

H-Share Full Circulation

Slightly positive for eligible stocks and HKEx

CSRC has officially implemented H-share full circulation programme on 15 Nov, with 159 stocks eligible by our estimate. We estimate that the programme could increase tradable share for those stocks by 239% on average, and the total tradable market cap on HKEx by 5.2%. We believe those eligible stocks would enjoy slightly higher liquidity and valuation after full circulation, but an increase in tradable shares might lead to selling pressure when valuations become rich in bull markets. HKEx (388 HK, NR) and China brokers would benefit from a slight increase in trading volume.

- **For eligible stocks: increase in liquidity may boost valuation slightly.** There are 159 H-share-only stocks eligible for full circulation. In theory, the more shares are floated, the more will be traded. When liquidity improves, a stock's valuation may be lifted too, especially for those currently thinly traded. In reality, by how much turnover will increase depends on several factors, among which the crucial one is how many shares will the controlling shareholder transfer to third parties. Given that many of those 159 H-share-only stocks' valuations are undemanding, the controlling shareholders are probably not willing to reduce their holdings at such levels. If that is the case, full conversion alone would not help much on liquidity.
- **Full circulation alone is not a guarantee of higher volume.** We have studied the trading volumes of those two stocks which participated in H-share full circulation pilot project in 2018. While Weigao's (1066 HK, NR) trading volume increased by 47% after full circulation, that of AviChina (2357 HK, NR) dropped by 23%. It shows that full conversion alone would not significantly increase trading volume without the controlling shareholder transferring some shares to third party.
- **Increase in supply of shares would lead to higher selling pressure?** As the controlling shareholders would probably be unwilling to sell stakes at the current valuations, we do not expect significant selling pressure after full circulation as long as the valuation stays at current level. In longer term, we do expect higher selling pressure during exuberant bull markets.
- **Impact on HKEx and China brokers.** For HKEx, H-shares full circulation will increase the tradable market capitalization on HKEx, thereby boost market turnover, but the positive impact on financial performance will be limited. Under very bull case, the incremental tradable market cap will lift HKEx's FY20E net profit by only less than 1% (see details in Figure 4), based on our estimate. **For China brokers**, especially those with HK operating subsidiaries, will likely benefit from the full circulation of H-shares, too. Domestic shareholders have to place sell orders through them, which may marginally increase the trading volume, or possibly SPL-related business, of such brokers. Again, we won't expect this impact to be meaningful.
- **Impact on broad market and benchmark indexes: minimal.** Among those 159 H-share-only stocks, very few are constituents of HSI / HSCEI. Even if their volume and valuation are boosted marginally by H-share full conversion, the positive impact on the broad market would be negligible.

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What is and what's new of H-share Full Circulation?

H-share full circulation refers to the conversion of unlisted domestic shares into H-shares and their circulation on HKEx for H-share listed companies.

After completed a pilot program of H-share full circulation for three listed companies in 2018, CSRC announced on 15 Nov that the programme scope would expand to cover all H-share-only listed companies (i.e. A+H dual listed companies are not included). CSRC stated that it will pose no limit on number of companies and completion date of conversion for the program, and will follow the “成熟一家，推出一家” principle to push forward orderly.

Impact on H-share-only stocks involved in the scheme

As of 20 Nov 2019, there are 159 H-share-only stocks eligible for full circulation (after excluding certain potential A+H dual listed companies and delisted companies; see the list on Page 5-7). Their tradable market capitalization totaled HK\$ 760bn and accounted for 2.4% of total market cap on HKEx. If the programme is fully implemented for these companies, the converted H-shares will boost total market cap by 5.2%, based on our calculation.

■ Increase in liquidity may boost valuation slightly

In theory, the more shares are floated, the more will be traded. **When liquidity improves, a stock's valuation may be lifted too, especially for those currently thinly traded.** In reality, by how much turnover will increase depends on several factors, among which the crucial one is how many shares will the controlling shareholder transfer to third parties. Given that many of those 159 H-share-only stocks' valuations are undemanding (~70% of them are trading at <1x FY18 P/B), the controlling shareholders are probably not willing to reduce their holdings at such levels. If that is the case, full conversion alone would not help much on liquidity.

