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Recently, 10 new stocks have been listed and soared. What is the key to affecting the trend of Hong Kong stock IPOs?

The situation of IPOs is directly related to the difficulty of financing and valuation level of the entire market.

By Liu ChenguangLCG

The situation of Hong Kong stock IPOs is quietly changing.

Judging from the situation in the first half of this year, although the number of Hong Kong stock IPOs has decreased compared with last year, there have been 10 consecutive IPOs with stock prices exceeding the issue price the next day.

Wind data shows that since May 16, the closing prices of 10 consecutive Hong Kong-listed companies on the first day have been higher than the issue price, but this situation was broken when the stocks were listed on June 14. On the day of listing, Yungongchang (2512.HK) fell by more than 10 percentage points.

It is worth mentioning that in terms of the break-even rate, wind data shows that as of now, a total of 27 companies have been listed on the Hong Kong stock market this year, of which 10 companies have fallen below the issue price. In the past two years, the number of companies that have fallen below the issue price is 51 in 2023 (70 listed) and 69 in 2022 (89 listed), and the break-even rate is significantly higher than in the first half of this year.

Zeng Wenyuan, EY's managing partner for technology, media and telecommunications audit services in South China, told Jiemian News that from a global perspective, the proportion of A-share and Hong Kong stock fundraising is at a lower level than in previous years, and it is still

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necessary to observe. From a macro perspective, the factor supporting the recent rise of Hong Kong stocks is the continuous inflow of funds. From the average transaction volume of the entire market of less than HK\$80 billion in February to the average transaction volume of about HK\$140 billion in May, different funds have entered the Hong Kong stock market one after another. Zeng Wenyuan pointed out that according to the latest data on China's PMI, production industrial scale and consumer market, they are actually continuing to improve, which is the most basic support. The price-earnings ratio of Hong Kong stocks is at a historical low. In addition, the stock dividend tax may be reformed in the future, which will also attract a lot of funds. From the perspective of stock prices, the proportion of Hong Kong stocks that broke the issue price in the first half of 2024 created a new low in nearly five years. From 2020 to the first half of 2023, the break-even rate mainly remained at around 40%~50%. "So this year's break-even rate is indeed much lower, and the continuous inflow of funds is a basic premise." Zeng Wenyuan introduced that there is also a very obvious trend in Hong Kong stocks. "Many investors' investment time has expired and there will be requirements for listing. In this context, under the premise of strict access control of A-shares, many companies will seek to list in Hong Kong stocks. From the second half of last year, we can especially feel that the entire market is showing this direction." In addition, in Zeng Wenyuan's view, judging from the situation of IPO companies, the issuance ratio of stocks is relatively low. Many stocks account for less than 10% of the new stock issuance, and some are only 5%. It may be easier to form oversubscription, causing the stock price to rise on the day of listing. In addition, the quality of companies listed this year is relatively good. Now that Hong Kong stocks have the first 18c company, these companies are not very short of funds, so their purpose of maintaining a small scale of fundraising may be mainly to maintain the valuation of their own companies. Futu Research Team told Jiemian News reporter that whether Hong Kong IPOs will break the issue price depends on the market environment at the time. When the market is more active and in a short-term upward trend, the break rate will decrease, and vice versa. Futu analyzed that after the high point in 2021, the overall break rate of Hong Kong stocks has shown cyclical changes, but the overall break rate will be higher in a bear market.

Drew Bernstein, co-founder and co-chairman of MarcumAsia, told Jiemian News reporter that for IPOs, success will bring more success. If fund managers see a series of new stocks trading at a price higher than the issue price, they are more likely to seek to place the next listed company.

"However, in the final analysis, the sign of a healthy market is not just a short-term stock price increase, but a sustained rise in stock prices six months and one year after the IPO. At that time, we will begin to see a lasting recovery in investor demand and start to invest heavily in new companies."

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Senior investment banker Wen Tianna believes that half a year ago, the trend of the market, especially the interest rate in the peripheral market, and the growth of liquidity were relatively clear. There is a greater chance that the Federal Reserve will cut interest rates in the second half of the year, so it will help the stability of the market. In this case, cutting-edge industries such as artificial intelligence have played a good role in driving the market, especially the share prices of some semiconductor companies in the US stock market have increased significantly, which also has a certain boost to the overall technology sector of the Hong Kong stock market.

He believes that before the end of the half year, the share prices of many state-owned enterprises and central enterprises in the financial, commodity and energy sectors have increased significantly. The fundamentals are also the focus of consideration by all parties before the end of the half year. "If the market opportunities continue, 18,000 points have been broken, and the next barrier is 185,000. The performance of China's special stocks and technology stocks may be relatively strong in the future." He said.

Wind data shows that as of June 21, the total financing amount of Hong Kong stock IPOs was HK\$11.773 billion, a year-on-year decrease of 27.6%, and the total number of listed companies was 27, a year-on-year decrease of 3.57%.

Regarding the possible IPO trends of Hong Kong stocks in the future, Bernstein told Jiemian News that since the China Securities Regulatory Commission announced new support policies in mid-April to make it easier for mainland companies to list in Hong Kong, the prospects of the Hong Kong IPO market seem to have improved slightly. Although Hong Kong has made efforts in the past to attract international companies to list in Hong Kong, its competitive advantage is still targeting Chinese companies that want access to international investors and convertible currencies and list in a market not far from home. The Hong Kong Stock Exchange reported a sharp increase in the number of listing applications this year.

"Is there enough investor interest to put Hong Kong back at the top of the list? Ultimately, this will depend on the macroeconomic data released by China and the quality of listed companies. The performance in the second half of 2024 may determine whether Hong Kong can be regarded as the preferred listing location again." Bernstein analyzed.

"The situation of Hong Kong stock IPOs in the second half of the year is still highly linked to the market environment. If the market environment can recover and the valuation level of the entire market is improved, IPOs will also pick up. If the market continues to be sluggish or worse, it will also hit the sentiment of IPOs. Whether the IPO is good or not is directly related to the difficulty of financing and the valuation level of the entire market." said Futu.

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Zeng Wenyuan pointed out that looking forward to the second half of the year, it is obviously not easy for the market to raise some large amounts. From the current point of view, it is not possible to give an accurate judgment, so we must continue to observe.

"Especially geopolitical factors such as the US election this year will have a significant impact on global trade, which will in turn affect IPO activities. In addition, the direction of US interest rates is also a very important indicator. Since the Hong Kong dollar is pegged to the US dollar, if US interest rates remain high, funds may not be easily released, which means that the direction of interest rates may be a very critical factor." He analyzed.