Chinese ADRs

Investment Team Weekly Focus

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Chinese ADRs

Higher risk of being delisted

- With the Holding Foreign Companies Accountable Act (HFCA) being signed into law, and the fact that Chinese firms are restricted from sharing information without approvals from Chinese authorities, Chinese ADRs could theoretically be considered “non-compliant” and consequently being delisted by the U.S. Securities and Exchange Commission (SEC).

- So far only three state-owned telecom companies have been delisted (China Mobile, China Telecom and China Unicom).

- However, with the past two rounds of US-China talks in Alaska and Tianjin seemingly in stalemate, there are rising concerns that the US might take action against more Chinese ADRs, as a bargaining power.

Chinese ADRs

Lighthouse Canton View

Lighthouse Canton Investment Team reiterates the importance of switching from ADRs to H shares, whenever possible, to avoid unnecessary volatility in the portfolio.

- According to CITIC Securities, and based on several factors like revenue growth driven by receivables, overvaluation of assets and SEC comment letter frequency, the following companies look particularly vulnerable:

Ecommerce	**Education**	**Entertainment**	**Services**
Alibaba	Tal Education	Tencent Music	51jobs
JD.com	New Oriental	Bilibili	Ctrip
Pinduoduo	GSX Techedu	iQiyi	GDS
Baidu	Hailiang	NetEase	Autohome

Source: CITIC Securities, August 2021

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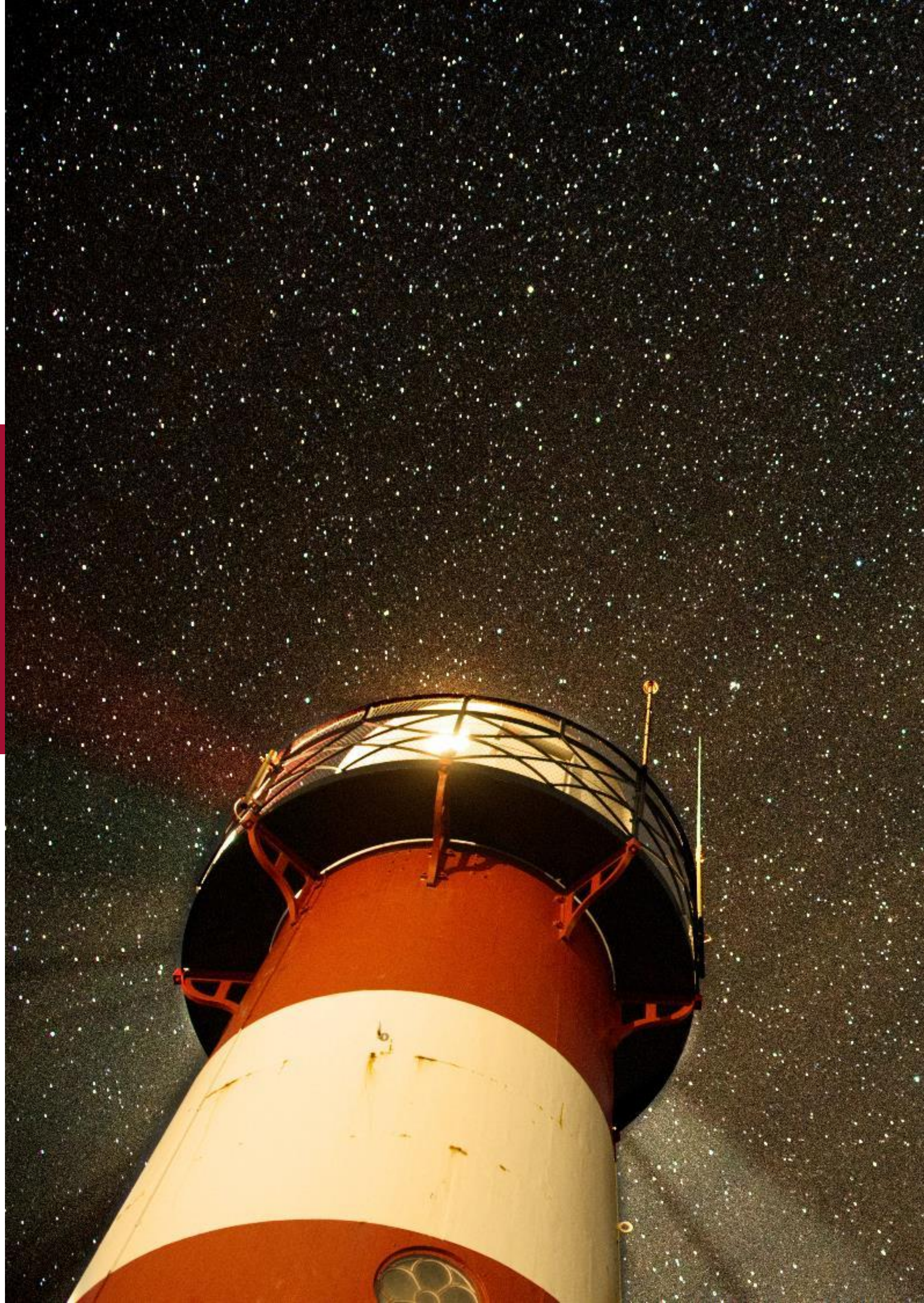

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