ASEAN Capital Markets: A Round-Up of Developments in 2016

Executive Summary

2016 was a somewhat volatile year for the world's capital markets and this story was mirrored across ASEAN. In this article we take a brief look at the capital markets of each of the ASEAN members, how they fared in 2016 and the outlook for 2017.

Laos

Following a disappointing year in 2015 where there was only one IPO, the Laos Securities Exchange (LSX) continued to struggle in 2016 with no IPOs in the calendar year. As a result there are still only five companies listed on the market, which is now entering its seventh year of operations.

However, there was some positive news on 20 October 2016 when UDA Import-Export Public Company announced that it had submitted initial public offering documents to LSX. At the time of writing the listing has not yet taken place.

Away from the equity markets, the profile of Laos' capital markets did, however, continue to rise as a result of continued activity in the bond space. As reported in last year's round-up, 2015 witnessed successful bond issues in Thailand by the Lao Government and LSX-listed EDL Generation Public Company (EDL). In 2016 both repeated the exercise: in September EDL issued bonds with a value of approximately US$312 million (the largest ever FX bond transaction offered in Thailand) and in November the Lao Government offered a sovereign bond of US$310 million. In both cases Bangkok-based advisory firm Twin Pine Consulting acted as financial advisor to the issues.

There were also some other developments in 2016. Bangkok Bank, based in Vientiane the capital of Laos was appointed as the first custodian bank in Laos and LSX also amended its minimum trading unit from one share to one hundred shares with the aim of improving market management and moving towards international standards.

Ultimately, 2016 did not bring about the surge in LSX activity which some were hoping for. However, there were still continuing signs of development and 2017 may bring a year of increased activity.

Cambodia

In common with LSX, progress on the Cambodia Securities Exchange (CSX) in 2016 was largely thwarted by a lack of listings. There was only one IPO in 2016 with Phnom Penh SZE plc, operator of the national capital's special economic zone, listing in May. TY Fashion (Cambodia) plc had posted a notice of its intention to list in November 2015; however, this listing has not yet come to fruition.

The inability of CSX to grow more aggressively can be attributed to a number of factors including a lack of technical infrastructure, a limited supply of suitably developed companies, and an economy that is heavily reliant on agriculture. Cambodia also has the added limitation of a smaller middle class than in some of its ASEAN neighbours. Consequently, there are fewer sophisticated investors who can assist with the liquidity so badly needed by a fledgling bourse.

So, whether the trickle of listings which we have seen in 2015 and 2016 will continue into 2017 remains to be seen, but with the economy averaging growth of around 7 per cent in the last six years, thanks in part to lower oil prices, strong garment exports and a buoyant construction sector, there are still reasons for optimism.

Myanmar

The Yangon Stock Exchange (YSX) was launched on 9 December 2015 and started trading on 25 March 2016 when First Myanmar Investment Co Ltd became the market's first participant. This was subsequently followed by the IPO of Myanmar Thilawa SEZ Holdings Public Ltd in May 2016 and Myanmar Citizens Bank Ltd in August 2016. In addition, First Private Bank Ltd is due to launch its IPO later this month.

YSX is currently a wholly domestic affair accessible only to local issuers and local investors, although it has been heavily supported by Japan in the shape of Japan Exchange Group and Daiwa Securities Group. It is hoped that the market will be opened up to foreign investors in the near future – particularly given the significant levels of FDI that Myanmar hopes to attract in the future – although this issue should not detract from the achievement of launching YSX and the success of obtaining three listings within a year, with another one to follow shortly.

It will be interesting to see whether YSX continues to grow at the same rate during 2017. It was initially speculated that Asia Green Development Bank would list during 2016. However, this listing did not take place then and so it may occur during 2017. Perhaps the key measure of how well YSX does will be whether it can translate the initial exuberance which was seen in 2016 into a substantial number of listings with sufficient weight behind them in order to avoid the problems that Laos and Cambodia have experienced. With a strong start to YSX, a significantly larger population of around 53 million and the headwind provided by the popular election result in November 2015, commentators remain quietly optimistic.

Vietnam

There were around 30 IPOs in Vietnam during 2016. In light of the lacklustre performance on a number of the other exchanges discussed in this article, it seems somewhat churlish to suggest that this was disappointing outcome. However, when one considers that there were 37 IPOs in 2015 and that the Vietnamese economy has rebounded strongly over the last couple of years, 2016 does represent something of a slowdown in IPO activity compared with 2015 (and 2014, when there were 44 IPOs).

