

China's Increasing Role in Global Capital Markets

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The impact of China on global trade, cross-border mergers and acquisition, and the state of the world economy is clear. What is less understood is the growing interaction of Asian and North American capital market activity. Companies in China are increasingly tapping into the capital markets in the U.S., Canada, as well as Europe to fund their growth and build a global profile. And Canadian companies and financial institutions are beginning to show interest in China as a source of investors and funding.

2010 has seen a sharp uptick in capital issues and stock exchange listings by Chinese companies. In the third quarter of this year, 109 initial public offerings (IPOs) by Chinese firms outpaced the total IPOs of the rest of the world by more than two times. More than 210 Chinese companies are now listed on U.S. exchanges and the Canadian TMX Group¹ reports that 53 Chinese and Asian companies were listed on TSX (see the accompanying table for a listing of the top 10) and that the total market capitalization of these companies had grown to \$9 billion, a threefold increase since 2006.

Ten Largest Mainland Chinese Listed Companies on TSX and TSX Ventures Exchange

	Market Capitalization (CAN\$) as of 31/10/2010	Sector	Listing Date
Sino-Forest	\$ 4.95 bil.	Forest Products	1995
Silvercorp Metals	\$ 1.58 bil.	Mining	2005
China Gold Int'l Resources	\$ 864 mil.	Mining	2006
Hanfeng Evergreen	\$ 422 mil.	Chemicals	2004
Migao	\$ 378 mil.	Chemicals	2007
GLG Life Tech	\$ 242 mil.	Life Sciences	2007
Minco Silver	\$ 168 mil.	Mining	2005
Zongshen PEM Power Systems	\$ 133 mil.	Clean Technology	2008
Asia Bio-Chem Group	\$ 109 mil.	Metals & Mining	2010
Minco Gold	\$ 58 mil.	Mining	1997

Source: TMX Group <http://www.tmx.com/china/>

¹ TMX Group includes the Toronto Stock Exchange, TSX Venture Exchange, Montreal Exchange, Natural Gas Exchange, Boston Options Exchange and other organizations.

What is the lure for a company to raise capital in a foreign market or to seek a listing on an exchange outside one's home market? The accompanying four cases illustrate the tradeoffs that must be balanced in deciding on a global capital issue. There are clearly extra costs involved with a foreign capital issue including the expenses of developing relations with new investment advisors, establishing an investor relations presence in a new country and complying with different accounting conventions for financial statements data. The absence of a reputation with investors can translate into higher interest costs on debt issues or underwriting fees than what a company could achieve by raising funds in its domestic market. However, the advantages of a global issue or foreign listing are significant. First, foreign capital markets can provide deeper pools of capital than are available in a company's home market. For example, the U.S., with an abundance of institutional investors with very long investing horizons, provides an unparalleled market for long term, fixed rate debt financing. Second, a global capital issue can provide Chinese companies with the opportunity to build their profile with investors and customers in a marketplace that may be critical in their expansion aspirations. Third, some stock markets can offer quicker access to an IPO. And finally, there is some evidence that a foreign listing might enable a company to boost its price-to-earnings ratio and lower its cost of equity financing.

HUTCHISON WHAMPOA LIMITED: THE CAPITAL STRUCTURE DECISION

Hutchison Whampoa, the venerable Hong Kong-based trading company, was considering strategies for its long-term capital structure. With HK\$35 billion in sales and a global presence, Hutchison had ambitious growth plans in multiple business sectors and in different geographies. Traditionally, like many of its domestic peers, Hutchison had relied entirely on short to medium-term bank loans. Its need for long-term financing, attractive interest rates in other capital markets (especially the U.S.) and concerns about a more diversified investor base had led Hutchison to explore other financing options. In particular, the company was debating the benefits of a Yankee Bond Offering. In preparation, Hutchison had already approached Moody's and Standard & Poor's for a bond rating. An issue as large as US\$1 billion of debt was being contemplated which would make Hutchison the largest foreign issuer of debt in the U.S. to this point in time. However, an issue of this scale would also push Hutchison's leverage beyond historical levels. The case provides an overview of the key tradeoffs that must be managed in deciding on a global capital issue.

HUANENG POWER INTERNATIONAL INC.: RAISING CAPITAL IN GLOBAL MARKETS

Huaneng Power International (HPI), an independent power producer in the People's Republic of China (PRC), is in the process of executing a global IPO to raise funds for the construction of new power plants. The company is planning to list the new shares through an American Depositary Receipt program on the New York Stock Exchange. HPI had considered the alternative of securing more debt issue rather than an equity issue. HPI has also reviewed the options of an IPO on the two Chinese exchanges as well as the Hong Kong Stock Exchange but felt that on balance the U.S. market would provide the greatest access to capital and the best stock price. However, the company was forced to reduce the proposed offering price of the issue due to poor market conditions and investor resistance to the price range stated in the preliminary prospectus. HPI's management must decide whether the new offer price and its choice of listing exchange is reasonable in light of recent market events and the political, economic, social and technological environment in the PRC.

CASH TECHNOLOGY LIMITED: A CHINESE IPO IN SINGAPORE

Cash Technology Limited is a Xiamen-based manufacturer of self-service banking machines, touch screens and related software. The company was ready to launch its initial public offering on the Singapore Exchange. The proceeds from the IPO would help the mid-sized, entrepreneurial and private company secure its position in the burgeoning Chinese market for automated teller machines and related equipment. With six weeks left before the IPO, the chief executive officer and chief financial officer attempted to value their company by various methods and assess the reasonableness of the offering price proposed by the IPO manager. Management had considered several options for an IPO but was attracted to the Singapore market because of the speed of its registration process for new enterprises. The case examines the challenges of determining how investors in Singapore, with much lower value multiples than those on the Chinese exchanges, will value an IPO from a Chinese company and the most effective strategy for communicating with institutional investors.

FAR EASTERN TEXTILE LTD.: THE SIZEs OFFERING

Far Eastern Textile, a major Taiwanese textile and telecommunications company, is considering its options for raising US\$130 million in a new round of global fund raising. The options of a new common stock or long term debt issue are explored but specific attention is paid to an option raised by the company's investment banker. This option entails the issuance of an innovative convertible debt instrument which combines a zero

coupon and a significant conversion premium over the current price of the company's common stock. The issue would be offered in Taiwan, Europe and the U.S. to institutional investors. The benefit and costs of a delayed equity instrument for both corporations and investors is examined. Far Eastern could raise less expensive money in Taiwan, where it is well known and enjoys a strong rating by investors. However, management is intrigued by the option of diversifying its investor base through a global issue and management has to decide on how the issue will likely be received in different financial markets.

To date, the interplay between Canadian and Chinese capital markets has been a one-way street, with Chinese companies increasingly attracted to a Canadian stock listing but few Canadian firms looking to China. However, there are signs that Canadian businesses and institutions are becoming serious about the China market and its investors. Many of the Canadian banks have announced plans to step up their investment banking and asset management activities in China. Canaccord Financial recently announced its acquisition of The Balloch Group, a boutique investment banking firm in China and the Canada Pension Plan Investment Board just opened an office in Hong Kong. Many Canadian banks have been involved in Chinese IPOs; Bank of Montreal, for example, was involved in the blockbuster Industrial Bank of China IPO last year. In early 2010, SouthGobi Energy Resources Ltd. became the first Canadian company to list its shares on the Hong Kong Stock Exchange. These are all encouraging signs that Canadian companies are seriously starting to recognize the potential of China and other Asian capital markets.