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Small and Medium-sized Brokers Focus on ChiNext; Market Landscape May Be Changed

Written by Gillian Zhang, Zero2IPo Research Center

As ChiNext celebrated its first anniversary lately, it left market investors and participants a great deal of experiences worth summarizing and a chain of problems worth reconsidering. Eyeing brokers' underwriting of ChiNext IPOs, Zero2IPO Research Center made the following analysis about the ChiNext market[1].

Small and Medium-sized Brokers Showed Positive Performance; Ping An Securities Topped ChiNext Broker List

According to the data by Zero2IPO Research Center, a total of 47 brokers have sponsored and underwrote stocks of 130 enterprises listed on ChiNext as of October 22, 2010. In terms of the number of underwriting IPOs, Ping An Securities Co., Ltd. topped the broker list without suspense by underwriting 19 IPOs in total, absolutely outperforming the runner-up by 90.0%; It was followed by Guosen Securities Co. Ltd., which involved in ten IPOs, and then China Merchants Securities Co., Ltd. underwriting nine IPOs. In terms of the amount of underwritten stocks, the top three brokers by number all recorded an amount of more than US$1.00B, and Ping An Securities also took the first place by underwriting US$1.89B of stocks, followed by Essence Securities and Guosen Securities with the amount respectively being US$1.15B and US$1.07B.

Instead of finding such big-sized brokers as China International Capital Corp. and CITIC Securities and long-standing big names like Shenyin & Wanguo Securities and China Galaxy Securities in the list, small and medium-sized brokers played a dominant role on ChiNext: Essence Securities, as a local broker in Shenzhen, was eye-catching as it underwrote over US$1.00B of shares in five ChiNext IPOs, though it was little known in 2009 and had no underwriting deals in the three quarters prior to the launch of ChiNext.

Table 1 Ranking of Lead Underwriters on ChiNext (Oct. 30, 2009 - Oct. 22, 2010)

Ranking	Lead Underwriter	No. of Underwriting IPOs	Underwriting Amt. (US$M)
1	Ping An Securities Co., Ltd.	19	1,884.88
2	Guosen Securities Co. Ltd.	10	1,070.40
3	China Merchants Securities Co., Ltd.	9	785.61
4	Huatai Securities Co., Ltd.	6	625.79
5	Essence Securities Co., Ltd.	5	1,154.42
6	Guangfa Securities Co., Ltd.	5	485.33
7	Haitong Securities Co., Ltd.	5	513.62
8	China Securities Co., Ltd.	5	870.09
9	GuoYuan Securities Co., Ltd.	4	212.34
10	Hongyuan Securities Co., Ltd.	4	365.82

Source: Zero2IPO Research Center

[1] This report only pays attention to the IPOs by Chinese enterprises at home market; The IPOs the brokers mentioned in the report underwrote in overseas markets were not included, the same below.

In fact, the number of the small and medium-sized brokers with similar situations to Essence Securities, i.e. finding hard to gain a share in the big-sized enterprise underwriting market and turning to the ChiNext market to regain confidence, was not small. For instance, Huatai Securities and Hongyuan Securities, despite previous unsatisfactory underwriting performance, were rendered more opportunities with the arrival of ChiNext.

SMEs IPO Gave Rise to Gold Rush; ChiNext Kicks off a Time for Fortune

Since its launch, ChiNext has not only offered solutions for the financing of SMEs, but also made prices of senior corporate executives rocketing, helped VC/PE firms earn far more money and rejuvenate the brokers that made timely adjustment in business strategies. Apart from more investment opportunities created by a looser direct investment policy for brokers, SME listing on ChiNext had brought considerable underwriting income for brokers. On one hand, small-scale IPOs are most likely to be excluded by the big-sized brokers that charge commissions based on the pro portion of underwriting as the financing sizes of SMEs are generally small. Let's take China International Capital Corp. for example. In 2009, it only underwrote one stock-China Construction, with the underwriting amount being up to US$7.34B, and East Money, the only stock it involved in the ChiNext market, had an underwriting size of US $207.00M that was much bigger than ordinary ChiNext stocks with an average financing amount of US $107.00M. In contrast, the limited size of SMEs created precious opportunities for small and medium-sized brokers incapable of underwriting large-scale IPOs. For instance, Ping An Securities underwrote 19 ChiNext stocks in total, with the lowest amount being US $43.00M for Zhiyun Automation, and the highest being US $180.00M for Dingli Communications Inc. Therefore, many

Table 2 Performance of Top 10 Lead Underwriters on ChiNext's First Anniversary in Q1 - Q3 2009