That said, while the number of new listings has been slightly disappointing, 2016 has seen strong performances from a number of companies which were already listed. Prior to the lifting (for the most part) of the foreign ownership limits on public companies, which were previously capped at 49 per cent for most sectors, the growth prospects of a number of listed companies had been somewhat curtailed by an inability to raise sufficient capital. However, following the lifting of these restrictions a number of companies, particularly in the pharmaceutical sector, saw large rises in the value of their stock in 2016. For example, DHG Pharmaceutical JSC's stock price has risen by over 40 per cent.

There are currently two stock exchanges in Vietnam – the Hanoi Stock Exchange and the Ho Chi Minh City Stock Exchange. In perhaps the most significant development of the year, it was announced in October 2016 that the Hanoi and Ho Chi Minh exchanges will merge, with a target completion date of 2018. There are two main drivers for the merger. Firstly, it is hoped that it will result in increased publicity and a more prominent profile for Vietnam's capital markets sector generally and, secondly, it is anticipated that a larger exchange will give Vietnam a competitive edge over its ASEAN neighbours, which have smaller exchanges – particularly those of Thailand and the other CMLV countries (namely, Cambodia, Myanmar and Laos).

The slowdown in Vietnam's IPO market in 2016 came as a surprise to some. However, there is potential for the buoyancy of the market to increase in 2017. PC3 Investment Joint Stock Company has already listed in 2017 and the economy continues to do well, with GDP increasing by just over 6.6 per cent during 2016 and forecast to grow by 6.4 per cent in 2017. Furthermore, the value of the fast-growing pharmaceutical industry in Vietnam is expected to increase from US$4.2 billion in 2015 to US$7.2 billion by 2020. Given that such companies traditionally require significant levels of growth and expansion capital, it is hoped that this will lead to additional IPOs and fund raisings in the near term. As such, there is room for continued optimism for 2017.

Thailand

2016 was a slightly slower year for the Stock Exchange of Thailand (SET) compared to previous years. There were a total of 27 IPOs on SET in 2016 (Main Board – 14, Market for Alternative Investment (mai) – 13), down on 2015 which saw an aggregate of 41 IPOs (Main Board – 28, mai – 13). However, this is still a solid number and there are eight listings on SET pending (as at 4 January 2017) and five listings on mai pending (as at 23 December 2016), which augurs well for a strong start to 2017.

As in 2016, the pluses outweigh the minuses and SET continues to be envied by a number of its ASEAN rivals for its consistently strong levels of retail investor participation and related liquidity. SET's average daily trading volumes have been the highest in ASEAN in recent years and research suggests that US$10 billion of investment liquidity is generated by the Thai economy annually.

2016 also saw Thailand continue with its ongoing efforts to attract foreign issuers and diversify itself. Such efforts continue to be successful; for example, in September 2016 China's Trina Solar and Malaysia's KNM Group won approval to sell baht-denominated bonds, and were given a nine-month period in which to sell these bonds.

SET is also currently considering introducing a medium-term note programme or a note issuance programme. International issuers are extremely familiar with such programmes; therefore, their introduction is likely to make Thailand an increasingly attractive investment opportunity for them. This move is further evidence of Thailand's ambitions to become a funding hub for the greater Mekong region. Indeed, the recent success of the Lao sovereign bond issues in 2015 and 2016 (see above) has drawn the interest of the Cambodian Government, which is reportedly working towards a similar sovereign bond issue in 2018.

ตลาดหลักทรัพย์แห่งประเทศไทย
The Stock Exchange of Thailand

SET was arguably the region's best performing bourse of the year in 2016 and goes into 2017 with further reason to be positive. The number of listings which are pending is hugely encouraging. The Thai economy continues to be less exposed to the depressed commodity sector than most of its ASEAN peers and with increased interest from the wider Mekong region and a commitment to attracting foreign issuers, the indicators look good.

Brunei

With Myanmar having launched its exchange in December 2015, Brunei is now the only ASEAN nation that does not have a stock exchange.

As reported in this article last year, in May 2015 Brunei's financial regulator, the Autoriti Monetari Brunei Darussalam (AMBD), announced that it was evaluating the possibility of establishing a national bourse. There have been substantial developments since then and preparations for the launch of the exchange are ongoing. The AMBD is a member of the working group for the establishment of the stock exchange. The working group consists of three sub-working groups which cover the following areas: (i) rules and regulations (Rules and Regulations Working Group); (ii) operations and infrastructure; and (iii) promotion and education. The Rules and Regulations Working Group has prepared the first draft of the stock exchange rules, which includes the listing rules for publicly traded corporations.

