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Hong Kong sees last-minute IPO cancellations amid increased regulatory checks, weak market

At least three companies have now shelved their listings in the city after launching share sales since the start of July

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A general view of Exchange Square in Central, where the Hong Kong Exchanges and Clearing is located. Photo: Nora Tam

Hong Kong's tougher oversight and weak investor demand have put many mainland China issuers in a dilemma, forcing many small-cap non-technology firms to delay their fundraising plans or even cancel them at the last minute, according to industry players.

On Tuesday Jiangsu Slender West Lake Culture and Tourism (SWL Tour) became the latest such case, when the state-owned aquatic tourism service provider postponed a HK$227 million (US$28.93 million) listing. The company attributed the decision to "several factors, including the prevailing market conditions," it said just hours after closing its order books.

"Institutional investors are now more cautious about small-cap stocks with limited fundamentals and growth prospects," said Roy Lo Wa-kei, managing partner at the accounting and consulting firm SW Hong Kong.

The SWL Tour deal did not bring in any cornerstone investor, according to its prospectus, and with the firm opting for the city's so-called Mechanism B, which caps a public tranche at just 10 per cent, leaving allocation and pricing power more dependent on institutional buyers.

Lo emphasised that weak overall sentiment remained the primary deal breaker, with investors turning rational after numerous listings fell below offer price.

The Yangzhou-headquartered tourism company saw strong retail demand, attracting HK$69.5 billion in margin orders, making its HK$22.69 million public offer over 3,000 times oversubscribed, according to data from several brokerages.

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Originally scheduled to list on October 23 with Everbright Securities International as sole sponsor, SWL Tour stated it remained committed to completing the initial public offering when conditions permit.

At least three companies have now shelved listings after launching share sales in the second half of this year. The other two – Southeast Asian container yard operator EKH Limited and fintech solutions provider Shenzhen Forms Syntron Information – both cited "market conditions" for their decisions to postpone.

This wave of delays coincides with the Securities and Futures Commission's stepped-up enforcement against artificial IPO demand and IPO-rigging schemes.

Kenny How Sze-ming of the Hong Kong Securities and Futures Professionals Association believed that the tighter regulatory environment was having a strong deterrent effect on the broader market.

"'Grey-area money' that may have existed in some small-cap offerings in the past has nowhere to hide under strong supervision," he said. "As such money and active speculators exit, some placing projects that relied heavily on this kind of funding naturally face order shortfalls, prompting issuers to suspend listings to avoid risk."

No evidence linked SWL Tour's delay to regulatory investigations.

Twenty-three of 31 companies listed in the third quarter – or 74 per cent – were trading below their offer prices, as of September 30.

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