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A Study on the Reasons and Effects of the Second Listing of Chinese Concept Stocks Base on Alibaba

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Abstract: With the stricter regulation of the US capital market, Chinese concept stocks are facing severe challenges, and the frequent short selling events have made the situation for Chinese concept stocks even more difficult. In the foreseeable future, more and more Chinese concept stocks will choose to return. At the same time, with the improvement of China's openness to the outside world and the continuous improvement of the capital market system, the ways of returning Chinese concept stocks are gradually diversified. In 2018, the listing rules issued by the Hong Kong Stock Exchange introduced two new regulations, namely allowing the same stock to have different rights and allowing Hong Kong to be a secondary listing location. The latter undoubtedly provides a new solution for the return of Chinese concept stocks. This article mainly conducts relevant research on secondary listings. Therefore, this article takes Alibaba, the first company to be listed in Hong Kong as an example, and uses case study, literature analysis, and comparative analysis methods to study the motives and economic consequences of its second listing, it considers the motivation of the case company from both internal and external factors; Then, the focus was on analyzing the changes in financial indicators of the case company after going public, as well as its performance in non-financial indicators; Finally, it draws conclusions and provides recommendations.

Keywords: Chinese concept stocks, second listing, motivation, financial performance

1. Introduction

1.1. Research Background

In the past, due to many legal restrictions on foreign ownership and investment in value-added telecommunications services (including internet content provision business) in China, as well as the fact that mainland and Hong Kong capital markets do not allow companies with the same shares but different rights to list, many internet and innovative technology companies have chosen to register and list overseas through VIE structures. Due to the fact that the actual controllers of these companies are individuals or enterprises in mainland China, they are referred to as Chinese concept stocks, abbreviated as Chinese concept stocks.

In 2018, the Hong Kong Stock Exchange announced a new "Listing Rules" allowing companies with "same stock but different rights" and VIE structures to go public in Hong Kong, lowering the threshold for a second listing and granting exemptions for multiple information disclosures. The revision of listing rules has triggered a wave of mainland technology companies going public in Hong Kong.

The listing of Chinese concept stocks in Hong Kong has become a market focus. Thirteen Chinese concept stocks, including Alibaba, NetEase, JD.com, and New Oriental, have already been re listed in Hong Kong. Media and financial institutions expect more Chinese concept stocks listed in the United States to go public in Hong Kong.

1.2. Research Significance

As a leading Internet enterprise in China, Alibaba is also the first enterprise to go public in Hong Kong through the secondary listing of Hong Kong stocks. However, previous studies on the return path of China Concept stocks mainly focus on privatization, backdoor listing, split listing, etc., and there is a lack of research on the return path of secondary listing to the Hong Kong stock market. This paper focuses on the process, motivation, path selection and final effect analysis of Alibaba's listing in Hong Kong through the secondary listing of Hong Kong stocks, which can provide reference for other Chinese concept stocks with VIE structure and different rights structure of the same shares to return to the domestic capital market through the secondary listing of Hong Kong stocks.

2. Literature Review

2.1. The Correlative Research on the Regression Path of China Concept Stock

Floros found that some shell companies would actively divest assets before being backdoor in order to become a "clean shell" with lower acquisition cost, which makes some companies with weaker financial strength more inclined to choose backdoor listing [1]. Ye studied the China concept stocks that had returned at that time and pointed out that backdoor listing was a relatively mature, fast and low-cost listing method, which was suitable for enterprises with certain strength but lacking IPO conditions to return [2]. Peng concluded that the technical paths of the return of China concept stocks can be divided into three types: direct IPO listing, backdoor listing and listing on the New Third Board [3].

2.2. Related Research on the Motivation of the Return of China Concept Stocks

From the perspective of valuation discrimination, Megginson pointed out that the undervaluation of enterprise value in overseas markets is an important reason for the return of China concept stocks [4]. Mehran believes that after the return to the domestic market, the valuation of enterprises is generally increased, which also has a positive impact on the company's stock price [5]. Renneboog believes that if the market valuation is too low, listed companies may take privatization measures to regain a more real and objective corporate valuation after privatization [6].