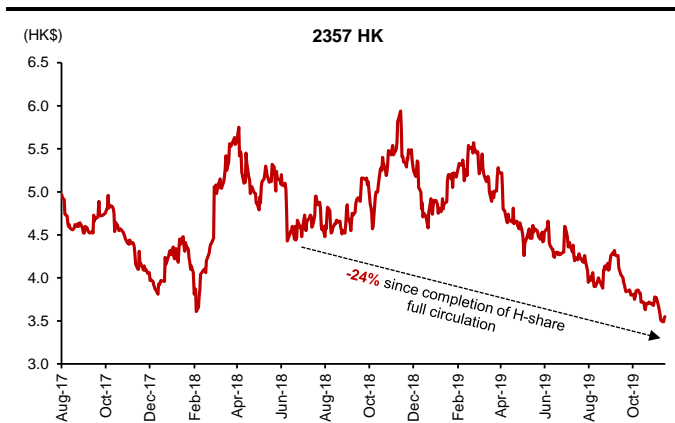
We have studied the trading volumes of those two stocks which participated in H-share full circulation pilot project in 2018 (Figure 1). While Weigao's (1066 HK, NR) trading volume increased by 47% after full circulation, that of AviChina (2357 HK, NR) dropped by 23%. Even after discounting the fact that the overall market sentiment has not been good since their full conversion in mid-2018, it is safe to say that **full conversion alone might not significantly increase trading volume without the controlling shareholder transferring some shares to third parties.**

Figure 1: Daily trading volume changes before/after H-share full circulation of two pilot companies

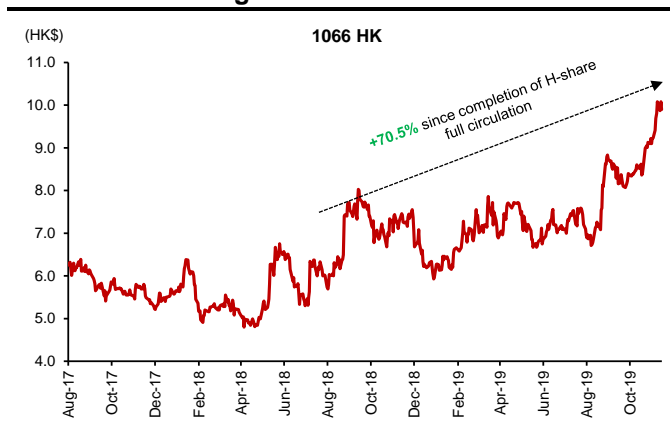
	AviChina (2357 HK)	Weigao (1066 HK)
Completion date of H-share full conversion	19-Jun-2018	8-Aug-2018
% of untradeable shares before full conversion	60.5%	58.3%
Daily average volume (mn)		
12mth BEFORE full conversion	13.3	6.2
AFTER full conversion*	10.2	9.1
Increase in trading volume	-23.3%	46.8%

Source: Wind, Company data, CMBIS

*: from conversion completion date to 20 Nov 2019.

Figure 2: Share price change after H-share full circulation of AviChina


Source: Bloomberg, CMBIS

Figure 3: Share price change after H-share full circulation of Weigao


Source: Bloomberg, CMBIS

■ Increase in supply of shares would lead to higher selling pressure?

As stated above, the controlling shareholders would probably be unwilling to sell stakes at the current valuations. Thus, **we do not expect significant selling pressure after full circulation as long as the valuation stays at current level**. In longer term, we do expect higher selling pressure during exuberant bull markets.

Impact on HKEx (388 HK, NR) and China brokers

■ HKEx – less than 1% increase in earnings

For HKEx, H-shares full circulation will increase the tradable market capitalization on the exchange, thereby boost market turnover. HKEx would be the key beneficiary in this case, but the positive impact on financial performance will be limited. Even if we assume that all the 159 companies could complete the conversion and all converted shares will be eligible for trading from the beginning of FY20E (which is highly unlikely), the incremental tradable market cap will lift HKEx's FY20E net profit by only less than 1%, based on our estimate.

Figure 4: Calculation on H-share full circulation's impact on HKEx's FY20E earning

Item	(HK\$ mn)	Note
Estimated incremental market cap	1,663,885	
Velocity assumption	49.5%	10M19 average of HKEx
Estimated incremental turnover	823,623	
Estimated incremental trading & clearing fees	153	
Estimated impact on FY20E net profit	0.9%	FY20E consensus estimate = HK\$ 10,515mn

Source: Bloomberg, CMBIS estimates

■ China brokers – limited positive impact

China brokers, especially those with Hong Kong subsidiaries, will likely benefit from the full circulation of H-shares, too, though not at a meaningful level. According to CSRC, domestic shareholders place a sell order of converted shares through a domestic broker in China, and their cooperating brokers in Hong Kong (mostly likely be the broker's Hong Kong subsidiary, which was true for the three pilot companies) will be responsible for the transaction and settlement. This will marginally increase the trading volume, or possibly SPL-related business, of such brokers, but again, as we won't expect a high pace of the implementation and huge volume generated, the positive impact on broker's earnings should be very limited.

