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How Tesla led the way for Chinese rival Xpeng's $1.5 billion IPO

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Chinese electric-vehicle maker Xpeng Motors raised $1.5 billion in an IPO on the New York Stock Exchange Thursday—the second Chinese EV manufacturer in as many months to make a U.S. debut, despite mounting pushback from Washington against Chinese firms listing in the U.S.

Shares of the company surged more than 40% on their first day of trading.

"The U.S. market still remains the gold standard for Chinese companies looking to go public because it has characteristics that are unlike other markets," says Drew Bernstein, co-chairman of accounting firm Marcum BP. In this year alone, more than 20 Chinese companies have debuted in the U.S. even as Congress debates legislation that would make it harder to do so.

In May, the Senate passed legislation that would delist Chinese companies that fail to produce audit documents for three consecutive years. Currently, the Securities and Exchange Commission is unable to review audit documents of many U.S.-listed Chinese firms because Beijing, deeming the internal records of Chinese companies to be state secrets, forbids disclosure.

The lack of access has been a sore point within the SEC for the past decade. Washington is now debating legislation that would allow the SEC to delist Chinese firms if they don't produce the audit documents for three consecutive years. But the prospect of being delisted in the future isn't enough to deter Chinese firms from raising fresh funds now.

“If I’m going to give you a billion dollars today and tell you the rules may change later, would you rather take the money now and deal with the rule change later, or wait until the rules change and not get the money anyway?” Bernstein says.

For Chinese unicorns like Xpeng—whose investors include Alibaba Group and the Qatar Investment Authority and was valued at over $3.5 billion before its debut—the U.S. is a particularly attractive market because of its deep and diversified capital sources. Few other markets are able to fund the listing of so many unicorns. U.S. investors have been especially keen to bet on electric-vehicle makers.

Electric avenue

“Investors have a view that the EV market in China has reached a turning point, with the momentum growing around Tesla,” says Bill Russo, founder and CEO of Automobility, a Shanghai-based investment advisory that focuses on mobility. In the first half of this year, Tesla emerged as the leading EV seller in China, shipping over 50,000 units and claiming 21% of the market.

Russo says there’s now a “spillover of investors searching for the next big thing,” and Xpeng is one of the contenders. The five-year-old company began production of its first vehicle in late 2018 and today has two models available with a third planned for next year.

Xpeng was founded in 2014 by He Xiaopeng, a former Alibaba executive. According to its prospectus, the Guangzhou-based EV maker had revenues of $328 million in 2019 with a net loss of $522.5 million. As of July 31, the automaker had delivered just under 21,000 vehicles in total.

Though Xpeng’s lack of experience makes it a potential risk factor for investors, Russo says, the company’s management team provides an advantage that could help it steal market share in China.

He, who serves as CEO, has drawn on his Alibaba experience to build data monetization into Xpeng’s business model. The company’s president, Heng Xia, is a veteran vehicle designer from Guangzhou Auto. Xpeng’s vice chairman and financial lead, Brian Gu, is a former Wall Street banker.

“You have a leader with digital DNA, an expert in EV architecture, and a top-level financier. Put those things together and that’s what it takes to create a successful auto company in the 21st century,” Russo says.