In terms of the overseas market environment in which China Concept stocks are located, Li et al. pointed out that investors' confidence in China Concept stocks was reduced due to the attack of short sellers such as Muddy Waters [7]. Hu believes that the undervalued value of China Concept stocks is mainly due to the asymmetric information of investors and the short-selling crisis of China concept stocks [8].

From the perspective of reducing the maintenance costs of overseas listing of China Concept stocks, Kaplan believes that before privatization, companies need to bear high maintenance costs of listing, and privatization can reduce these costs and save funds for corporate development [9]. Wang believes that the reason for the privatization and delisting of China Concept stocks and their return to

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the domestic market is that it can effectively reduce the high compliance costs in the US stock market [10].

2.3. Research on the Influence of Chinese Concept Stock Regression on Performance

Renneboog studied the privatization cases of European and American enterprises and found that after privatization, the financial indicators of enterprises were improved, and the efficiency and competitiveness of enterprises were also improved to a certain extent [11]. Deng and Sun found in the analysis of Focus Media's return case that the return behavior of China Concept stocks promoted the company's stock price to rise in the short term and had a positive impact on corporate earnings performance [12].

2.4. Summary

At present, most of the research results focus on the case analysis of Chinese companies returning to A-shares from the US capital market, or the empirical research on the effect and impact of A large number of enterprises' first major listing, but there are no case studies on the motivation and effect of secondary listing enterprises. This paper enriches the case study of secondary listing from the perspective of enterprises and can provide new ideas for the study of secondary listing enterprises.

3. Introduces the Case of Alibaba's Return to Hong Kong Stocks

3.1. Listing History

At that time, the domestic situation was that foreign capital and companies with different rights of the same share were not allowed to list in A-shares, while the advantage of the American capital market was that it allowed companies with different rights of the same share to list, the listing conditions were more relaxed, the speed was faster, and the profit requirements were much lower than that of the Chinese capital market. Enterprises can flexibly choose financing methods according to their own conditions. Such an environment is conducive to Alibaba's growth.

On May 6, 2014, Alibaba submitted the IPO application, and on September 18, the IPO price was determined to be $68 per American depositary share, raising $21.8 billion, becoming the largest IPO project in the United States at that time. On September 19, Alibaba officially listed on the New York Stock Exchange, completing its first listing in the United States.

In April 2018, the Stock Exchange's listing rules were significantly changed to allow eligible companies to use Hong Kong as a secondary listing location. In November of the following year, Alibaba submitted a prospectus to the stock Exchange, hoping to be listed on the stock exchange secondary, and the shareholding structure and the use of funds in the prospectus detailed disclosure. On November 26, 2019, Alibaba officially launched its IPO in Hong Kong, and the fixed 1:8 quantity relationship between the shares issued by the Hong Kong Stock Exchange and the depositary receipts of the New York Stock Exchange can be converted. At this point, Alibaba completed the secondary listing, becoming the first overseas issuer to achieve a secondary listing on the Stock Exchange.

4. The Case Analysis of Alibaba's Secondary Listing

4.1. Regression Path Analysis

4.1.1. Regression Path

In the new version of the Securities Listing Rules promulgated in April 2018, Hong Kong lifted the restrictions on the secondary listing of Chinese stocks, which requires issuers to be primarily listed in a stock market recognized by the Stock Exchange and have a good compliance record of at least two fiscal years. Issuers opting for a secondary listing with a different share structure must meet any of the basic requirements - a market capitalisation of HK $40 billion or HK $10 billion or more and revenue of at least HK $1 billion in the most recent audited financial year. At the same time, the second listing of the Stock Exchange accepts financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and US GAAP, and may apply for exemption from some disclosure obligations under certain circumstances. In terms of fees, the initial listing fee and annual listing fee payable for the second listing are usually 25% of the primary listing fee. Alibaba is the first company to go to the Hong Kong secondary listing after the stock exchange promulgated the new rules, and other Chinese companies to go to the Hong Kong secondary listing are Jingdong, Baidu, NetEase and so on.

