Article

IPOs: Themes and Trends of 2022

Author: Richard Hall, Partner

With the mid-point of the Hong Kong financial year just gone, we thought it would be a suitable time to have a quick re-cap of the themes and trends we are seeing from our office in Hong Kong for IPOs of Bermuda and Cayman companies, both in Hong Kong and in other markets.

Hong Kong

Most participants in Hong Kong's equity capital markets would agree that so far 2022 has been a difficult year. Listings on GEM (the purpose of which as a market remains unclear pending completion of the SEHK's review of it) continue to be as rare as a free seat on the MTR. Meanwhile, for the main board, the increase in the aggregate profit requirement for new listing applicants from 1 January 2022, combined with the impact of COVID on many new applicants' businesses, has dramatically reduced the number of potential new listing applications in the small and mid-cap range (with a knock on effect for practitioners in that part of the market).

For large cap new listing applicants, whilst there are over 140 A1 submissions with the SEHK, most are moving very slowly through the listing process. This is reflected in the number of new listings: since 1 April 2022, less than 40 companies have completed listings on the main board of the SEHK, raising a total of HK$43 billion. Lower valuations, market uncertainty and volatility, global issues have all conspired to make successfully closing an IPO a difficult task.

SPACs, launched to much fanfare by the SEHK, appear to have fizzled out – after an initial flurry of 10 applications in the first 10 weeks of the start of the new regime amid a rush to be the first to list, only 3 further applications have been received as of 30 September 2022. Of these 13 applications, only 4 have successfully come to market, raising an aggregate of just over HK$4 billion in total. Whilst Cayman has proven to be the listing vehicle of choice for SPACs, four listings is small return for all the work undertaken to establish this product. We wait to see if the listed SPACs will be able to successfully close out their business combinations (de-SPACs) in light of the requirements of the listing rules for the form these must take, before their deadlines to do so lapse.

One of the few bright spots for Hong Kong has been the number of dual primary or secondary listings of (predominantly Cayman) companies with business and operations in China on the main board of the SEHK. Such listings are often conducted as part of a defensive strategy against on-going implications of the dispute between the USA and China over access to audit papers and the threat of the de-listing of such companies from exchanges in the United States, with some (Tencent Music Entertainment Group's listing by way of introduction in September being the latest example) choosing to raise no funds from such exercise. With the dispute over access to audit papers hopefully on the way to being resolved (on which more below), it remains to be seen if such dual listings will remain as popular as before.

NYSE/Nasdaq

Whilst also struggling with many of the same issues that are affecting market sentiment in Hong Kong (lower valuations, market uncertainty and volatility, looming global recession, war in Ukraine, to name a few), it appears that Hong Kong's loss has very much been the United States' gain when it comes to capital markets.

A number of the potential new listing applications in the small and mid-cap range who were pursuing listings on the main board of the SEHK, but found themselves unable to satisfy the profits test requirement after its increase in January 2021, have pivoted to the United States and have successfully completed, or are in the process of completing, listings on exchanges (especially Nasdaq) in the United States.

For NYSE/Nasdaq, Cayman vehicles dominate for listings of companies with businesses and operations in Asia. We are seeing a marked increase in the number of companies with businesses and operations in Europe considering Bermuda holding companies, which are seen as easier to operate than, say, Dutch or Irish companies which often require matters to be done in front of a notary.

IPOs of companies with businesses located in China have found themselves caught up in the dispute between the USA and China over the right of accounting firms in China to share more information with American regulators Successfully closing these IPOs has therefore been very difficult in recent months. The announcement in late August that America and China had reached an agreement to allow the sharing of necessary information by American regulators should hopefully remove this log jam, and allow these IPOs to proceed.

Conclusion

The Asian region has withstood many challenges over the last thirty years including dotcom bubbles, global financial crisis and now COVID. For companies looking to list, success or failure may well be dictated by matters outside their control, given global business sentiment generally. However, for those wishing to pursue this path, there are still options available both in Hong Kong and beyond along well established avenues for capital raising.

Richard Hall is a Partner in the Hong Kong office of Conyers. Richard has been based in Hong Kong since 1997 and joined Conyers in 2006. Richard's practice includes all aspects of corporate law with specialist expertise in corporate finance, including private equity investments and pre-IPO financings, initial public offerings and listings of shares of BVI, Cayman and Bermuda companies on stock exchanges globally, including Hong Kong, Korea, London and the United States of America. Richard acts for corporates, underwriters, sponsors, shareholders or investors in respect of the Bermuda, BVI and Cayman aspects of their transactions globally.

Contact:

Richard Hall
Partner
richard.hall@conyers.com
+852 2842 9530

For further information please contact: media@conyers.com