



The Forgotten UK-China Stock Connect Program Now Needs a Reboot

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By Lisa Pham

For years, the London Stock Exchange touted a link with China's equity markets as an initiative that would give global investors access to the Asian nation's growth through the UK. Yet almost five years since the mechanism was introduced, it has dropped off the radar. Just six Chinese companies have listed in London since the Shanghai-London stock connect began, and trading has been muted. Meanwhile, no European companies have listed in China. In the London Stock Exchange Group Plc's last three annual reports, the cross-border program garnered zero mentions despite its expansion to Shenzhen.

The state of the program shows how China has evolved from being one of the world's hottest stock markets to one that's weighed down by a sluggish economy and mounting trade and political tensions. And it also reflects the London market's faded appeal to investors, something it hopes to start reversing if it can lure online fashion retailer Shein to hold an initial public offering in the UK.

"It probably took years to agree upon the framework and the infrastructure for this," Mike Werner, an analyst at UBS Global Research, said of the stock link. "So to go through that process with ultimately the end result being only six listed companies —

I don't know if that's a return on investment that they would have traveled down, had they known about ultimately the potential lack of demand."

The world has become more divided since the listing of Huatai Securities Co. in 2019 marked the introduction of the stock connect in London. China's CSI 300 Index was the world's best performer among major stock benchmarks that year, while the UK was rearing to leave the European Union. The London bourse hailed the start of the program as a "significant achievement in our relationship with China." Now, tensions between the UK and China are simmering over issues such as China's support for Russia in its war in Ukraine, a new national security law in former British colony Hong Kong and Beijing's alleged interference in the UK parliament and suspected hacking.

Property Crisis

And the CSI 300 has fallen almost 40% from its recent high in 2021, hurt by concern that a real estate crisis could further deepen the slowdown in the world's second-biggest economy. In 2019, an average of 241,553 Huatai shares traded daily in London, according to data compiled by Bloomberg, while this year no shares have traded at all. The most active of the six stocks listed on the LSE, Ming Yang Smart Energy Group Ltd., has traded an average of about 1,700 shares a day this year, the data show. "It's kind of a bummer," said Xiadong Bao, a fund manager at Edmond de Rothschild Asset Management. "For the funds based in Europe, if it's on the same price level, acceptable liquidity conditions, people would really prefer the European trading hours than the Hong Kong ones."

The LSE, as well as the Shanghai and Shenzhen stock exchanges, didn't respond to requests for comment sent by Bloomberg. China expanded the link in 2022, with Shenzhen, Switzerland and Germany joining the program. That hasn't helped London —

Zurich was one of Europe's top listing venues in 2022 thanks to offerings by Chinese companies. The program allows companies already traded in China to pursue a secondary listing of global depository receipts in one of the participating European markets, and vice versa.

Policy Swings

Graeme Bencke, a fund manager at Amati Global Investors, is among those based in Europe who are hesitant to have exposure to

Chinese companies, even if the receipts are listed in London. "You're still open to very big swings in policy by the government, which are very difficult to predict," Bencke said. "I think people have seen what's happened with the Chinese stock market overall and understand that despite the fact that the company may have sufficiently high accounting standards to list on these programs in European exchanges, it doesn't mean that ultimately the control issues have gone away."

Chinese regulators last year held up approvals of depository receipts on concerns that a substantial portion of the issues were being taken up by Chinese investors who later converted the securities into stock in their home market to profit from persistent price gaps, given that the receipts tend to trade at a discount to the underlying A-shares. Still, there are several Chinese companies that would be interested in listing in London if the regulatory regime in China and the UK is more relaxed, said John Xu, a partner at law firm Linklaters, given that it helps to build a company's international image. Ming Yang Smart Energy added a London listing in July 2022. The Chinese maker of wind turbines won a contract for an offshore project in the UK in September 2022 and also secured an order in Serbia late last year.

Shein IPO

While the stock connect is for already-listed companies, an IPO by Shein would be a big vote of confidence in the UK from an

Asian company after one of the worst years for IPOs in the market's modern history. Companies raised about \$1 billion in

the UK via new listings last year, the lowest level in decades, according to data compiled by Bloomberg. The China-founded clothing company filed confidentially last year for a US offering, but since then has begun considering a switch to the UK.

However, the plans could face similar regulatory hurdles and political opposition in the UK to that seen in the US. A fresh round of Chinese listings would be good news for the LSE amid an IPO market that has been hindered by the prospect of companies achieving higher valuations elsewhere. "London is a great place for a business to increase their brand awareness," said Peter Lu, a partner and global head of China practice at law firm McDermott Will & Emery. "It's a stepping stone for a company in China who wants to internationalize themselves."