4.1.2. Regression Routing

For a company of Alibaba's size, if it plans to return to the Chinese capital market, a secondary listing in Hong Kong is almost the best choice. First of all, Ali meets the secondary listing conditions of the Stock Exchange, and Chinese investors are very optimistic about Ali, and the possibility of stock price fluctuation is very small. Second, there is no need to bear the huge capital cost, litigation risk, long waiting time brought by privatization, and there is no need to bear the uncertainty needed to dismantle the VIE structure; Finally, the listing fees and maintenance costs required for a secondary listing on the Stock Exchange are only a quarter of those for a primary listing, and the possible restrictions are also very small because of the exemption regulations. Both can get a large amount of financing, and almost no risk, can be said to be an optimal choice. Even if you want to return to the mainland capital market later, you can wait patiently for the opportunity.

4.2. Regression Motivation Analysis

4.2.1. Internal Motivation

4.2.1.1. Strategic Development Needs

Since its inception, Alibaba has never stopped the pace of overseas expansion, such as in September 2019, Ali acquired 100% of the equity of China's imported e-commerce platform Kaola with a total consideration of $1.825 billion in cash and shares and invested about $100 million in AliExpress Russian joint venture and signed an option agreement with shareholders in October 2019. In recent years, the rapid rise of local markets such as take-out, fresh fruits and vegetables and Southeast Asian markets has turned Ali's eyes back to the country.

Alibaba hopes that through the listing of the stock Exchange, the geographical location is close to the Southeast Asian market, in advance of the strategic layout, so that consumers and small and medium-sized enterprises around the world have the opportunity to participate in the digital business infrastructure and create value. Hong Kong is an important trading center and a key link between the rest of the world and mainland China. In addition, the starting point of Ali's global business is also in Hong Kong, such as the registration place of Tmall International is located in Hong Kong, and it also set up an office in Hong Kong in the early days. Compared with the past, Ali itself is also changing, seeking diversified development, and no longer relying only on e-commerce, integrating digital finance, cloud computing, commercial trade and smart logistics to become a larger economy.

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4.2.1.2. Broaden Financing Channels

Returning to Hong Kong listing can not only obtain a large amount of financing at the beginning of listing, but also open up the Hong Kong stock market, which is conducive to subsequent financing operations. In addition, if Ali can be included in the Hong Kong Stock Connect in the future, it can also have direct access to mainland investors, financing is easier, and the cost of capital may be further reduced. Of course, behind the high financing is the increase in demand for capital, which is also related to the transformation that Ali seeks, Ali hopes to create a full coverage of the digital economy, then the first of Ali's technology put forward extremely high requirements, the need for its continuous investment in cloud computing, which can be seen from Ali's increasing R&D costs year by year. Ali research and development expenses are divided into two categories, one is related to employees, including R & D personnel salary, bonus, benefits and equity incentive costs, one is directly related to technology, including Internet platform infrastructure, applications, operating systems, databases and network technology development costs. In fiscal 2016, the research and development expense were 13.777 billion yuan, and in fiscal 2019, the eve of Ali's listing in Hong Kong, this amount has reached 37.435 billion yuan, and will continue to grow in the future. In addition, the analysis of Ali's asset structure can be seen that as of September 30, 2019, Alibaba's cash, cash equivalents and short-term investments totaled 241.01 billion yuan, accounting for 71.80% and 20.78% of current assets and total assets, respectively. On September 30, 2017, cash and cash equivalents plus short-term investments totaled 165.602 billion yuan, accounting for 80.92% and 28.61% of current assets and total assets, respectively, and the two indicators in 2019 decreased by 11.27% and 27.37% compared with 2017. The second listing in Hong Kong, Alibaba is expected to raise $15 billion. Therefore, for Ali, this listing not only opens up a new financing channel, but also greatly increases cash reserves and makes adequate preparations for subsequent investment activities.

