Will China IPOs Stage A Comeback In 2024?

By Drew Bernstein

Which of the following statements is true?

1. Major indexes of Chinese stocks logged their third year in a row of negative returns in 2023, leading many global funds to give up on Chinese equities.
2. Chinese companies made up nearly 25% of new listings in the United States in 2023.
3. The largest potential IPO in 2024 is a company from China that has trounced its United States and European competitors.

If you answered, “all of the above,” congratulations. Welcome to the confusing state of Chinese IPOs in 2024.

A Tale of Two Markets

At the start of 2023, market prognosticators made two bold predictions:

1. China’s economy would snap back as consumers engaged in revenge spending following three years of COVID lockdowns.
2. The IPO market would begin to recover as investors and companies adjusted their expectations to a world of higher interest rates and correspondingly lower valuations.

So much for the crystal ball.

Instead of splurging, China's consumers traded down to bargain shopping as sagging real estate values and a lethargic employment outlook sapped confidence. After a brief rally at the beginning of 2023, Chinese stocks continued to drift south, with Hong Kong's Hang Seng index losing 14% for the year – its fourth consecutive year in the red. Former market darlings such as Alibaba (NYSE: BABA) and Tencent (OTC: TCEHY) continued to trade near multi-year lows.

As global funds soured on China concept stocks, IPOs on the Hong Kong stock exchange plunged to $5.9 billion, the lowest haul in 20 years. While listings on the mainland's exchanges remained more active, funds raised on the Shanghai Stock Exchange fell by 49% in 2023 as regulators tightened up the approval process for IPOs in August in an effort to shore up investor confidence amid sagging share prices.

In the United States, Wall Street hoped that high-profile IPOs by semiconductor designer ARM Holdings (NASDAQNDAQNDAQ: ARM) and sandal maker Birkenstock (NYSE: BIRK) would lure other unicorns that have been waiting for market conditions to thaw to venture into the public market. But after their share prices initially faltered, several other companies pulled or delayed their offering plans.

Last year, there were 108 IPOs on the U.S. stock exchanges that raised $19.4 billion, according to Renaissance Capital. While that's an improvement over the IPO drought of 2022, when 71 IPOs raised a mere $7.7 billion, it made for a lean year for Wall Street equity desks. Average returns from IPOs were slightly positive at 2.5%, but a far cry from the 24% gain in the S&P 500 or the 55% surge in the Nasdaq 100. So, IPO investors were taking on more risk (and doing more analytical work) while earning less return.

Last year, 25 IPOs in the U.S. markets were launched by China-based companies. Most of these new listings were very small deals of $20 million or less, with only one IPO above $100 million. As a result, they had minimal institutional participation and a thin float that could produce stomach-churning volatility. None of the companies that were listed had corporate brands recognizable outside of China.

SUQIAN, CHINA - JULY 25, 2023 - Illustration the US Stock IPO market, Suqian, Jiangsu Province, China, July 25, 2023. (Photo credit should read CFOTO/Future Publishing via Getty Images)

The Case for a Comeback in 2024

Could 2024 be the year when China's IPO market finally finds its footing? Aside from the fervent prayers of Hong Kong and Beijing-based investment bankers, there are some grounds for optimism.

Big Names in the Pipeline. IPOs by big, recognizable companies tend to create spillover excitement, and the biggest name in the pipeline for 2024 is the AI-powered fast fashion colossus, Shein. Churning out 1.5 million new designs per year, which it ships directly to consumers at ultra-cheap prices, Shein has rapidly overtaken competitors, including Zara and H&M, with sales that are reportedly larger than both combined. With 31 million followers on Instagram and 8.8 million on TikTok, the company has set the standard for social media marketing with its users' ubiquitous (14.6 billion and counting) #sheinhaul posts. Shein filed confidentially for an IPO with the SEC in late November, targeting a valuation rumored to be in the range of $60 to $90 billion.

Shein has attracted its fair share of controversy during its rapid ascent, with accusations ranging from copycatting designs and taking advantage of U.S. tariff exemptions for low-priced items to engaging in "mafia-style intimidation" tactics with its suppliers, according to a lawsuit filed by Temu. However, the company has been actively seeking to reposition itself as a responsible global corporate citizen, including cultivating young designers and announcing sustainability goals. Of note, the company moved its corporate headquarters to Singapore. Once the IPO prospectus flips public, investors will be able to determine if the company's growth trajectory is compelling enough to look past some of these jitters.

Another name that investors will be watching is Zeekr, the electric vehicle manufacturer owned by Geely, the Chinese auto giant that also owns Volvo. Zeekr has filed publicly with the SEC and is reported to be weighing launching its IPO in February after Chinese New Year. The company recently made a splash with the launch of its new 007 sedan, which features a 15-minute charge time and up to 540 miles of driving range at a price below $30,000. While intense competition in China's EV market has led to cutthroat pricing, Zeekr is one of the brands with a real shot at making inroads in international markets.

SUQIAN, CHINA - NOVEMBER 28, 2023 - Illustration Shein, Suqian City, Jiangsu Province, China, November 28, 2023. (Photo credit should read CFOTO/Future Publishing via Getty Images)

Streamlined Approval Process. In 2023, China, for the first time, began requiring companies that wanted to list overseas to obtain approval from Chinese regulators. In the early days, companies and investment bankers struggled to understand how the review process would work and which companies the China Securities

Regulatory Commission (CSRC) China's version of the U.S. Securities & Exchange Commission (SEC), would deem suitable.

In recent months, regulators have grown more responsive, and the CSRC ended 2023 having approved 72 applications to list in New York or Hong Kong.

Limited Options for Funding. Chinese companies have minimal options for growth financing. Unless there is a significant market rebound, the CSRC will likely throttle back approvals for domestic IPOs in Shanghai and Shenzhen even further in 2024, with PwC predicting that proceeds could decline by nearly 50%.

VC funding has plunged by over 90% since 2021, with 2023 marking the worst year since 2010. Proposed new rules potentially make it even more challenging to launch new funds domestically in 2024. In this environment, companies outside of the "hard tech" sectors promoted by the government, such as semiconductors, AI and quantum computing, may have difficulty securing domestic funding, no matter how bright their prospects.

For all these reasons, 2024 could be the year that Chinese IPOs begin to recapture the attention of global fund managers. That said, when it comes to China, predictions are best written in pencil.