Hong Kong listing reforms for SPACs, pre-revenue tech companies, foiled by high threshold, interest-rate cycle, experts say【南華早報】

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Hong Kong listing reforms for SPACs, pre-revenue tech companies, foiled by high threshold, interest-rate cycle, experts say

- Hong Kong saw just five SPAC listings in 2022 and none in 2023, while pre-revenue tech companies are yet to list since the introduction of new rules
- The interest-rate cycle has turned, ending 'free money chasing companies with crazy valuations', says head of a capital markets practitioner body

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Hong Kong Exchanges and Clearing's (HKEX) two major listing reforms over the past two years to encourage fundraising deals by Special Purpose Acquisition Companies (SPACs) and specialist technology firms have yielded little success and industry participants are demanding further relaxations to help resuscitate IPO volumes in the city which have shrunk to a two-decade low.

Hong Kong stock exchange's IPO ranking sank to 8th in 2023, with fundraising slumping to US$5.9 billion from 68 listings, the lowest since 2003, with blame being pinned on the tough listing requirements and high-interest rates, according to industry players.

Only five SPACs listed in Hong Kong in 2022 raising a combined US$639 million following the rule changes in January that year. That is a fraction of the US$13.4 billion raised by 86 SPACs in the US in the same year, according to Dealogic data.

HKEX's performance in 2023 was even worse, with no SPACs listings taking place.

Commercial buildings stand on Hong Kong Island. Photo: Yik Yeung-man

In Hong Kong, a SPAC needs to raise at least HK$1 billion (US$128 million) from professional investors and must announce an acquisition within 24 months, conditions that are more onerous than those in the US and Singapore.

The exchange has not yet seen any listing under the Chapter 18C rule introduced on March 31, 2023, which allows pre-revenue specialist technology firms to list if they have a valuation tag of at least HK$10 billion.

HKEX takes stock of its first female leader

23 Dec 2023

"The stringent listing thresholds, combined with cautious investor sentiments influenced by the challenging market conditions, contributed to the limited adoption of the SPAC reform and the 18C listing reform," said Edward Au, southern region managing partner at Deloitte China.

Au said market uncertainties had led to a shift in investor focus to established companies with an earnings track record or those with a clear path to profitability.

The Hang Seng Index dropped nearly 14 per cent in 2023, the first time the benchmark has fallen four years in a row. It lost 15 per cent in 2022, 14 per cent in 2021 and 3.4 per cent in 2020.

“The market experienced a reduction in liquidity due to intensive US interest rate hikes, Sino-US geopolitical tensions, a slower-than-expected Chinese economic recovery, and adjustments in the real estate property sector,” Au said.

“This shift in investor behaviour resulted in a reluctance to invest in less certain and relatively higher-risk entities, such as SPACs and specialist technology companies.”

Stacey Wong, president of the Association of Hong Kong Capital Market Practitioners, said rising interest rates and the weak economy in mainland China also had a role to play in the failure of the reforms.

The Hong Kong dollar’s peg to the US dollar, in place since 1983, means the city’s monetary policy is conducted in lockstep with the US Federal Reserve to preserve the mechanism, even if the cycles of the two economies differ.

The city’s base rate had to follow the Federal Reserve under this arrangement and was raised by 525 basis points since March 2022.

“The interest-rate rise has ended free money chasing companies with crazy valuations. It could also be due to risks in the technology sector, which is subject to lots of geopolitical risks now,” Wong said.

Wong urged the HKEX to further relax the listing process to improve the situation.

“HKEX should reform the vetting process and revert to bright-line tests, reducing subjectivity, creating a clear road map to listing, to increase transparency and hence attractiveness to potential applicants, big and small,” Wong said.

“HKEX should continue to solicit global companies, to become a truly international stock market and attract more cross-border investors. The international push in the Middle East and Southeast Asia fits this bill.”

Deloitte’s Au agreed the HKEX has to fortify its global standing.

“We recommend that the HKEX intensify engagement with emerging economies in the Middle East and Asean. Establishing a presence in the Middle East would facilitate the promotion of Hong Kong’s capital market,” Au said.

Au also urged the HKEX to set up an online platform to facilitate the secondary market for venture capital and private equity investments.

“By creating a dedicated space for these transactions, the HKEX can further position itself as a hub for fostering innovation and supporting the growth of promising ventures within the region,” Au said.