4.2.1.3. Proximity to the Mainland Market is Conducive to Value Expression

Alibaba's return not only increases the company's own fund-raising channels, but also provides investment channels for mainland Chinese investors, who will be able to buy shares more easily if Alibaba can join the Hong Kong Stock Connect. Moreover, according to the investor cognition hypothesis, investors are more willing to invest in companies they are familiar with. For mainland investors, Ali's various products, such as Alipay, Tmall Taobao, Ele. me, Cainiao station, are almost an indispensable part of life, foreign investors may be difficult to understand the profit model, but mainland investors can directly feel, so mainland investors will have higher investment enthusiasm for Alibaba.

4.2.2. External Agent

4.2.2.1. Avoid Short Risk

Because China basically does not allow short selling, there are no professional short sellers in China's capital market, but overseas capital markets that advocate non-intervention market economy and sound mechanisms are not. For overseas investors, they are not familiar with China Concept stock, and it is difficult to understand its profit model, coupled with questions about the financial data of Chinese listed companies, the trust foundation between China Concept stock and overseas investors is naturally weak. In this context, short sellers led by Muddy Waters and Citron Research targeted China General stock to make a large number of short bets, causing its share price to fall sharply, and in serious cases, it even had to be delisted.

After the short selling of Chinese stocks in mid-2011, the number of Chinese stocks listed in the United States fell sharply in 2012 and 2013 and remained depressed until 2016. At the same time, the

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impact of the short selling of the listed China concept stocks is also gradually showing: between 2011 and 2016, a total of 64 Chinese concept stocks delisted. During this period, the number of Chinese stocks listed in Hong Kong increased, and the Hong Kong stock market benefited significantly. Since 2018, the United States short sellers have once again focused on China concept stocks, and well-known Chinese concept stocks such as Good Future, Momo, GDS, and Pinduoduo are prominent in the list. Nearly 60% of the stocks will fall on the day the report is issued, and severe cases will be ordered to suspend trading or even be required to suspend trading by the exchange. In addition to the plunge in stock prices, the overall market reputation of China general stock companies has also been greatly hit.

4.2.2.2. US Policy Tightening

On June 5, 2019, a senator proposed a bill to the United States Congress, requiring the enactment of relevant regulations to ensure that overseas companies listed in the United States capital market are subject to financial review, which mainly targets Chinese companies. From the perspective of a general stock, meeting the PCAOB's inspection requirements is nearly impossible because China's National security Law and securities law require that business books and records related to transactions and events occurring in China be kept in China, and foreign regulators are not allowed to investigate and collect evidence in China. The provision of business-related information abroad has also been firmly stopped. Originally, foreign listed companies could apply for exemptions under the rules, but if the bill passes, Chinese companies such as Alibaba will be in the dilemma of running afoul of Chinese law or risking a delisting, making it necessary to find an escape route for themselves in advance.

4.2.2.3. China's Policy Easing

Since 2015, China's capital market reform has accelerated, and China's capital market has become increasingly perfect. In April 2020, the CSRC announced the "Relevant Arrangements for Pilot Red-chip Enterprises to List in the Domestic market", further reducing the market value requirements for overseas listed red-chip enterprises to list in the domestic stock market, and relaxing the standard to a market value of more than 20 billion yuan. In April 2018, the new version of the "Securities Listing Rules" promulgated by the Hong Kong Stock Exchange was the direct driving factor for Alibaba's return to the second listing of Hong Kong stocks. Behind this series of policies is the determination of the state to support the development of Chinese enterprises, while also clearing legal and institutional barriers for Chinese companies wishing to return home.

5. Performance Analysis

5.1. Financial Index Analysis

As can be seen from Figure 1, the asset-liability ratio of Alibaba from the fiscal year 2017-2021 almost remained below 50%, indicating that the asset-liability structure is relatively stable, and the asset-liability ratio reflects the long-term debt repayment ability of the enterprise, so the long-term debt repayment risk of the enterprise is relatively low, and the relatively large decline in the fiscal year 2020 is due to the large amount of equity financing obtained from the second listing in Hong Kong

The overall turnover of total assets did not fluctuate much. It is worth noting that since the 2018 fiscal year, Ali has begun to have inventory as an asset, and the number of days of inventory turnover has increased year by year, which is related to the increase in inventory costs caused by Ali's layout of new retail and direct business. The turnover days of accounts receivable also show an upward trend,

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which may be due to the products such as flower payment and borrow payment provided by Ant Financial. For example, if consumers have a good credit history in the past, they have the opportunity to delay the time of payment deduction and extend the repayment cycle. Although Ali needs to bear higher risks, it also brings more transactions and higher benefits. Although some accounts are not recovered in time, resulting in operational risks, this is the only way to return to Hong Kong for a large amount of financing, which cannot be avoided.

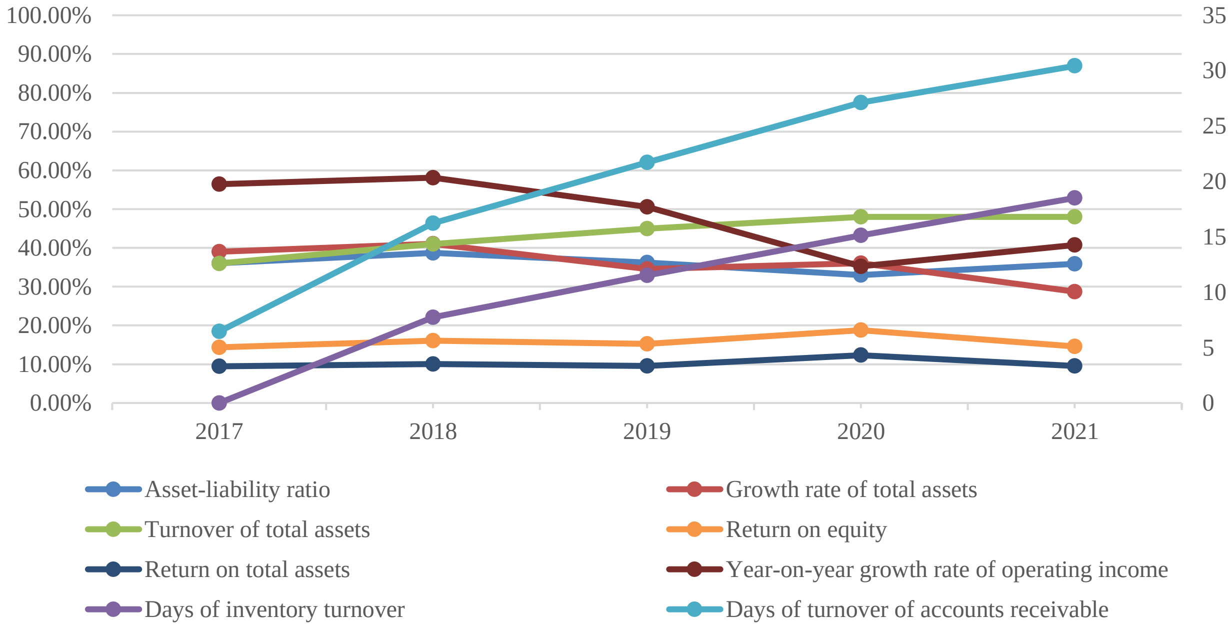

Figure 1: Financial index analysis chart.

The return on equity and return on total assets showed an overall upward trend from fiscal year 2017 to fiscal year 2020. It can be seen that the growth rate of Alibaba's profitability after fiscal year 2017 is gradually slowing down, which is caused by the continuous expansion of Alibaba's scale in recent years, while the cost of new business is relatively high. Although the profitability growth is slow, but the overall upward trend, indicating that Alibaba's profitability is still increasing year by year.

