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Singapore Exchange

Aligning Opportunity & Capital Growth

Singapore Exchange (SGX) is one of the world's most international exchanges, with nearly 40 percent of its listed companies and 90 percent of its listed bonds originating from overseas. More than half the revenue associated with the constituents of Straits Times Index (STI) is reported to come from outside of Singapore, mostly across the Asia Pacific region.

Many of the listed companies that have originated from overseas have direct exposure to large regional macro-economic themes and initiatives - such as those companies that associate their businesses with China's Belt and Road Initiative (BRI). The rising importance of BRI to SGX-listed companies is discussed in the first section.

The BRI can also impact those Singapore-focused companies with humble beginnings that now maintain larger market capitalisations and a strong regional presence. Providing an efficient platform for less established, yet potentially high-growth companies to access capital and achieve expansion remains a key objective of SGX. Such companies can align with a sponsor,*¹ list on Catalist and tap investors for funding when required, as discussed in the second section.

International investors have played a key role in the capital formation of these listed companies. Recent EPFR estimates, distributed by Informa Financial Intelligence, show proportionate to primary-listed market capitalisation, US and European investors allocate significantly more funds to Singapore than to Hong Kong.

Singapore also serves as Asia's top

financial centre and the world's third most important financial hub. This has led to the country's development as Asia's wealth management centre, with assets under management (AUM) of over SGD 2.7 trillion.*² With 80 percent of this AUM derived outside of Singapore, Singapore hosts a diverse range of international investors.

Of the SGD 2.7 trillion in AUM, 20 percent is invested in fixed income strategies such as Asian or emerging market debt.*³ The importance of providing alternative trading platforms, such as SGX Bond Pro, to meet the increasing funding needs of companies and the diverse range of international investors is discussed in the third section.

Growing Participation in the Project of the Century

SGX lists over 110 Chinese companies and 250 bond issuances from China, and it is also the only exchange outside China to offer futures for exposure to China's 50 largest companies through the SGX FTSE China A50 Index Futures.

In 2013, the People's Bank of China appointed the ICBC Singapore branch as the Renminbi clearing bank in Sin-

gapore, making the city-state a regional gateway for Renminbi payments. Furthermore, 2013 also saw the unveiling of Chinese president Xi Jinping's "Project of the Century" - the BRI.

At a recent BRI forum, Singapore's Minister for Home Affairs and Law highlighted the region's important heritage of trade. Mr. Shanmugam maintained that the history of trade shows that the "global economic centre of gravity for much of human history was in China and India - and the Silk Route was the spine of world trade".

The BRI is a mega-economic initiative with the potential of trade-related solutions to address underinvestment and infrastructure deficiencies. While strengthening trade and the region's financial flows, the BRI aims to improve regional integration of some 50 countries. These countries span the African, Asian and European continents.

Baker McKenzie estimate that Chinese companies and their partners could together pour some USD 350 billion in projects over the next five years across the countries covered by the investment initiative. By the same token, DBS Bank estimates that China is looking to increase its trade flows to USD 2 trillion from BRI aligned countries by 2020.*⁴

BRI's potential impact on listed businesses will depend on the nature, location and reach of each business. Some businesses, like China Jinjiang Environment could be directly involved in

the infrastructure development, while others like China Aviation Oil (CAO) and EC World REIT (ECW) may seek to organically grow networks or make acquisitions in line with BRI. These are just three examples of the ways BRI can impact the strategic direction of listed businesses, and they are not a comprehensive list. For instance, shipbuilder and STI constituent Yangzijiang Shipbuilding Holdings has noted in its September financials that as the BRI gains momentum, it will further stimulate international trade and is a factor that supports long-term demand for shipbuilding. There will also be other businesses that are in a position to provide ancillary products or services to those businesses directly involved, such as Singapore's OCBC Bank.

