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15.05.2020

Tags: Hong Kong, HKEX, Investment, IPO, Biotech

Michael Chan, Senior Vice President of Global Issuer Services for the Hong Kong Exchange (HKEX) highlights the vibrancy and diversity that biotechs have brought to the market, HKEX's three unique advantages, and how the Hong Kong market aims to adapt to greater demands for diversity.

HKEX recently celebrated the two-year anniversary of its new listing regime (including Chapter 18A), for pre-revenue biotechs. How has this chapter performed so far and what are your goals for its future?

Two years on, we have grown tremendously and achieved many milestones. Biotech has added vibrancy and diversity to our market and has helped cultivate the local ecosystem for biotech investments. Hong Kong is now the world’s second largest biotech fundraising hub.

Since the introduction of the biotech chapter back in April 2018, we have welcomed many biotech companies to our market and have generally received very good support, with investors showing great appetite for this area. We are very happy to see several new listings in a relatively short time

period.

The introduction of our biotech chapter does not represent the completion of a mission, but rather the start of a long and exciting journey. We are seeking to continuously enhance and upgrade the listing regime to keep pace with the rapid development of the biotech and life sciences industry, which is becoming ever more complex and diverse.

On 29 April 2020, we enhanced our Biotech Listing Chapter by updating guidance materials. These guidance letters are aimed at updating the market on HKEX's observations from enhancements that have been made following our vetting work for pre-IPO biotechs, as well as some of the work we do monitoring listed companies. Pertinent upcoming questions include the legibility of commercialised and licensed biotech products and medical devices.

These enhancements are focused on giving further clarification of what these requirements are. The aim is to improve efficiency across the listing process by informing applicants and advisors of our expectations to enable them to do their due diligence at an early stage.

Looking ahead, we are expecting to see more issuer diversity in terms of both biotech subsector and geographic region and expect the entire ecosystem to accelerate in terms of maturity.

When we met at BIO last year, you told us that you were executing roadshows across Europe and the US to promote the work of HKEX. What was the purpose of these international forays and what feedback have you received so far?

In 2019, we successfully launched our UK, US and Europe biotech roadshows. We kicked off 2020 with another very fruitful trip to Boston, New York, and San Francisco to continue this momentum. We got great exposure by speaking at key spotlight conferences and events, including the JP Morgan Healthcare Conference in San Francisco among others.

The main purpose of these roadshows was to expand our footprint, promote the ever-growing biotech story of HKEX, and attract potential issuers and companies to list in Hong Kong. It is also important for us to solicit feedback from the market in these regions and to learn more about market trends and the funding appetites of investors, which are crucial to further growing the Hong Kong market.

We have received great support and very positive feedback on our biotech chapter from both Chinese and international investors, issuers, market participants, and experts. The biotech chapter

is a great and timely addition to the vibrant and rapid development of biotechnology in China and Asia. Some of the feedback concerns the fact that at the IPO stage issuers have access to both Chinese and international investors. During the IPO process, these biotech companies were not only able to secure access to funding, but also to put in place important partnerships and alliances to further their business strategies.

Moving forward, the feedback is that the market would like to – and indeed expects to – see more diversity in terms of different subsectors, including medical devices, diagnostics, biologics, genomics, artificial intelligence, and other therapeutic areas. Greater diversity in terms of geography is also expected. Companies that list on the Hong Kong market expect to see themselves listed alongside other reputable international peers.

We are continuing to work hard to increase our reach even further. For example, roadshows that were previously held internationally are being converted into virtual roadshows during the COVID-19 pandemic so that we can continue our momentum and our messaging to potential issuers regarding our advantages.

What are the advantages of a biotech company listing on HKEX?

Hong Kong has a unique profile, with both Chinese and international DNA. From a markets point of view, we have demonstrated that our markets are robust and resilient, even against the backdrop of a very difficult macro-environment, most recently with the impact of the COVID-19 pandemic. Our competitive advantage comes down to three key points: accessibility, sustainability, and credibility.

By accessibility, we mean access to global capital and global investors, as well as the world’s largest customer base, given our close proximity to Mainland China as well as other large Asian markets. The other form of accessibility we have is to the world’s top business institutions and corporates.

On sustainability, Hong Kong has been the world’s number one IPO market seven times in the last eleven years, including both 2018 and 2019. We have a very strong record of IPO fundraising capability. As well, we have a very robust secondary market.