Impact on broad market and benchmark indexes

Minimal. Among those 159 H-share-only stocks, very few are constituents of HSI / HSCEI. Even if their volume and valuation are boosted marginally by H-share full conversion, the positive impact on the broad market would be negligible.

Figure 5: List of stocks eligible for H-share full conversion

Company	Ticker	H-shares issued/total common shares issued	Total mrkt cap after H-share full circulation (HK\$ mn)	Incremental mrkt cap after full circulation completes / current mrkt cap	FY18 P/B (x)
AVIC IHL	159 HK	29%	8,781	250%	0.6
HAINAN MEILAN IN	357 HK	48%	2,480	109%	0.5
BANK OF JINZHO	416 HK	45%	22,022	121%	0.4
IRICO GROUP NE	438 HK	28%	1,205	254%	11.6
DONGFENG MOTOR	489 HK	33%	67,120	202%	0.5
CHINA COMM SER	552 HK	35%	36,015	190%	1.0
ZHEJIANGEXPRE	576 HK	33%	31,227	203%	1.2
JNCEC	579 HK	34%	11,048	191%	0.5
BEIJING CAP AI	694 HK	41%	35,260	144%	1.3
TRAVELSKY TECH	696 HK	32%	51,267	214%	2.7
CHINA TELECOM	728 HK	17%	254,128	483%	0.7
SHENYANG PUB	747 HK	41%	350	143%	0.4
CHINA TOWER CO	788 HK	27%	286,894	277%	1.4
JINGKELONG	814 HK	44%	561	126%	0.3
HUADIAN FUXIN	816 HK	31%	12,276	227%	0.4
XINJIANG TIANY	840 HK	39%	166	157%	0.2
CHINA LONGYUAN	916 HK	42%	33,753	141%	0.6
CHANGMAO BIOCH	954 HK	35%	403	188%	0.6
CHINA SUNTIEN	956 HK	49%	7,950	102%	0.7
HUANENG RENEWA	958 HK	48%	31,488	110%	1.0
LIANHUA	980 HK	33%	1,433	200%	0.6
BEIJING MEDIA	1000 HK	28%	255	259%	0.2
CAPINFO CO LTD	1075 HK	27%	956	274%	0.9
SINOPHARM	1099 HK	40%	79,789	149%	1.7
SHANGHAI DASHE	1103 HK	65%	153	54%	0.7
QINGLING MOTOR	1122 HK	50%	4,741	100%	0.5
HARBIN ELECTRI	1133 HK	40%	3,225	153%	0.2
ZHEJIANG NEW C	1158 HK	25%	4,256	300%	4.3
CHENGDU PUTIAN	1202 HK	40%	204	150%	0.2
ZHONGYUAN BANK	1216 HK	19%	23,689	429%	0.5
TIANJIN JINRAN	1265 HK	27%	1,232	268%	0.6
DATANG ENVIRON	1272 HK	21%	4,985	375%	0.6
WUXI SUNLIT SC	1289 HK	25%	140	300%	0.2
CHANGAN MINSHE	1292 HK	34%	326	195%	0.1
GUODIAN TECHNO	1296 HK	22%	1,364	363%	0.3
SHANGHAI FUDAN	1349 HK	37%	4,947	171%	4.5
FUJIAN NUOQI	1353 HK	26%	611	280%	13.2
CHINA CINDA	1359 HK	36%	62,971	181%	0.4
SHANGHAI FUDAN	1385 HK	41%	3,556	144%	1.6
GUOLIAN SECURI	1456 HK	23%	4,166	330%	0.5
JUJIANG CONSTR	1459 HK	25%	549	300%	0.4
LUZHENG FUTUR	1461 HK	28%	771	262%	0.3
HENGTOU SECURI	1476 HK	17%	8,856	478%	0.8
SHANGHAI KINDL	1501 HK	28%	5,271	261%	N/A
CHINA REINSURA	1508 HK	16%	52,675	536%	0.6
ZHEJIANG TENG Y	1527 HK	26%	486	286%	0.6
GUANGDONG JOIN	1543 HK	36%	2,435	182%	1.1
GUANGZHOU RURA	1551 HK	19%	36,291	439%	0.6
YICHANG HEC CH	1558 HK	50%	19,613	102%	5.2
QILU EXPRESSWAY	1576 HK	55%	3,760	82%	1.0
QUANZHOU HUIXI	1577 HK	26%	945	278%	0.8
BANK OF TIANJI	1578 HK	29%	21,490	244%	0.4
CHANJET INFO	1588 HK	25%	1,716	295%	1.2
HEBEI YICHEN I	1596 HK	25%	3,627	300%	1.8
BEIJING URBAN	1599 HK	29%	3,142	248%	0.7