Singapore – financing BRI investments

Singapore can also play a key role in helping the regional BRI-related investments reach full potential. At a recent forum, Singapore's Secretary-General of the National Trades Union Congress Mr. Chan Chun Sing stated that while the initiative was inspired by the ancient overland and maritime trade routes, it goes beyond the two dimensions of conventional land and sea connectivity. Mr. Chan reflectively identified a five-dimensional connectivity – land, sea, air, data and finance.

On the last connection, OCBC Bank's CEO Samuel Tsien has noted that the bank will actively support Chinese corporates' cross-border financing opportunities arising from BRI. OCBC Bank is Singapore's longest established bank and now the second largest financial services group in Southeast Asia by assets. In supporting these investment flows from China into the region, Mr. Tsien has noted that OCBC Bank will be playing to its strengths in structuring financing beyond straight lending, including certification, insurance, and hedging.*5

On the insurance front, a Singapore-based infrastructure consortium for BRI projects has been formed with China Re Singapore as the administrator. Singapore's Minister for Trade and Industry (Trade) has noted this insurance consortium is envisaged to provide top-up capacity and specialised insurance coverage for BRI projects in Asia Pacific (ex-China) and brings together Singapore-based insurers, reinsurers, and brokers who will contribute insurance capacity and provide risk management services for BRI projects.*6

As Chinese companies continue to internationalise, they can benefit from

Singapore's position as one of the world's largest offshore Yuan centres and the third-largest foreign exchange hub in the world. SGX is also one of the leading clearing houses globally that accepts offshore RMB for margin collateral, clearing and settlement. As an offshore Yuan centre, RMB futures trade more in Singapore than in Hong Kong. These factors are particularly important as Chinese enterprises align and leverage on the BRI.

Ravi Menon, Managing Director of Monetary Authority of Singapore (MAS) also recently affirmed that as an international financial centre in the heart of Asia, Singapore can play a useful role in financing and advancing BRI projects, particularly in Southeast Asia. Mr. Menon noted that China-based banks in Singapore have committed more than RMB 500 billion (USD 73.4 billion) in financing Singaporean companies involved in BRI projects, including the issuance of project bonds.*7

Infrastructure expansion China Jinjiang Environment

China Jinjiang Environment is the first private Waste-to-Energy (WTE) operator in China and positions itself as the leading WTE operator in China with the largest waste treatment capacity in operation. The company raised almost USD 150 million when it listed on SGX in August 2016. As stated in the prospectus, the capital formation was mostly used to fund acquisitions, project investments, upgrading facilities, repayment of debt, working capital and general corporate purposes. The company has also commenced secondary fund-raising activities through the offering of US dollar-denominated senior notes.

Preceding its USD 200 million issuance of three-year notes for overseas expansion, China Jinjiang Environment stated that with the implementation of BRI, "opportunities abound" for the Group's international market. The bond issuance was four times oversubscribed with fund management firms accounting for almost 80 percent of the subscription. The Group detailed in its FY16 Annual Report that it was able to share its green ecological concept and expertise with the coastal regions of China, and the potential market of Southeast Asia, with its similar waste composition to China. Leveraging on the BRI initiative, the Group expects to increase its bidding for projects and mergers and acquisitions both within China and in the international market.

New markets - CAO

Singapore's largest capitalised stock

of the Energy Sector is jet fuel supplier and trader, CAO. CAO supplies jet fuel to the key international airports in China, including Beijing Capital International Airport, Shanghai Pudong International Airport and Guangzhou Baiyun International Airport. CAO also markets and supplies aviation fuel to airline companies at international airports outside China, including locations in Europe, North America, Asia-Pacific and the Middle East.

In its FY16 Annual Report, CAO management highlighted that as BRI initiatives across the three continents come into play, new economies will emerge through the development of infrastructure projects. CAO said it is poised to capture the resulting opportunities and maintain a leading position in the Asia-Pacific region through these new markets. CAO intends to leverage on its global supply and trading network, and multiply its supply locations and volumes globally and gain traction with international airlines supported by the imminent growth of these emerging aviation markets.

