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What Does Ant Group IPO Freeze Mean for Investors?

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Q: Drew, you know this Chinese IPO world well so tell us: are these last minute suspensions common? And when do they resume? If the issues are resolved, what happens next?

A: This was a $34bn deal that was meant to be the crowning jewel for the China capital markets. It would have likely put Shanghai and Hong Kong at number one and number two spots for the global IPO in 2020. This deal was not only cleared for takeoff; it's wheels were halfway off the ground. The institutional tranches were 284 times oversubscribed and there was 2.8 trillion in retail interest. Having deep, well functioning capital markets is essential to a deal like this.

Decisions around the deal will come with consequences and it's important to get it right. The tensions between financial innovation and regulator concerns regarding the stability of the financial markets is kind of not a new theme. You probably recall China introduced significant restrictions to P2P lending in 2018 after they had a spate of scandals in the industry and Ant Group. This company is essentially a financial supermarket on steroids. MBP employees in China use Alipay for everything they need. This includes purchases, loans, investment products, insurance, credit ratings - all sitting there right on their smartphones.

A: Right. And in fact they were sort of learnt a lesson about who is in control in China. Right? With this sudden suspension. But just I want to hone in on your point about how important this was supposed to be for China's capital markets. What message is this sending to investors, especially foreign investors who have been very interested in the Chinese market?

Q: The regulatory environment in China now has changed. China has made a tremendous amount of progress in moving towards a disclosure based IPO system and allowing a free hand for market forces and how new issues are priced in trade. And even before the Ant IPO, Shanghai was leading the world in new issues for 2020. China accounted for 45 percent of the global IPO market in the first three quarters. This has decisively opened up the markets for advanced technology companies even before they have achieved profitability and Ant was on a track to set a new benchmark, both for record breaking size and by dividing new offerings between Shanghai and Hong Kong. That would have been potentially the best of both worlds. But by putting the deal on ice the Chinese government has made a statement that the stability of the banking system is more important than any one deal. Ant group has so many unique features. I would be cautious about extrapolating this deal to other listings. Jack Ma was recently quoted as saying "we cannot manage an airport the way we manage the train station." I interpret the turn of events to indicate, "If you have a train and it goes toot toot, it is going to travel on our tracks'.

Q: Drew, there is another way of looking at this, which is that in some of the comments that Jack Ma - he is very outspoken of course - recently about his criticism over China's financial ecosystem. The way that he says that Chinese banks work like pawn shops, that guarantees and collateral documents don't operate in the way that they would elsewhere, that this has been the result - that regulators have dressed him down and shown him who is boss. Is this a concern? Because you look on as a foreign investor potentially wanting to get into some of these big growth names in China and think, well, it is quite clear you cannot extricate the role of the corporation with the role of the government here.

A: Based on reports, Ant Group will need to restructure their deal to comply with evolving requirements. Reports indicate that Ant will need to boost their capital reserves and lending business and reapply for licenses to do business in certain segments. They may be required to deepen their partnerships with the large banks they are working with so they have additional supervision and a lightly regulated business. I would expect some of these changes would manifest themselves in China and new regulations, while others may take place in informal boardroom conversations. My expectation is that it is going to take some time for the company to adapt to the new rules of the road. And then we will see how the changes flow through to impact the future growth and profitability. The fact that the offering was so oversubscribed suggests there is no shortage of demand on a piece of Ant Group. But investors want to see clarity on all the issues that they commit to for a deal.