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New HKEx Rules Spur Bumper Year in Hong Kong Capital Markets, but Lasting Impact Remains Unclear

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In April 2018, the Hong Kong Stock Exchange's (HKEx) rule amendments permitting the listing of innovative, high-growth companies with dual-class share structures and pre-revenue biotech companies went into effect. The long-awaited amendments also facilitated the secondary listing in Hong Kong of Chinese companies with an existing listing on another stock exchange.

As if on cue, Xiaomi Corporation, a leading Chinese technology company, filed its listing application a few days later, to considerable fanfare. Xiaomi's eventual $5.4 billion initial public offering (IPO) in July 2018 was followed two months later by the $4.2 billion IPO of Meituan Dianping, a leading Chinese e-commerce platform for services. These were the two largest IPOs for Chinese private technology companies in Hong Kong's history. Meanwhile, leading biotech companies, including BeiGene and Innovent, took advantage of the new rules to complete $903 million and $421 million IPOs, respectively, as part of the first wave of pre-revenue biotech companies permitted to list on the HKEx.[1]

The HKEx's data indicates that it led all stock exchanges worldwide in terms of IPO funds raised in 2018, with the more than 200 companies listing on the HKEx raising a total in excess of $36 billion, up from approximately $14 billion in 2017. But whether the new rules will lead to a long-term increase in Hong Kong's competitiveness as a capital-raising venue remains to be seen. More than eight months after the rules went into effect, Xiaomi and Meituan Dianping remain the only two companies with dual-class share structures listed on the HKEx, and the exchange has made it clear that it intends to pick and choose which companies it considers sufficiently "innovative" to list under the rules. Notably, Tencent Music, the last major Chinese technology company to file an IPO in 2018, chose to undertake its $1.1 billion offering on the New York Stock Exchange.

200+ companies

listed on the HKEx in 2018 raised more than

$36 billion

Meanwhile, fewer than 10 pre-revenue biotech companies, all of which have China-focused businesses, have taken advantage of the new rules to list in Hong Kong (compared, for example, to the more than 400 biotech companies listed on the Nasdaq Stock Market), and questions remain as to whether Hong Kong can develop the necessary market ecosystem — including expertise among investors, professional advisers, analysts and the regulators themselves — to support a healthy long-term biotech market.

At the same time, rules permitting the trading of companies with dual-class share structures through the Shanghai and Shenzhen Stock Connect programs (which enable mainland China-based

[1] Skadden advised all four companies on their IPOs.

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investors to trade directly in certain HKEx-listed securities and Hong Kong-based investors to trade directly in certain Shanghai and Shenzhen Stock Exchange-listed securities) are yet to be promulgated, though the HKEx announced in December 2018 that it would formulate such rules by mid-2019. The delay in rulemaking may have deterred some companies — in particular those that are already listed on another exchange and not necessarily in need of a new fundraising channel — from pursuing a Hong Kong listing.

Overshadowing the activity in Hong Kong was the roughly 25 percent fall in China's domestic equity markets, which saw the Shanghai Composite Index end the year as the world's worst-performing major equity index. The National Bureau of Statistics of China announced that the nation's official rate of gross domestic product growth for the year through September 2018 was 6.5 percent, down from 6.7 percent for the year through June 2018 and significantly down from the more than 10 percent growth rates seen as recently as 2009 and 2010. If the Chinese economy continues to slow, it could have a more sustained negative impact on Asian capital markets activity in the coming year. That said, China remains a developing economy, and there are still numerous rapidly growing companies with ongoing capital needs not being fully met by the largely state-controlled lending market in China that will consider using public equity markets to create a platform for raising capital and enhancing their profiles.

More broadly, the March 1, 2019, deadline for the Chinese government to reach a trade deal with the U.S. will loom large in the early part of the year, and the outcome of the ongoing negotiations may very well play a significant role in determining the trajectory of the Chinese economy for 2019 and beyond. Should a deal be reached, it would potentially remove a significant overhang for the capital markets and boost activity.

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