UNDERPRICING OF HOMECOMING A-SHARE IPOS BY CHINESE FIRMS ALREADY LISTED ABROAD

Congsheng Wu
School of Business, University of Bridgeport

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Abstract

Many Chinese firms have pursued overseas listings in Hong Kong or U.S. without being first listed in China's domestic market, mainly due to the regulatory constraints imposed by the Chinese government. Some of them eventually returned to mainland China through an A-share offering to Chinese investors. This unique feature of cross-listed Chinese stocks offers an experiment field to test some of the conventional theories of IPO underpricing. Homebound IPOs are expected to be less underpriced than domestic only IPOs that are not cross-listed because being already listed in a developed market can mitigate the information asymmetry and issue uncertainty associated with their A-share IPOs. Nevertheless, we find that homecoming A-share IPOs are still substantially underpriced, with an average market adjusted first-day return of 96.53%. Furthermore, their first-day returns are not significantly different from those of domestic only IPOs once firm- and offer-characteristics are controlled. This is in sharp contrast to the lukewarm aftermarket performance experienced in their overseas debuts. Overall, our results suggest the importance of local market structures and norms as influential factors of IPO underpricing.

Homecoming vs. Pure Domestic IPOs

IPO theories suggest that homecoming IPOs should experience lower first-day returns because

1. With a HK or US listing, they have less uncertainty
2. Their H-share and ADR prices are directly observable
3. They return from overseas markets with more stringent standards of accounting, disclosure, and corporate governance

The purpose of this study is to test this hypothesis using Chinese domestic and overseas IPOs.

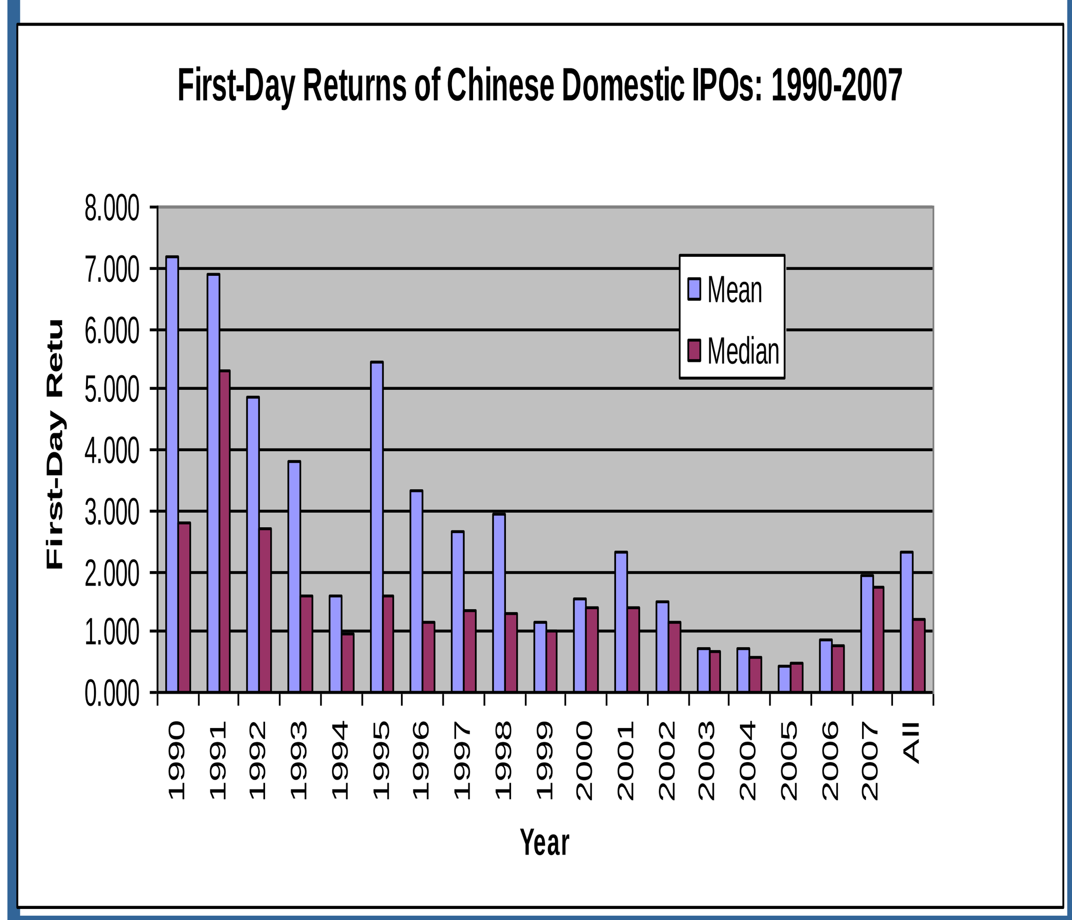
Data and Sample

Three data samples are used in the paper:

