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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

US-Listed Chinese Cos. Not Wavering In Push To Head Home

By **Chelsea Naso**

Law360, New York (February 29, 2016, 4:29 PM ET) -- The stream of U.S.-listed Chinese companies inking take-private transactions is showing few signs of drying up, as volatility in the U.S. markets and an easing of Chinese securities regulations has renewed the possibility of finding stronger valuations domestically, experts say.

Market volatility in China, which came amid the devaluation of the yuan back in August, was considered a possible death knell for the trend, but with volatility also striking the U.S. markets and China moving to simplify access to its domestic markets, more Chinese companies are looking to head home.

"The market generally had doubts where those take-private proposals would be taken to the finish line," said Stephanie Tang, a Hong Kong-based partner in Shearman & Sterling LLP's Asia M&A practice. "From what we can see in the market now, I think a lot of the deals are still moving forward."

The market turmoil experienced in recent months in the U.S. may be the final push some Chinese companies need to abandon their U.S. listings, since the ability to raise capital is a central motivator to keeping up with the regulatory burden of an overseas listing, according to Baker & McKenzie LLP partner Tom Rice.

"You're as good as your ongoing market. If there is a big, good, deep liquid trading market that you can continue to tap for more equity, but on the other hand, if you've gone public and all of a sudden you find yourself with little trading volume, an illiquid stock that is not being followed by an analyst, then the logic of being a company in the U.S. is no longer there," Rice said.

There is also a perception that a stronger valuation can be found in Chinese domestic markets, where investors have a stronger understanding of the companies and the role they play, according to Paul Scrivano, head of O'Melveny & Myers LLP's global M&A and private equity practice.

And, much like private equity firms see undervalued public companies as an opportunity to create value, companies choosing to relist back in China see the move as a chance to raise more capital to fund further growth or future operations.

"The market is not accurately valuing the companies. They can be taken private and relisted at some point in the future as A-shares in China to more accurately reflect their prospects. At some level, it's not all dissimilar from when a private equity firm will approach a company and decide to take it private or not," Scrivano said.

Actually going through the process of relisting domestically can be easier said than done, especially after the Chinese government temporarily froze new listings in August as it tried to help stabilize the market as well as the backlog of companies waiting to go public.

But after four months, the China Securities Regulatory Commission in November began greenlighting IPO-bound companies and promised to take measures to help reform the country's system for debuts.

In December, Chinese legislators started the process to make good on that promise by initiating changes that are set to help the country move toward a registration-based system that could eventually quicken approvals and give the market greater control over share pricing.

"Since last summer, especially through the end of last year, there were a number of initiatives from the Chinese government trying to liberalize their markets," Tang said.

The changes also included an easing of the requirements each company must meet before going public, such as a certain level of revenue, making a domestic listing a viable option for more companies, she explained.

"The changes that have been happening in the domestic capital markets have brought a lot of hope for [technology, media and telecommunications] companies in general, so they think listing in the Chinese markets domestically, going forward, may be a choice," Tang said.

While there are several concrete motivators behind U.S.-listed Chinese companies' decision to go private, certain sectors are also experiencing somewhat of a lemming effect, with companies following suit out of fear of being left behind, explained Peter Huang, a Beijing-based Skadden Arps Slate Meagher & Flom LLP partner.

This has been particularly true for the technology, media and telecommunications space. Adding to the perception, whether true or false, that a stronger value can be found on their domestic market is a concern that they will not be ready to compete with their peers if they are the only ones left maintaining a U.S. listing.

"My general observation of the market is that it really depends on the sector. There will always be cluster effects, meaning that if a peer company successfully delisted from the U.S. and also attracted a higher valuation in China, its peer companies that are still listed in the U.S. may feel pressure to do the same," Huang said.

Despite all the factors in place set to fuel the trend, the continued stream of U.S.-listed Chinese companies opting to go private could face some headwinds in the coming months.

Not only is there a finite number of U.S.-listed Chinese companies, but the ability to sell high-yield debt to finance transactions has impacted M&A across the board, a factor that also comes at a time when the Chinese government is taking a tougher stance on the expatriation of cash following the devaluation of the yuan, according to Nima Amini, a Hong Kong-based O'Melveny partner.

"The availability of debt financing and the Chinese government's tightening of controls over foreign currency expatriation, I think those are going to be the two biggest questions," he said.

And the volatility of both the U.S. and Asia markets, depending on which region stabilizes sooner, could either fan or slow the trend, according to Hong Kong-based Mayer Brown LLP partner Mark Uhrynuk.

"If U.S. markets stabilize and rebound, faster than the Chinese markets, U.S.-based valuations may serve to counter — at least in the short term — the desire to escape the United States for China. The interplay between the two markets is an important consideration in the continuation of the take-private trend," he said.

But as volatility in the Chinese market was seen as a major headwind for the trend back in August, the overall impact that the debt markets, Chinese government regulations and market volatility will play in possibly halting the trend still remains to be seen.

"I wouldn't call it the end of the trend just yet," Scrivano said. "The Chinese take-privates trying to list back on the mainland has surpassed many with its longevity. It would be risky and shortsighted to try and call it now. It still has some legs."

--Additional reporting by Tom Zanki. Editing by Katherine Rautenberg and Philip Shea.
