



Liu Chenguang LCG / September 14, 2023

After a month and a half of silence, the Hong Kong market is welcoming new listings again. Has the enthusiasm for IPOs in Hong Kong stocks returned?

Since September, five companies have undergone new hearings, which is also a signal that IPOs are about to accelerate.

Recently, Hong Kong stock IPOs have welcomed new members after a period of silence. On September 5, Immune Onco-B was listed on the main board of the Hong Kong Stock Exchange. It is a biotechnology company that develops tumor immunotherapy.

It is worth mentioning that this is the latest IPO in Hong Kong stocks after a month and a half. On July 18, Zhongan Smart Life was listed on the Hong Kong Stock Exchange, and there were no new shares until September 5.

Data shows that as of September 5 this year, there have been a total of 38 IPOs in the Hong Kong stock market (including introduction listings). Broken down by month: 10 in

January, 0 in February, 8 in March, 4 in April, 5 in May, 4 in June, 6 in July, 0 in August, and 1 so far in September. individual.

Why will there be a "gap period" for IPOs in Hong Kong stocks from July to August?

Chen Gang, co-director of Aide Financial Research Department, believes that in the secondary market, as of August 31, the Hang Seng Index fell 7.07% during the year. Looking at the months, the increases from January to August were 10.42%, -9.41%, 3.10%, and - 2.48%, -8.35%, 3.74%, 6.15%, -8.45%. It can be seen that the secondary market is highly volatile. Under such large fluctuations, on the one hand, it is difficult for companies to seize the opportunity to obtain a more ideal valuation, and on the other hand, investors have greater differences in the valuation of new shares.

In addition, Chen Gang pointed out that some companies planning to be listed may take this opportunity to update their results to half a year, which will also temporarily delay their listing process. He said that he is still optimistic about the prospects for IPOs in the Hong Kong stock market. The valuations of both the Hang Seng Index and the technology index are significantly at historical lows. Coupled with the recovery of the mainland economy and the high probability of a shift in the Federal Reserve's monetary policy next year, the secondary market may significantly stabilize and rebound, which will directly contribute to the return of enthusiasm for IPOs.

Huang Lichong, founder of Xie Zong Strategy Management Group, told Jiemiao News that the prospectus is generally published no later than June 30 and the official listing is before July 30, so it is rare to be listed in August. Another factor is that the Hong Kong market is relatively sluggish. On the surface, it can maintain a certain level, but in fact individual stocks are even more depressed, so listings will also face underwriting challenges.

Drew Bernstein, co-founder and co-chairman of Marcum Asia Accounting Firm, told Jiemian News that the slow pace of listings on the Hong Kong Stock Exchange in 2023 can be partly attributed to the new process for CSRC review and approval that all overseas listings have been subject to since March of this year. In the long term, having an explicit approval process for IPOs on overseas stock markets is a very healthy development and should contribute to increased market confidence. However, getting a brand new regulatory regime to function smoothly always involves some growing pains.

According to Bernstein, Hong Kong has traditionally served as a "window into China" for overseas investors, with a heavy representation of companies in sectors such as consumer goods and real estate. Right now, many global investors are weighing whether it is the moment to take advantage of attractive valuations by plunging into the market or if they should wait for further clarity regarding consumer sentiment. Often, the IPO window will reopen after investors have already made gains on their holdings of existing public companies. Will that clarity emerge in the fourth quarter of 2023? That is an open question.

"In the long term, it is clear that Hong Kong's IPO market will continue to provide a vital alternative to mainland companies that seek exposure to global investors with the convenience of a near-shore listing venue." Bernstein analyzed.

Chen Gang pointed out that since September, five companies have undergone new hearings, which is also a signal that IPOs are about to accelerate. On the other hand, the characteristics of IPOs in the Hong Kong stock market may change. In April 2018, the IPO reform of the Hong Kong stock market brought the Hong Kong stock market to a higher level in terms of both the number of IPOs and the amount of financing from 2018 to 2021.

Chen Gang told Jiemian News that as the listing wave of biotechnology companies, Internet technology companies and secondary listed companies is coming to an end, it may be normal for the Hong Kong stock market, especially the IPO financing amount, to decline compared with 2018 to 2021. "But in the future, we may see a wave of companies already listed on A-shares listing in Hong Kong. For example, we have recently seen that SF Express Holdings has submitted its application, and Midea Group is also conducting demonstrations on listing in Hong Kong." He added.

Regarding the current market conditions of Hong Kong stocks, Yan Zhaojun, a strategic analyst at Zhongtai International, said that the current long-term risk-free interest rate of the US dollar is the highest since 2007, including a series of policies to support the capital market and real estate, helping to stabilize capital market confidence. However, under the general premise of "security" and economic transformation, it is difficult for the market to vigorously increase leverage to stimulate the economy, which also indicates that the process of this round of economic recovery will be relatively long. At present, it is difficult for Hong Kong stocks to obtain incremental liquidity. To escape from low fluctuations, downward pressure on earnings revisions needs to be resolved. This depends on how effectively residents' income expectations, real estate and local debt problems can be improved.

"Before there is no real solution to local debt and boost the confidence of residents and enterprises, the predicted PE of the Hang Seng Index fluctuates between 8.8 times and 10 times, which is equivalent to the Hang Seng Index fluctuating between 17,500 and 19,900 points. In the short term, Hong Kong stocks Most of the trading opportunities are in the swing band of buying low and selling high. The combination of active capital market policies is good for the rebound of A shares and Hong Kong stocks, and the Hong Kong Stock Exchange, securities companies and insurance stocks will directly benefit." Yan Zhaojun said.