Ranking	Lead Underwriter	No. of Underwriting IPOs	Underwriting Amt. (US$M)
1	Ping An Securities Co., Ltd.	5	423.15
2	Guosen Securities Co. Ltd.	2	191.15
3	China Merchants Securities Co., Ltd.	4	545.68
4	Huatai Securities Co., Ltd.	-	-
5	Essence Securities Co., Ltd.	-	-
6	Guangfa Securities Co., Ltd.	2	227.94
7	Haitong Securities Co., Ltd.	1	42.69
8	China Securities Co., Ltd.	-	-
9	GuoYuan Securities Co., Ltd.	1	38.95
10	Hongyuan Securities Co., Ltd.	-	-

Source: Zero2IPO Research Center

Table 3 Comparison between ChiNext and SMEB on Financing Amt. (Oct. 30, 2009 - Oct. 22, 2010)

Financing Amt	No. of ChiNext IPO	% of Total	No. of SMEB IPO	% of Total
00.00≤ A < 50.00	15	11.5%	5	2.6%
50.00≤ A < 100.00	64	49.2%	73	38.3%
100.00≤A < 200.00	38	29.2%	78	41.1%
200.00≤ A	13	10.0%	34	17.9%
Total	**130**	**100.0%**	**190**	**100.0%**

Source: Zero2IPO Research Center

small and medium-sized brokers took the opportunity, shifting their business focus to ChiNext stocks and devoted to serving SMEs.

On the other hand, ChiNext helped small and medium-sized brokers train and improve their underwriting teams, and brought IPO underwriting incomes, which supplement with fund underwriting incomes. As a matter of fact, ChiNext IPO has become a major source of underwriting businesses for a number of brokers since the official debut of the first batch of 28 stocks on ChiNext on October 30, 2009.

Meanwhile, SMEs prefer small and medium-sized brokers for the sake of their own interests. The underwriting approaches adopted by big-sized brokers may be more targeted at listing of large-scale enterprises instead of early-stage SMEs; Small and medium-sized brokers, due to small sizes, may run their businesses more flexibly, offering SMEs customized service and plans in asset optimization and financial management. So, the two-way choice typically can lead to win-win results for both brokers and SMEs.

SME Listing Becomes an Inevitable Trend; Brokers' Operation Modes Worth Pondering

A series of laws and regulations targeted at solving the financing problem for SMEs emerged as policy support. The authorities such as the financial service offices across the country rolled out corresponding policies in succession, with a view to helping local SMEs go listed. For instance, Shanghai Municipal Bureau of Finance released the *Measures of Shanghai Municipality for Administration on Special Funds for the Development of SMEs* to support the development of SMEs and improve their growth environment; Sichuan Economic and Information Technology Commission signed the *Memorandum on Cooperation on Financial Service for SMEs* with eight provincial-level financial institutions, jointly pushing forward SMEs' financing. A number of financial institutions both at home and abroad also initiated distinctive financial

Table 4 Proportion of ChiNext Underwriting Business in Top 10 Lead Underwriters (Oct. 30, 2009 - Oct. 22, 2010)[2]

Ranking	Lead Underwriter	No. of ChiNext Underwriting IPOs/Total	Underwriting Amt. on ChiNext (US$M)	Total of Underwriting Amt. (US$M)	% of Underwriting Amt. on ChiNext
1	Ping An Securities Co., Ltd.	19:39	1,884.88	4,426.00	42.6%
2	Guosen Securities Co. Ltd.	10:32	1,070.40	4,299.84	24.9%
3	China Merchants Securities Co., Ltd.	9:22	785.61	2,926.92	26.8%
4	Huatai Securities Co., Ltd.	6:16	625.79	1,908.75	32.8%
5	Essence Securities Co., Ltd.	5:08	1,154.42	1,756.16	65.7%
6	Guangfa Securities Co., Ltd.	5:17	485.33	2,300.87	21.1%
7	Haitong Securities Co., Ltd.	5:13	513.62	3,865.37	13.3%
8	China Securities Co., Ltd.	5:10	870.09	2,368.43	36.7%
9	GuoYuan Securities Co., Ltd.	4:09	212.34	815.17	26.0%
10	Hongyuan Securities Co., Ltd.	4:10	365.82	1,496.70	24.4%

Source: Zero2IPO Research Center

[2] If the IPO of one enterprise is underwritten by multiple lead underwriters, the underwriting amount is considered to be shared equally by all the underwriters involved; Only the amount in lead underwriting is calculated and the sub-underwriting amount is excluded, the same below.

service targeted at SMEs, such as the HaoRongTong SME Program launched by Guangdong Development Bank, the SMEs service team organized by Standard Chartered Bank and the SMEs online bank platform to be established by Shenzhen Development Bank. Undoubtedly, listing of SMEs will be the trend for future IPO market.

