

## **1. Abstract**

This research seeks to analyse the performance of the Hong Kong initial public offerings (IPOs) market in 2022 and determine whether it met investor expectations. Hong Kong, as a significant global financial centre, plays a crucial role in facilitating capital flows and attracting companies seeking to raise funds through IPOs. Nonetheless, the market encountered significant obstacles in 2022, resulting in a third consecutive year of declines in terms of number of IPOs. This study investigates the factors that influenced investor sentiment, including the US-China Trade War, the interest rate increase, the COVID-19 pandemic, and other political factors. By analysing the performance of key IPOs and comparing it to investor expectations and the performance of the previous year, this research project reveals the actual market conditions. The findings hope to provide some implications for investors, regulators, and other relevant stakeholders.

## **2. Overview**

The Hong Kong initial public offering (IPO) market began to decelerate by the end of 2021, with a total of 97 companies listing and raising HKD 333.9 billion<sup>1</sup>. Some investors anticipated a continuance of this trend into 2022 as a result of the market's deteriorating resilience and investors' diminished appetite for quality companies, as well as the continuing impact of the COVID-19 pandemic and geopolitical tensions.

The market faced significant challenges in 2022 due to global market sentiment, resulting in a slow start, a decline in new listings, and a decrease in proceeds raised. The fact that the total proceeds raised in 2022 amounted to only HKD 97.2 billion<sup>1</sup> represents a 70% decline from the previous year and demonstrates investors' diminished appetite for quality companies.

Nevertheless, despite the challenging conditions, the industrials and consumer markets<sup>1</sup> emerged as the dominant actors, accounting for approximately 30% of all new listings. This was a result of the unstable global economy, which prompted investors to seek out more stable industries. In addition,

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<sup>1</sup> Chinese mainland and Hong Kong IPO markets . (n.d.). *KPMG*

<https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2022/12/chinese-mainland-hk-ipo-markets-2022-review-2023-outlook.pdf>

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nine Chinese companies decided to list in Hong Kong in addition to their existing listings on US exchanges<sup>1</sup>.

The emergence of new dominant sectors and the successful IPOs of high-profile companies provide some optimism for the market's future, despite the market's sluggish start and decreased revenues. Investors continue to be optimistic regarding the market's long-term potential and recognize the opportunity for high-quality companies from a variety of industries to go public and garner strong demand from international investors.

### 3. Performance Analysis

#### a. Quantitative Analysis

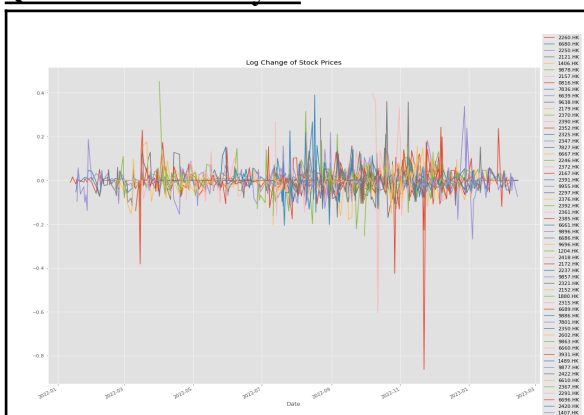


Fig 1.1 Changes of stock prices since listed

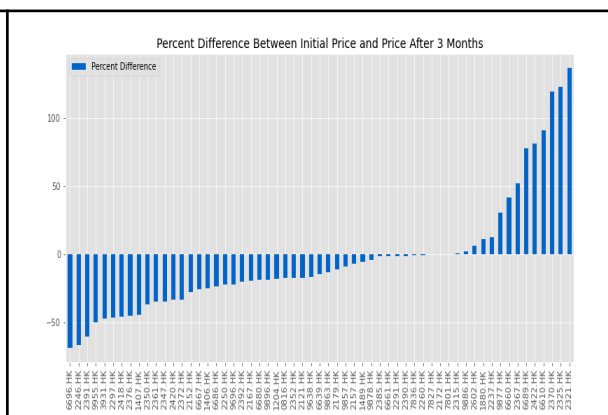


Fig 1.2 Percentage difference between initial price and price after 3 months of listed

