

Attracting Mining Listings to Hong Kong

Hsiang-Chih Hwang

As noted in the *Financial Times* (19 July 2010), Hong Kong is an emerging mining financing center for East Asia, in large part due to market liquidity and China's status as the world's largest and fastest-growing energy consumer. New mining listings in Hong Kong since 2010 include Rusal (the world's largest producer of aluminum and alumina) and Glencore (the world's largest commodities trader). These billion-dollar public offerings and several smaller ones point to mining financing becoming an important niche for strategic economic planning in Hong Kong (Reuters 13 May 2010).

The international mining market experienced a smaller number of new listings in 2008-2009 and an overall decline in equity capital raised in 2010 (Figs. 1 and 2). This indicates volatility in the international market since the 2008 global financial crisis. A rebound in market capitalization by an average factor of 1 to 1.8 was observed from 2009 to 2010 in primary resource centers, including traditional mineral-oriented centers such as the Australian, Johannesburg, and Toronto stock exchanges, as well as trading centers with high market liquidity such as New York and London (Table 1). As the emerging center in East Asia, Hong Kong can now be added to that list. Moreover, even though there was a net increase of 197 new listings from 2009 to 2010, many of the new listings in 2010 were for smaller companies, resulting in lower total equity capital raised in 2010 compared to 2009 (Figs. 1 and 2).

Some analysts are using statistics to show that Hong Kong has the *potential* to become a major mining finance center. However, they seem to overlook the fact that mining listings in Hong Kong have been around for at least two decades. Guidelines for mining listings have been part of the main board's *Listing Rules* (Chapter 18) since 1989. After the 2007 *Joint Policy Statement* regarding foreign listings, the first foreign resource company to list in Hong Kong was Sino Gold Mining Limited (Australia). Sino Gold, the first foreign company given approval to operate large gold mines in China, was the only mineral resource explorer and producer listed in Hong Kong at that time.

Lately, the strong demand for resources emerging from Asia (especially China and India) and stable demand from newly industrialized economies (e.g., South Korea and Taiwan) have encouraged resource companies to list on Asian exchanges (Global Mining Finance 2010). In addition to the above-mentioned Rusal and Glencore, newly listed companies include SouthGobi Energy Ltd., Mongolian Mining Corp., and Kazakhmys PLC. Many other firms (especially those based in Russia) are showing interest in joining this list, hinting at resource company movement away from producer-centered exchanges and toward those operating in resource-consuming countries. This also enhances Hong Kong's potential to become a major player in this sector.

Although Chapter 18 of the *Listing Rules* have been amended, the Hong Kong Stock Exchange still does not accept listings of early-stage exploration companies that have not yet proven the existence of exploitable reserves or created

clear production plans—a strong example of investor protection, and one that sets it apart from other primary resource centers (HKEx 2009 and Reuters 13 May 2010).

The resource sector is clearly a niche that Hong Kong (and the HKEx) should try its best to secure. The Hong Kong stock market has long been dominated by financial and property companies, therefore increased participation by resource companies would represent valuable market diversification. However, listing rules for natural resource companies need to be updated if Hong Kong is to establish itself as a major mining finance center. Providing local education on resource industries can help support the development of Hong Kong-based mining financing, thereby boosting the city's status as a major international financial center.

*The author is a Research Fellow in the Economics Department of Lingnan University, and a collaborator on “Hong Kong as an International Financial Centre for China and for the World,” a project funded by the Public Policy Research Funding Scheme of the Hong Kong Research Grants Council (project no. LU 3002-PPR-5). An earlier version of this article can be found as part of the captioned project report and on the Social Science Research Network website (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1932511).

