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Changing course: Chinese issuers take a second look at US exchanges

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After an 18-month lull in new listings, Chinese companies are returning to the US stock exchanges.

Four businesses based in mainland China have listed on the Nasdaq so far in 2023, including one special purpose acquisition company, compared to just three in the post-summer market window in the last four months of 2022.

Hesai Group [NASDAQ:HSAI], which develops sensor technology for self-driving cars, is the largest Chinese issuer this year, having raised USD 190m at a USD 2.6bn valuation on 8 February. It is the second biggest Chinese IPO in the US since Didi Global raised USD 4.4bn in June 2021.

“China has some strong tailwinds in its favor right now, no pun intended,” said Drew Bernstein, co-chairman of audit firm MarcumAsia, referring to the alleged spy balloon that recently flew over the US.

The re-opening of the world’s second-biggest economy, after three years of COVID-19 lockdowns, and new rules issued by China for overseas initial public offerings are the main catalysts, he said.

Last Friday, the China Securities Regulatory Commission formalized a framework that will allow it to vet overseas listings applications beginning on 31 March. The move is seen as a solution to the troubles Didi faced when the ride-hailing giant ran afoul of China’s data privacy and national security laws and ultimately de-listed from the New York Stock Exchange in 2022.

Another barrier to Chinese listings in the US fell late last year when the US Public Company Accounting Oversight Board reached an accord with China’s securities regulator and finance minister to allow it to inspect audits of US-listed Chinese companies.

“That removes a major risk factor for investors,” Bernstein said. “China’s markets are moving to a more disclosure-based system closer to that of the US. It is a big shift in how China is approaching listings.”

Bernstein's firm is working with roughly 50 Asian-based businesses – most of them in China – that are preparing to list their shares on the US exchanges. Most of them have confidentially registered IPO paperwork with the US Securities and Exchange Commission, he noted. They are not in a rush to list, however. Many of them are sitting on ample cash and waiting for market conditions to improve, he said.

Other countries in Asia where advisors are seeing interest in the US exchanges include Singapore, Indonesia, Vietnam, Malaysia, and the Philippines. Bernstein expects some of them will merge with US-listed SPACs, which are increasingly active in Southeast Asia.

While Asian listings on Wall Street are poised to improve on last year’s numbers, advisors say strained relations between Beijing and Washington, as well as new laws designed to boost activity on the Hong Kong and domestic Chinese exchanges, will likely keep a lid on cross-border offerings. Even so, Bernstein said Chinese markets cannot absorb all the private enterprises there that would like to go public.

But it won’t be easy to find success in the US.

New Ruipeng Pet Healthcare Group, a Chinese pet hospital operator backed by Tencent [HKG:0700], decided to postpone its US listing after failing to attract enough orders to cover the deal, this news service reported last week. The offering drew a lukewarm response from institutional investors who deemed it too expensive, the report said.

Last year, Chinese companies raised USD 470m in US IPOs – the lowest total since 2012, according to Dealogic.

Companies around the world shied away from stock markets last year as rising interest rates, runaway inflation and geopolitical tensions damaged investor enthusiasm for equities.

Barrett Daniels, US IPO co-leader at Deloitte, said he expects uncertainty to hang over the markets for several more months. The beginning of the year got off to a promising start, he noted, with major US stock indices recovering some of the losses they endured last year and in late 2021. But volatility returned to the markets this week, and there aren’t as many US companies preparing to IPO as in the past, he noted.

“I’m not hearing about enough companies preparing to go public,” Daniels said. “There are companies getting ready, but it’s a smaller number than we traditionally see. Listings take time. You can’t just snap your fingers and get them done in a month or two.”

Typically, companies need one or two years to prepare to go public, he added.

The IPO window in the US is expected to open in the second half of the year when, according to Daniels, a wave of attractive businesses may test the public markets. There are about 1,200 venture-backed companies valued at USD 1bn or more that he said provide “hope that when markets open back up and investors are more receptive to riskier trades, you could start to see" more IPOs on US exchanges.

Until then, Daniels said, there will be “a lot of wait and see.”

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