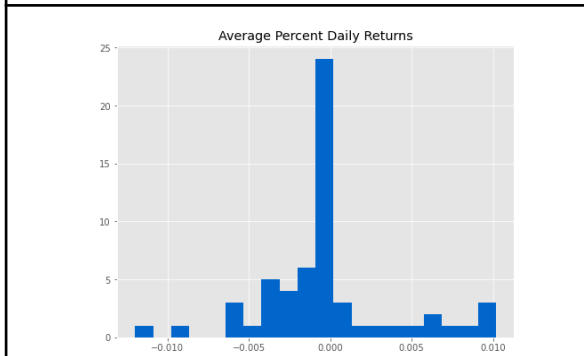


Fig 1.3 Average percent daily returns

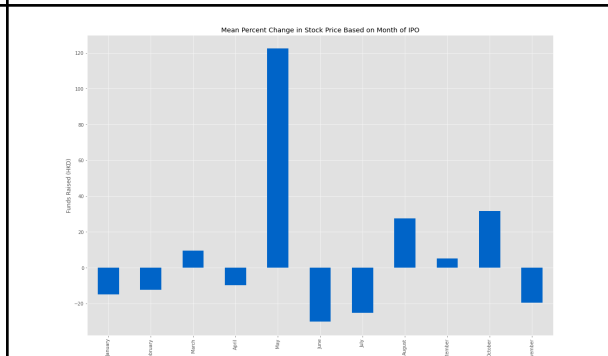


Fig 1.4 Percentage change in stock price based on month of IPO  
(\*Disregard the month of May because there was only 1 IPO that month.)

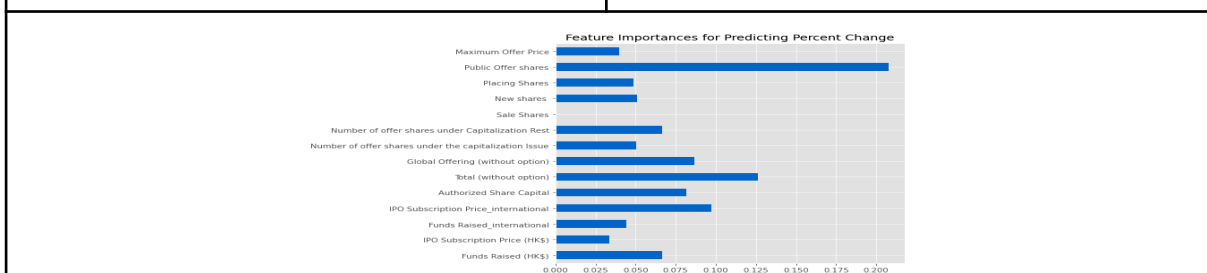


Fig 1.5 Feature importance for predicting percentage change

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### i. Sector Analysis

According to the graphs below, consumer discretionary, industrials and materials ranked in the top three in terms of funds raised in 2022. While the health care sector ranked top in terms of numbers of deals in 2022, followed by consumer discretionary and industrials.

