The Wall Street Journal

‘The Gold Standard’: Why Chinese Startups Still Flock to the U.S. for IPOs

https://www.wsj.com/articles/the-gold-standard-why-chinese-startups-still-flock-to-the-u-s-for-ipos-11597313278?mod=hp_lead_pos4

By Jing Yang

August 13, 2020

The U.S. remains a magnet for initial public offerings of Chinese technology companies, despite rising political, trade and regulatory tensions between the world’s two largest economies.

More than 20 companies from China have gone public so far this year on the Nasdaq Stock Market or New York Stock Exchange, raising $4 billion in total, according to Dealogic data. Most specialize in high-tech industries such as software or electric vehicles. The sum already exceeds the $3.5 billion in combined IPO proceeds that 25 Chinese companies raised in the U.S. over the course of 2019.

On Thursday, a Chinese online real-estate brokerage raised about $2.1 billion in an NYSE listing, after pricing its IPO above the top of an earlier price range. That will further boost this year’s tally. The company, KE Holdings Inc., is known in the country as Beike Zhaofang and counts SoftBank Group Corp. among its high-profile backers. Its IPO is the largest in the U.S. by a Chinese company since 2018. The deal will value the company at more than $22.5 billion. Banks have an option to increase the total size of the share sale by 15%.

“The U.S. market is still the gold standard,” said Drew Bernstein, co-chairman of accounting firm Marcum Bernstein & Pinchuk LLP, whose clients include U.S.-listed Chinese corporations. “If somehow the listing rules are changed and the doors are closed on Friday, you’ll probably see a Chinese IPO on Thursday.”

Tensions between the U.S. and China are at their highest in years. The two countries have been sparring on trade, technology and diplomatic issues. The Trump administration recently recommended that Chinese companies be forced to give up their listings on U.S. exchanges unless they comply with U.S. audit requirements by 2022. The Senate also passed a similar bill earlier this year, but it would need to be passed by the House before being signed into law.

Despite that, a Bank of New York Mellon index of Chinese companies' American depositary receipts has gained 18.2% in the year to date, outperforming the S&P 500 index's 4.6% increase.

Investment bankers and other advisers say Chinese companies are still lining up to go public in the U.S. and have been largely successful at raising funds from U.S. and other global investors. Listing in the world's largest, most active and deepest capital market brings companies more international name recognition and a more diverse group of investors, they say. Most stocks of Chinese companies have also chalked up significant gains on their U.S. trading debuts.

"There's no doubt that people have an eye open" to the risks posed by geopolitical and regulatory uncertainty, said Aaron Arth, head of the financing group in Asia ex-Japan at Goldman Sachs Group. "But there has been no change, no dampening of appetite or demand at this stage," he said

For many companies, short-term capital needs outweigh long-term risks, according to Peihao Huang, head of Asia equity capital markets at UBS Group AG
.

"While it's still difficult to estimate the risks of delisting, a lot of companies do have near-term needs to raise capital, and they want to do that in the most efficient way at a desirable valuation," she said.

The recent accounting scandal at Luckin Coffee Inc., a Chinese coffee chain whose shares collapsed less than a year after its May 2019 IPO, for the large part hasn't deterred U.S. and other global investors, who remain eager to invest in Chinese companies with strong growth potential, say market participants.

Li Auto Inc., a five-year-old electric-vehicle manufacturer, in late July raised $1.1 billion in a Nasdaq initial public offering that was led by units of Goldman Sachs, Morgan Stanley, UBS and China International Capital Corp.

Its stock was priced at the top of an offered range, and jumped on its debut. The company currently has a market capitalization of $13.1 billion.

“China is home to some of the fastest-growing startups in the world and the He said the company’s U.S. listing makes it more comparable to other electric vehicle makers including Tesla Inc. and Shanghai-headquartered NIO Inc., whose stock move has mirrored Tesla’s big gains this year. XPeng Inc., another Chinese rival of Tesla, filed a U.S. IPO application last week.

Some of the largest share sales by Chinese companies this year have taken place in Hong Kong and Shanghai, however, including secondary listings by JD.com Inc. and NetEase Inc., and that of Semiconductor Manufacturing International Corp. which earlier gave up its NYSE listing.

Chinese fintech and payments giant Ant Group Co. is also preparing for a Hong Kong and Shanghai dual listing that could value the company in excess of $200 billion. Ant didn’t consider a U.S. listing even though its sister company Alibaba Group Holding Ltd. went public there, The Wall Street Journal previously reported.

Chinese companies don’t always thrive in U.S. markets, either. In recent years, numerous U.S.-listed Chinese companies have also been taken private, often by management teams working with outside investors, and sometimes with the aim of securing a higher valuation from a more enthusiastic investor base back in China.

Still, for many companies in growth stages that need to continue raising funds, the U.S. remains “the easiest market to raise capital,” Goldman’s Mr. Arth said.

potential they offer is very attractive for global investors,” said Mingming Huang, founding partner of Future Capital Discovery Fund, the earliest outside investor in Li Auto.