The Hang Seng Index fell 13.82% for the whole year in 2023, and the amount of funds raised by Hong Kong stock IPOs hit a 10-year low, but the market recovery trend has emerged.

The current overall valuation of Hong Kong stocks is relatively low, and the Hong Kong Stock Exchange has launched a number of policy reforms this year.

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In 2023, the macroeconomic environment remains complex, and both the number and the amount raised in the Hong Kong IPO market have declined compared with the same period last year.

Data show that there will be 70 IPOs in Hong Kong in 2023, a decrease of 19 from 89 last year. Not only that, due to the weak market sentiment and macroeconomic environment, the scale of initial financing has also shrunk by 57%, setting a new low in the amount of Hong Kong IPO financing in the past 10 years.

Choice data shows that as of the end of 2023, the Hang Seng Index closed at 17047.39 points, down 13.82% for the year, and the Hang Seng Technology Index closed at 3764.29 points, down 8.83% for the year.

However, the current overall valuation of Hong Kong stocks is relatively low. At the same time, the Hong Kong Stock Exchange has launched a number of policy reforms this year, including changes to the GEM (Startup Market) sector, the launch of a new "simplified transfer mechanism", and the launch of shortening the time from IPO to listing. With the wide range of FINI (Modern Initial Public Offering Settlement Platform), coupled with the large expectation of interest rate cuts in the United States next year, the performance of the Hong Kong stock IPO market in 2024 has a certain amount of room for imagination.

The number of Hong Kong IPOs has declined overall

Zeng Wenyuan, Ernst & Young's South China technology, media and telecommunications industry audit services leader, told Jiemian News that in fact, the global IPO market will be in a trough stage in 2023, and Hong Kong stocks are relatively sluggish in the entire market environment. It can be seen that Hong Kong stock funds are facing liquidity The problem.

"The long-term daily trading volume of Hong Kong stocks is less than HK$100 billion, which is relatively low in numerical terms. On the one hand, it is because the interest rates in the United States are high, the Hong Kong dollar is pegged to the US dollar, and funds are relatively conservative. Of course, it is also related to geopolitical factors and other factors. ." Zeng Wenyuan said.

The number of large IPOs also reflects market conditions to a certain extent. Zeng Wenyuan said that there is a lack of large-scale IPOs in the Hong Kong stock market this year. There will be only one IPO with a fundraising amount of more than HK$5 billion in 2023. Compared with 2022, there will be three IPO projects with more than HK$10 billion and six IPOs with more than HK$5 billion. project. The average amount of funds raised is about HK$680 million, which is also a new low in the past 10 years.

According to Wind data, Zhenjiu Lidu, the largest IPO in the Hong Kong stock market this year, raised HK$5.39 billion, while WuXi United ranked second in the year, raising HK$4.07 billion.

"The return of Chinese concept stocks this year is not hot. Only one company has been listed. The important reason is that China and the United States have reached some consensus on regulatory aspects. Therefore, for relatively high-quality companies, when the market is not good, there is no such urgency to return to Hong Kong stocks. ." Zeng Wenyuan added.

Drew Bernstein, co-founder and co-chairman of Marcum Asia Accounting Firm, told Jiemian News that it is undeniable that this year has been a frustrating year for the Hong Kong IPO market, with transaction activity falling by 50%.

Bernstein said that in the past, the Hong Kong Stock Exchange was able to attract some "guaranteed" secondary listing transactions, and some large technology companies chose to secondarily list in Hong Kong because they were worried about the threat of US delisting. However, now that PCAOB (Public Company Accounting Oversight Board) reviews are well underway, this threat no longer exists, and U.S. trading activity is generally much more liquid. The crisis in the real estate industry and the weak explosive power of China's consumer spending are also factors because these industries have always been the backbone of the local market.

Futu’s research team told Jiemian News that the overall market valuation will decline in 2023, which will put pressure on IPO valuation levels.

However, the Hong Kong Stock Exchange pointed out in its recent phased summary that "in 2023, the global new stock market, including the Hong Kong market, will continue to be affected by weak market sentiment and the macroeconomic environment, but Hong Kong's new stock market will continue to pick up throughout the year."

Jiemian News noticed that in the last month of 2023, the speed of new stock listings in Hong Kong has indeed accelerated. A total of 14 companies have been listed, and 39 companies have been listed in the second half of the year.

"There are relatively many listed companies in December, which may be related to the investment cycle. Investors' investment cycle may have arrived. If they are looking for a place to list, Hong Kong stocks are also a good way out." Zeng Wenyuan said.

Futu pointed out that the rise and fall of new IPOs on the first day of listing usually show a cyclical movement. There are a group of investors in the market who have been paying attention to IPOs for a long time. They are good at taking advantage of the pessimistic period and the hot period ebbs. The hot period at the end of the year coincides with the previous period. Pessimistic cycles reverse each other.