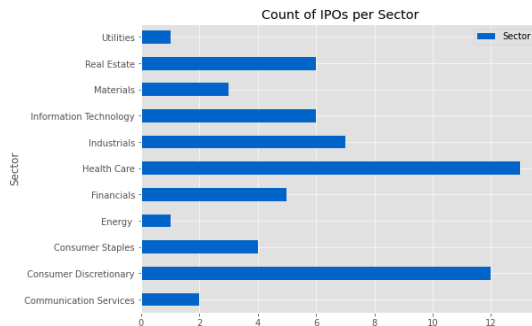


Fig 1.1.1 No. of IPOs per sector

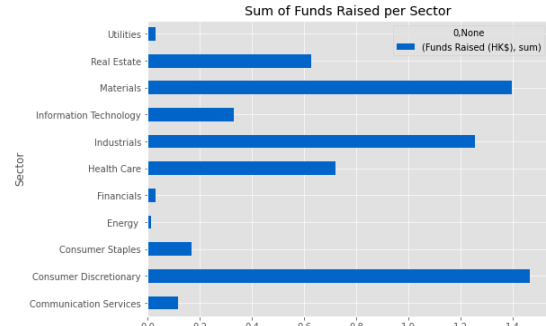


Fig 1.1.2 Sum of funds raised per sector

### ii. Key IPO Deals

| Rank | Stock Code | Company Name                                   | IPO Funds Raised (HK\$ billion) | Sector                 |
|------|------------|------------------------------------------------|---------------------------------|------------------------|
| 1    | 01880      | China Tourism Group Duty Free Corporation Ltd. | 18.39                           | Consumer Discretionary |
| 2    | 09696      | Tianqi Lithium Corporation                     | 13.46                           | Materials              |
| 3    | 03931      | CALB Co., Ltd.                                 | 10.10                           | Consumer Discretionary |
| 4    | 02602      | Onewo Inc.                                     | 6.32                            | Real Estate            |
| 5    | 09863      | Zhejiang Leapmotor Technology Co., Ltd.        | 6.28                            | Consumer Discretionary |
| 6    | 06680      | JL Mag Rare-Earth Co., Ltd.                    | 4.24                            | Industrials            |
| 7    | 09878      | Huitongda Network Co., Ltd.                    | 2.32                            | Industrials            |
| 8    | 09638      | Ferretti S.p.A.                                | 2.01                            | Consumer Discretionary |
| 9    | 02121      | Qingdao AInnovation Technology Group Co., Ltd  | 1.18                            | Information Technology |
| 10   | 02325      | Yunkang Group Ltd.                             | 1.15                            | Health Care            |

Table 1.2.1 Ten Largest IPO Funds Raised by Newly Hong Kong Listed Companies in 2022 (as of 30 November 2022)

### iii. Comparison with Previous Years Performance

There is a significant difference in the IPO funds raised between the two years. In 2021, the top 10 largest IPO funds raised by newly listed companies are as below primarily

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from the Information Technology Sector. Notable IT firms from China, such as Kuaishou, Baidu, and Bilibili, led the pack. However, in 2022, the Information Technology Sector had a reduced presence, with only one company making it to the top 10 list. In 2021, the total funds raised by the top ten companies reached HK\$193.13 billion, while in 2022, it decreased to HK\$59.05 billion. This indicates a substantial decline in the total funds raised, reflecting a potentially challenging market environment or varying investor interest between the two years.

| Rank | Stock Code | Company Name                                         | IPO Funds Raised (HK\$ billion) | Sector                 |
|------|------------|------------------------------------------------------|---------------------------------|------------------------|
| 1    | 01024      | Kuaishou Technology - W                              | 48.3                            | Information Technology |
| 2    | 02618      | JD Logistics, Inc.                                   | 28.27                           | Industrials            |
| 3    | 09888      | Baidu, Inc. - SW                                     | 23.94                           | Information Technology |
| 4    | 09626      | Bilibili Inc. - SW                                   | 23.23                           | Information Technology |
| 5    | 09868      | XPeng Inc. - W                                       | 16.02                           | Consumer Discretionary |
| 6    | 02015      | Li Auto Inc. - W                                     | 13.44                           | Industrials            |
| 7    | 09961      | Trip.com Group Ltd. - S                              | 9.75                            | Consumer Discretionary |
| 8    | 09959      | Linklogis Inc. - W                                   | 9.16                            | Information Technology |
| 9    | 09889      | Dongguan Rural Commercial Bank Co., Ltd. - H Shares  | 9.09                            | Financials             |
| 10   | 06821      | Asymchem Laboratories (Tianjin) Co., Ltd. - H Shares | 7.15                            | Health Care            |

Table 1.3.1 Ten Largest IPO Funds Raised by Newly Hong Kong Listed Companies in 2021

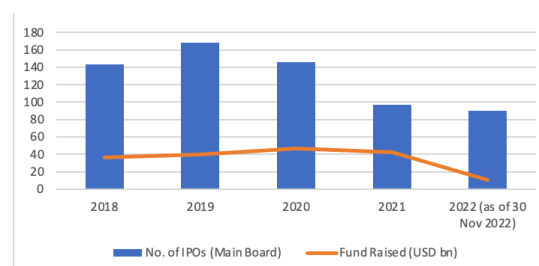


Fig 1.3.1 No of IPOs (Main board) and fund raised (USD bn) of Hong Kong IPO Market (2018-2022)

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### iv. Comparison with Major Global IPO Markets (US, China)

2022 is a challenging year for IPO due to the financial market instabilities led by pandemic and ongoing economic uncertainties. Compared with 2021, the total number of deals decreased around 50%. While the fund raised decreased by around 60%.

