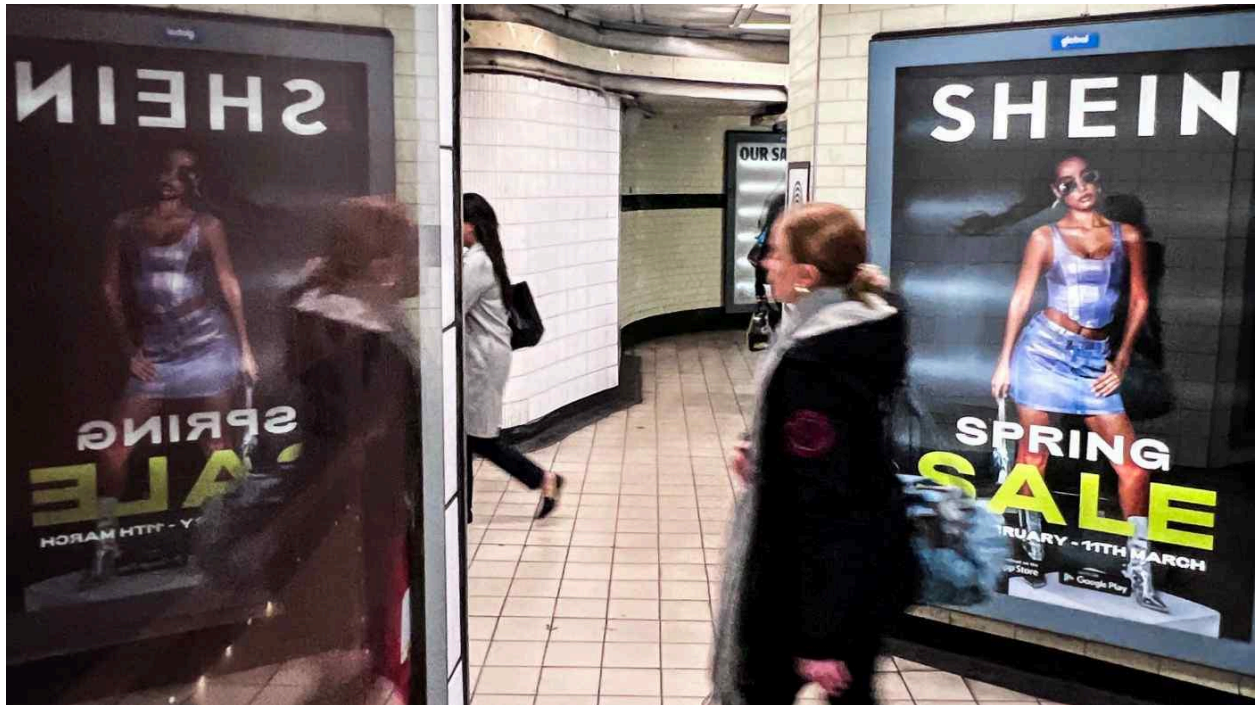


IPO

China's Shein faces laundry list of concerns over possible London IPO

Analysts cite questions for apparel retailer on ESG, Beijing approval, valuation



Chinese online fashion retailer Shein is rumored to be seeking to list its shares in London in an initial public offering estimated to be worth \$66 billion. © Reuters

ECHO WONG and RHYANNON BARTLETT-IMADEGAWA, Nikkei staff writers

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HONG KONG/LONDON -- Speculation that Shein is planning to list in

London reached a fever pitch this week, but market observers say the Chinese fast-fashion retailer has several obstacles to overcome before -- or even if -- it launches an initial public offering.

After the Singapore-headquartered online fashion giant pulled out of a plan to list in New York because of regulatory and political pushback, London was mooted as a potential destination, an idea welcomed by local leaders and a stock exchange keen for business. Nikkei Asia understands that Goldman

Sachs is among the banks appointed to market shares in the company, which was valued recently at \$66 billion, or 50 billion pounds, according to media reports.

But analysts say the problems that plagued Shein in New York could also haunt it in London. Worries that cotton farmed in Xinjiang could be used in its products, and over labor conditions in its factories, could scare off some investors.

"To the valuation tag of 50 billion pounds, European institutional investors will be looking for strong and sustainable earnings growth, backed by high ESG ratings," said Amin Rajan, London-based CEO of Create Research, which advises global fund managers and pension funds, referring to environmental, social and governance issues. "In the recent past, Asian companies have attracted only lukewarm interest because of their slow progress on ESG issues."

Joshua Sherrard-Bewhay, London-based ESG analyst at investment firm Hargreaves Lansdown, said Shein had some questions to address. "It's drawn intense criticism for its links to human rights abuses in its supply chains," he said, "with reports of 75-hour work weeks and links to the exploitation of Uyghur workers in forced labor camps. Improving transparency and reporting on these issues will be key to improving investor sentiment."

On its website, Shein says it rejects "forced labor, harassment, discrimination and unsafe working conditions for our employees. We do not employ children or prison laborers."

Despite such concerns, British political leaders have been so keen to have a blockbuster Shein listing in London -- the biggest such offering at the rumored valuation -- that Chancellor Jeremy Hunt was reported to have held meetings with Shein Executive Chairman Donald Tang earlier this year in hopes of reeling him in.

The opposition Labour Party, which is expected to win the next general election due in early July, confirmed to Nikkei Asia that its officials have also met with Shein representatives. "Raising investment, productivity and growth is one of Labour's missions for government," a Labour Party spokesperson told Nikkei Asia.

Shein could have chosen to list anywhere, given it makes its money globally, but the U.S. was likely its first port of call because the New York market has greater liquidity and more listed consumer retail businesses.

Compared with a New York listing, a company in London faces a lack of relevant peers, narrower research analyst coverage, a smaller investor base, possible fund investment mandate restrictions that could prevent some from buying in, and overall lower market liquidity, said a former senior JP Morgan

investment banker who has been involved in listing big Chinese companies offshore.

Others say that even talking about an overseas listing could be jumping the gun. Ever since Beijing stepped up scrutiny of offshore listings of Chinese companies in March 2023, bankers say they have found it challenging to get needed approvals from various regulators to move forward. Overseas investors and the companies themselves face the long-arm approach of Beijing, which can sweep even those headquartered overseas under its remit.

"They (Shein) face particular challenges in terms of how far they can go while remaining in the good graces of authorities in China," said Drew Bernstein, co-founder and co-chairman of Marcum Asia, which advises Asian companies seeking access to the U.S. capital markets. "That is the needle they need to thread to pull off a successful IPO launch."

The vagaries of global trade relations could also have an impact on how investors view Shein before and after, if it should successfully pull off a listing. Benjamin Qiu, who advises on corporate work at law firm Elliot Kowk Levine Jaroslaw Neils, warns that regulatory changes and political headwinds could be a challenge for investors looking at Shein.

"The sector that Shein is in isn't meant to be sensitive to geopolitics, even in today's world," Qiu said. "I'd imagine the investors can eventually price in the

risks." Qiu said that some risks, however, are "simply impossible to price," adding that a potential war over Taiwan could disrupt the supply chains of a company like Shein.

Shein declined to comment on whether it is seeking a listing in London.