[Three steps forward, two steps back: Struggles to pry open Chinese US IPOs linger into 2024]

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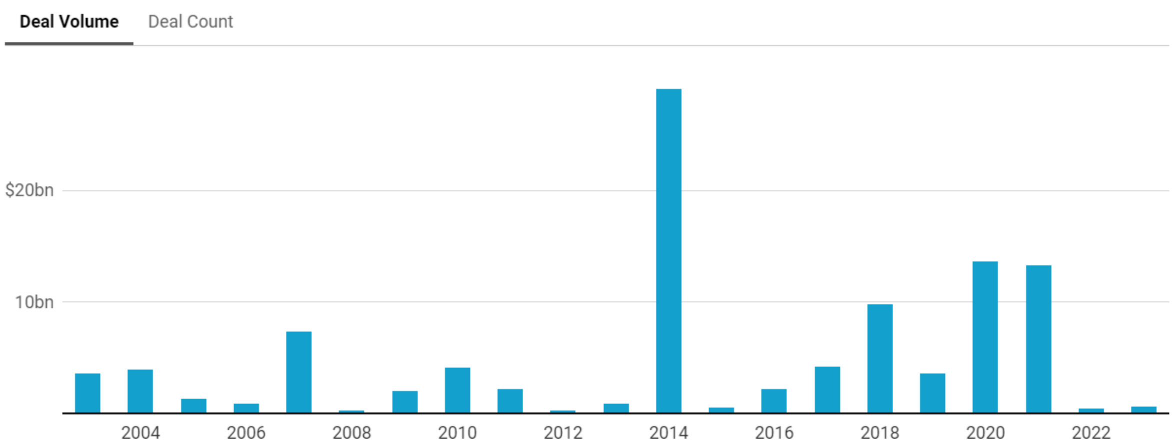
- Most Chinese ADR IPOs in 2023 stuck below offer price
- Shein's IPO is litmus test for US regulators, investors' view on Chinese issuer

Two and a half years since Chinese ride-hailing firm Didi Global floated and eventually delisted from the New York Stock Exchange, it is still difficult to see a clear path towards a market reopening for Chinese American Depositary Receipts (ADRs).

Even once it returns, the Chinese ADRs market is unlikely to ever regain its former glory, given the much stricter disclosure and data compliance regulations put in place over recent years by authorities on both sides, advisors say.

Chinese Firms' IPO on US Bourses - Deal Volume & Count

Volumes expected to surge in 2024



Source: Dealogic • Get the data

This year up to 10 December, 20 Chinese companies have raised nearly USD 600m in total via US initial public offerings, Dealogic data shows.

This no doubt has improved from 2022, when 11 companies raised only USD 470m from US listings. The Chinese ADRs market today is a fraction of the USD 13bn-ish market seen in 2020 and 2021.

Aftermarket performance hasn't been stellar either. Of this year's 20 ADR listings, only eight are trading above water, though the biggest of the eight raised merely USD 69m from its listing. Hesai Group, 2023's largest Chinese ADR float year-to-date with its USD 190m offer, has lost 51%.

Zeekr, a Chinese electric vehicle maker, failed to reopen the Chinese ADR market in an attempt last month. It had to postpone the listing to next year after rounds of talks with potential investors, who in general considered the asking valuation too hefty, as reported.

For those keen to go ahead, they must be ready for a valuation cut and/or a smaller offer size.

ZKH Group, a Chinese company providing maintenance, repair, and operations procurement services, launched its ADR books on Friday (8 December), at a size up to USD 70m, way smaller than initially targeted, based on a term sheet seen by this news service.

Little wonder then that a recent confidential US IPO filing by Shein has put the Chinese ultra-fast fashion brand, its numbers, operations and private founder Chris Xu, under the spotlight.

All eyes on Shein

Shein's Chinese roots — despite officially being a Singapore-headquartered firm — its speedy rise to global market dominance backed by efficient supply-chain operations, as well as alleged labour and copyright concerns among others, have made the IPO far from straightforward.

Phil Haslett, co-founder at EquityZen, a platform for buying and selling shares of pre-IPO companies, said scrutiny from the US House Select Committee investigation will weigh on the listing.

“There is likely going to be additional pressure on the valuation from investors to account for these risks,” Haslett said, while also noting the poor precedent set by Didi's delisting.

Nonetheless, "Shein has a really strong growth story across several metrics: revenue, profits, manufacturing, distribution and partnership growth," he added. "Plus, the US is a primary market for Shein, which is likely to attract some investors."

While fast fashion has in recent years fallen out of favour due to environmental concerns, Shein is wildly — and ironically — popular among Gen Zs who according to a Forbes report, put the health of the planet first by cutting down on consumption, participating in the circular economy, and purchasing previously owned items.

Shein is reportedly targeting a valuation of up to USD 90bn. The company swallowed a down-round in May 2023, when it raised USD 2bn at a USD 66bn valuation, slashed from April 2022's USD 100bn, noted Haslett.

Operationally, it not only grows sales rapidly, it is also profitable. Its net profit came in at USD 800m in 2022, USD 23bn revenues, Haslett said. That translates into a net profit margin of almost 3.5%, based on this news service's calculation.

Still, investors may also have to look beyond numbers when they assess Shein.

"The number one question investors have is: How sustainable is their business model? They are at the top of the fast fashion industry today, but we are seeing only part of the picture. If they want to raise billions of dollars, they have to start answering questions," said Drew Bernstein, managing partner at Marcum Asia, an accountancy firm, in reference to scrutiny around the company's sourcing, labour practices and IP infringement claims.

While the company has spent millions lobbying in the US government, it is not yet clear whether the political effort has reaped any fruits, he added.

“They are trying to make it appear they aren’t a Chinese company, so they can avoid any political backlash,” said Megan Penick, public securities chair and partner at law firm Michelman & Robinson, referring to Shein’s recent relocation to Singapore.

Gabriel Li, formerly associated with Withersworldwide and currently legal vice president at Kredivo Group, commented on Shein's IPO filing: “Whilst the news has focused on US scrutiny and disclosures, I wonder though what other hurdles there might be which haven’t been discussed with equal enthusiasm (cue Chinese regulatory hurdles).”

The Trial Measures emphasise substance over form, which means that Shein might be caught as long as the Chinese regulators understand it as a group with major operations or assets in China, said Li.

Shein's media and public policy teams in Singapore did not return requests for comment.

Keeping options open

The US House Select Committee on the Chinese Communist Party is also looking into both Shein and its closest rival Temu, owned by US-listed Chinese e-commerce platform PDD [NASDAQ:PDD].

“Temu and Shein are building empires around the de minimis loophole in our import rules — dodging import taxes and evading scrutiny on the millions of goods they sell to Americans,” Mike Gallagher, who chairs Select Committee on the Chinese Communist Party, said in June 2023. Investigations are still underway.

An ECM partner in the US said: “We have clients we are talking to, and they are talking about these (regulatory) risks, and they are all indecisive. In some cases, they are opting to have both listings.”

The regulatory climate regarding Chinese companies alongside the risk of China’s actions to complicate US listings are a variable worth considering, he said adding that companies in this scenario need to hedge their options should regulatory and political prospects worsen.

Shein’s listing may leave the US IPO door ajar or close it completely depending on its success.

Below is a list of the latest Chinese ADR filings in 2023, according to Dealogic | ECM data: