Chinese business & finance

Beijing blocks listings of ‘red light’ companies to steer funding to strategic sectors

Securities regulator identifies some industries as off-limits to equity financing on Shanghai and Shenzhen exchanges

The guidance comes even as the China Securities Regulatory Commission pledges to push ahead with reforms to remove regulatory hurdles © Alex Plavevski/EPA-EFE/Shutterstock

Sun Yu in Shanghai and **Cheng Leng** in Hong Kong YESTERDAY

China’s stock regulator is set to stop allowing local companies in certain sectors to list on the country’s main stock exchanges as Beijing works to channel funding into strategic industries, according to two capital markets bankers familiar with the matter.

The regulator has told some bankers that it has given several industries, including food and beverage chains and Covid-19 testing companies, a “red light” status that makes them off-limits to equity financing on the main boards in Shanghai and Shenzhen.

The China Securities Regulatory Commission also outlined a number of “yellow light” sectors, such as apparel and furniture, where initial public offering requests could come under heavy scrutiny if their growth relies heavily on debt for expansion.

Bankers and experts said that the CSRC was trying to funnel money towards sectors it deemed strategically important as the country pushed for technological self-reliance and economic growth.

The regulator’s move to refresh the listings guidance underscores Beijing’s efforts to make the country’s equity exchanges serve its national agenda, said analysts.

"The Chinese government doesn't want a market-based stock market," said Larry Hu, an economist at Macquarie Group in Hong Kong. "It wants one that helps the authority carry out industry policy."

The CSRC did not immediately respond to a request for comment.

The latest listings guidance follows a spate of IPOs as Beijing relaxed controls on equity financing, especially in the property sector, in December in order to boost the economy after it was severely constrained by years of harsh pandemic restrictions.

In contrast with languishing listings in the US last year, 428 companies raised a record Rmb587bn ($87bn) on the Shanghai and Shenzhen bourses. The momentum is likely to continue with more than 760 groups in the IPO pipeline, according to Wind, a financial data provider. Some of those IPOs could now fall victim to the latest guidance.

The regulations come even as the CSRC has pledged to push ahead with reforms to remove regulatory hurdles to listing.

Industries assigned 'red light' and 'yellow light'

Red	Yellow
Food and beverage chains	Apparel businesses
Baiju/alcohol makers	Home appliance businesses
Covid prevention-related businesses	
Education businesses	
Funeral businesses	
Religious businesses	

A Shenzhen-based investment banker who regularly deals with the regulator said Beijing wanted to funnel IPO proceeds to industries of national interest, such as information technology and advanced manufacturing, regardless of financial performance.

To achieve that end, the regulator has tightened listing requirements on traditional industries because it is concerned that their flotations may take up resources that could otherwise fund industries of strategic interest.

"What matters is not your bottom line," said the banker, referring to listing standards, "but where you are within the national policy agenda."

He added: "Everything must serve the national interest. IPOs are no exception."

Following that logic, the CSRC has put highly profitable alcohol makers on the "red light" list where IPOs are out of the question.

Bankers said the listing tightening was also part of an effort by the regulator to weed out financially risky companies before they caused losses for retail investors.

A Beijing-based investment banker familiar with the CSRC guidance said the regulator put restaurant chains on the "red light" list due to fears that their debt-driven business model may not last as the economy slows. PCR testing firms have been discouraged to list after Beijing rolled back its harsh pandemic curbs.

"Business sustainability is a key [in IPO review] from the perspective of the CSRC," said the banker.