

FUNDAMENTAL FLASH

Newsflash | Listing Suspension of Ant's IPO

5 NOVEMBER 2020

Prepared by Affin Hwang Asset Management

Shock Suspension

Reports confirmed that regulatory authorities in China had put the brakes on Ant Group Co's US\$35 billion listing in Shanghai and Hong Kong, derailing the world's biggest initial public offering (IPO). In this Fundamental Flash, we discuss the implications of the suspension to Ant's business and our portfolio positioning.

Regulatory Roadblock

The suspension came on the heels of a rare joint meeting with Ant's co-founder Jack Ma who was summoned to a meeting with the country's top regulatory bodies including the China Securities Regulatory Commission (CSRC) and China Banking and Insurance Regulatory Commission (CBIRC).

Market speculation is that there could be some unfavourable events that took place since the granting of listing approvals, as both the CSRC and CBIRC were the very same authorities that had also approved Ant's listing.

A consultation paper was released recently by the CBIRC with regards to proposed changes in policies affecting small and micro business loans in China.

Flashpoints

- Market speculation is that there could be some unfavourable events that took place since the granting of listing approvals.
- A consultation paper was released recently by the CBIRC with regards to proposed changes in policies affecting small and micro business loans in China.
- This could impact Ant's lending business (aka CreditTech) which makes up a sizeable portion of its revenue.
- Share price of Alibaba saw a knee-jerk reaction following the suspension. However, Alibaba's value is largely derived from its core e-commerce business and will likely see stabilisation soon.

#GrowWithUs



This could negatively impact how Ant operates its lending business moving forward. The lending business (aka CreditTech) makes up sizeable portion of Ant's business contributing up to 39% of its revenue as of 1H'2020.

Following such regulatory changes, Ant's listing approval was suspended by the Hong Kong and Shanghai stock exchange. It was reported that the stock exchange operators had requested that Ant file a disclosure of impact to its business to take into account these new regulatory changes before it can be granted listing approval again.

Ant has always portrayed itself as a technology firm that had maintained close communication with regulatory authorities. Though with this latest surprise, the relationship dynamic between Ant, regulators and its business partners could see changes.

Outlook and Positioning

We do not expect much disruption to Ant's existing business as of now. That said, Ant's growth moving forward could very much be constrained given the new capital requirements for its lending business. Also, there is a likelihood that we have just seen the start of regulatory impact on Ant's business.

Whilst the latest news regarding its listing suspension is certainly negative on a net basis, we don't believe Ant's value is zero. As of now, Ant is still a company that is expected to deliver a net profit of RMB50bn in FY2020 as a valuable technology company.

Ant has unique access to the vast user base of Alibaba as part of wider technology conglomerate in a burgeoning market. Regulatory pressure is also not new to the group, as it has transformed and adapted through various policy changes in the past 16 years.

It is uncertain whether Ant make an immediate effort to get listed again. It is rumoured that the company may take up to 6 months for it to get everything right before applying for listing again.

Alibaba which sits as one of our portfolio top holdings saw a knee-jerk reaction following the suspension of Ant's IPO. However, Alibaba's value is largely **derived from its core e-commerce business** and will likely see its share price stabilise soon. We remain comfortable with our portfolio positioning and will continue to **stick with secular growth stocks like Alibaba that have multi-year growth prospects**.

Disclaimer

This article has been prepared by Affin Hwang Asset Management Berhad (hereinafter referred to as "Affin Hwang AM") specific for its use, a specific target audience, and for discussion purposes only. All information contained within this presentation belongs to Affin Hwang AM and may not be copied, distributed or otherwise disseminated in whole or in part without written consent of Affin Hwang AM. The information contained in this presentation may include, but is not limited to opinions, analysis, forecasts, projections and expectations (collectively referred to as "Opinions"). Such information has been obtained from various sources including those in the public domain, are merely expressions of belief. Although this presentation has been prepared on the basis of information and/or Opinions that are believed to be correct at the time the presentation was prepared, Affin Hwang AM makes no expressed or implied warranty as to the accuracy and completeness of any such information and/or Opinions. As with any forms of financial products, the financial product mentioned herein (if any) carries with it various risks. Although attempts have been made to disclose all possible risks involved, the financial product may still be subject to inherent risk that may arise beyond our reasonable contemplation. The financial product may be wholly unsuited for you, if you are adverse to the risk arising out of and/or in connection with the financial product. Affin Hwang AM is not acting as an advisor or agent to any person to whom this presentation is directed. Such persons must make their own independent assessments of the contents of this presentation, should not treat such content as advice relating to legal, accounting, taxation or investment matters and should consult their own advisers. Affin Hwang AM and its affiliates may act as a principal and agent in any transaction contemplated by this presentation, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this presentation is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities. Neither Affin Hwang AM nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (expressed or implied) arising out of, contained in or derived from or any omission from this presentation, except liability under statute that cannot be excluded.