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China IPO promised land turns to desert as regulator review stokes confusion

SHANGHAI | By Natalie Thomas and Pete Sweeney

Dozens of Chinese companies have abandoned plans to list in the mainland this year, as confusion reigns among executives, bankers and investors over an opaque regulatory review that's clouding what was touted as a banner year for new stock debuts.

As China Securities Regulatory Commission (CSRC) orders underwriters to update application materials once again, there have been no new China listing applications published for the past eight weeks. Sources at investment banks say many firms that once planned initial public offerings have given up as they wait for the CSRC to explain exactly what its listing requirements will be after publishing 16 different sets of guidelines in the last six months.

With little visibility on how the CSRC will proceed, or which companies might be approved to list, the next IPO isn't likely before the start of May at the earliest.

The slow pace is a setback for investment bankers and underwriters who had hoped the relaunch of IPOs in China in 2014 would unlock around $40 billion worth of new issuance, bringing profits after a 14-month freeze from late 2012 when the regulator effectively halted new listings. It's also bad news for hundreds of companies who have been waiting, for years in many cases, to tap stock markets for funds.

"In terms of a time frame I think it (the next listing) will be the middle of the year," said Du Changchun, an analyst at Northeast Securities in Shanghai. "It won't happen very quickly because of the reforms and then the annual earnings reports, and once these have concluded then these companies might have to give some supplementary materials like quarterly or annual reports."

Since the year began, more than 24 companies have shelved applications to list, according to CSRC data released in April.

Last week's move by the CSRC to seek updated documentation at least countered swirling local media reports of another IPO lockdown as the regulator seeks to raise the quality of companies listing on the Shanghai or Shenzhen exchanges.

CITIC Securities said in a report last week that the move meant the approval process was starting earlier than predicted, and it anticipates the first listing could start at the beginning of May.

DEBUT DELUGE

The current limbo will be resolved as soon as the CSRC moves decisively - which it can do. The CSRC let around 50 previously approved companies list in January and February, marking the end of an IPO suspension that began in late 2012, a halt that itself was never officially confirmed.

Prior to the resumption, the regulator had committed to ultimately moving to a registration-based system for IPOs similar to that deployed in the U.S., where market reception dictates how they are priced, when companies list, and how their shares perform. Many investors read this as a signal that Beijing was preparing for a flood of new issuance this year.

Global accountancy firm PwC said in a report released on January 2 that the number of IPOs could "possibly reach a record high in 2014", raising as much as 250 billion yuan ($40.24 billion).

But Beijing quickly qualified its statement to emphasize that the project would take time. It has kept its hands tightly on the wheel since then, closely managing IPO pricing and investigating numerous investment banks and underwriting firms.

Market participants in China always understood it would take time for firms to update corporate annual performance results to the end of 2013, a process that can last until the end of April, and assure compliance.

The regulator has also created fresh headaches for applicants by publishing new rules after new rules. These included three further sets of regulations in March and April, on top of 13 sets of fresh guidelines published since November.

"Imagine you're revising for an exam, and you've spent ages preparing and have worked really hard, then the exam is on a different topic, or then the exam disappears," said a source who works closely with the regulators, regarding the revisions to the securities law. "You never know what question you're answering."

A source at a leading investment bank, who says he has been working on getting some of the companies under his charge to list for four years, expressed similar frustrations. "At the moment, we're just updating the information that we've already uploaded for approval. It's all a bit meaningless," he said.

"At the start of the year, everyone was so optimistic and I thought perhaps 200 to 300 of the 700 or so companies in the queue would list this year," the banker said, speaking anonymously because he is not authorized to speak to the press. "I think we can only expect to see 100 companies list this year. But this is very optimistic."

MARKET BOOSTER

The queue for listings remains lengthy, equal to almost a third of all the currently listed companies in China.

The sheer number of companies also means regulators must balance efforts to reinvigorate the stock market as a fund-raising channel, reducing dependence on bank loans, against fears that too many new IPOs will swamp the market and drain funds from already listed firms.

Many suspected the 2012 freeze was a sop to angry investors, who had began publicly lobbying for change as China's stock indexes continued to plunge. They argued that the new listings were diluting net valuations by encouraging money to abandon existing tickers in order to speculate on new IPOs in search of a quick buck.

A Reuters analysis of the post-listing performance of the last batch of IPOs shows an average appreciation of 81 percent from the original IPO price so far.

The average price increase of small companies listing in Shenzhen was 88 percent, led by a textile equipment manufacturer called Geron Co Ltd (002722.SZ), which is up a whopping 329 percent from its IPO price since it began trading Jan 28.

By comparison, the CSI300 index .CSI300 which tracks the largest blue-chip tickers in Shanghai and Shenzhen, has gained a modest 4 percent since January 17, the day the first new listing, by Neway Valve (603699.SS), took place in Shanghai.

This is good news for investors who managed to get a piece of the IPOs, but it's another point of caution for regulators trying to guide China's retail investors away from small-cap shares toward value investing in large-capitalization blue chips.

Even as uncertainty continues, some in the market equate the process to growing pains, an inevitable part of the maturing of China's domestic stock markets as regulators and companies take time to adjust.

"China is taking all the right steps, and making all the right noises," said Peter Fuhrman, chairman of investment bank China First Capital.

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