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Opinion | The Quality of Newly Listed Companies and Future Market Challenges

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The Hong Kong stock market is navigating through a labyrinth of challenges and potential pitfalls amid recent market fluctuations. As the global economy evolves and geopolitical tensions persist, investor confidence is wavering. The anticipation of potential interest rate cuts in the United States adds another layer of unpredictability to the market's future. This piece delves into the current landscape of Hong Kong's stock market, examining the calibre of newly listed companies, the state of investor protections, and the influence of macroeconomic factors. Additionally, it proposes strategies for tackling future challenges.

Eroding Market Confidence

Investor confidence in the Hong Kong stock market is a critical concern. Data reveals that by mid-June this year, only 28 new stocks were listed in Hong Kong, marking a 30% decline from the previous year. Concurrently, fundraising has plummeted by 32% year-on-year. These numbers not only highlight a cooling market but also reflect dim investor expectations for the future. This tepid sentiment affects both new listings and the trading activity of existing stocks. Many investors are adopting a wait-and-see approach due to uncertainties, further deepening market declines.

Assessing the Quality of New Listings

As Hong Kong attracts more companies to its exchange, the expectations for the quality of new listings have risen. Unfortunately, the reality has been less than ideal. Many newly listed companies have underperformed following their IPOs, leaving investors disappointed. The question remains: is there a connection between the quality of listed companies and market recovery? If the quality is lacking, the hope for a rebound in new stocks may be misplaced.

Significant stock price volatility raises questions about the quality of Hong Kong's listings. Tolerating low-quality companies risks damaging Hong Kong's reputation as a global financial hub. The Hong Kong Stock Exchange's decision to relax listing requirements for SPACs and Specialist Technology Companies, while intended to attract more listings, has resulted in varying quality among new entrants. This increases market uncertainty and necessitates careful investor scrutiny when considering new stocks. The long-term health of the market hinges on high-quality listings, making stringent quality controls essential.

Investor Protection: A Critical Need

In today's market environment, robust investor protection mechanisms are vital. Yet, Hong Kong's current measures fall short. When listed companies release negative news, investors often find themselves without adequate protective recourse, leading to diminished trust in the market. Enhancing

investor protection through collective litigation rights and improving market transparency and accountability will bolster investor confidence and stabilize the capital market. Regulatory bodies must intensify their oversight of listed companies to ensure compliance with laws and transparency in information disclosure, safeguarding investors' rights.

Macroeconomic Influences

The broader macroeconomic environment significantly impacts Hong Kong's stock market. Global economic slowdowns, U.S. interest rate policies, and geopolitical tensions heighten market uncertainty. These factors prompt many investors to withdraw funds from Hong Kong, affecting capital inflows. Additionally, shifts in the mainland economy directly influence Hong Kong's market, given the close ties between the two. As an international financial centre, Hong Kong faces substantial challenges in maintaining market stability and growth amid these conditions.

Strategizing for the Future

To address current challenges, Hong Kong's stock market must devise strategies to restore confidence and ensure stable growth. Regulatory authorities should reinforce oversight of listed companies, ensuring quality and transparency, and impose stricter penalties for violations to uphold market integrity. Investor education should be enhanced to raise awareness of market risks, enabling more informed investment decisions. Prospective investors must fully grasp the associated risks and opportunities to mitigate losses from uninformed investments. Moreover, Hong Kong should bolster its international competitiveness to attract high-quality listings. By improving the business environment and enhancing market infrastructure, Hong Kong can strengthen its position in the global financial arena. The inclusion of large stocks in the Stock Connect and the public offering by China's Midea Group in Hong Kong bring positive developments to the financial sector.

The Hong Kong stock market is at a crossroads, requiring concerted efforts from the government, regulatory bodies, and investors to navigate current challenges and achieve sustainable growth. By fortifying regulations, enhancing company quality, and improving investor protection, Hong Kong can rebuild market confidence and retain its status as a global financial centre. Through these measures, the Hong Kong stock market can thrive in future competition, offering a safer and more stable investment environment for investors.

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