In addition, in terms of industry, Zeng Wenyuan said that generally speaking, most hard technology companies will queue up for listing in A-shares. Hong Kong stocks this year are mostly consumer companies, with total funds raised reaching about 12.1 billion Hong Kong dollars, especially in the second half of the year. Most companies are listed. In addition, there are many listed companies in the medical field, with a fundraising scale of approximately HK$9 billion. In addition, there are platform companies, which are more difficult to list on A-shares and many choose to list in Hong Kong.

Futu pointed out that there are not many new economy companies among IPO companies this year. New economy companies have greater demand for funds because their business is in the growth stage, so they need a more inclusive valuation from the market. In the ongoing economic downturn, the growth of new economy companies has slowed down a lot. However, most of the companies conducting IPOs this year are in traditional industries, and there are many leading companies in subdivisions.

Ernst & Young expects retail and consumer goods, technology, media and communications, and biotech and health to be the main sectors raising capital in the new year.

The market shows signs of recovery

The Hong Kong Exchange has introduced many new policies this year.

For example, recently, the Hong Kong Stock Exchange launched a market consultation on maintaining trading during severe weather. At the same time, the Hong Kong Stock Exchange published the GEM listing reform consultation summary, "Chapter 18C" of listing rules tailored for specialized technology companies, and it has been officially implemented in the first quarter of this year.

In addition, Hong Kong's new modern initial public offering settlement platform FINI was officially launched on November 22, 2023, significantly shortening the time between the pricing of new shares and the start of trading in the shares from five business days (T+5) to two business days (T+2), comprehensively modernize and digitalize the settlement process of Hong Kong's initial public offering to reduce costs and increase the efficiency of capital use.

It is worth mentioning that in May this year, the Hong Kong Stock Exchange also launched Swap Connect and the Hong Kong dollar-RMB dual counter model. Investors can trade in both Hong Kong dollars and RMB, which will help improve the liquidity of Hong Kong stocks.

The Hong Kong government has also taken a number of measures in market reform, such as introducing policies to boost liquidity, including reducing stamp duty and establishing a liquidity group. More measures to improve liquidity may follow.

Bernstein told Jiemian News that the trading volume of Hong Kong stocks has rebounded in recent weeks and that more than 90 IPOs are being prepared on the Hong Kong Stock Exchange. These are positive signs. But the biggest swing factor is market sentiment surrounding the Chinese economy.

Bernstein believes that market sentiment will improve sooner or later, and the tide will flow into the Hong Kong market again.

"Once global capital starts chasing the Chinese market again, there will be a large number of IPO candidate companies in Hong Kong." He said.

Futu's research team believes that next year's IPO situation has a greater relationship with whether the overall market is hot. "After all, IPO is a financing process. For IPO companies, what they expect more is overall activity and rising valuations."

Zeng Wenyuan pointed out that for next year's IPO situation, it is very important to look at the capital flow. The first is to see whether U.S. inflation has peaked and when interest rates will be cut. This is the primary consideration. Second, look at the impact of international relations. Hong Kong is an international financial center. Previously, more than 40% of funds came in in the form of US dollars. If there are some obstacles in Sino-US relations, it may also affect the flow of these funds.

The third is mainland funds. Hong Kong has previously promoted the dual-counter interconnection model. Whether southbound funds are active in the future will also affect the Hong Kong stock PO market. "Hong Kong stocks do not lack the attention of large companies, because there are still a large number of Chinese concept stocks that are likely to return in the future, and there are also some large-scale IPOs waiting in line. But the question is when the liquidity pressure will be relieved, which is the focus of attention." Zeng Wenyuan added.

Regarding liquidity, Yan Zhaojun, a strategic analyst at Zhongtai International, told Jiemian News that it is expected that the cycle transition point from raising interest rates to lowering interest rates in the United States in 2024 may not come until the middle of the year, and the release of liquidity pressure in Hong Kong stocks will be "slow first and then slow." "Quickly" situation. As trading in anticipation of a U.S. interest rate cut heats up, the U.S. dollar index weakens, and the RMB appreciates passively, the valuation and liquidity squeeze on Hong Kong stocks is expected to ease. China is expected to maintain a loose monetary policy to drive down financing costs, and funds are expected to continue flowing south to provide support.

Ernst & Young research believes that Hong Kong's capital market will still face multiple challenges in 2024, and the recovery of IPO activities depends on the recovery of the capital market and the recovery of market value. GEM reform is imminent and is intended to "revitalize" the market. On the one hand, by introducing a new "simplified transfer mechanism", some companies with listing intentions are guided to log in to GEM early. On the other hand, attract R&D-driven growth companies through new financial qualification tests. In addition, as mainland IPOs tighten, some companies, especially retail and consumer goods companies, will switch to the Hong Kong market.