Source: Bloomberg, Wind, CMBIS

Figure 6: List of stocks eligible for H-share full conversion (Cont'd)

Company	Ticker	H-shares issued/total common shares issued	Total mrkt cap after H-share full circulation (HK\$ mn)	Incremental mrkt cap after full circulation completes / current mrkt cap	FY18 P/B (x)
CHINA DEVELOPM	1606 HK	27%	17,320	266%	0.6
INNER MONGOLIA	1649 HK	29%	3,388	247%	N/A
TONG REN TANG	1666 HK	49%	9,452	104%	1.6
TIANJIN TIANBA	1671 HK	28%	189	261%	0.6
SHANDONG INTER	1697 HK	25%	4,053	300%	0.4
NANJING SAMPLE	1708 HK	29%	4,673	245%	2.1
SICHUAN ENERGY	1713 HK	25%	1,826	300%	0.6
HEBEI CONSTRUC	1727 HK	26%	9,740	282%	1.7
ZHENJIANG	1743 HK	26%	1,027	290%	0.9
SHANSHAN BRAND	1749 HK	25%	117	299%	0.4
CHINA ISOTOPE &	1763 HK	25%	6,909	300%	1.8
CHENGDU EXPRES	1785 HK	28%	3,710	263%	1.0
CRCC HIGH-TECH	1786 HK	35%	1,930	186%	0.3
CHINA DATANG C	1798 HK	34%	5,673	191%	0.4
XINTE ENERGY C	1799 HK	26%	6,120	283%	0.5
ZHAOJIN MINING	1818 HK	33%	26,764	207%	1.8
CHINA MACHINER	1829 HK	22%	12,831	354%	0.7
SHANGHAI REALW	1835 HK	25%	759	300%	1.7
CIMC VEHICLES	1839 HK	32%	9,425	213%	N/A
YCIH GREEN HIG	1847 HK	30%	1,156	233%	0.8
JILIN PROVINCE C	1853 HK	25%	1,008	300%	1.4
BEIJING CHUNLI	1858 HK	28%	7,491	261%	5.3
SHANGHAI JUNSH	1877 HK	23%	21,211	329%	5.6
HAITONG UNITRU	1905 HK	70%	12,518	42%	0.8
YANGZHOU GUANG	1915 HK	25%	2,274	300%	2.5
JIANGXI BANK	1916 HK	22%	28,013	348%	0.8
BAIC MOTOR	1958 HK	31%	36,790	218%	0.7
BANK OF CHONGQ	1963 HK	50%	14,510	98%	0.5
LUZHOU BANK CO	1983 HK	28%	6,749	261%	0.9
SHANGHAI JIN	2006 HK	25%	7,625	300%	0.7
SHENGJINGBANK	2066 HK	27%	32,577	276%	0.5
WENZHOU KANGNI	2120 HK	27%	1,589	273%	1.3
BANK OF GANSU	2139 HK	25%	15,910	296%	0.6
CHANGSHA BROAD	2163 HK	25%	4,592	300%	N/A
YANTAI NORTH	2218 HK	30%	1,965	233%	1.0
LUZHOU XINGLU	2281 HK	25%	1,152	300%	0.5
CHARMACY PHARM	2289 HK	26%	809	286%	1.5
EVOC INTELLIG	2308 HK	25%	1,110	300%	0.4
PICC P&C	2328 HK	31%	210,194	222%	1.3
SHANGHAI PRIME	2345 HK	53%	1,363	89%	0.3
BAOYE GROUP CO	2355 HK	38%	2,881	166%	0.3
SINOPEC ENGINE	2386 HK	33%	20,457	203%	0.7
LAUNCH TECH	2488 HK	41%	1,694	142%	1.3
JINSHANG BANK	2558 HK	17%	11,385	502%	0.5
SICHUAN LANGUANG	2606 HK	28%	9,689	261%	14.4
SHANGHAI HENLI	2696 HK	30%	22,827	233%	N/A
WEIQIAO TEXTI	2698 HK	35%	2,472	189%	0.1
SHANGHAI DONGZ	2718 HK	25%	2,354	296%	0.6
CHONGQING M&E	2722 HK	30%	1,990	235%	0.3
GUANGZHOU R&F	2777 HK	32%	41,697	217%	0.5
CHINA HUARONG	2799 HK	64%	45,321	56%	0.3
BJ CAPITAL LAN	2868 HK	34%	7,964	197%	0.2
A-LIVING SERVI	3319 HK	33%	37,200	208%	6.2

