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MARKETS

U.S.-Listed China Firms Hurry Homeward

Media, technology companies look to go private and relist in Shanghai or Shenzhen

China's securities regulator is expected to soon allow IPOs to resume. *PHOTO: REUTERS*

By **KANE WU**
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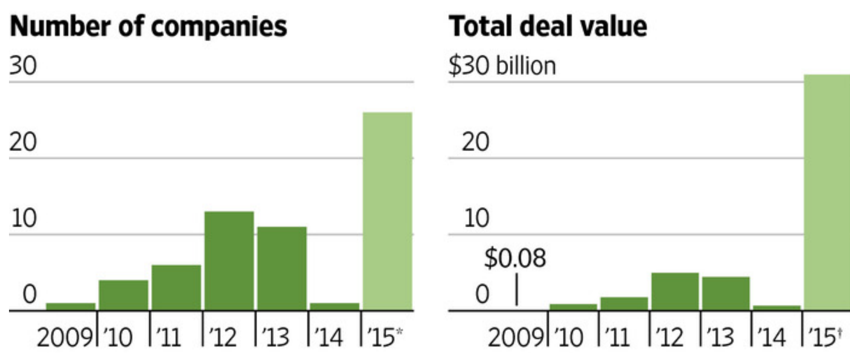
HONG KONG—Chinese companies that listed in the U.S. in recent years are suffering a continuing bout of homesickness.

Many such companies—particularly from the technology, media and telecoms sector—

are looking to go private and then later relist back home, hoping to benefit from higher valuations despite the sharp fall in stock markets there this summer and a ban on initial public offerings on key bourses such as Shanghai and Shenzhen since July. Earlier this month, the China Securities Regulatory Commission suggested the ban could be lifted soon.

Twenty-six Chinese companies listed in the U.S. have announced plans to go private so far this year with a total transaction value of US$31 billion, a record level that is higher than the previous six years combined, according to Dealogic data. Deals are going ahead, even though companies are unlikely to benefit from the sky-high valuations seen in China earlier this year, when such privatization transactions first became popular.

Earlier this month, medical-devices manufacturer Mindray Medical International Ltd. agreed to a $3.3 billion buyout of its American depositary receipts by an investment vehicle co-owned by its management team at $28 per ADR—a small 1.9% premium to its price when the plan was first mooted in June. They are borrowing as much as $2 billion from two Chinese banks to help fund the buyout, one of the biggest debt deals for such a transaction in China.



Meanwhile, New York Stock Exchange-listed energy company China Ming Yang Wind Power Group Ltd. Tuesday said it is forming a special committee to evaluate a preliminary "go private" proposal from its chairman and chief executive made this month.

The company's ADRs currently trade at 6.5 times its earnings, while its Chinese-listed peers are trading at least 12 times their earnings, according to sina.com.

A loan banker with a Chinese state-owned lender, who specializes in financing such buyouts, said such deals will continue. "We are in deep discussion with Ming Yang Wind Power as well as many other Chinese companies on the debt packages for their buyout plans," the banker said. "They have never stopped."

Most of the U.S.-listed Chinese companies heading home are tech stocks that have had a difficult ride stateside. The Bank of New York Mellon China "Xia Yi Dai" ADR Index, which tracks 30 Chinese companies' American depositary receipts and is weighted toward Internet firms, is down 4.3% this year, underperforming all the major U.S. indexes.

"Privatized Chinese companies are coming home. It is easier for them to attract investors and funds in China as they are better recognized here," said Honghe Zhang, deputy executive director at China Southern Capital Management Co., a Shenzhen-based asset-management firm.

While U.S. investors have shown interest in relatively well-known Chinese companies like Alibaba Group Holding Ltd. or Baidu Inc., they have tended to stay away from companies they don't know so well, even if their financial performance appears satisfactory, said a Hong Kong-based equity analyst with a Wall Street bank.

"Some of them show high growth but you never know if things can go wrong," he said.

U.S.-listed Chinese companies have also often been hounded by short sellers, which they aren't used to back home. Research firm Muddy Waters alone has targeted at least 10 Chinese stocks since 2010, for example, often criticizing their accounting and disclosure.

With over 600 companies in the queue for IPOs in China and the timeline for their resumption unclear, the most efficient way for these companies to relist in China is via a reverse merger, or a backdoor listing, according to Jianbin Gao, PwC China's leader for technology, media and telecommunications.

In a backdoor listing, a company is able to go public after being acquired by an already publicly traded company—usually referred to as a shell company. Such shell companies are often thinly traded, with little active business of their own.

Advertising company Focus Media Holdings Ltd. on Monday gained regulatory approval for a backdoor listing through a reverse merger via shell company Hedy Holding Co., a Shenzhen-listed maker of computers and electronic equipment.

The deal values Focus Media—which four years ago was the subject of heavy criticism from Muddy Waters—at more than double its US$2.6 billion valuation when it was taken private. Two online games operators that have gone private from the U.S. also opted for the same path. Giant Interactive Group, which was privatized last year in a US$3 billion

deal, at the end of October said it would relist via Shenzhen-listed Chongqing New Century Cruise in a reverse merger worth US$2.1 billion.

Another online game developer, China Mobile Games & Entertainment Group Ltd., was taken private in August. It is reverse merging with Shenzhen-listed Zhejiang Century Huatong Automotive Part Co. Ltd, according to an announcement by Century Huatong last month.

CMGE's peer company Perfect World Co. Ltd., which delisted from Nasdaq in January, is also looking at the reverse takeover option, according to a banker with knowledge of the matter. A spokesperson for Perfect World declined to comment.

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