1. Chinese domestic A-share IPOs
2. H-Share IPOs by Chinese firms
3. ADR IPOs by Chinese firms

First-day adjusted returns of Chinese domestic A-Share IPOs (see figure below):

Mean = 230.8% and Median = 119.6%

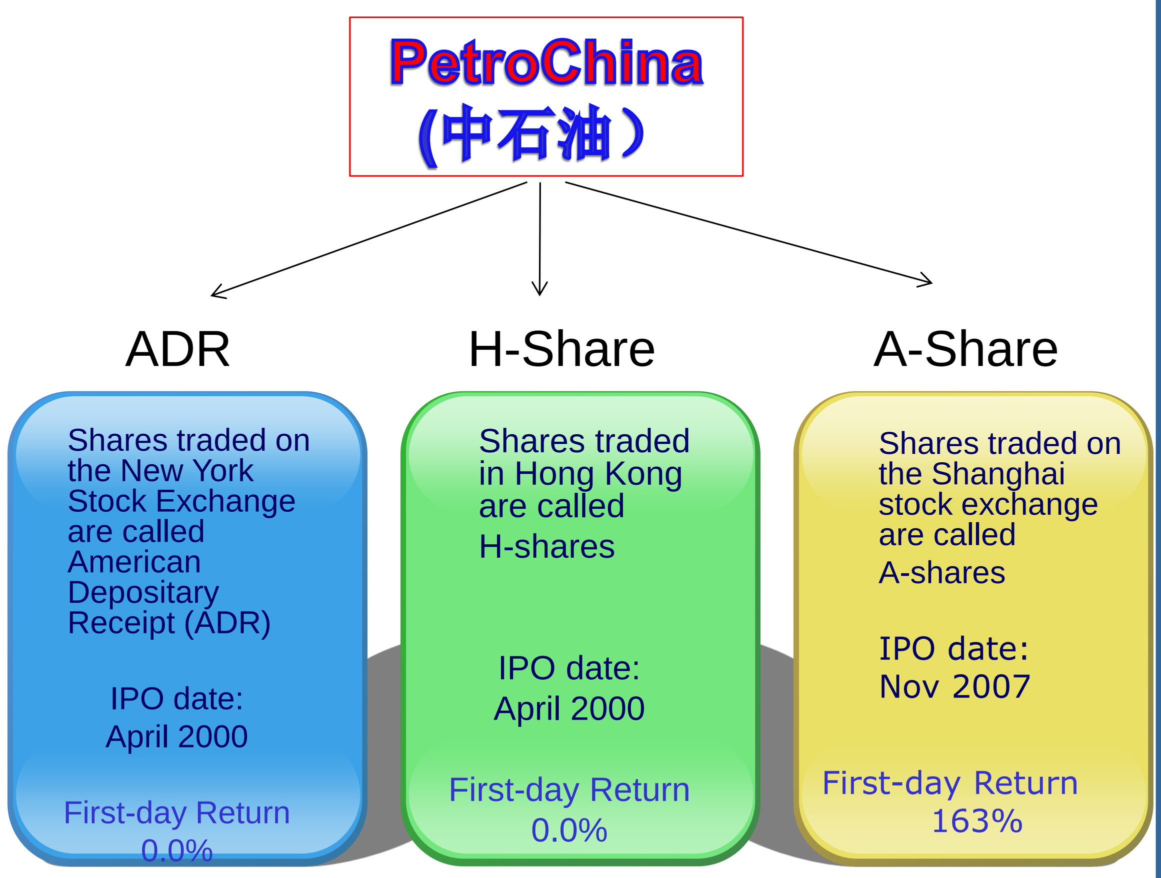


Shanghai and NYSE Dual Listed Firms

Mean ADR first-day return = 5.35%
Mean A-Share first-day return =105.45%

Company	ADR listing date	ADR first-day return	A-share IPO date	Waiting time between A-share and ADR dates	A-share IPO first-day return
Sinopec Shanghai Petrochemical	7/26/1993	0.09%	11/8/1993	105	90.91%
Huaneng Power International	10/6/1994	0.26%	12/6/2001	2618	71.93%
Guangshen Railway	5/13/1996	5.14%	12/22/2006	3875	64.07%
China Eastern Airlines	2/4/1997	14.96%	11/5/1997	274	200.28%
China Southern Airlines	7/30/1997	1.68%	7/25/2003	2186	44.76%
Yanzhou Coal Mining	3/31/1998	0.84%	7/1/1998	92	129.90%
PetroChina	4/6/2000	-0.94%	11/5/2007	2769	164.94%
China Petroleum & Chemical	10/18/2000	1.06%	8/8/2001	294	3.76%
Aluminum Corporation of China	12/11/2001	3.56%	4/30/2007	1966	178.33%
China Life Insurance	12/17/2003	26.85%	1/9/2007	1119	105.57%
Mean		5.35%		1530	105.45%

An Illustration: PetroChina IPOs



Shanghai and Hong Kong Cross-Listed Chinese Firms

Fifty-one Chinese firms are A-H cross-listed. When these companies listed their shares in HK, the average IPO first-day adjusted return is only **11.63%**; But when they returned to the mainland for their A-share IPO debuts, the average initial adjusted return is **96.53%.** The difference is substantial and significant.

Panel A: All 51 A-H Cross-Listings

	First-day adjusted return (H-share IPOs)	First-day adjusted return (A-share IPOs)	Univariate test in the difference
Mean	11.63%	96.53%	t-test: t-value = 6.93 p-value< 0.001
Median	4.02%	77.20%	Mann-Whitney test: z-value = 7.08 p-value < 0.001
Minimum	-27.64%	0.30%	
Maximum	206.76%	347.70%	
Standard deviation	35.04%	77.78%	

Panel B: Three Simultaneous A-H Cross-Listings

