



Deal #1: Frasers Logistics and Industrial Trust (FLT) raised S\$903m when it listed on SGX on June 20, 2016. (Robert Wallace, CEO, Frasers Logistics & Industrial Asset Management)



Deal #2: Manulife raised S\$650m after it listed on SGX Mainboard (REIT) at USD0.83 per share on May 20, 2016. (Hsieh Tsun-Yan, Chairman, Manulife US REIT)



Deal #3: Secura Group raised a total of S\$28m after it listed on SGX Catalist on January 28, 2016. Its IPO market cap stood at S\$100m. (Paul Lim, CEO, Secura Group)

## REITs saved the day for the IPO market

Singapore's sagging IPO market gets a big lift just in the nick of time from REIT listings

Just when Singapore's shaky initial public offering (IPO) market is about to be at wits' end, big-ticket REIT IPOs came pouring in. IPOs on SGX plunged 57% from the 2014 to 2015 period as only 13 IPOs were listed, totalling to just about \$630m. Now, 6 months after a depressing period for the SGX, 8 IPOs were already listed compared to just 3 in 1H15. It has also raised \$1.6b proceeds, almost 29 times more than 1H15's \$56m.

And it could only get better. Deloitte noted in its half-year IPO market report that in the past four years, the number of IPOs in the second half far exceed that of the first half, sometimes more than doubling.

The Singapore IPO market stirred from its 2015 slump when two big-ticket IPOs launched in the first half of 2016, namely Frasers Logistics & Industrial Trust and Manulife US Real Estate Investment Trust. Both IPOs attracted strong investor demand and priced at the top end of the price range, and can be credited for reviving the Singapore IPO market, says **Elaine Tan**, senior analyst, deals intelligence at Thomson Reuters.

In May, Manulife listed its US property assets and raised US\$493.2 million, and was the first mainboard listing of the year. It was also a triumph for the company as it was its second listing attempt after pulling the plug on an IPO last year due to volatile market conditions. Then a month later, Frasers Logistics and Industrial Trust, composed of Australian industrial assets, raised US\$932.6 million, and was the biggest IPO in Singapore since Asian

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Pay Television Trust's US\$1.1 billion IPO in 2013. "IPO activity in Singapore stock exchanges showed signs of life after a lackluster year in 2015," says Tan. "The two listings underpinned Singapore's reputation as a hub for real estate investment trust (REIT) and business trust listings in Asia." She reckons the diversity offered by Singapore REITs amid heightened economic and geopolitical concerns have made them attractive to issuers. They are also viewed by investors as a safe haven or relatively defensive sector in volatile markets.

Led by the Frasers and Manulife IPOs, Singapore-listed equity offerings totaled US\$1.4 billion in the first half of 2016, a 65.2% increase in proceeds from the same period last year. IPO proceeds accounted for 62.0% of the market share while follow-on offerings listed in Singapore represented 38.0% market share.

### Singapore ECM soars

The fact that there were two jumbo IPOs in the first half of 2016 compared to no listings in the previous period was crucial to the revival of the Singapore Exchange (SGX) Mainboard. The Singapore equity capital markets (ECM) rebounded healthily as well because of these two IPOs plus the IPO of Singapore-based BOC Aviation listed in the Hong Kong Stock Exchange (SEHK) which raised US\$1.1 billion in proceeds.

All in all, Singapore-domiciled companies tapping the ECM raised US\$2.4 billion so far this year, a 79.3%

increase in proceeds compared to US\$1.3 billion in first half of 2015, according to Tan.

Total IPO issuance from local companies in domestic and overseas stock exchange markets raised US\$2.0 billion. Breaking down the ECM market share in terms of proceeds, Singaporean IPO accounted for 84.1% while follow-on offerings captured 15.9% so far this year.

Morgan Stanley currently leads the ranking for Singapore ECM underwriting with US\$ 354.2 million in related deals and captured a sizeable 14.7% of the market share. Citi and BNP Paribas ranked second and third with 11.7% and 10.2% market share, respectively. Total IPO issuance from local companies in domestic and overseas stock exchange markets raised US\$2.0 billion. Breaking down the ECM market share in terms of proceeds, Singaporean IPO accounted for 84.1% while follow-on offerings captured 15.9% as of the third week of June 2016.

