# China Returns to U.S. IPO Market in a Big Way With ZTO Express

Bloomberg **Taylor Hall**
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Comment

ZTO Express Inc., the Chinese delivery service that gets about three-quarters of its business from Alibaba Group Holding Ltd., is following its top customer to the U.S. stock market with what is set to be the this year's biggest initial public offering.

The planned $1.3 billion sale, which would also be the most a Chinese company raised in New York since Alibaba raised a record $25 billion in 2014, may mark an inflection point after a string of mainland companies have sought to abandon their U.S. listings and move trading back home, where stocks are commanding higher multiples. It will also test U.S. investor demand at a time when others are going public through reverse mergers, or backdoor listings, on the Shenzhen exchange.

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Such deals -- when a private firm purchases a public "shell" to take over its listing -- have proliferated in China as the regulator made it difficult for companies to gain approval for IPOs in Shanghai. The waiting list for new mainland equity offering approvals exceeds 800, more than China's total listings over the last five years, according to the China Securities Regulatory Commission website and data compiled by Bloomberg.

**'Epic Traffic Jam'**

"There's an epic traffic jam of companies seeking to IPO on Chinese stock exchanges," said Peter Halesworth, founder of Heng Ren Investments, a Boston-based firm that invests in Chinese companies listed overseas. "If they can't cut the line to sell stock to raise funds in China, they may increasingly hop a plane to the U.S. to tap the markets."

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ZTO Express is marketing 72.1 million American depositary receipts for $16.50 to $18.50 apiece, according to a filing. The ADRs are scheduled to price on Oct. 26, and begin trading the

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| OCX.TO Onex Corporation | 86.00 | 1.44 | 1.70% |
| AAPL Apple Inc. | 115.59 | -2.66 | -2.25% |
| NVFY Nova Lifestyle, Inc. | 4.15 | -0.15 | -3.49% |



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The rewards for a mainland listing have proven worth the wait for some. While the average size of Chinese IPOs so far in 2016 is only about 654 million yuan ($96.5 million), all the companies that went public in China this year have posted gains, rising nearly four-fold on average.

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Not everyone is willing to wait. At least 57 Chinese companies have announced more than $53 billion worth of going-private offers to delist from U.S. exchanges since the start of 2015, Bloomberg data show.

China's securities regulator, seeking to stem capital outflows from the country, has made it more difficult for companies to move their listings from New York exchanges, initially weighing on shares of U.S.-traded companies from Momo Inc. to YY Inc. and 21Vianet Group Inc. in the midst of privatization deals. That prompted a flurry of withdrawals of going-private bids amid uncertainty about whether the companies would be allowed to relist in the mainland.

### Chinese Parcels

Investors say ZTO will succeed in the U.S. because the company caters to a part of the Chinese economy that's growing fast and is understood by the investor base there: e-commerce.

While Chinese delivery firms handled 20.7 billion parcels in 2015, or 1.5 times the volume in the U.S., the express parcel per-person rate was just 15 in China, compared with 42 in the U.S., according to data cited in the prospectus. The low market penetration rate means potential for an increase in market demand, according to Di Zhou, a portfolio manager at Thornburg Investment Management Inc, which has registered to buy ADRs at the offering.

ZTO Express could not be reached for comment on the pending listing.

Alibaba, which uses ZTO to fulfill orders, accounted for 75 percent of ZTO's parcel volume in the first half of this year. The company's IPO comes days before Alibaba reports earnings, and weeks before its Singles' Day promotion, which is expected to surpass last year's record $14.3 billion in sales.

The IPO will distinguish the company internationally from its domestic rivals. STO Express and YTO Express have unveiled plans to go public with reverse mergers, while the country's biggest player, SF Express, received tentative approval to list in a similar way in Shenzhen, Caixin reported .

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