Alibaba's total assets have maintained a rapid growth trend before 2020, because Ali continues to expand the scale of assets, after 2020, one is affected by the epidemic, the second is the current strategic layout has been relatively stable, began to slow down the pace of expansion. In terms of operating income, the overall growth trend has slowed down since 2020.

In general, secondary listing has a positive effect on various financial indicators, including debt paying ability, operating ability, profitability and development ability.

5.2. Analysis of Non-Financial Indicators

5.2.1. Increase in Market Value

On November 20, the Hong Kong Stock Exchange successively released the announcement of Alibaba's new stock options, new stock futures and will be included in the designated list of securities short selling, and Alibaba was officially listed in Hong Kong on November 26. As can be seen from the chart above, between November 20 and November 27, the stock price continued to rise, indicating that the market has a good positive reaction to this event, as shown in Figure 2.

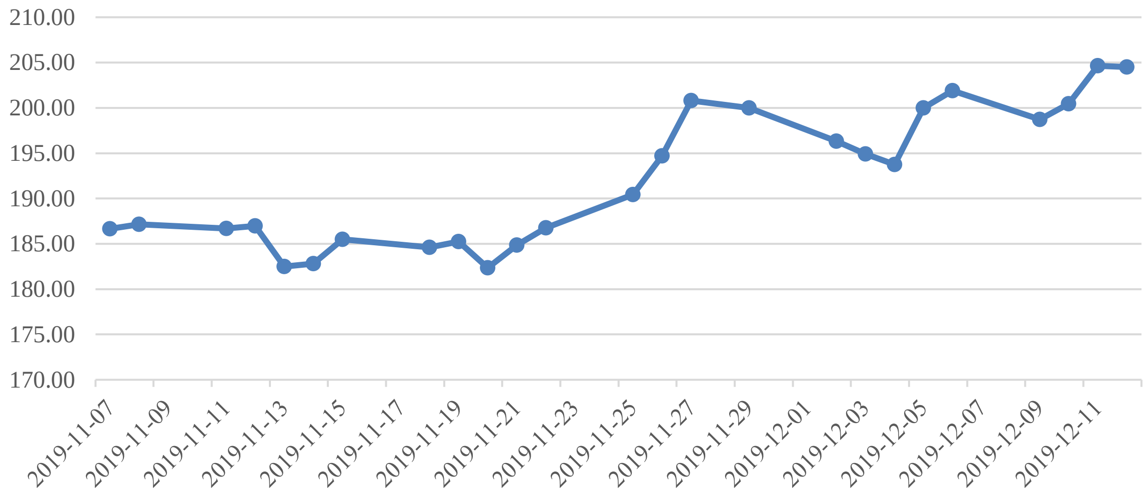

Figure 2: Alibaba's stock price changes in the US before and after its secondary listing in Hong Kong.

On November 20, 2019, Alibaba announced that the offering price of the Hong Kong public offering was 176 Hong Kong dollars per share, which was about 158 yuan per share according to the exchange rate of the day. On November 19, Alibaba's stock price in the US stock market was 185.25 yuan, which was issued at a discount of 15%. The stock opened at HK $187, up 6.25% from the issue price of HK $176; The US stock market closed at 194.7 yuan per share, up 2.23% from 190.45 yuan the previous day.

At the same time, it can be found that before November 25, Alibaba's stock price in the United States had always remained below 190 yuan, and it broke through 190 yuan/share for the first time after the secondary listing event, and the stock price remained above 190 yuan per share. Alibaba's secondary listing event has brought long-term positive market reaction.

5.2.2. Calculating Abnormal Return (AR) and Cumulative Abnormal Return (CAR)

In order to confirm the market effect brought by the secondary listing, the event study method is used to analyze the market reaction.

According to the above analysis of the share price change, it is found that the Alibaba secondary listing event really began to cause the share price change not on the day of listing or the day of the announcement of the offering proposal document, but on the day that the HKEX said that Alibaba would be included in the designated short list.

Therefore, this paper takes November 20 as the event date and 21 days [-21,21] before and after the event as the event window period.