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The Real Estate sector followed closely with 47.6% market share worth US\$1.15 billion in proceeds, up 70% already from the US\$674 million proceeds raised in the first half of 2015. According to estimates from Thomson Reuters/ Freeman Consulting Co., underwriting fees for equity deals issued by Singapore-owned companies amounted to US\$29.1 million, a 6.9% increase from the same period last year. Tan notes that CIMB Group led the fee rankings for Singapore equity issuance with US\$6.8 million in estimated fee revenue, taking 23.4% of the wallet share this year.

## REIT dominance

Singapore's IPO market showed positive improvements with a total of 8 IPOs in the first half of 2016 – 3 Mainboard listings and 5 Catalist listings raising US\$38.6 million – compared to only 3 in the first half of 2015, says a Deloitte Singapore report. The report further notes that the Singapore IPO market has seen a dominance of REITs



2016's first half ended on a positive note

and Property Trusts listings in the last five years, and that their popularity could stem from their higher-than-average yields.

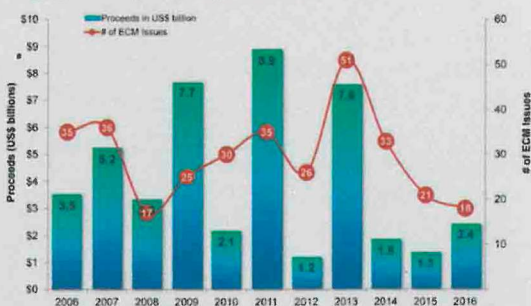
"If you look at the sizeable trust listings over the years, the actual yield for REITs listed between 2011 and 2016 H1 (at an average of 7.90%) outperforms the forecasted yield at IPO (at an average of 7.10%)," says **Dr Ernest Kan**, Deloitte Southeast Asia Leader for Global IFRS and Offerings Services. Deloitte also found that the highest average yields are from Hotel & Resort REITs such as Frasers Hospitality Trust. Data also show REITs and Property Trusts on SGX have experienced high growth, and they remain attractive because of their appealing distribution yields which range between 6.1% to 8.7% and their relatively stable lease-based cash flows. "In spite of the ongoing erratic global economic developments, we ended the first six months of 2016 on a positive note with nearly a three-fold increase in IPO listings as compared against that of the same period in 2015," says Kan. "This sets a good stage for IPO aspirants and investors which we hope will encourage and whet their appetite for new share offering activities in the second half of 2016."

## A few more good REITs

For the second half of the year, **Tham Tuck Seng**, capital markets leader at PwC Singapore, expects to see a few more REIT listings due to the proven strength of the Singapore market. "The pipeline for REIT IPO listings in Singapore remains healthy," says Seng, pointing to the upcoming EC World REIT's IPO, comprised of logistics properties in China, and Greenland Holdings' REIT IPO.

Seng says that REITs will continue to be the main source of IPOs, although this will not be limited to local REITs since he believes more foreign REITs will also begin listing in Singapore. For the Catalist board, Seng foresees more domestic companies listing on the back of increased government grants such as those from SPRING. The strong rebound of the Singapore IPO market through REIT listings shows its difference from Hong Kong IPO market, which has a higher valuation as a whole. "If you

## Singapore equity capital markets



Source: Thomson Reuters



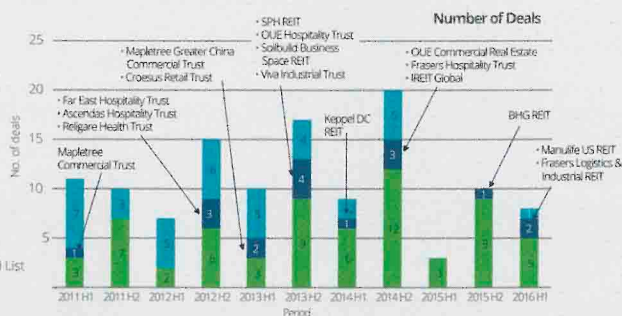
Tham Tuck Seng



Elaine Tan

# FINANCIAL INSIGHT: IPO

## Trends observed over the period of 2011-2016 H1



Source: Singapore IPO Market 2016 Mid Year Report, Deloitte

look at Singapore, although we are not as Hong Kong in terms of market capitalisation, but Singapore has a mark on niche spaces. We are very good at certain sectors, including REITs, consumer, and healthcare sector,” says Seng. “For REITs in particular, we have a very progressive tax regime. Because of the preferential tax treatment, Singapore is known as a good place to have REIT listings,” he adds. The Deloitte report agrees, saying that REITs and Business Trusts are one of the key strengths of SGX, along with consumer and healthcare stocks, which should enable a strong trend of REIT IPOs for the rest of 2016.