Despite being one of the world's richest countries on a per capita basis, Brunei has a population of just 400,000 and is highly dependent on the oil and gas sector. With such a small population and a narrow industrial base, which is heavily reliant on a somewhat depressed sector, it may struggle to launch and maintain an economically viable exchange in the current macro-economic climate.

However, the AMBD and others feel that a national exchange will encourage diversification away from the oil and gas sector while also delivering an alternative source of capital for SMEs and improvements in corporate governance generally. It is also felt that Brunei needs an exchange in order to compete with its ASEAN neighbours and to participate fully in any integrated ASEAN exchange that develops.

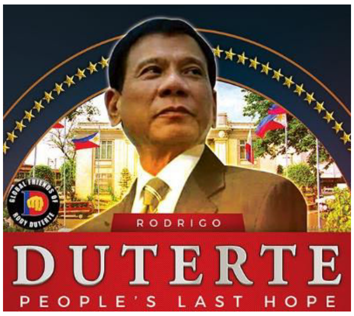
The AMBD hopes to launch the new exchange during 2017 with the initial focus expected to be on equities followed by both conventional and Islamic (sukuk) bonds. Currently there are around a dozen domestic entities thought to be interested in listing including Telekom Brunei and Bank Islam Brunei Darussalam. Although preparations for the launch of the exchange appear to be at a relatively advanced stage it is unlikely, although not impossible, that the 2017 target could still be met.

Philippines

2015 was a slow year for the Philippine Stock Exchange (PSE), with only four IPOs and this trend continued in 2016, with a further four IPOs, the most recent being fast food chain Shakey's Pizza, which came to market on 15 December 2016.

By far the most significant event for the Philippines in 2016 was the general election, which saw Rodrigo Duterte elected as president. Duterte is a controversial character who has drawn criticism across the board, most notably for his hardline stance on crime and his somewhat erratic approach to international politics. Unsurprisingly, Duterte's election has unsettled investors both domestically and internationally and the jury is still very much out on how his administration will develop. The markets have already shown their concern – the main stock index lost nearly 20 per cent during the first six months of Duterte's presidency, making it one of the worst performing markets in Asia.

Despite all this, the Philippines economy is still thriving in comparative terms with GDP growth of 7.1 per cent in the third quarter of 2016. Nevertheless, there is concern that Duterte's policies will lead to large international firms leaving the Philippines, which would likely have a significant impact on the economy – and, by extension, PSE's ability to attract new issues. There is also a concern that some of President Trump's policy proposals may have an adverse impact on the business process outsourcing (BPO) sector in the Philippines, which has become a significant contributor to the economy.



Looking beyond the wider political landscape, PSE also faces other challenges. Notably, it has a limited product offering which appears to be restricting its growth potential. For example, PSE does not currently provide a platform for the listing and trading of derivatives and it does not have an alternative investment market either. Arguably, PSE needs to follow SET's example and diversify in order to generate future growth and better compete with other ASEAN exchanges.

In light of the above, the prospects for PSE in 2017 are a little unclear and it will be interesting to see whether President Duterte's presidency proves to be a stimulus for growth or quite the opposite.

Singapore

2015 was a lacklustre year for the Singapore Stock Exchange (SGX), particularly in relation to equities as there were only 16 IPOs in the year (Main Board – 4, Catalist – 12). At the turn of the year there had been hope that 2016 would bring something of a revival of fortunes and things got off to a positive start with eight IPOs in the first half of the year (Main Board – 3, Catalist – 5). This paved the way for high expectations for the second half of the year, which is traditionally the stronger period for IPOs. However, in the event, the results were somewhat disappointing as there were only a further nine IPOs (all Main Board), resulting in a total of 17 IPOs during 2016.

In slightly more positive news, the total market capitalisation of SGX rose from SGD 904 billion to SGD 926 billion during 2016, although, as in 2015, the total number of companies listed fell again, from 769 to 757.

SGX has somewhat fallen down the ASEAN IPO rankings in recent years – in 2014, 30 companies joined the market (Main Board – 12, Catalist – 18). This may have a lot to do with the fact that other ASEAN members such as Indonesia and Thailand are increasingly trying to encourage issuers to stay at home rather than listing on SGX or elsewhere. It has also been suggested that another factor which is making SGX less popular is its low trading volume – up to half of the companies listed on SGX do not incur even one trade on a single day.

Matters continue to be made even more frustrating by the success of the capital markets in China and Hong Kong, which again both had strong years in 2016. SGX has historically relied on attracting foreign issuers to supplement a relatively modest supply of domestic companies. However, in recent years it has struggled to compete on this front with its competitors in China and Hong Kong. Furthermore, it has seen locally based players list on overseas exchanges such as the Australian Stock Exchange, with smart lighting company gridComm set to become the latest company to follow this trend.

