JK Capital Management Ltd.

Week of 24th May 2021

What's on our mind this week?

The IPO market as a source of new investment ideas

At JK Capital, we constantly screen our universe to find new ideas. Our most recent screening was an analysis of all Initial Public Offerings (IPOs) across the region over the past five years to derive valuable facts.

From the start of 2017 until 21st May 2021, there has been a total of 3655 IPOs on stock exchanges that make our investment universe across Asia, including Asian companies listed in the US through American Depository Receipts (ADRs). Out of these companies, 53% of them currently trade with good liquidity (which we defined as being greater than USD1m per day), 50% of them are covered by at least one sell-side analyst, and 37% of them have generated annualised return since the close of their first day of trading greater than 10%.

It is critical to highlight the fact that we did not include in our analysis the performance on the very first day of trading as being allocated decent quantities of shares during the IPO process can often prove to be very difficult, especially for "hot" IPOs. The performance on the very first day can certainly be impressive in many instances, but it is not something that institutional funds can typically benefit from. This is why our analysis of returns has started on the *second* day of trading.

Overall, the Chinese A share market proves to be the most liquid one post-IPO: 97% of all IPOs on this market turned out to be companies with good trading activity. Korea and Thailand are ranking second and third on that front.

The best sell-side coverage is also provided on the Chinese A share market as well as ADRs, alongside Thai companies and Korean companies.

And lastly, and to some extent more importantly, the Chinese IPOs on the A share market have offered the best returns over the past five years, with 44% of the newly listed stocks having generated more than 10% annualised return since their IPOs. Interestingly the Chinese companies that sought a US listing through ADRs proved to offer the worst returns to investors, with only 18% of them having generated more than 10% annualised return since their IPOs. Hong Kong IPOs ranked second worst with only 28% of them having returned more than 10% annually.

When it comes to our idea generation process using recent IPOs as a source of inspiration, we need to combine all three criteria (liquidity, sell-side coverage and good annualised return). Out of the 3655 IPOs that took place since 2017, 637 companies are currently meeting all three criteria, or 17% which we reckon is quite a big "fishing pond" for highly concentrated portfolios like ours.

Looking closely at the data, the biggest and most liquid market is the Chinese A share market, which is not really a discovery. However interesting findings can be made in other countries: Despite having had 212 IPOs over the past five years, the Indonesian IPO market proved to be very disappointing. Only 16 companies see trading activity greater than USD1m per day. Combining liquidity with sell-side coverage and good annualised returns, only four Indonesian companies managed to pass through our filters making them truly investable.

Another surprise is Singapore which has always wanted to portray itself as a challenger to Hong Kong. Out of the 59 IPOs that took place over the past five years in the city-state, only 5 companies are investable today. The Philippines and Malaysia are not much better, with 2 investable companies out of 13 IPOs over the past five years for the Philippines, and 5 out of 79 for Malaysia.

Focusing now on the 637 companies in our "fishing pond", 78% are Chinese companies, including 61% listed on the A share market. Those A share listed companies have a median market capitalisation of USD741m, compared with USD1.9bn for the IPOs on the Hong Kong market and USD1.4bn for the Asian ADRs (that are almost all Chinese companies). At the other end of the spectrum the 4 investible Indonesian companies have a median market capitalisation of USD580m only, while recently listed companies on other markets have a median market capitalisation anywhere between USD250m (Thailand) and USD1.2bn (India). The message here is that the combination of good daily liquidity, good sell-side coverage and good performance does not have a direct correlation with market capitalisation.

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We will share with our readers more in-house research like this one. At this point, it is fair to conclude that if anyone wants to get constant exposure to the most vibrant markets of Asia, they cannot afford to disregard the recently listed Chinese companies, especially those listed on the A share market.

Details are provided in the table below for all Asian IPOs since 2017:

Listing Exchange	Grand Total Number	Condition A		Condition B		Condition C		Condition A+ B			Condition A+B+C		
		Number	%	Number	%	Number	%	Number	% Out of Condition A	% Out of Grand Total	Number	% Out of Condition A+B	% Out of Grand Total
China	1,288	1,255	97%	725	56%	572	44%	678	54%	53%	390	58%	30%
Hong Kong	675	149	22%	245	36%	191	28%	126	85%	19%	85	67%	13%
Indonesia	212	16	8%	82	39%	74	35%	4	25%	2%	4	100%	2%
India	460	76	17%	218	47%	161	35%	65	86%	14%	38	58%	8%
Korea	411	225	55%	239	58%	158	38%	68	30%	17%	40	59%	10%
Malaysia	79	11	14%	39	49%	28	35%	6	55%	8%	5	83%	6%
Philippines	13	3	23%	5	38%	5	38%	2	67%	15%	2	100%	15%
Singapore	59	8	14%	28	47%	19	32%	8	100%	14%	5	63%	8%
Thailand	137	60	44%	74	54%	54	39%	45	75%	33%	25	56%	18%
Taiwan	172	51	30%	80	47%	58	34%	40	78%	23%	23	58%	13%
USA (Asian ADRs)	149	76	51%	79	53%	27	18%	56	74%	38%	20	36%	13%
Total	**3,655**	**1,930**	**53%**	**1,814**	**50%**	**1,347**	**37%**	**1,098**	**57%**	**30%**	**637**	**58%**	**17%**

Condition A	**Daily value traded > 1mn USD**
Condition B	**With at least 1 analyst coverage**
Condition C	**Average return since 1st trading day >10% per annum**

Source: Bloomberg, JKC – May 2021