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Chinese IPO Indicator Posts Another Sharp Drop

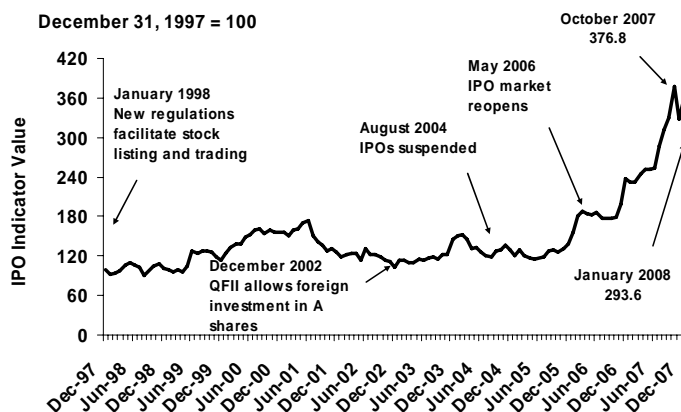
Indicator Value Change

January 2008: 293.6
December 2007: 358.4
Month-to-month change: -18.1%
January 2007: 231.5
Year-to-year change: 26.8%

Please [click here](#) to download the chart.

Highlights

After slightly rebounding in December 2007, the IPO Indicator dropped 18 percent, to 293.6 from 358.4. This is the largest month-to-month percentage decrease since December 1997. However, the indicator value is still 26.8 percent higher than its value twelve months ago.



Analysis

Eight equities were added to the indicator and 20 were deleted, bringing the total to 124 in January 2008. Of the 116 equities included in the previous two months, 105 decreased in price and only 14 recorded gains. All eight stocks that went public in January 2008 suffered some loss from their first-day trading prices by the end of the month. Industrial Bank (A share, 601166) and China Pacific Insurance Group (A share, 601601) accounted for a combined 30 percent of the decrease in the indicator value. Of the stocks that did show gains, Western Metal Materials (A share, 002149) posted the strongest performance. The large drop in the IPO indicator value signals that investors are becoming increasingly cautious regarding the continued growth potential of Chinese equity markets, taking into account the credit crunch that is occurring in the United States and the relatively high price-to-earnings ratios of many Chinese firms.

Methodology

A stock's float-adjusted market capitalization over time forms the basis for indicator calculations. Stock dividends, stock splits, special dividends, share consolidations, repurchases, spin-offs, and combination stock distributions may trigger adjustments to the indicator values. Only companies incorporated and domiciled in mainland China that go public on the Shanghai, Shenzhen, and Hong Kong stock exchanges are included. Companies are dropped from the indicator after twelve months.

Xinhua Finance/Milken Institute China Indicators

The Xinhua Finance/Milken Institute China Indicators provide investors, analysts, and financial professionals insight into China's money and capital markets. Five of the eight indicators have been launched since November 2006: the Renminbi Pressure Indicator, the Chinese IPO Indicator, the Market Adjusted Debt (MAD) Indicator, the Banking Strength Indicator (BSI), and the Adjusted Trade and Finance (ATF) Indicator. The remaining three indicators (the China M&A Indicator, the China Privatization Indicator, and the China Corporate Governance Indicator) will be launched later this year.

Period Coverage and Frequency

New companies are added to the indicator as soon as they are listed, while current companies are removed after twelve months. The IPO Indicator has a base date of December 31, 1997, when the indicator's value was set equal to 100, and covers the period from December 31, 1991, to the present. Values are calculated on a monthly basis. The indicator for each month is released in the third week of the following month.

Sources of Data

The real-time and historical trading data used in the construction of this indicator are provided by Xinhua Finance and Bloomberg; underlying information used to calculate the float ratio is obtained from a variety of sources, including Xinhua Finance's subsidiary Mergent, stock exchanges, regulators, and the companies themselves. Corporate actions are sourced from Xinhua Finance, regulatory filings, and news services.

To view additional information, visit www.xinhuafinance.com/indicators and www.milkeninstitute.org/chinaindicators.

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