There are likely to continue to be tough operating conditions for SGX in 2017. However, matters are off to a good start, with Malaysian paint company Samurai 2K Aerosol Limited joining the market on 16 January 2017. There are also mooted to be a number of REITs in the pipeline following the recent success of Manulife US REIT and others, so an uptick in new issues may yet occur, but only time will tell.

Malaysia

The slowdown on Bursa Malaysia which was seen in 2015 continued into 2016 with just 12 IPOs during the year (Main Board – 7, ACE – 5), down slightly on 2015's total of 13 (Main Board – 9, ACE – 4).

Disappointingly for Bursa this represented the ninth consecutive year in which the aggregate number of listed companies has fallen – a slide that began in 2008. While the immediate aftermath of the global financial crisis was a tough time for capital markets everywhere, Bursa has not been able to reignite its IPO market in the way that others have. In the last couple of years this can clearly be explained in large part by the collapse in global commodity prices – Malaysia is heavily dependent on the oil and gas sector. The Ringgit was also badly affected by the slump in global markets which occurred following the U.S. election results. The country's bond market has been partially blamed for this due to a high percentage of it being held by foreign investors, who are more likely to reshuffle their portfolios when such global shocks occur. This in turn makes Malaysia's domestic bond market particularly vulnerable.

The ongoing political situation in Kuala Lumpur has also not helped, with well-publicised scandals such as that surrounding 1MDB (Malaysia's troubled investment fund), continuing to undermine confidence. It has been suggested by some that events such as this have led the Prime Minister to focus on damage control and political reform rather than economic reform.

On a more positive note, the Ringgit did revive somewhat during December 2016 and is continuing to do so during January 2017. In 2016 China, Malaysia's largest trading partner, provided support to the Malaysian economy in the shape of two initiatives. Firstly, Beijing bought Malaysian government bonds and secondly it allowed Malaysia to invest in China's buoyant capital markets through a CNY 50 million quota under the Renminbi Qualified Foreign Institutional Investors programme.

Following such initiatives, China continued to provide assistance to Malaysia in 2016; for example, in November it was announced that 1MDB would make a repayment to Abu Dhabi's state-owned International Petroleum Investment Company with Chinese assistance.

HLT GLOBAL BERHAD

Notwithstanding the above-mentioned problems there are also signs that there could be somewhat of an upturn for Bursa Malaysia during 2017. The IPO of HLT Global Berhad on ACE occurred on 10 January 2017 and there are currently three pending IPOs, which are expected to list in January or February of this year.

Indonesia

In Jakarta the IPO market remained muted during 2016. The Indonesian Stock Exchange (IDX) welcomed just 14 IPOs during the year: just over one third of the 35 IPOs targeted by IDX for the year. These figures show the continued downturn in Indonesia's IPO market – there were 18 IPOs in 2015 and 22 during 2014.

In 2016 the number of IPOs was, to a large extent, impacted by the turmoil in the global financial markets, which occurred following the referendum on Brexit and the U.S. election results. There was also the threatened U.S. interest rate rise and the slump in the Rupiah which saw it depreciate by approximately 4.5 per cent against the U.S. dollar. Despite all this, the economy in Indonesia continues to perform well: during the last quarter of 2016 Indonesia's GDP grew by 3.2 per cent and the economy expanded by 5.0 per cent, which should add to both investor and market confidence.

However, the economy did receive somewhat of a blow after JP Morgan Chase released a report in November 2016 in which it downgraded Indonesia from 'overweight' to 'underweight' – in response Indonesia has suspended all cooperation with JP Morgan Chase.

Indonesia also endured political turmoil in 2016, with mass demonstrations in November by those demanding the arrest of Jakarta Governor Ahok. Additionally, the thin majority held by the Jokowi government has made it difficult to push through much needed reform.

IDX is again targeting 35 IPOs in 2017 as well as rights issues from 60 companies currently listed on the IDX. Whether these figures can be achieved will depend on factors both within and outside Jakarta's control. The central bank's lower interest rates as well as Indonesia's tax amnesty programme should address some of the domestic issues. However, the political issues which will arise in the coming months are likely to lead to some volatility in the global markets, which is likely to have a knock-on effect on Indonesia's economy and any planned listings. Moreover, the continued slump in the commodities sector, which Indonesia's economy is heavily reliant on, is also likely to result in a somewhat challenging year for the IDX. However, on the plus side, as the world's fourth largest nation by population, Indonesia has an internal market far larger than any of its ASEAN peers and this can be expected to add to its growth.

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