Expanding business footprints – ECW

ECW invests in a diversified portfolio of income-producing real estate used primarily for e-commerce, supply-chain management and logistics purposes. ECW is managed by EC World Asset Management Pte., an indirect wholly-owned subsidiary of the sponsor – Forchn Holdings Group. The sponsor was established in 1992 and is headquartered in Shanghai. It is a diversified enterprise focusing on the logistics, industrial, hospitality, commercial real estate and finance sectors.

Forchn Holdings Group, Forchn International, and ECW Chairman and non-executive director, Mr. Zhang Guobiao, maintain a commitment and belief in Singapore's continued relevance and synergies with China. Hence, Forchn had decided to list its Hangzhou e-commerce and logistics warehouse assets in ECW on SGX in 2016. Mr. Zhang noted that Forchn had consolidated its overseas headquarters in Singapore, Forchn International, putting together a strong Singapore management team with the objective of expanding its business footprint into the Southeast Asian region along the BRI.*8 As reiterated in a recent financial statement, ECW is actively pursuing and evaluating certain high quality and accretive acquisition opportunities in China and in the Southeast Asia region.

Mr. Zhang had also observed that the affirmation of support for the BRI, expressed by China Premier Li Keqiang and Singapore Deputy Prime Minister Thar-

man Shanmugaratnam at Dalian in June 2017 means that Singapore's role and impact on the initiative will bring about new business opportunities not only for Singapore, but also for the ASEAN community.

BRI's ASEAN impacts

Outside of China, RHB Securities has suggested that ASEAN will likely become the bridgehead for BRI, due to its geographical proximity and relatively low risk profile.^{*9}

BRI's potentially biggest ASEAN-impacts are twofold:

1. Leveraging on BRI's vision, ASEAN countries are expected to see more joint infrastructure developments across the region. Aside from the aforementioned potential for joint utilities, other examples include the Sino-Laos and Sino-Thai railway projects. These projects also complement the ASEAN Economic Community (AEC) Blueprint 2025 vision of integrating ASEAN into the global economy, while maintaining its central role in East Asian regional cooperation.^{*10} In July 2017, DBS Group Research emphasised that Chinese contractors were establishing a strong presence in Malaysia - with the signing of 14 agreements worth USD 33 billion in November 2016, followed by the Malaysian government's awarding of two important railway projects to Chinese companies - the Gemas-JB double-tracking project (to a consortium of CRCC, Company A, and CCCC) and the East Coast Rail Link EPC contract, worth USD 15 billion in total.^{*11}
2. Increased trade and regional connectivity. According to the Chinese Ministry of Commerce, trade between China and countries along BRI has increased in 2017. China expects annual trade with these countries to be worth over USD 2.5 trillion by 2025 and beyond.^{*12} ASEAN, given its strategic location along BRI, will be positioned to benefit from this increase in trade activity.

An enabling environment for infrastructure

Infrastructure requirements are not limited to countries aligned with the BRI. The World Economic Forum has stated that in order to support a future global population of nine billion people, an estimated USD 5 trillion a year (or USD 100

trillion from 2010 to 2030) needs to be invested in global infrastructure.^{*13} The World Economic Forum added that this 'business-as-usual' investment will also not lead to a stable future unless it achieves environmental and sustainability goals.

The President of the Asian Development Bank (ADB) Takehiko Nakao has reasoned that for infrastructure investment to attract private-sector financing, the region needs an enabling environment - well-developed local financial markets that can provide adequate long-term local currency financing and tap into the region's high savings rate.^{*14}

Supporting SME Growth

ADB President Nakao has also noted a regional need of an enabling environment for the private sector. He has stated that the region needs conducive regulatory systems and support for start-ups and a broad-based financial system embracing small and medium-sized enterprises (SMEs), which are often a key source of innovation and job creation.^{*15}

Small businesses also require growth. According to Machado (2016) growth is the result of a good administration of resources and capacities which the companies use to promote growth.^{*16} Machado adds that "the establishment of growth depends on the identification of the origin of resources, capacities and learning on accumulation methods and the generation of sustainable profits, coupled to the examination of how and when the resources of industry and financing are accessed, and how the external investors may be informed on the subject".