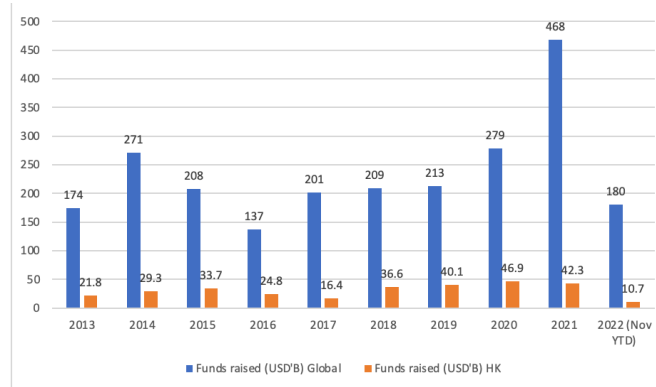


Fig 1.4.1 Global IPO fund raised (2013 - 2022)

Sources: Bloomberg and KPMG analysis

Fund raised of A-share stock exchanges in 2022 are comparable to 2021, leading to Shanghai Stock Exchange and Shenzhen Stock exchange ranked the top in 2022. While HKEX remained at 4th position in 2022 with USD 10.7 billion as of 30 Nov 2022 IPO equity funds raised. NASDAQ and NYSE ranked the top in 2021 in terms of IPO equity funds raised, yet out of top 5 in 2022 which is the first time in the past decade.

|                    | Rank | Stock Exchange           | IPO Equity Funds Raised (USD bn) |
|--------------------|------|--------------------------|----------------------------------|
| 2022<br>Nov<br>YTD | 1    | Shanghai Stock Exchange  | 50.4                             |
|                    | 2    | Shenzhen Stock Exchange  | 29.8                             |
|                    | 3    | Korea Stock Exchange     | 12.9                             |
|                    | 4    | HKEX                     | 10.7                             |
|                    | 5    | Frankfurt Stock Exchange | 8.7                              |
| 2021               | 1    | NASDAQ                   | 99.2                             |
|                    | 2    | NYSE                     | 57.5                             |
|                    | 3    | Shanghai Stock Exchange  | 55.6                             |
|                    | 4    | HKEX                     | 42.3                             |
|                    | 5    | Shenzhen Stock Exchange  | 26.2                             |

Table 1.4.1 Performance of stock exchange in 2021 and 2021 (Nov YTD)

### b. Qualitative Analysis - Expectation on 2022 vs Reality

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### *i. Overview*

- **Expectation in 2022:** The two major accounting firms have forecasted that the IPO pipeline in Hong Kong will remain robust, with over 120 companies seeking to go public. As a result, Hong Kong is expected to maintain its position as one of the top destinations for listings in 2022.
- **2022 Review:** Despite only 90 companies being listed, HKEX made a strong comeback in the second half of 2022 and demonstrated its resilience by ranking 4th in IPO funds raised globally.
- **Result:** Underperformed

### *ii. Macroeconomic*

- **Expectation in 2022:** Market sentiment for 2022 will continue to be affected by the development of the global pandemic and other economic uncertainties.
- **2022 Review:** The impact of geopolitical and macroeconomic developments, such as the Ukraine-Russia conflict and potential US interest rate hikes, had an effect on the market.
- **Result:** Met expectations

### *iii. New Policies*

- **Expectation in 2022:** The implementation of a SPAC regime in Hong Kong is expected to offer more comprehensive funding options, making it an attractive destination for high-growth, innovative, and new economy companies from China and Southeast Asia to go public.
- **2022 Review:** Only 14 SPACs submitted prospectuses to the Hong Kong Stock Exchange, of which only 5 were approved for listing. The Hong Kong SPAC market has not developed as smoothly as anticipated, and it has not turned into a "source of vitality" for the market's emerging new economy. Aquila Acq-Z (07836.HK), Interra Acq-Z (07801.HK), VISION DEAL-Z (07827.HK), Hui De Acquisition-Z (07841.HK), and Techstaracq-Z are the only SPACs that have successfully launched on the Hong Kong stock market as of this writing. These 5 businesses primarily concentrate on

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choosing merger targets in the sophisticated manufacturing, medical sciences, and green energy sectors of the new economy and new technology. However, as of the end of 2022, none of these 5 companies have selected any special purpose acquisition companies (SPACs) as merger targets, and therefore have not generated any revenue and are in a loss-making phase.

