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U.S. State Department may add Ant Group to trade blacklist: RPT

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The State Department proposes adding Jack Ma's Ant Group to a trade blacklist as the company plans to list an IPO in Hong Kong and Shanghai. Drew Bernstein, Marcum Bernstein & Pinchuk Co-Chairman, joins Yahoo Finance's Akiko Fujita to discuss.

Video Transcript

AKIKO FUJITA: The State Department is reportedly looking to add Jack Ma's Ant Group to a trade blacklist. Reuters reporting the officials have already submitted a proposal to the White House calling for Ant to be added to the Entity List. This comes as the fintech's giant prepares for a blockbuster dual listing expected to be worth up to a record \$35 billion.

Let's bring in Drew Bernstein. He is the co-chairman of Marcum Bernstein & Pinchuk. Drew, it's good to talk to you, because we have been talking a lot about tensions between the US and China. This is kind of the very latest for the State Department-- the latest company, we should say, they are looking to target. How much of this do you think has to do with that IPO and the potential for a lot of American investors to get in?

DREW BERNSTEIN: Well, if you have been following Chinese IPOs this year, it has been sort of a blockbuster year. You have had 30 so far for the first three

quarters of the year, which outpaced the entire 2019. There were 28. And really, as good as it has been in the United States, it seems that investor attention has been now focused on the China markets, given the enormous amount of companies that have been going public on the Hong Kong and Shanghai exchange.

AKIKO FUJITA: This has been an--

DREW BERNSTEIN: So it has been a pretty exciting year.

AKIKO FUJITA: This is an interesting one, though, when you talk about the Ant Group. We've seen the State Department and the Commerce Department use the Entity List to target companies like Huawei. But Ant Group doesn't really have a lot of-- a pretty big footprint in the US, not a significant one here.

DREW BERNSTEIN: No, no.

AKIKO FUJITA: What do you think the take up is going to be like for the IPO? What are you hearing about the interest from American investors if, in fact, this is what is driving the concerns from the State Department?

DREW BERNSTEIN: Well, it is interesting, because pre-COVID-- and given the environment right now, especially the political environment-- pre-COVID, the concern among investors was will Chinese companies come to the US given the environment? And at this point in time, the conversation has now switched to where are the Chinese companies going to go public, because they have so many choices these days. And let's not forget that the exchanges are businesses. So they compete for these companies.

AKIKO FUJITA: We have seen, to that point, the Hong Kong Exchange really be active in changing some of their listing rules to try and attract some of the bigger names closer to home. What have you seen in terms of flows going from the US to China as well as Hong Kong? I think the last time we spoke, you were saying that there is still a huge interest for Chinese companies to list in the US because of the capital that's available here. Is that still the case?

DREW BERNSTEIN: Yes. And I think probably one of the more interesting things about the financial deal is that companies now seem to be using Hong Kong as this sort of insurance policy to maintain a flow of capital if things do deteriorate in the United States. Like I said, each of these markets has different attributes

and drawbacks. The United States, I think, to date has been the gold standard, because it offered very deep, diversified sources of capital. It gave you the ability to do add-on rounds. Today, you have billions of dollars raised by companies that went public last year.

And last of all, you get to raise a dollar-convertible currency, which is important to companies, because we are not talking about any companies these days. We are talking about unicorn companies. And in 2013, when the term was first used. There were only 39. There's just shy of 600 today, of which 80% are American and Chinese, of which the Chinese are almost half of that.

AKIKO FUJITA: So what's the case for these companies to list in the US now, then? I mean, you talk about the options that are available. What makes the US market still attractive at a time when you have an administration in place that has made it very clear that these companies will, in fact, be under scrutiny, particularly as it relates to those audits? Why risk that when you've got a huge amount of investors in a place like Hong Kong? You have the potential to list in Shanghai. I mean, could Ant Financial in this dual listing be a template for a lot of other tech companies that are looking to come to market?

DREW BERNSTEIN: Absolutely. One of the most interesting things about Ant Finance-- Ant Financial deal is that the dual listing-- on one hand, by listing in Shanghai, they are able to be close to their customer base that understands their business and knows everything about the company. In Hong Kong, they are able to raise a dollar-convertible currency and have access to deeper, diversified sources of capital. So it's an interesting combination.

And dual listings have been used for a while. They also create an arbitrage, right, between the two exchanges. So it is an interesting way of doing things. And it could be a replacement possibly.

But to answer your original question, I believe that as long as the door is open in the United States for companies to go public, they are going to consider it and use it. And like I say, if you have the opportunity to raise, say, \$1 billion today, even though the environment may deteriorate, or take your chances later, if you get the valuations, you are going to raise it today. And that's what we have seen.

AKIKO FUJITA: And Drew--

DREW BERNSTEIN: And the interest--

AKIKO FUJITA: I realize we don't have you on here to talk about policy in terms of politics. But I am curious, because we did get this comment from Senator Marco Rubio calling for the administration to consider options to delay the Ant Group IPO. Do you know what actions can the US take when you've got an IPO that is taking place in Hong Kong and Shanghai?

DREW BERNSTEIN: No idea what they can do with something like that. I mean, they have very little say over what happens over there. That is a Chinese company, and Chinese markets. But the comment I was going to make, what was interesting about what we're seeing now is Hong Kong, it used to be a window into China for foreign investors. And today, it has become sort of a portal out of China for international capital. It is interesting how its position has matured.

AKIKO FUJITA: And that seems to suggest we're likely to see more of these big listings in Hong Kong moving forward. Drew Bernstein, the co-chairman of Marcum Bernstein & Pinchuk, it's great to have you on today.

DREW BERNSTEIN: Thank you.