In recent years, SGX has engaged more industry resources to facilitate growth of its listed and potential-to-be-listed businesses, in addition to finding innovative methods to engage investors. This creates value over and above the simple exchange model of providing a platform that facilitates business financing through the transfer of equity to external investors.

Catalysing the growth of companies

The SGX second board, Catalist, was launched in November 2007 with a vision to provide potentially high-growth companies more efficient access to capital. The sponsor-supervised regime with no prescribed quantitative criteria has enabled companies at varying stages of growth and sizes to tap the capital markets so as to propel themselves to the next growth stage. Growth can be driven organically or via acquisitions, and as McKelvie and Wiklund (2010) note, acquisitions require access to well-functioning capital markets where firms and entrepreneurs can raise the necessary money.^{*17}

Prior to Catalist, SGX did not offer a clear platform that catered specifically to the funding needs of high-growth SMEs, some of which may be pre-profit, but with promising business models that require quicker time-to-market and access to capital. It was with this end in mind and following the positive market feedback received, that Catalist was eventually established, as a solution to facilitate access to capital for fast-growing companies, as well as to create an ecosystem of investors and stakeholders to accelerate their growth.

Since then, Catalist has come a long way in providing emerging companies at varying stages of growth with a way to access the capital markets for their financing needs. Beyond catalysing the growth of these companies - and hence its name - Catalist also presented investors with diverse investment opportunities.

Industry resources & collaborations

In support of the start-up to SME phase, SGX has also engaged and established collaborations with a number of government agencies. Industry resources accessed include:

- Exploit Technologies (ETPL). ETPL is the commercialisation arm of Singapore's Agency for Science, Technology and Research (A*STAR). The collaboration identifies and helps start-ups and SMEs, in particular those in the technology sector, tap into innovative technologies and capital more efficiently. The partnership also seeks to help start-ups and SMEs better translate their inventions and intellectual capital into marketable products, processes and services and also helps these companies to tap on A*Star R&D capabilities as relevant. To enable better appreciation of the capital markets, there

will also be information sharing and engagement between financial and technology communities.

- Infocomm Media Development Authority (IMDA). IMDA develops and regulates the converging Infocomm and media sectors in a holistic way, creating a dynamic and exciting sector filled with opportunities for growth, through an emphasis on talent, research, innovation and enterprise. SGX is working with IMDA to help high growth IMDA-accredited Infocomm and Media (ICM) companies leverage capital markets for expansion. Under this pathway, companies can benefit by tapping on the committed market professionals who will help prepare them towards being IPO-ready. There will be efforts to foster closer ties and information-sharing between the financial and technology communities as well as to help investors become more aware of tech opportunities and therefore help encourage greater investor participation; and
- Spring Singapore. Through this collaboration, SGX works with Spring Singapore to encourage SMEs to work on the five financial management areas that are critical for sustained business growth, particularly in the area of fund-raising. These five areas include corporate restructuring, as well as the development of frameworks and processes for risk management, corporate governance, internal control framework, financial reporting and investor relations.

Growing fund-raising

Secondary fund-raising have tended to outweigh primary listings on Catalist in recent years. From 2013 to present, Catalist companies have raised USD 2 billion through placements, rights issues and debt.

The Catalist board has provided for the listing of many industry 'firsts' (Table 1). Catalist now lists close to 200 stocks with representation, and its combined market capitalization of USD 9 billion is twice its value in 2010. The 200 companies represent a broad range of sectors as well as disruptive and innovative business models, offering investors a proxy to pockets of growth in the global new economy.