People walking outside the Exchange Square in Central, Hong Kong with tickers showing stock prices on December 7, 2023. Photo: Li Jiaxing

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Business / Markets

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- Hong Kong stock exchange's IPO ranking sank to 8th this year, with fundraising slumping to US$5.9 billion from 68 listings
- Analysts are confident Hong Kong can shrug off a dismal year, pointing to a slew of positive signs including potentially lower interest rates and China's policy boost

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Enoch Yiu + FOLLOW
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When Chinese baijiu maker ZJLD Group raised HK$5.31 billion (US$676.4 million) in April, few would have expected it to be Hong Kong's biggest initial public offering of the year.

It trailed China Tourism Group Duty Free's US$2.3 billion IPO in 2022 and fell far short of short-video platform Kuaishou Tech's US$6.2 billion listing the previous year. Hong Kong's IPO value fell 53.5 per cent to a 20-year low of US$5.9 billion from 68 listings, according to Refinitiv data. Simply put, 2023 was dismal for IPOs.

ZJLD's CFO Lambert Wang Lianbo, however, sees the company's listing as an achievement and expressed confidence in Hong Kong's IPO market despite the slump in fundraising.

"The notion of a 'good' IPO market goes beyond the short-term and unexpected stock price performance," Wang said. The promise of Hong Kong remains undiminished, he added.

ZJLD chairman Wu Xiangdong (right) and veteran employee Su Shuming at a gong-striking ceremony to mark the company's trading debut in Hong Kong on April 27, 2023. Photo: Handout

Hong Kong Exchanges and Clearing's (HKEX) main board dropped to 8th this year in the global IPO table, the lowest since 2001 when it ranked No 14, according to Refinitiv data released on Friday. The city last topped the league in 2019, with 144 IPOs raising US$40 billion.

The city fell behind Shenzhen's ChiNext, Shanghai's Star Market and its main board, Nasdaq and New York Stock Exchange in the US, Bombay Stock Exchange and National Stock Exchange in India, but was ahead of Abu Dhabi Securities Exchange, Indonesia Stock Exchange and Singapore Exchange.

Fundraising as a whole slumped globally this year as rising interest rates put a dampener on sentiment, with the total falling 26.7 per cent to US$119 billion, according to data compiled by Refinitiv from 104 markets worldwide.

Global IPO market rankings in 2023

Rank	Stock Exchange	Amount (US$b)	No of IPOs
1	Shenzhen ChiNext	17	110
2	Shanghai Star Market	16	67
3	Nasdaq	11	99
4	New York Stock Exchange	10	18
5	National Stock Exchange of India	7	170
6	Shanghai main board	7	37
7	Bombay Stock Exchange	7	123
8	HKEX main board	6	68
9	Abu Dhabi Securities Exchange	6	6
10	Shenzhen main board	4	25
	Global total	**119**	**1,328**

ChiNext, the top IPO market, saw 110 companies mop up US$17.1 billion, but the value was 31 per cent lower than 2022.

Listings in Hong Kong picked up in the fourth quarter. Twenty-five companies raised US$2.6 billion during the period, compared with US$1 billion in the third quarter, US$1.4 billion in the second quarter and US$850 million in the first quarter.

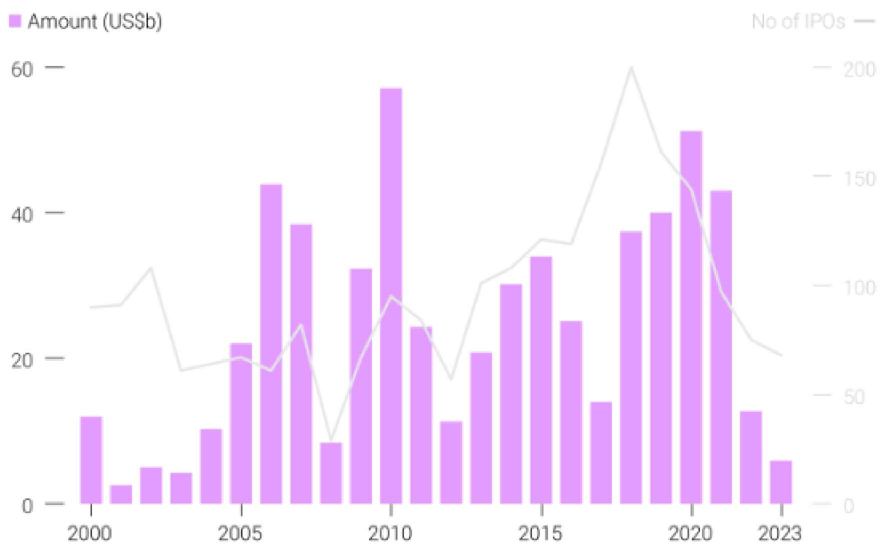
Wong said ZJLD made the right choice to list in Hong Kong to boost the company's reputation, touting the city's unique position as a gateway between mainland China and the world, and its wide international investor base.

