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Focus Media Reaches $7.4 Billion Deal to List in Shenzhen

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HONG KONG — Years after delisting in the United States after a short-selling attack, one of China's biggest advertising companies is hoping to cash in on a market rally on its home turf.

Focus Media, a company based in Shanghai that was privatized and delisted from the Nasdaq two years ago after being targeted by short-sellers, on Wednesday reached a 45.7 billion renminbi, or about $7.4 billion, deal for a listing on the Shenzhen Stock Exchange. The transaction values Focus at about twice the $3.7 billion that its management and private equity backers — led by the Carlyle Group — paid to take the company private in 2013.

Focus and its investors, which also include the Chinese companies FountainVest Partners, Citic Capital Partners, CDH Investments and China Everbright, are trying to tap into China's surging domestic stock markets. The main Shanghai share index has risen 51 percent this year, while the Shenzhen index, where Focus will be listed, has more than doubled, increasing by 114 percent.

Other Chinese companies that retreated from American markets, as well as their private equity backers, are likely to be watching the Focus deal closely. If it goes through and the new shares rise sharply, it could offer an incentive for others to follow suit — and give private equity firms an easier way to sell their stakes.

Some other big Chinese companies that delisted from the United States market in recent years include Shanda Interactive Entertainment, which was valued at $2.3 billion when it was privatized by its main shareholders in 2012; and Giant Interactive, which was privatized last year in a $3 billion deal.

Focus is coming back to the market through a so-called backdoor listing, in which its main assets are sold to a company already listed in exchange for a controlling stake in the listed firm. Such an approach can offer a more direct path to the market than an initial public offering — especially in mainland China, where hundreds of companies are waiting for regulatory approval for their I.P.O.s.

But such deals can also be complex. In mainland China, they often subject shareholders to lengthy periods during which they are prohibited from selling or transferring shares. Also, unlike an I.P.O., the moves tend not to help the companies involved raise cash.

"All backdoor listings are convoluted exercises, not capital-raising events," said Peter Fuhrman, the chairman of China First Capital, an investment bank based in Shenzhen, which is in southern China. "When you do them domestically in China, they become even more hair-raising."

Dozens of Chinese companies retreated from American exchanges in the last five years after a wave of accounting scandals and attacks by short-sellers. Some of those companies were forcibly delisted by the Securities and Exchange Commission; others were taken private by management after their share prices slumped.

Focus was the biggest of those privatizations. In November 2011, the company was targeted by Muddy Waters Research, a short-selling firm founded by Carson C. Block. Muddy Waters accused Focus of overstating the number of digital advertising display screens it operated in China, and of overpaying for acquisitions.

Focus rejected the accusations, but its shares fell 40 percent on publication of the initial report by Muddy Waters. In summer 2012, the company's chairman, Jason Jiang, and a group of Chinese and foreign private equity firms announced plans to delist Focus and take it private, a deal that was completed in early 2013.

On Wednesday, Jiangsu Hongda New Material, a Shenzhen-listed manufacturer of silicone rubber products, said it would pay 45.7 billion renminbi, mostly by issuing new stock, to acquire control of Focus. Shares in Jiangsu Hongda have been suspended from trading since December, when it first announced plans for a restructuring that did not mention Focus. The shares remain suspended pending further approvals of the Focus deal, including from shareholders and regulators in China.

If completed, the deal would leave Mr. Jiang, the Focus chairman, as the biggest single shareholder of Jiangsu Hongda, with a 25 percent stake.

The mainland China brokerages Huatai United Securities and Southwest Securities are acting as financial advisers on the deal.

Just a few of the Chinese companies delisted from stock exchanges in the United States in recent years have attempted a new listing elsewhere.

Last year, China Metal Resources Utilization, a small metal recycling company, successfully listed in Hong Kong. It had been listed on the New York Stock Exchange, under the name Gushan Environmental Energy.

http://www.nytimes.com/2015/06/04/business/dealbook/focus-media-in-shenzhen-listing-deal.html?_r=0