Supporting SMEs through Long-term Market-based Financing

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Introduction: Market-based Long-term Financing is Critical for Sustainable Development in China

- Deleveraging has become important and urgent for Chinese companies.
  - Some listed companies are reporting debt/asset ratios above 60%. Some companies in traditional sectors are seeing their debt/asset ratio exceed 80%.
- The capital market plays an important role in
  - Supporting growth in real economy;
  - Developing financial intermediaries
  - Promoting product innovation
1. The SZSE is Committed to Serving SMEs

- SZSE’s Multi-tiered Market Structure

- **Main Board**
  - Established on 1 Dec., 1990
  - Blue-chip companies

- **SME Board**
  - Established on 17 May, 2004
  - High-quality SMEs

- **ChiNext Market**
  - Established on 30 Oct, 2009
  - Emerging and high-technology enterprises

- SME Board and ChiNext have raised USD 157 billion for 1,098 SMEs and innovative start-ups.
1. The SZSE is Committed to Serving SMEs

- SMEs are cornerstones for economic growth and social well-being.

Chinese SMEs account for:

- >15 million registered SMEs
- 60% of the nation’s GDP
- 70% of exports
- 70% of technological patents
- 80% of urban employment
2. The SZSE Fostered Financial Supply Chain

- Capitalizing both tangible and intangible assets;
- There currently are 6,000 venture capital firms in China; with USD 170 billion available for investment;
- More than 300 listed companies on the SZSE are backed by venture capital;
- The capital market completes the circle of innovation by linking industrial demands with investment funds.

![Pie chart showing the distribution of companies on ChiNext and SME Board. ChiNext: 93% Others: 7%. SME Board: 74% Certified High-tech Enterprises: 26% Others: 26%.]
3. The SZSE Supports Green Industries

• The SZSE gives priority to serving environmental, alternative energy and new materials companies.
• More than 50 green companies are listed on the SZSE.
• The SZSE developed social Responsibilities Index to promote environmentally sensitive practices.
• The SZSE has established a special fund to restore deserts in Inner Mongolia. The project has attracted wide participation by financial institutions and companies.
4. The SZSE Supports Agricultural Industries

- The SZSE signed a cooperative pact with Yangling Modern Agricultural Pilot Zone to foster hi-tech high-value-added agricultural issuers.
- The SZSE had listed 53 issuers in agriculture, husbandry, fish farming and food processing by the end of 2012.
- The capital market facilitates the transition of agricultural businesses into high value-added, modern enterprises.

Leading Companies in the Agricultural Sector:
5. The SZSE has Expanded its Reach to Cover Unlisted Companies

- Given China’s huge geographic expanse, the SZSE has partnered with local equity or asset transfer markets to build local capital platforms.

- With concentrated information, corporate equity and investors, local capital platforms reduce market friction, enhance corporate visibility and facilitate trading.

- Local capital platforms facilitate long-term financing for small and micro-sized firms, which contributes to economic growth and job creation in the region.
6. The SZSE Serves Market Intermediaries

- As the Chinese capital market has a short history of just 24 years, intermediary services have a lot to be desired.

- The SZSE offers a suite of live and televised training programs and discussion seminars to enhance intermediaries’ professional knowledge and qualification.

- The SZSE facilitates knowledge-sharing among financial intermediaries.
7. The SZSE Supports Intermediaries’ Advisory Services for M&As

- The SZSE supports intermediaries by offering M&A advisory services.

- China’s pharmaceutical industry is heavily fragmented, with more than 6,000 firms competing against each other. Consolidation in the industry helps larger firms achieve economies of scale with heavy investment in R&D.

- Financial intermediary services can be very helpful in promoting M&As in the industry.
8. The SZSE Supervises and Incentivizes Financial Intermediaries with High Standards of Service

• With proper supervision, intermediaries bring front-line supervision and guidance to listed companies and investors.

• The exchange works with financial intermediaries in the following aspects:
  ➢ assessing new products, services and supervisory rules to reduce transaction costs and facilitate capital market activities;
  ➢ offering incentives for intermediaries to develop services in western China;
  ➢ providing subsidies for financial intermediaries to advise companies in western China.
9. The SZSE Provides Support for Intermediaries in Product Innovation

- Intermediaries play an essential role in product innovation. However, because of the short history of the capital market, intermediaries are inadequately equipped for product innovation.

- SZSE provides solid support for intermediaries in product innovation.

- During the development process of Asset-Backed Securitization (ABS), SZSE offers free consulting and guidance for intermediaries to develop proper project-planning, oversight, credit-rating, distribution and liquidity management. With hands-on experience, intermediaries are up and running -- and so is the ABS market.
Summary

• The exchange serves as a platform for interaction among issuers, investors and financial intermediaries.

• The exchange maintains the fairness and integrity of the market.

• Financial intermediaries that connect investors and issuers play a central role in facilitating market-based, long-term investment.
Success Story -
Small Business Lending Backed by ABS: Case Study of Aliloan

- **Background Introduction**
  - Alibaba, China’s e-commerce giant
  - Spill-over effects from its e-commerce platform to micro-loan services
  - Aliloan leverages Alibaba’s extensive trading data to track customer trade.

- **How it Works**
  - Small and micro-sized businesses as underlying assets
  - Distribution of interest to investors.
  - Proceeds raised by the ABS are used to finance further micro-loans.
  - The ABS are designed to roll over repaid loans to purchase new small-loan assets.

- **First Micro-loan ABS Product**
  Aliloan was the first ABS of micro-loans. It expanded the exchange’s capacity to serve small and micro-sized businesses.
**Success Story -**

- **Infrastructure Project - Nanjing Sewage**

  - Nanjing government decided to finance a sewage system through ABS in 2012.
    - Usufruct of the sewage system was the underlying asset.
    - Backed by expected future discharge fee collection
    - Interest certificates issued to raise 2 billion USD
    - The government collected sewage fees and paid interest

  - The Nanjing Sewage ABS project offers a sustainable model for infrastructure development.
Thank You!

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