Index Provider FTSE Russell capture the majority of these businesses in the FTSE ST Catalist Index, with the companies averaging a market value of USD 41 million,

Table 1: Listing of Industry 'Firsts' on Catalist

Company	Description of Business
Kimly	The first coffee shop operator to list in Singapore
Union Gas Holdings	Singapore's leading provider of bottled LPG cylinders
UnUsUaL	Producer and promoter of large scale events and concerts
HC Surgical Specialists	Endoscopic procedures provider
Y Ventures Group	A data analytics-driven e-commerce retailer & distributor
Aoxin Q&M	A China dental play

Source: SGX

compared to constituents of the STI benchmark maintaining an average market value of USD 14 billion. Since 2008, there have been 21 transfers from the Catalist to Mainboard. While there is no quantitative requirement to list on Catalist, the 16 sponsors typically prescribe in-house criteria, this differs from a listing on the Mainboard which requires companies to meet specific minimum quantitative requirements.

Strong investor engagement

Exchanges can also play a primary role in investor engagement through facilitating events that can provide investors with access to a listed company's management, structure and up-to-date financials. Members of an Exchange will also play a key role in facilitating these events, in addition to providing research and views on potential future performance of the stock.

At the recent 10 year anniversary of the Catalist Board – two new industry-led initiatives were launched, aimed at deepening industry ties and raising awareness for Catalist. The formation of an industry-led Association of Catalist Companies was announced, while local stock market portal and large event organiser, ShareInvestor, launched its Investor-One portal, a one-stop information portal on Catalist companies.

Enabling Flow in Asia Bond Trading

SGX is a multi-asset exchange operating not just equity and derivatives, but fixed

income markets at the highest regulatory standards. In 2016, Asia's debt issuance at USD 1.3 trillion made up about one-fifth of global debt issuance, but at a 20 percent year-on-year growth rate, grew twice as quickly.*¹⁸ As acknowledged by the MAS Deputy Managing Director, Singapore offers an excellent ecosystem for Asian companies to raise international capital and Asian corporates, including Chinese and Indian companies, looking to regionalise and globalise are increasingly looking to international bond markets to raise capital and to diversify funding sources.

The first bond listed on SGX in 2007. Today SGX provides trading, clearing, settlement and depository services for a variety of fixed income products. As a leading market infrastructure provider and to complement its bond listing franchise, SGX anticipated the need to build an institutional secondary trading platform for Asian bonds, SGX Bond Pro, which was launched in February 2016. SGX Bond Pro provided its institutional participants such as global banks, asset managers, insurance companies and hedge funds a unique platform to access Asian fixed income instruments along with a variety of trading methods to cater to varied trading styles across sovereign, investment grade and high yield bonds.

Much like BRI, participants on SGX Bond Pro have spanned countries (and continents) such as Singapore, Hong Kong, Indonesia, Malaysia, Philippines, UK and Switzerland. As Bond Pro gains traction, the need to broaden global investor access to Asian bond markets is just as important as broadening Asian investor access to global bonds. The platform has therefore since expanded from offering Asian issuer credit to GCC, Turkey and Latam hard currency credit on the back of Asian participant demand for diversification.

Local currency markets account for approximately 85 percent+ of total Asian

bond issuance; in October 2017, SGX Bond Pro began offering SGD denominated corporate bonds for trading on the platform with successful matches to date by regional fund managers. As SGX builds its capabilities in operating local currency secondary markets, it will look to expand Bond Pro's product suite to other Asian local currency markets.

Bond Pro also provides bond issuers listing on SGX a unique proposition through enhanced transparency in secondary market activity for the issuer's bonds – for example, issuers can see evaluated prices and indications of institutional level activity within Bond Pro.