Calculate the abnormal rate of return and cumulative abnormal rate of return. Since the event period includes the annual "Double Eleven" activity period of Alibaba, in order to exclude the impact of Double Eleven on the stock price, I make the estimated period also include the "Double Eleven" activity period, and choose November 1, 2018 to September 5, 2019 (a total of 200 event days) as the estimation window period for estimation.

We can use the Market Model to calculate the equation as follows:

$$R_{it} = \alpha_i \beta_i R_{mt} + u_{it} \quad (1)$$

Abnormal Return:

$$AR_{it}=R_{it}-R'_{it} \tag{2}$$

Cumulative Abnormal Return:

$$CAR_{it}(-j,j)=\sum_{t=-j}^{t=j} AR_{it} \tag{3}$$

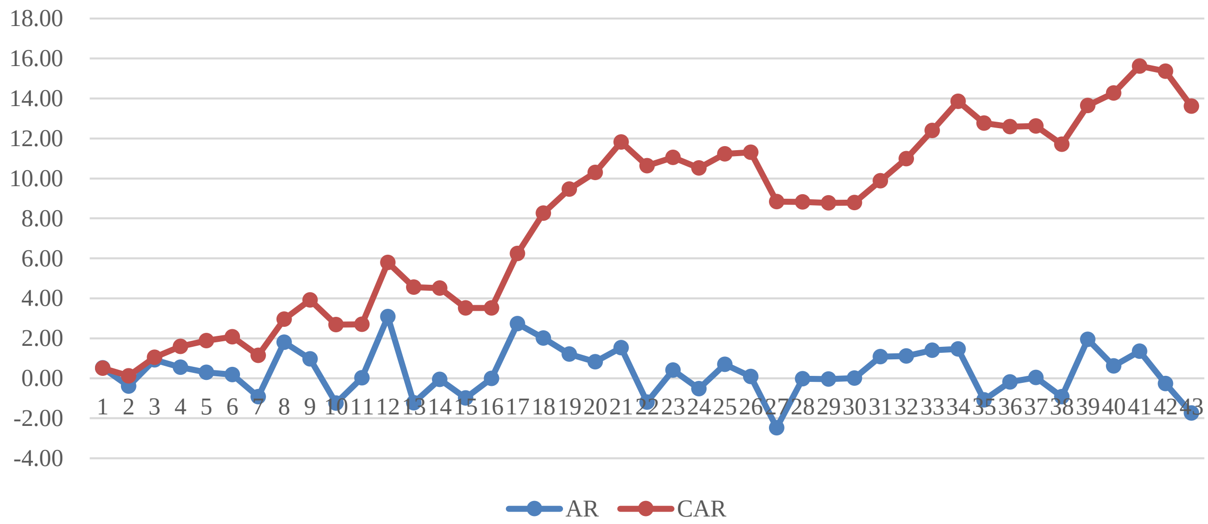

Figure 3: Abnormal return and cumulative abnormal return of Alibaba's stock price in the United States.

In order to avoid the difference in results caused by different event dates, we calculated the excess return on the date of issuance of the prospectus (November 15, 2019) and the date of secondary listing (November 26, 2019) respectively, and found that the results were basically the same, so only the calculation results with November 20, 2019, as the event date are provided as a reference. As can be seen from the figure above, the cumulative abnormal return rate of Alibaba's stock price in the United States has changed significantly since the date of the event, and the cumulative abnormal return rate has risen sharply, indicating that the market has a significant positive reaction to this, and investors hold a significantly positive attitude toward the secondary listing of Ali in Hong Kong.

5.2.3. Change in P/E Ratio

As shown in Figure 4, in terms of P/E ratio, Alibaba's P/E ratio hovered around 20 before the secondary listing and soared to 40 within a few months after the listing, indicating that the market was very optimistic about the development of Alibaba. After the half year P/E ratio declined and tended to flatten out, maintaining around 26, and the P/E ratio performed well in the short term, which improved compared with the whole before the secondary listing.