Source: Bloomberg, Wind, CMBIS

Figure 7: List of stocks eligible for H-share full conversion (Cont'd)

Company	Ticker	H-shares issued/total common shares issued	Total mrkt cap after H-share full circulation (HK\$ mn)	Incremental mrkt cap after full circulation completes / current mrkt cap	FY18 P/B (x)
CHINA NATL BDG	3323 HK	46%	60,646	118%	0.8
LINGBAO GOLD	3330 HK	34%	985	191%	0.4
NANJING SINOLI	3332 HK	29%	211	247%	0.3
XIAMEN PORT	3378 HK	36%	2,999	176%	0.5
LEGEND HOLDING	3396 HK	54%	38,265	85%	0.6
YUEYUN TRANS	3399 HK	26%	2,376	286%	0.9
POLY CULTURE	3636 HK	36%	1,288	175%	0.3
HOLLY FUTURES	3678 HK	28%	1,070	263%	0.5
GUANGDONG KANG	3689 HK	25%	1,538	296%	1.0
HUIZHANG BANK	3698 HK	29%	38,409	249%	0.6
KUNMING DIANCH	3768 HK	33%	2,274	203%	0.5
XINXIN MINING	3833 HK	34%	1,017	191%	0.2
ZHUZHOU CRRC T	3898 HK	47%	31,444	115%	1.4
HANHUA FIN	3903 HK	25%	1,886	293%	0.2
CHINA INTERNAT	3908 HK	44%	60,637	129%	1.2
INNER MONGOLIA	3948 HK	10%	17,181	898%	0.5
CHINA BLUECHEM	3983 HK	38%	8,575	160%	0.5
CHINA ENERGY E	3996 HK	31%	24,917	224%	0.4
ZHONGAN ONLINE	6060 HK	32%	37,480	213%	2.2
RIZHAO PORT JU	6117 HK	49%	1,610	102%	N/A
JILIN JIUTAI R	6122 HK	19%	13,765	425%	0.9
HARBIN BANK	6138 HK	27%	17,703	264%	0.3
CANSINO BIOLOG	6185 HK	60%	9,307	68%	12.0
BEIJING DIGITA	6188 HK	49%	1,500	103%	0.4
GUANGDONG ADW	6189 HK	26%	5,204	284%	3.9
BANK OF JIUJIANG	6190 HK	17%	25,759	491%	1.0
YUNNAN WATER I	6839 HK	30%	2,040	228%	0.4
ZUOLI M-FIN	6866 HK	25%	531	293%	0.3
HENAN JINMA EN	6885 HK	25%	1,654	295%	0.7
NANDASOFT	8045 HK	15%	197	551%	0.6
JILIN PROVINCE	8049 HK	31%	555	225%	0.4
BEIDA JADE BIR	8095 HK	49%	1,241	103%	0.6
SHENGHUA LANDE	8106 HK	52%	103	93%	0.9
SHANGHAI QINGP	8115 HK	30%	99	237%	1.1
CHANGAN RH	8139 HK	38%	140	167%	1.2
TIANJIN TEDA	8189 HK	63%	260	58%	0.9
BAYTACARE PHAR	8197 HK	29%	101	245%	48.8
JIAODA WITHUB	8205 HK	28%	103	264%	1.3
ZHEJIANG YONGA	8211 HK	45%	224	124%	0.7
XI'AN HAITIAN AN	8227 HK	42%	3,062	137%	115.5
CCID CONSULTIN	8235 HK	30%	266	235%	1.6
POWERLEADER SC	8236 HK	25%	430	300%	0.3
DAHE MEDIA CO	8243 HK	30%	87	232%	N/A
BIOSINO BIO	8247 HK	44%	200	125%	0.6
ZHEJIANG RUIYU	8249 HK	26%	83	285%	N/A
SHAANXI NEW TE	8258 HK	25%	120	294%	0.6
SHANXI CHANGCH	8286 HK	36%	53	181%	N/A
SHENZHEN MINGW	8301 HK	25%	90	300%	4.8
SHENZHEN NEPTU	8329 HK	25%	478	294%	0.6
TIANJIN BINHAI	8348 HK	28%	184	261%	0.2
FY FINANCIAL S	8452 HK	25%	226	300%	0.4
Total			2,424,042	219%	

Source: Bloomberg, Wind, CMBIS

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