Credibility is our third key competitive advantage. We have a legal regime, listing platform, financial centre, banking and audit infrastructure, and business centre that conform to the highest international standards on quality and transparency.

These three strengths help us continue to attract biotech companies from China, across Asia, and increasingly from around the world.

We recently spoke to a large Chinese company which chose to list on Nasdaq rather than in Hong Kong, citing the strong ecosystem of analysts, investors and secondary market in the US. How far away is the Hong Kong biotech market from catching up to the US in this respect?

Two years on, the Hong Kong biotech market has grown substantially, and it continues to expand. HKEX will continue to attract more issuers and companies to the market as well as developing the whole ecosystem.

There are currently 146 healthcare companies listed on Hong Kong's markets with a combined market capitalisation of HKD 1.85 trillion, up 72 percent from April 2018. Since the new regime took effect, we have welcomed 28 healthcare and biotech listings in Hong Kong, raising HKD 82.5 billion. Of that, there were 16 pre-revenue biotech companies listed under the new biotech chapter raising HKD 39.7 billion, representing about 6.7 percent of total IPO funds raised in HK during this two-year period.

In November 2018, China Exchanges Services Company limited (CESC), a joint venture of the three stock exchanges in Shanghai, Shenzhen and Hong Kong, launched the CES HK Biotechnology Index (CES HK Biotech) as a benchmark to measure the performance of Hong Kong-listed biotech stocks. What was the purpose of this initiative and how has greater collaboration with mainland Chinese stock exchanges helped drive better performance?

The formation of CES HK Biotech was driven by increasing demand in the capital markets for benchmarks that track and reflect the development of the whole biotech sector. Biotech stocks are prone to volatility as most of companies' products are still at the R&D stage and to a large extent stock prices are subject to the results of clinical trials. Therefore, there was a real need for an industry benchmark to help investors diversify the risk of investing in biotech stocks.

In terms of performance, as of March 2020, the three-years annualised return of CES HK Biotech reached 31.43 percent. The constituent total market capitalisation was HKD 410.6 billion. Currently, the CES HK Biotech's top-weighted constituent stocks includes Innovent Biologics, Wuxi

Biologics, Sinovant Biopharma, Wuxi Apptec, and more.

The biotech and biomedical industry in Mainland China is thriving largely due to policy support, an increase in capital input, and accelerating industry consolidation, among other factors. These factors, coupled with the introduction of HKEX's new listing rules in 2018, mean that the investment ecosystem is well suited to the particular financial characteristics and investment risks in start-up biotechs and that more private equity and venture capital funds can be channelled in. This is conducive to the emergence of large innovative biotech companies which stimulate the development of the industry in the region and facilitate growth in the regional economy.

Additionally, CES HK Biotech will further enhance the diversity of the Hong Kong capital market for investors and issuers. This is of major significance for both Mainland China and Hong Kong to further strengthen our global competitiveness in biomedical innovation.

You face competition not only from the other mainland Chinese stock exchanges but also from other Asian biotech hubs such as Taiwan, Korea, and Japan. How do you stay ahead of the game?

Rather than competition, we see a positive feedback cycle from other stock exchanges, including those of Shanghai, Shenzhen, and other Asian markets. We are all working towards the same goal: to develop Asia's capital markets as a whole and facilitate the flow of capital between East and West and West and East. There are numerous synergies between the exchanges to be leveraged on.

With the ongoing COVID-19 pandemic, how do you see 2020 panning out for HKEX? What are the economic prospects for companies listing this year?

We do not have a crystal ball. However, we advise potential issuers to assess the advantages of a listing. The best timing for when and where a company should list is extremely case-specific and has to fit their overall strategy.

Nevertheless, we still have a very vibrant market and IPO pipeline.

For the first four months of 2020, HKEX had a total of 44 IPOs, raising total funds of HKD 17.9 billion. During the pandemic, back in March and April we saw the successful listing of two biotech companies under this new chapter: Innocare Pharma and Akeso Inc. These two listings helped

boost market enthusiasm and momentum.

Despite the pandemic, 12 healthcare and biotech companies have already submitted their listing applications with us as of April 2020, including four pre-revenue biotech companies under our biotech chapter. We continue to see robust momentum in biotech in the region, and the COVID-19 pandemic is acting as a driver of global demand on healthcare and the life sciences.

Do you have a final message for our global audience?

If you are interested in diversifying your investors and tapping the Asian market, especially the Chinese market, you should consider listing in Hong Kong.

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