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China opening Shenzhen stock market may meet similarly tepid response as Shanghai-Hong Kong connect

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HK-Shenzhen stock connect is a vote of confidence: HSBC

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HK-Shenzhen stock connect is a vote of confidence: HSBC

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HK-Shenzhen connect will make a big difference: Analyst

08/16/16 10:32 PM ET

China announced plans to open its Shenzhen stock market for foreign investors, but it wasn't clear the new "through train" would see any more traffic than the lackluster Shanghai one.

Under the so-called Stock Connect, investors in Hong Kong will be able to buy stocks listed on China's [Shenzhen](#) stock exchange, home to many of the country's tech and consumer companies. In return, investors on the mainland will be able to buy stocks listed in Hong Kong. The arrangement was expected to be operational in around four months' time.

The new Shenzhen ties would be similar to the existing Shanghai-Hong Kong Stock Connect, which was launched in late 2014. The main difference between the two channels would be that the Shanghai one was launched with a quota on both daily and yearly trade totals, while only a daily quota was planned for the new channel. HSBC scrapped an existing agree-

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But analysts said removing that restriction likely wouldn't matter much as Shanghai's "northbound" quota ceiling for funds headed to the mainland was only reached once, on the program's first day.

Capital Economics noted that after nearly two years in operation, investment via the Shanghai-Hong Kong connect was less than 1.0 percent of the total market capitalization of both exchanges.

Opening up the stock market wouldn't necessarily change the fundamentals much, analysts noted, particularly as Shenzhen-listed stocks were considered expensive, often trading at 40-50 times earnings. Goldman Sachs noted that Shanghai trades around 26 times earnings.

"China still hasn't understood the value of building trustworthy markets. That's not changed. The fact that you can access it doesn't solve that fundamental problem," Fraser Howie, an independent analyst and the author of several books on China's financial system, told CNBC's "Street Signs."

"The pickup [of the Shanghai-Hong Kong connect] has never been that strong because I think the regulatory environment in China is still a very dangerous one. A very uncertain one, and therefore people hold back," he said.

But some analysts pointed to reasons foreign interest in Shenzhen's market might outstrip Shanghai.

For one, the types of stocks available differ significantly.



"Shenzhen companies are more concentrated in emerging industries including tech, media, and healthcare (a.k.a. New China) whereas the landscape in Shanghai is more oriented towards the 'Old China' sectors including Financials and Energy," Goldman Sachs said in a note Wednesday. "This means that the Shenzhen-Connect opens up a brand new investable universe to global investors who have been able to monetize these fundamentally-exciting growth stories only in offshore markets like Hong Kong and

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investors, superior growth prospects were likely already priced into high valuations and the stocks were more speculative.

Indeed, several analysts noted that opening up Shenzhen may have more of a symbolic than a market impact.

"It's quite symbolic that China is now ready to open up to the world," Steven Sun, head of China equity strategy at HSBC, told CNBC's "Squawk Box."

"This is obviously a confidence vote that China's out of the shadow of the market crash last summer and also the mini-crisis in the beginning of the year because of the currency volatility."

Others agreed.

"It is a sign that policymakers remain committed to financial reform and capital account liberalization," Julian Evans-Pritchard, a China economist at Capital Economics, said in a note Tuesday.



Kim Kyung-Hoon | Reuters

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