 Concerns: corporate governance, internal controls & risk management systems, complex ownership & contractual arrangements, reliance on key individuals outside Australia, ability of company or auditors to verify information, gatekeepers, etc. Strategy: focus on confident and informed investors and financial consumers & fair and efficient financial markets</p>
---	---

alex@erskinomics.com 14

14

15th China International Finance Forum (CIFF), Shanghai 15 December 2018

Better issuers – start planning now

Thank you and best wishes

alex@erskinomics.com 15

15