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STAR potential

China's new stock market to boost investment in domestic biotech firms

By Jihyun Kim, Staff Writer

Aiming to accelerate investment in China's science and technology ventures, Shanghai Stock Exchange officially opened a new market earlier this month. The Science and Technology Innovation Board (STIB) launched the Sci-Tech Innovation Board (STAR) to list Chinese companies with high potential, namely tech unicorns from emerging sectors such as biomedicine, AI, IT, advanced equipment, new materials and energy.

The new board aims to encourage those emerging firms to list on domestic market exchanges rather than overseas, as giant Chinese tech companies such as Alibaba, Tencent and Baidu have done in recent years. The STAR market is expected to raise funds for growth-stage firms, as its listing criteria are less strict than other domestic stock markets.

President Xi Jinping initially announced the launch of the new market in November 2018, and the new board started accepting applications for listings via an audit system in mid-March. Trading on the STIB is planned to start within two months.

"The STAR market is not just another stock market. In fact, it opens the gateway for capital and technology innovations. The market will bo st the development of a combined financial and technology innovation center," Party Committee Secretary for Shanghai Li Qiang said in a financial forum launching the market.

Jianlin Zhang, senior research analyst of China health care at ICBC International Research Ltd. in Hong Kong, said the STAR market can give Chinese pharmaceutical firms a listing opportunity.

"We think in order to invest in firms who are preparing for the STAR listing, more renminbi [Chinese yuan]-dominated funds will be set up, instead of the U.S. dollar-dominated funds that prevail in the biotech investing community. For pharmaceutical companies themselves, the STAR market provides an alternative listing option, which is much closer to the home market," Zhang told *BioWorld*.

As of June 20, the Shanghai Stock Exchange has approved six companies to list on STAR market among more than 120 applicants, most of them in the high-tech sector. The companies include Shenzhen Chipscreen Biosciences Co. Ltd., Anji Microelectronics Technology (Shanghai) Co. Ltd., Suzhou TZTEK Technology Co. Ltd. and Yantai Raytron Co. Ltd.

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Some companies on the new board are expected to be selected to trade on the Hong Kong-Shanghai Stock Connect, providing additional funds from investors outside of the mainland China.

However, not all Chinese pharmaceutical companies may choose to be listed on the market as STAR market is still in infant stage, Zhang noted.

"Each pharma should weigh the pros and cons for the listing, based on its status, before making a decision," he advised. "Pros include four main points: no need to set up overseas SPV [special purpose vehicle], less price volatility [+-20% cap], closer cultural connection to investors and regulation, and liquidity that might be higher than the HKEx [Hong Kong Stock Exchange].

"Cons could be fewer sophisticated and international biotech investors; thus it might lack endorsement for them to compete overseas," Zhang added. "The pros and cons mainly lie in the gap between mainland stock market and overseas, not specific in biotech sector."

In order to drive more innovation, the new board will be carried out as a pilot registration-based IPO system. The new board welcomes pre-revenue and also loss-making companies to list for the first time. Unprofitable firms with an income of no less than ¥300 million (US$43.8 million) from the previous years are allowed to be listed, if they have market capitalization of no less than ¥2 billion and made a cash flow of no less than ¥100 million over the past three years.

The board also allows a company with an expected market capitalization of no less than ¥1 billion (around US$146 million), positive net profit margins in the two years prior to listing and a total net profit margin of no less than ¥50 million (around US$7.3 million) during the same period.

Experts indicated that the looser criteria will promote innovative ventures, including biopharmaceutical firms, to list on the market.

"As the new board included biomedicine in the main industries of listing, the new market will play a role as a fundraising platform of innovative biotech firms with low capitalization," Hanna Lee, senior researcher at the Chinese Economy Department of Korea Institute for International Economic Policy, told *BioWorld*.

"The IPO companies on NEEQ [National Equities Exchange and Quotations], a Chinese over-the-counter system of trading the shares, will likely flow into the new board," she noted. "Also, Chinese unicorns listed on overseas market might be back home. However, it will take some time to grasp how the new market would affect the current stock market." ♦