

China Strategy

SSE STAR Market to start trading on 22 July

- The Shanghai Stock Exchange confirmed that the SSE STAR Market will start trading on 22 July.
- Initially, 25 companies will be listed.
- Four companies have completed the IPO subscription process, and they are priced at 36x 2019E PER, on average.
- Of the 25 companies, CSC Financial (6066.HK) sponsored six of them, followed by HTSC (6886.HK; four companies), and CITIC Securities (6030.HK; three companies).
- CRSC (3969.HK; 688009.CH; ADD) is one of the 25 companies to be listed on the SSE STAR Market on 22 July. MicroPort Endovascular (688016.CH), a subsidiary of MicroPort (0853.HK), is another.

Debut of the SSE STAR Market confirmed

Last Friday, the Shanghai Stock Exchange confirmed that the SSE STAR Market will commence trading on July 22. Twenty-five companies will be listed in the first batch. Four companies have already completed the IPO subscription process, and 21 companies will start the IPO subscription process this week.

RMB33.1bn to be raised in the first batch

The 25 companies are going to raise RMB33.1bn. The largest is CRSC, which plans to raise RMB10.5bn. Excluding CRSC, the average fundraising scale of the remaining 24 companies is about RMB942m.

Average pricing at 36x 2019E PER

Five companies have already fixed their IPO price. The valuation is between 30.6x and 42.4x 2019E PER, and the simple average is 36x 2019E PER, based on market consensus. This is higher than the valuation of the ChiNext Index (100 companies included), which is trading at 21.4x. Since there are no limit-up and limit-down restrictions in the first five trading days on this new board, investors will closely monitor the trading pattern of SSE STAR stocks, in our view.

Technology stocks dominated the first batch

At least 18 of the 25 companies are technology-related, covering semiconductors, software, advanced manufacturing equipment, 3D printing, etc. Three companies are related to the railway sector and two are related to the medical equipment industry.

CSC Financial has the largest market share in the first batch

CSC Financial sponsored six of the 25 companies in the first batch of IPO candidates. The second and third largest players are HTSC and CITIC Securities, which sponsored four and three companies, respectively.

CRSC and MicroPort may benefit from the success of the new board

The H-shares of CRSC are listed in Hong Kong, and it is trading at 12.8x 2019E PER, far below the average of 36x PER of the five companies that have fixed their IPO price. A good response to CRSC's A-share IPO may benefit the H-shares if the SSE STAR Market listing draws the attention of southbound investors. MicroPort Endovascular, a subsidiary of MicroPort (61.8% stake before the spin-off), is also one of the 25 companies in the first batch. If the listing of MicroPort Endovascular is completed smoothly, the estimated market cap will be close to HK\$3bn (without considering the post-IPO performance). The current market cap of MicroPort HK listco is about HK\$10bn.

Analysts

Wong Chi Man

T (852) 3698 6317

E cmwong@chinastock.com.hk

Mark Lau

T (852) 3698 6393

E marklau@chinastock.com.hk

Figure 1: First batch of SSE STAR Market IPO candidates

Company name	Ticker	IPO price (RMB)	Fund raising size (RMB m)	Market cap (RMB m)	2019E PER (x)	Sector	Sponsor	Date of public offer
Companies completed IPO subscription								
Hyc Technology	688001	24.26	973	9,728	33.3	Testing equipment	HTSC	Completed
Raytron Technology	688002	20	1,200	8,900	42.4	Semiconductor	CITIC Securities	Completed
Tztek Technology	688003	25.5	1,234	4,937	38.0	Advanced manufacturing equipment	Haitong Securities	Completed
Hangke Technology	688006	27.43	1,125	10,999	30.9	Battery equipment	Guosen Securities	Completed
Companies to start IPO subscription soon								
Montage Technology	688008	24.8	2,802	28,019	30.59	Semiconductor	CITIC Securities	Jul-08
Advanced Micro Fabrication	688012	TBC	1,000	TBC	TBC	Semiconductor	Haitong Securities	Jul-10
Xinguang Optic-electronics	688011	TBC	876	TBC	TBC	Electronics	CSC Financial	Jul-10
Forecam Optics	688010	TBC	651	TBC	TBC	Electronics	Industrial Securities	Jul-10
CRSC	688009	TBC	10,500	TBC	TBC	Railway equipment	CICC	Jul-10
Appotronics	688007	TBC	1,000	TBC	TBC	Laser	HTSC	Jul-10
Ron Bay New Energy	688005	TBC	1,600	TBC	TBC	Battery materials	CITIC Securities	Jul-10
Espressif Systems	688018	TBC	1,011	TBC	TBC	Semiconductor	China Merchants Securities	Jul-10
Anji Microelectronics	688019	TBC	303	TBC	TBC	Semiconductor	SWHY	Jul-10
Bright Laser	688333	TBC	700	TBC	TBC	3D printing	CSC Financial	Jul-10
MicroPort Endovascular	688016	TBC	651	TBC	TBC	Medical equipment	GTJA/Huajing Securities	Jul-11
Micro-Tech	688029	TBC	894	TBC	TBC	Medical equipment	Nanjing Securities	Jul-11
ArcSoft	688088	TBC	1,132	TBC	TBC	Software	HTSC/CSC Financial	Jul-11
Western Superconducting	688122	TBC	800	TBC	TBC	Materials	CSC Financial	Jul-11
Traffic Control	688015	TBC	550	TBC	TBC	Railway equipment	CICC	Jul-12
Piesat Information Technology	688066	TBC	567	TBC	TBC	Software	Guosen Securities	Jul-12
Jia Yuan Technology	688388	TBC	969	TBC	TBC	Materials	Dongxing Securities	Jul-12
Worldia Diamond Tools	688028	TBC	407	TBC	TBC	Machinery	CSC Financial	Jul-12
Harmontronics Automation	688022	TBC	468	TBC	TBC	Machinery	Essence Securities	Jul-12
Fang Bang Electronics	688020	TBC	1,058	TBC	TBC	Materials	HTSC	Jul-12
Tianyishangjia New Material	688033	TBC	646	TBC	TBC	Railway equipment	CSC Financial	Jul-12

SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Disclaimer

This research report is not directed at, or intended for distribution to or used by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject China Galaxy International Securities (Hong Kong) Co., Limited ("Galaxy International Securities") and/or its group companies to any registration or licensing requirement within such jurisdiction.

This report (including any information attached) is issued by Galaxy International Securities, one of the subsidiaries of the China Galaxy International Financial Holdings Limited, to the institutional clients from the information sources believed to be reliable, but no representation or warranty (expressly or implied) is made as to their accuracy, correctness and/or completeness.

This report shall not be construed as an offer, invitation or solicitation to buy or sell any securities of the company(ies) referred to herein. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. The recipient of this report should understand and comprehend the investment objectives and its related risks, and where necessary consult their own independent financial advisers prior to any investment decision.

Where any part of the information, opinions or estimates contained herein reflects the personal views and opinions of the analyst who prepared this report, such views and opinions may not correspond to the published views or investment decisions of China Galaxy International Financial Holdings Limited, its subsidiaries and associate companies ("China Galaxy International"), directors, officers, agents and employees ("the Relevant Parties").

All opinions and estimates reflect the judgment of the analyst on the date of this report and are subject to change without notice. China Galaxy International and/or the Relevant Parties hereby disclaim any of their liabilities arising from the inaccuracy, incorrectness and incompleteness of this report and its attachment/s and/or any action or omission made in reliance thereof. Accordingly, this report must be read in conjunction with this disclaimer.

Disclosure of Interests

China Galaxy Securities Co., Ltd. (6881.HK; 601881.CH) is the direct and/or indirect holding company of the group of companies under China Galaxy International Financial Holdings Limited. China Galaxy International may have financial interests in relation to the subjected company(ies)' securities in respect of which are reviewed in this report, and such interests aggregate to an amount may equal to or less than 1% of the subjected company(ies)' market capitalization unless specified otherwise.

One or more directors, officers and/or employees of China Galaxy International may be a director or officer of the securities of the company(ies) mentioned in this report.

China Galaxy International and the Relevant Parties may, to the extent permitted by law, from time to time participate or invest in financing transactions with the securities of the company(ies) mentioned in this report, perform services for or solicit business from such company(ies), and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto.

Galaxy International Securities may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the last 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking services to the company(ies) mentioned in this report.

Furthermore, Galaxy International Securities may have received compensation for investment banking services from the company(ies) mentioned in this report within the preceding 12 months and may currently seeking investment banking mandate from the subject company(ies).

China Galaxy International has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of Galaxy International Securities and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately.

Analyst Certification

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

We are transferring the rating mechanism from "BUY, SELL, HOLD" to "ADD, REDUCE, HOLD". Please refer to the definitions below.

Explanation on Equity Ratings (Existing mechanism (will be replaced by new mechanism by 01/09/19))

BUY : share price will increase by >20% within 12 months in absolute terms

SELL : share price will decrease by >20% within 12 months in absolute terms

HOLD : no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

Explanation on Equity Ratings (New mechanism)

ADD : The stock's total return is expected to exceed 10% over the next 12 months.

REDUCE : The stock's total return is expected to fall below 0% or more over the next 12 months.

HOLD : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Copyright Reserved

No part of this material may be reproduced or redistributed without the prior written consent of China Galaxy International Securities (Hong Kong) Co., Limited.

China Galaxy International Securities (Hong Kong) Co. Limited, CE No.AXM459

20/F, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.