



Trading Desk Note

Hong Kong Exchanges & Clearing (0388.HK)

- Risks for Chinese companies listed in the U.S. are mounting. This benefits non-U.S. exchanges.
- HKEX technically oversold: LSEG takeover bid & weak macro conditions. Ray of light on Hong Kong's civil unrest changes our call to bullish.
- BUY TP: HK\$266.60 31x FY20E P/E

Last Price:
HK\$237.20

Market Cap (HK\$):
\$299b

52w High/Low (HK\$):
195.60 – 286.20

T12M P/E (X):
31.3

T12M P/B (X):
6.8

Net Gearing:
Net Cash

The rumour mill has been circulating the idea of a Chinese listing ban, but recently hit headlines with a White House leak

1. Trump Administration Threatens Delisting Chinese Companies and Limiting Portfolio Flows to China

1.1. Bloomberg first reported the Trump administration is considering ways to limit portfolio flows to China. Internal deliberations said that they would do this by limiting American exposure through government pension funds and delisting Chinese companies from US stock exchanges.

1.2. UBS estimates, based on Federal Reserve sources, that this could be US\$60-100b of Chinese equities or about 3.5 – 6.0% of the MSCI China index. Not significant from the U.S. pension fund perspective.

1.3. But the long-term implication is that the U.S. exchanges will lose Chinese listings despite generally offering higher liquidity and valuations. In 2018, 31 Chinese companies raised US\$8.5b in NYSE/NASDAQ out of a total of 190 IPOs worth US\$47b. Alibaba raised US\$25b in 2014, iQiYi US\$2.4b, Tencent Music US\$1.1b and so on.

Exhibit 1: Portfolio Restriction News Flow Timeline

05/06/2019	Reuters: Bipartisan lawmakers introduce Equitable Act to block or face delisting, Chinese companies listed in the U.S. if they do not allow overseas companies to audit accounts or submit to regulatory oversight. "The Equitable Act."
26/08/2019	Bloomberg: "Trump Aides Say He Has Power to Force Companies from China" – Mnuchin referring to International Emergency Economic Powers Act (IEEPA).
27/09/2019	Bloomberg: "White House Weighs Limits on U.S. Portfolio Flows into China" according to people familiar with internal deliberations."
29/09/2019	Bloomberg: "U.S. Treasury Says No Plans to Block Chinese Listings 'at This Time.' – Stopped short of specific responses.
30/09/2019	CNBC: "Peter Navarro: Reports that US would restrict Chinese companies are 'fake news'"

Source: Bloomberg, Reuters, Platinum Research