- **Result:** Underperformed

### iv. *Homecoming listing*

- **Expectation in 2022:** The stock exchange has simplified the overseas issuers framework, offering multinational companies the flexibility to choose their listing venue. Additionally, this move supports Chinese companies listed in the US that are exploring the possibility of listing in Hong Kong as their preferred destination to return to the home market.
- **2022 Review:** The trend of dual listings also continued in 2022, with 9 Chinese companies choosing to list in Hong Kong in addition to their existing listings on US exchanges.
- **Result:** Met expectations

## 4. Factors affecting 2022 HK IPO performance

### a. Global Economic Conditions

#### i. *Interest rates hikes*

In 2022, as the US Federal Reserve seeks to fulfil its dual mandate of maintaining price stability and maximising employment, it may opt to raise interest rates in order to prevent the possible overheating of the economy. Given the interdependence of global financial markets, the 7 adjustments of the US Federal Reserve's interest rates are anticipated to have an impact on the Hong Kong IPO market.

A higher interest rate market environment in the US can have several implications for the Hong Kong IPO market. Firstly, it might cause a tightening of global liquidity and an increase in borrowing costs, potentially leading to a dampening effect on investor sentiment and reducing demand for IPOs. Secondly, higher interest rates may also prompt

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investors to reassess their risk tolerance, favouring more stable investments over the potentially riskier IPO offerings. Moreover, an interest rate hike in the US can result in currency fluctuations, impacting the exchange rate between the US dollar and the Hong Kong dollar. This exchange rate volatility might influence the attractiveness of Hong Kong IPOs for international investors. Overall, the US Federal Reserve's interest rate decisions in 2022 are expected to introduce a notable factor of uncertainty and potential headwinds for the Hong Kong IPO market, requiring careful monitoring and analysis.

| FOMC Meeting Date | Rate Change (bps) | Federal Funds Rate |
|-------------------|-------------------|--------------------|
| Dec 14, 2022      | +50               | 4.25% to 4.50%     |
| Nov 2, 2022       | +75               | 3.75% to 4.00%     |
| Sept 21, 2022     | +75               | 3.00% to 3.25%     |
| July 27, 2022     | +75               | 2.25% to 2.50%     |
| June 16, 2022     | +75               | 1.50% to 1.75%     |
| May 5, 2022       | +50               | 0.75% to 1.00%     |
| March 17, 2022    | +25               | 0.25% to 0.50%     |

*Table 4.1.1 US Fed rate hikes 2022-2023*

*Source: Forbes*

### ii. **Pandemic**

The COVID-19 pandemic has had a significant impact on the Hong Kong IPO market, with both challenges and opportunities arising. On one hand, the pandemic has created uncertainty and market volatility, leading to delays and cancellations of IPOs as companies' performance are highly affected by the unfavoured market conditions. While investor sentiment might be cautious with a focus on preserving capital and managing risks during these uncertain times.

On the other hand, the pandemic has brought benefits to some of the sectors in the Hong Kong IPO market, including Information Technology and Health Care. COVID-19 has highlighted the importance of healthcare infrastructure, medical research, and the development of treatments and vaccines. Companies involved in pharmaceuticals, biotechnology, medical devices, and telemedicine have experienced a surge in funding



and investor attention. As a result, there has been increased investor interest in healthcare-related IPOs. In particular, the Health Care sector experienced significant benefits during the pandemic, ranking as the top sector in terms of the number of deals in 2022.

The long-term effects and recovery of these sectors will depend on the duration and severity of the pandemic, as well as the effectiveness of containment measures and government support. Overall, the COVID-19 pandemic has caused a huge impact on the economy and industry. Yet, with the relief of COVID restrictions in China, it is believed that the economy will gradually recover, which might have a positive influence on the performance of Hong Kong IPO market in the coming years.

### *iii. Geopolitical tensions*

- US-China Trade War: The US-China trade war has introduced uncertainty and caution in the Hong Kong IPO market. It has created hesitation among international companies, including those in Asia, regarding their business expansion plans and impacted the regional supply chains. Additionally, China and the US have been in discussions regarding cross-border auditing matters but have not yet reached a consensus. More than half of the Chinese concept stocks have been included in the "Preliminary Delisting List" or the "Final Delisting List" by the US Securities and Exchange Commission (SEC) which has prompted these firms to seek safety measures, such as a dual primary listing in Hong Kong. Due to the US-China tensions, Chinese government policies and regulations, and the economic slump in the US capital market, cross-border IPO activity has dramatically decreased by 61% from 2021. The uncertainties regarding how regulators will perceive companies seeking international expansion has caused many to delay their fundraising plans and influenced their decision-making processes considering IPOs. Along with the shifting dynamics of global markets, leading to a significant impact on the overall activity and flow of listings in the Hong Kong market.