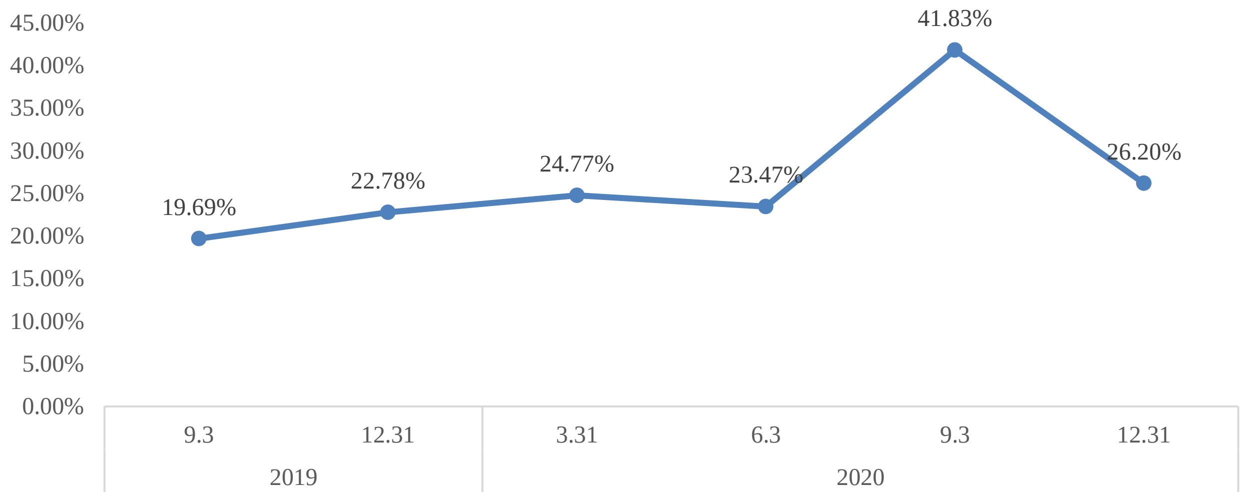

Figure 4：Alibaba P/E ratio.

6. Conclusion

On the basis of the existing research, this paper takes Alibaba as the research object, studies and analyzes the motivation and economic consequences of its secondary listing in Hong Kong, and draws the following conclusions:

Chinese companies are faced with many problems such as undervaluation and strict supervision, so it is urgent to diversify risks and increase valuation premium by returning to the domestic market. The A-share market and the Hong Kong market are also actively taking measures to attract Chinese companies to return and amend the listing rules. Compared with the A-share market, issuing ordinary shares in Hong Kong can save A lot of time and cost without dismantling the VIE structure, and the return time is significantly shortened, and the efficiency is improved. Based on this, Alibaba Group finally chooses to secondary list in Hong Kong for financing. The A-share market is also lowering the threshold and requirements for the return of Chinese stocks, clearing institutional obstacles, if the adjustment and reform are successfully completed, the A-share market will also become one of the first choices for the return of Chinese stocks in the future.

In terms of the effect of Alibaba's return, Hong Kong stock prices and US stock prices have risen, Alibaba's market value has increased rapidly, and Ali's main business income has continued to grow and maintain a good development trend. At the same time, it has also led to a substantial increase in the trading volume of the HKEX and enhanced its attractiveness to investors, which not only provides an opportunity for mainland investors and the Hong Kong market to develop and share dividends, but also optimizes the industrial structure of the HKEX and adds new vitality to the domestic capital market.

After a comprehensive analysis of the past cases of general stock regression, we can find that different companies are facing different situations at present, and the core driving factors of their regression will also change, thus affecting their final regression path. Therefore, when enterprises refer to successful cases, they should not only look at the way it adopts, but also go back to the internal and external environment faced by the enterprise and think about the core reasons for choosing this way. So, enterprises need to clarify their own development strategy for secondary listing, carefully judge their own business conditions, growth space, their own brand influence and the ability of enterprises to resist risks, weigh the pros and cons on whether to secondary listing and when to secondary listing, and make rational choices based on their actual situation.

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