Beijing-headquartered ZJLD, founded by its chairman Wu Xiangdong two decades ago, is backed by US private equity giant KKR & Co. The Chinese liquor maker has several brands in its portfolio, such as Li Du and Xiang Jiao. Its flagship is Zhen Jiu, or Treasure of Liquor.

"ZJLD strives to attain the status of a Chinese spirit conglomerate with a wide range of spirits and brands with international influence, akin to industry leaders such as Diageo and Pernod Ricard, through sustained and continuous development," Wang said.

Investment bankers blamed higher interest rates for the poor IPO sentiment worldwide. A consequence of the US raising its key rate by 5.25 percentage points since 2022 to crack down on inflation saw funds flow into US dollar assets, as investors shifted their money from equities to high-yielding, risk-free bank deposits.

Hong Kong's annual IPO fundrasing sinks to 20-year low



“The poor IPO market in 2023 reflects the uncertain macroeconomic outlook of mainland China,” said John Lee Chen-kwok, vice-chairman and co-head of Asia country coverage at UBS. Many listing candidates are waiting for the market conditions to improve, he added.

Lee, however, is optimistic about the outlook for 2024, pointing to the HKEX’s numerous reforms to promote IPOs and encourage international firms to list here.

Since April, the HKEX has allowed pre-revenue large tech companies to list, while its CEO Nicolas Aguzin has promoted international listings, including setting up offices in New York in June, and London in September, alongside staging roadshows in the Middle East and Southeast Asia.

“However, all these reforms will not work unless the overall sentiment improves,” said Edmond Hui Yik-bun, CEO of Bright Smart Securities, one of the biggest local brokers.

“With the benchmark Hang Seng Index having fallen by nearly half from its peak and trading [near] its lowest level in 25 years, many investors have lost money. They do not have spare cash to invest in IPOs,” Hui said.

The Hang Seng Index dropped nearly 14 per cent this year. This is the first time the benchmark has fallen for four years in a row. It lost 15 per cent in 2022, 14 per cent in 2021 and 3.4 per cent in 2020.

Kenny Ng Lai-yin, a strategist at Everbright Securities International, is optimistic. He expects the US to start cutting interest rates next year and supportive policies from Beijing to bolster market sentiment.

“These two factors will serve as significant catalysts for the IPO market,” Ng said.

There are more than 90 IPO applications in the pipeline in Hong Kong, with a few potential blockbuster listings next year, according to Hong Kong stock exchange data.

Deloitte anticipates Hong Kong’s IPO market will experience a notable improvement in 2024. A total of 80 IPOs are expected to raise HK$100 billion, according to Edward Au, southern region managing partner at Deloitte China.

Shenzhen-listed SF Holding, the parent of courier operator SF Express, could raise up to US$3.3 billion in Hong Kong, according to brokers’ estimates.

Two other candidates – Cainiao Smart Logistics Network, owned by Alibaba Group Holding, the Post’s parent, and Midea Group, the world’s largest maker of home appliances – are widely expected to raise US$1 billion each.

“The market expectations of the rate-hike cycle concluding in the first half of 2024 set the stage for a rebound in IPO activity in Hong Kong,” Au said. “The redirection of liquidity, including funds from Europe, the US and the Middle East, towards Asia is anticipated.”

Other market participants such as Stacey Wong generally agree with the assessment.

The only hiccup, according to the president of the Association of Hong Kong Capital Market Practitioners, is geopolitics, which could prove to be a big factor.

Meanwhile, ZJLD's Wang believes business leaders could help investors regain confidence.

"It is our responsibility, as business managers, decision-makers and industry foregoers, to create a solid foundation for such faith to be rebuilt," he said.

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