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- Russian invasion of Ukraine: The Russia-Ukraine war has had a substantial impact on the Hong Kong IPO market. The conflict's impact on the energy supply has resulted in higher energy prices and a rise in inflation, primarily affecting Europe. Nonetheless, this circumstance has created favourable IPO conditions for energy companies in the Middle East, China, and some of the ASEAN nations. On the other hand, the impact of the war on global markets, coupled with increasing concerns of economic downturn and inflation, has made businesses reluctant to raise funds or consider international expansion. Conflict-induced market volatility and rising interest rates have led to a decline in IPO activity, with companies delaying or cancelling IPO plans. The conflict's uncertainty weakened market confidence and increased risk premiums, making it difficult for companies to proceed with IPOs. As a result, the Russia-Ukraine conflict has brought uncertainty to the Hong Kong IPO market, requiring companies to assess market conditions thoroughly before proceeding with IPO plans.

### **b. Regulatory Environment**

#### ***i. Launch of SPAC<sup>2</sup> regime***

In December 2021, HKEX changed the listing requirements for Special Purpose Acquisition Companies (SPACs), boosting Hong Kong's competitiveness as a global financial hub. SPACs are businesses that obtain money through an IPO in order to buy or merge with another current business. This strategy enables the blank check company to IPO and raise money more rapidly and affordably than with a conventional IPO. To maintain its competitiveness and ability to draw listings of Mainland and Southeast Asian companies, the HKEX has been eager to implement a SPAC listing rule in Hong Kong. The HKEX listed Aquila Acquisition Corporation, a SPAC that raised HKD 1 billion (about USD 128 million) during its first public offering (IPO), on March 18, 2022. But on the first day of trading, Aquila's stock price fell, which some market analysts blamed on the ban on retail trades and investors' unfamiliarity with SPACs. Only professional

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<sup>2</sup> Pirogov, A. (2022a, May 31). *HKEx's new Spac Listing Regime commences 1 January 2022*. Charltons. <https://www.charltonslaw.com/overview-of-hkex-new-spac-listing-regime/>

investors are permitted to subscribe for and trade SPAC shares prior to the completion of the De-SPAC transaction under the new Chapter 18B. The shares of the successor firm may only be purchased and traded by retail investors.

### ii. *Hong Kong SPACs vs Singapore SPACs*<sup>3</sup>

In order to imitate New York's success in listing blank check firms and prevent losing lucrative Asian listings to New York SPACs, Hong Kong and Singapore enacted SPAC listing rules last year. Retail investors are permitted to participate in SPAC IPOs under Singapore's less stringent regulations than in Hong Kong. Hong Kong, on the other hand, has a more rigid system designed to guarantee the listing of reputable businesses by knowledgeable promoters. The De-SPAC transaction must be completed by Singapore's deadline, which is shorter and does not allow for an extension. The Singapore Stock Exchange has seen three SPAC IPOs, whereas Hong Kong has only seen one completed SPAC IPO but has apparently experienced significant demand in the new listing option. Analysts expect that Hong Kong will be more attractive for SPAC listings than Singapore despite having a stricter regulatory environment because of its closeness to mainland China and greater liquidity, which provides a wide range of potential acquisition targets for Hong Kong SPACs.

## 5. Outlook and Conclusion

In conclusion, investors expected the Hong Kong IPO market to continue its slowdown in 2022, and unfortunately, it faced significant challenges due to weakened investor appetite for quality companies, global market sentiment, and the ongoing impact of COVID-19. Thus, the market stayed aligned with investors' expectations in a negative way. While the year saw a slow start and reduced proceeds, HK IPO's prior successes have left investors optimistic about its long-term potential due to its ability to adapt to changing conditions and attract high-quality companies from various sectors.

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<sup>3</sup> *Spacs Underwhelm in Hong Kong and Singapore in First Year*. South China Morning Post. (2022, September 12). <https://www.scmp.com/business/banking-finance/article/3192193/spacs-underwhelm-hong-kong-and-singapore-first-year>

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From a global perspective, Hong Kong IPO market performance in 2022 in terms of number of IPO deals and fund raised followed the overall trend of global performance. Although the overall market performance is relatively unsatisfactory compared with 2021, HKEX is still at the 4th position of highest IPO fund raised stock exchange in 2022. Besides, the relaxation of COVID restrictions and signs of slower inflation and slower expected pace of rate rise show a positive sign in future performance of the Hong Kong IPO market. Despite the fact that it might continue to be influenced by economic and political uncertainties, the global IPO market activity is expected to rebound in 2023.

## Appendix

### Sources:

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