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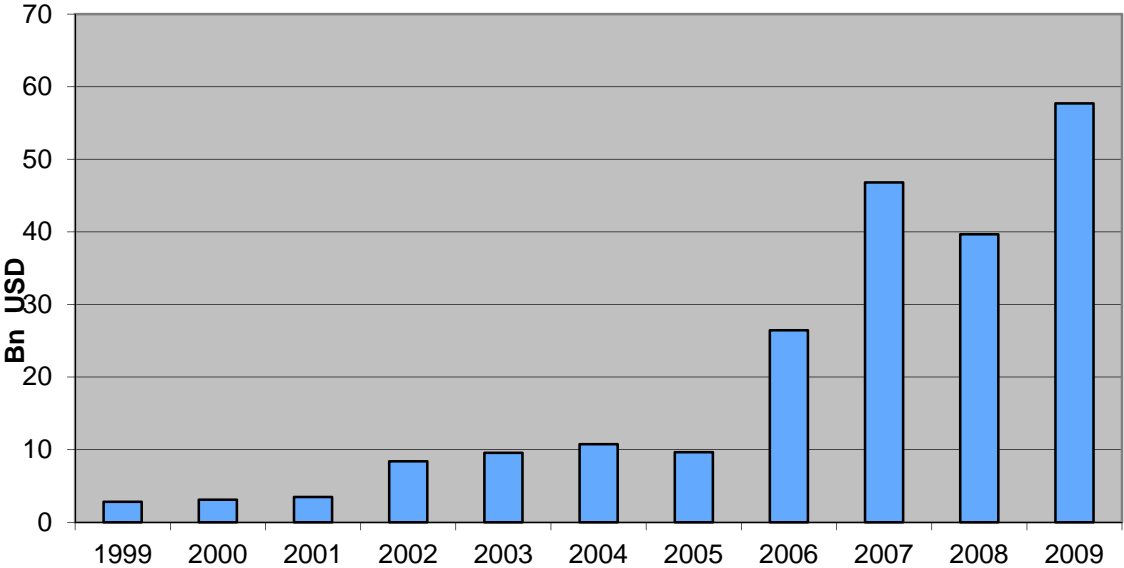
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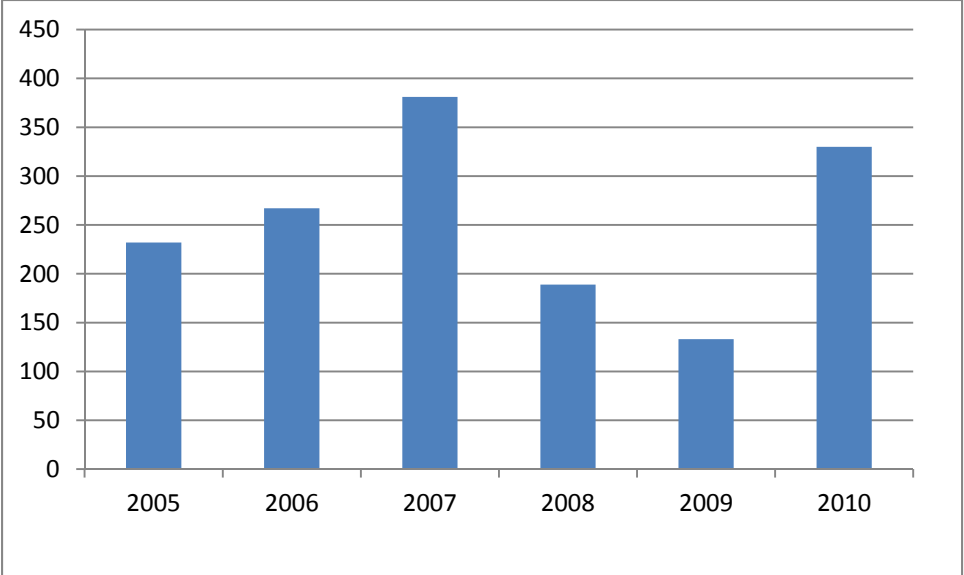
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Figure 1. Global equity capital raised, mining sector (billion USD).



Sources: Gamah International and Toronto Stock Exchange.

Figure 2. New mining listings in major stock exchanges. Data represent the sums of new listings on the NYSE, NYSE Amex, the Alternative Investment Market of the London Stock Exchange, and the Australian, Toronto, Johannesburg and Hong Kong Stock Exchanges.



Note: See also Ferron (2010) and Toronto Stock Exchange and TSX Venture Exchange (2010).

Table 1. Listing numbers, market capitalization, and equity capital raised for the mining sector in selected markets: NYSE, Australian Stock Exchange, London Stock Exchange (LSE), Toronto Stock Exchange (TSX), TSX Venture Exchange, Johannesburg Stock Exchange (JSE), and Hong Kong Exchange.

	Year	Australia	Hong Kong	Johannesburg	LSE and AIM	NYSE and Amex	TSX and TSXV
New listings	2005	67	n.a.	6	53	20	86
	2006	55	n.a.	10	70	20	112
	2007	33	n.a.	4	142	16	186
	2008	9	3	2	29	8	138
	2009	22	1	0	4	2	104
	2010	75	8	4	26	9	208
Total listings (as of 2010)		666	50	59	197	135	1531
Quoted market cap., end of 2010 (bn USD)		664.89	319.82	429.15	633.34	1502.13	546.44
Equity capital raised end of 2010 (bn USD)		1.84	1.46	0.51	4.18	0.93	17.28

Note: See also Ferron (2010) and Toronto Stock Exchange and TSX Venture Exchange (2010).