China's ZTE dives 39% at resumption of trading in Hong Kong

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Trading in ZTE's shares was suspended in April

Shares in Chinese telecoms equipment maker ZTE collapsed 39 percent Wednesday as trading in the company resumed after it reached a settlement with the United States over its handling of a sanctions violation.

Dealing in the firm was suspended in April after Washington said it had banned American companies from selling crucial hardware and software components to it for seven years.

The decision came after US officials said ZTE had failed to take action against staff who were responsible for violating trade sanctions against Iran and North Korea. The company was fined $1.2 billion last year for those violations.

The move in April put the company's future in doubt and it became a key issue in a wider trade spat between Washington and Beijing.

But last week the two sides reached a deal to replace the sanctions with a $1 billion penalty, plus another $400 million in escrow to cover possible future violations.

Shenzhen-based ZTE will also be required to change its entire board of directors and hire outside legal compliance specialists who will report to the US Commerce Department for 10 years.

While the firm's future was ensured, it dived 39.22 percent to HK$15.56 during Hong Kong morning trade, while it also plunged by its 10 percent daily limit to 28.18 yuan in Shenzhen.

"While the nightmare is now over, ZTE will likely have to deal with many changes," analysts Edison Lee and Timothy Chau at Jefferies wrote in a note. "We expect significant near-term selling pressure and a volatile stock price."

The ZTE settlement came days after Beijing reportedly offered to ramp up purchases of American goods by $70 billion to help cut the yawning trade imbalance with the United States—moving part-way towards meeting a major demand of US President Donald Trump.

Trump has demanded a $200 billion reduction in its trade deficit with China over two years.

Despite the settlement, there was no sign Trump had veered from plans to impose billions of dollars in tariffs on Chinese imports to punish Beijing for its alleged theft of US technology and know-how.

"The US agreement with ZTE with fine and change of management, in other words, is a political deal," said analyst Dickie Wong at Kingston Securities.

"If the US didn't 'free' ZTE in this way, US companies would find it very difficult in any moves in China, including decisions on mergers and acquisitions," Wong added.

Citi analyst Bin Liu warned in a note that the firm "should have a significant loss" in its full-year earnings because of the penalty as well as the impact of its management changes.

Despite several US lawmakers' warning against easing sanctions on ZTE, citing national security concerns, Trump said earlier last month that he was looking at alleviating the tough sanctions on ZTE "as a favour" to Chinese President Xi Jinping.

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