

Market Observations Hong Kong

COVID-19: Impacts on Business & Key Legal Issues

Paul Tang
26 March 2020

Hong Kong in the past year

- Hong Kong's economy and status as the world's link to mainland China have been facing strong headwinds
- The economies of Hong Kong and China continue to be interdependent
- The cumulative effects of the US-China trade war, months of anti-government protests, and the Covid-19 pandemic have damaged Hong Kong's economy
 - The number of tourists who visited HK during the first two months of this year was 96% lower than the same period last year.
 - Hong Kong's financial secretary predicts that Hong Kong's jobless rate is set to surge to a nine-year high. **[to be updated when figure is announced this week]**
 - The financial secretary predicts that Hong Kong's economy could contract by as much as 1.5% in 2020 (or grow by 0.5% in an optimistic scenario).

Hong Kong's current status

- Rapid government and community action in Hong Kong and parts of Asia have resulted in more success at containment
- A combination of remote working arrangements, stringent person hygiene practices, travel restrictions, quarantines, contact tracing, and social distancing was implemented in Hong Kong
- [155] confirmed cases, [4] deaths, and [84] discharged (as of March [16th])

SARS – this time will be the same but different

- Methods to contain an infectious disease within a community are the same
- Some investors may also remember there were heavily discounted valuations during the SARS outbreak
- The world has become a lot more globalized
- Regional epidemic versus global pandemic

What have we seen so far

- Hong Kong could potentially recover faster than the West
 - Government policies moving to the next stage from controlling the outbreak to restoring economic activity
 - But containment strategies will need to be adapted as the movement of people within Hong Kong and from abroad increases as business resumes
- There will be opportunities for those who are in a position to act – particularly if valuations come down
- Some dealmakers are seeking to change the terms of pending transactions
- Acquisitions will slow because of uncertainty, compounded by liquidity concerns and travel restrictions

Developing Trends

- ❑ The trend of industry consolidation will continue, especially among heavily impacted sectors. Companies with stronger balance sheets will fare better as in any downturn.
- ❑ Some investors see a downturn as a blessing in disguise as the economic fallout will accelerate industry consolidation (or restructurings and liquidations)
- ❑ Buyers are unlikely to drastically change their investment strategy for now as it is possible the fallout of Covid-19 could be temporary
- ❑ Financing a deal will become more difficult