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China's biggest private companies warm to homeland IPOs as US trade tensions muddy the waters

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For Chinese companies going public, the calculus over where to sell their shares has become increasingly murky, as trade tensions between the US and China have appeared to deter them from US exchanges.

TikTok owner ByteDance and artificial intelligence heavyweight SenseTime are both considering IPOs in their home country, according to Reuters. ByteDance is also reportedly weighing a Hong Kong listing.

Reports of the potential listings in China follow Ant Group's recent decision to pursue a dual listing in Hong Kong and Shanghai, rather than go public on a US exchange. And earlier this month, Chinese chipmaking giant SMIC raised $6.5 billion on the STAR market in Shanghai.

The string of upcoming offerings in China adds more credibility to Shanghai's year-old STAR market, which has listed more IPOs this year than either the New York Stock Exchange or Nasdaq, as of July 20, according to The Economist.

Chinese exchanges have become more attractive as they have gained international recognition and undergone changes that make the process of listing shares less onerous, said Drew Bernstein, co-chairman at Marcum Bernstein & Pinchuk, which audits Chinese companies in the US.

Meanwhile, US politicians' antipathy toward Chinese companies has dulled the allure of listing in the US. In May, the US Senate passed a bill—primarily aimed at Chinese companies—that would ban foreign businesses from US exchanges unless they met stricter audit standards.

Actions by the Trump administration have given ByteDance and SenseTime more immediate reasons for listing at home.

President Trump is expected to sign an executive order that would force ByteDance to divest its short-form video-sharing app TikTok, according to reports. And last year, SenseTime was added to the Commerce Department's entity list, which prevents foreign businesses from trading with US companies unless they secure a license.

Geopolitical tensions aside, some Chinese companies continue to receive a warm welcome in the US.

"It's not like Chinese [companies] are just coming here. They're actually being brought here by investment banks and other professionals," said Bernstein. "It's really a two-way street."

Last week, Chinese electric vehicle maker Li Auto raised $1.1 billion in its IPO after the offering priced above the marketed range. After it began trading Thursday on the Nasdaq, Li Auto's stock ended the week up 39%. Guangzhou-based Xpeng Motors also reportedly filed confidentially for an IPO in the US.

Meanwhile, a third Chinese EV maker, WM Motor, has opted to consider a STAR board IPO, Bloomberg reported.

The recent stock market success of Tesla, Fisker, China-based Nio and others have made it clear that investors are craving new car makers, said Seth Goldstein, an equity analyst at Morningstar.

"The advisors and CFOs of [EV makers] are looking at that as a way to raise capital given what seems like mass investor appetite to purchase shares of a new EV company," he explained.

US exchanges offer Chinese businesses large and diversified sources of capital, an attractive proposition for its full stable of domestic unicorns companies, Bernstein said.

China's relative success in controlling the coronavirus may also be contributing to the steady stream of IPOs for domestic companies.

"A good part of the Chinese economy is open," Bernstein said. "These companies now have a revenue stream post-COVID, so to speak, which makes them more palatable to go public."