Conclusion

SGX is a multi-asset exchange operating not just equity and derivatives, but fixed-income markets at the highest regulatory standards. Its investor participants are highly diversified. SGX offers unique capital solutions for large international companies seeking to align with mega-economic initiatives such as the BRI, in addition to the comparatively less established companies seeking to catalise growth with effective fund-raising.

Notes

- *1 A sponsor's roles are to advise and guide issuers in relation to their continuing listing obligations on an ongoing basis under the Catalyst Rules.
- *2 Monetary Authority of Singapore. (2016) *Singapore Asset Management Survey: Singapore – Global City, World of Opportunities*.
- *3 Monetary Authority of Singapore. (2017) "Singapore - the gateway to Asia's Bond Market" - Opening Address by Ms. Jacqueline Loh, Deputy Managing Director, Monetary Authority of Singapore, at the Global Borrowers & Investors Forum - Asia on 21 September 2017."
- *4 DBS Group Research. (2017) "One Belt, One Road: Moving Faster than Expected," *DBS Asian Insights*, Sector Briefing 49, September 2017.
- *5 "Asian markets key focus for OCBC in 2017: CEO," *The Business Times*, 19 December 2016.
- *6 Monetary Authority of Singapore. (2017) "Metamorphosis: Singapore as a Global Capital for Asian Risk Transfer" - Official Keynote Address by Mr. Lim Hng Kiang, Minister for Trade and Industry (Trade), Deputy Chairman, Monetary Authority of Singapore, at the 14th Singapore International Reinsurance Conference on 1 November 2017."
- *7 Monetary Authority of Singapore. (2017) "Stepping Up the Chongqing-Singapore Connection" - Keynote Address by Mr. Ravi Menon, Managing Director, Monetary Authority of Singapore, at Singapore-China (Chongqing) Financial Conference on 4 September 2017."
- *8 "From Silk Road trade to Belt and Road e-commerce," *The Business Times*, 12 July 2017.
- *9 RHB Regional Thematic Research. (2017) "One Belt One Road," 21 June 2017.
- *10 Zhao Hong. (2016) "Can China's OBOR Initiative Synergize with AEC Blueprint 2025?," *ISEAS Yusof Ishak Institute Perspective*, 16 November 2016.
- *11 DBS Group Research. (2017) "Asian Insights SparX: One Belt One Road Infrastructure Sector," 24 July 2017.
- *12 "Navigating the new Silk Road," *The Straits Times*, 16 October 2017.
- *13 World Economic Forum. (2013) "The Green Investment Report: The ways and means to unlock private finance for green growth," A Report of the Green Growth Action Alliance.
- *14 Nakao, Takehiko. (2014) "Bridging Asia's Infrastructure Gap," *Investment in Infrastructure, G20 - The Australian Summit: Brisbane*, November 2014.
- *15 Asian Development Bank. (2013) "Toward a More Innovative, Inclusive, and Integrated Asia and Pacific - Takehiko Nakao," 4 May 2013.
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- *17 McKelvie, Alexander and Johan Wiklund. (2010) "Advancing Firm Growth Research: A Focus on Growth Mode Instead of Growth Rate," *Entrepreneurship Theory and Practice*, 34(1), pp.261-288.
- *18 Monetary Authority of Singapore. (2017) "Singapore - the gateway," Loh, 21 September 2017."



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Howie previously held lead Broking and Market Strategist roles across the Asia Pacific offices of a large international futures broker. He complemented his broking profile with the provision of frequent market reports, seminars and commentary to local and international media. He has also served as the Treasury Adviser to the Leader of the Queensland Liberal Party in Queensland Parliament.

He has received a Bachelors and Master's degree in Economics at the University of Queensland, with his thesis achieving the highest grade for first-mover policy research on the opening of Shanghai's economy in the early 1990s. Mr. Howie's other notable achievements include receiving two Hong Kong Securities Institute Outstanding Achievers awards for 2005.

Howie also serves as the Treasurer of the Australian Alumni Singapore (AAS) and is on the Editorial Board of *HealthInvestor Asia*.