“We believe REITs will continue to perform, having dominated the market in the last five years accounting for more than 60% of total funds raised via IPO since 2013,” says Kan. “Following the pickup for fund-raising and public listings in the first half of 2016, I believe the window of opportunity remains open in the next six months as fund managers have deep pockets to invest in IPOs,” he adds. “This coupled with the Government’s support for enterprises and industries to transform through innovation will be major drivers for investing activities. There are also the high net worth individuals with ample liquidity whom we can expect to join the pool of investors to drive IPO activity in 2016.” Deloitte trend analysis over the past four years also suggest that the number of IPOs in the second half of the year are far more optimistic, sometimes more than doubled that of the first half, going against the conventional wisdom of market sentiments.

### Regulatory factors

While REITs will likely continue to provide fuel to the Singapore IPO market, there are a number of factors, many of them regulatory, that might sway the market’s near-term outlook. One possible factor enabling more listings is the new Industry Transformation Programme which will allot S\$4.5 billion to help enterprises and industries create new value and drive growth, as well as to transform through innovation. This amount is on top of the existing resources made available to already via the R&D and the National Productivity Fund. There is also optimism behind SGX’s ongoing exclusive talks to acquire The Baltic Exchange. If successful, the acquisition could complement the exchange’s iron ore swaps and futures business, lend weight to SGX’s commodities products business and open up doors for future listings from this sector, according to Deloitte Singapore.

Companies that fail to comply could be delisted or be transferred to the Catalist board where there is no MTP requirement.



## HONG KONG VIEW

### IPO market hobbles but is still king

Even as the Hong Kong IPO market showed weakness in the first half of the year with total funds raised dipping by around two-thirds, its rivals like New York and London are bleeding as well, enabling the former to cling on to the top spot of the global rankings. Analysts expect a listing surge in the second half of the year, with the market largely brushing off Brexit, and going into overdrive on the back of mainland Chinese and other Asian firms lining up to raise funds. Global economic uncertainty has dampened fundraising through IPOs worldwide, even in Hong Kong, although the territory has not been ousted from its throne. The volume of IPOs and funds raised in Hong Kong ensured it has continued to rank number one globally in the first half of 2016,” says Eddie Wong, partner of capital markets services at PwC Hong Kong.

### Limping leader

In the first half of this year, there were a total of 40 new listings in Hong Kong, a 22% decrease compared to the same period last year. Total funds raised reached HK\$43.5 billion, a 66% decline year on year. Eddie Wong attributes the decline to global economic uncertainty as well as volatility in China’s stock market earlier this year, which prompted investors and companies planning to list in Hong Kong to adopt a wait-and-see attitude. But comparing Hong Kong to the rest of the world, the territory continues to hold a firm a leading position in global capital markets. IPO activities in Hong Kong showed a relatively stellar performance than second-place London Stock Exchange (total funds raised HK\$31.6 billion) and third-place New York Stock Exchange (HK\$28.8 billion). Other IPO markets buckled under the pressure of slowing economic growth in China and weak economic recovery globally, plus the added uncertainty from the UK referendum to exit the EU and the pace of US interest rate hikes. The Hong Kong IPO market has coped better than others, with a stream of financial services raising most of the proceeds, seemingly unperturbed by the souring macroeconomic environment. IPOs of financial services companies made up 84% of total funds raised on the Main Board. This means that many mainland banks and financial institutions continued to actively pursue optimal timing to list in Hong Kong.

### Average deal size of new listings (Jun-July) - Excluding IPO candidates that raised funds of more than HK\$10 billion



\* Excluding companies that raised funds of more than HK\$ 10 billion.  
 \* Year 2015 - China Zhejiang Bank  
 \* Year 2015 - Trustee Securities Co. Securities and Legend Holdings  
 \* Excluding introductory transfer of listing from GEM to MB which did not raise funds.  
 \* Year 2016 - Main Board; \* Year 2015 - Main Board; \*  
 Source: PwC