Then, whether the dominance of small and medium-sized brokers in ChiNext can be sustained and whether big-sized brokers can make little presence in ChiNext where their small and medium-sized counterparts have ambitious performance both become topics for discussion among institutions and investors at the next stage. As for brokers, the IPOs by SMEs mostly feature "small profits but quick turnover" as the single underwriting amount is limited and quantity is the only way for benefits. In spite of that, the underwriting income can be considerable if the number of underwritten stocks is big. Let's still take Ping An Securities, the No.1 lead underwriter at the first anniversary of ChiNext for example. Over the past year[3] since the launch of ChiNext, the number of ChiNext IPOs it underwrote made up 48.7% of the total it underwrote, with the underwriting amount representing 42.6% (the rest came from IPOs on SMEB), and its total underwriting amount in domestic market amounted to US$4.43B. During the same period, China International Capital Corp. helped six IPOs on Shanghai Stock Exchange and one IPO on ChiNext, with individual financing amount being more than US$1.00B (except East Money and Shaangu Power) and the total underwriting amount being US$7.97B. Therefore, the yields Ping An Securities gained from SME IPOs cannot be underestimated as its underwriting amount was not a far cry from the US$2.27B underwritten by the big-name CITIC Securities and even exceeded the US$2.27 by BOC International though it still lags far behind the unmatched China International Capital Corp. Ping An Securities thus took the third place and closely followed by Guosen Securities that registered an underwriting amount of US$126.00M.

Big-sized brokers are not expected to sit quietly while their small and medium-sized peers share the yields from underwriting businesses on ChiNext. It is not difficult for the big-sized brokers, which boast powerful capabilities, outstanding teamwork and reputable brands, to gain profits through underwriting IPOs for SMEs if they upgrade established operation modes and set up special teams for SME listing. Who will dominant the IPO underwriting on ChiNext at the next stage? Will all the underwriters make ambitious presence in the ChiNext competition? The answer to these questions will lie in the definitions of the underwriting institutions about their development directions, considerations and cost changes as well as the forecast for future yields.

[3] The first year anniversary of ChiNext refers to the period from October 30, 2009 to October 22, 2010, the same below.

Youku.com Get Listd on NYSE

Dec. 9, 2010, PEdaily.cn

Youku.com officially went traded on NYSE (stock code: YOKU) at 10:00 PM Beijing Time on Dec. 8, with the issue price being US $12.8. A total of 15.8477-million ADSs were offered and the IPO raised US$203M of funds. Youku.com became the world's first video website that was independently listed in the US.

The data from Zero2IPO Database show that Youku.com completed six rounds of financing prior to its listing and the combined size stood at US $160M. Its major shareholders include Brookside Capital LLC under Bain Capital, the silicon valley-based VC firm Sutter Hill Ventures, Farallon Capital, China's native fund Chengwei Ventures and Maverick Capital.

According to the prospectus, Youku.com's management remains as the substantial shareholder

that holds up to 52.37% of the total stake despite several rounds of financing. Its founder and CEO Gu Yongqiang owns 645-million common shares, comprising 41.48% of the total. ■

Dangdang.com Lands on NYSE

Dec. 9, 2010, PEdaily.cn

The B2B e-commerce company Dangdang.com went public on NYSE (stock code: DANG) on Dec. 8 (EST). It offered 17-million ADSs that raised US $272M of funds in total, and the market capitalization stood at US $1.3B, if the calculation is based on the price of US $16. Credit Suisse and Morgan Stanley were the lead underwriters for the IPO of Dangdang.com.

The data from Zero2IPO Database show that Dangdang.com conducted three rounds of financing before its listing: It received the investment from IDG in 2000, a time shortly after its launch; it gained the second round of funds, totaling US $7.5M, from Tiger Fund in February 2004; it completed the third round of financing in July 2006, getting US $27M from DCM, Walden International and Alto Global, and Lu Rong from DCM became a member of Board of Directors of Dangdang.com. Specially speaking, Tiger Fund held a stake of 23.9%, DCM

dang.com, the two co-founders Li Guoqing and his wife Yuyu held 43.8% in total: Chairman of Board of Directors Yuyu held 4.9%, and CEO Li Guoqing 38.9%. The shares held by other individual senior executives are all below 1%, but the whole management team takes a combined stake of 52.5%, having an absolute holding position. ■

Infinity and MC Capital Invest US$14.3M in THT

Dec. 9, 2010, PEdaily.cn

Infinity Group, a cross-border USD and RMB investment group, announced on December 9 that it joined hands with MC Capital and Zhejiang Jinqiao Venture Capital to invest in THT Heat Transfer Technology, a NASDAQ-listed heat exchanger manufacturer. The investment totaled US$14.3M, including US$9M from Infinity Group