Company	First-day return (H-share IPOs)	First-day return (A-share IPOs)
Industrial and Commercial Bank of China	14.6%	5.1%
China CITIC	14.0%	96.0%
China Railway Group	128.7%	68.5%

Econometric Model

We use a complex regression model that is designed to correct for self-selection bias:

$R = \alpha + \delta$*Cross-listing + β*X + μ (1)

Cross-listing* = $\gamma Z + \varepsilon$ (2)

Cross-listing = 1 if Cross-listing$^* > 0$
= 0 if Cross-listing$^* \leq 0$

In Eq. (1), R is the adjusted first-day return, Cross-listing is a dummy variable that equals 1 for cross-listed firms and 0 for others, and X is a vector of dependent variables which include P/E, Sales, State ownership, and others.
Eq. (2) is a probit model used to determine the likelihood for a firm to choose cross-listing.

Empirical Results

Panel A of the table presents the probit model results. Panel B presents the self-selection corrected regression results in which the dependent variable is the adjusted first-day return. The coefficient estimate on the Cross-Listing dummy represents the different in first-day return between homecoming and pure domestic IPOs. The results show no significant difference in IPO first-day returns between the two types of IPOs.

Panel A: Result of the Probit Model

	Constant	State ownership	Log(Offer size)	Market runup
Coefficient	-5.38	0.237	0.559	-0.472
t-value	-13.82***	0.81	9.30***	-1.06
Chi-squared= 120.3 **p-value< 0.000**				

Panel B: Results of the following regression:
Adjusted First-day Return = $\alpha + \delta$*Cross-listing + β*X + η

	(1)		(2)	
	Coefficient	t-value	Coefficient	t-value
Constant	4.337	6.20***	4.857	6.72***
Cross-listing	-0.479	-0.39	-0.051	-0.04
P/E	-0.016	-7.02***	-0.026	-10.14***
State ownership	-0.145	-0.44	-0.577	-1.69*
Log(Sales)	-0.421	-4.21***	-0.20	-1.93*
Log(Employee)	0.09	0.89	-0.150	-1.44
Exchange			0.277	1.40
Market runup			0.124	0.24
Year dummies	No	No	Yes	Yes

Conclusion

Significant underpricing still prevails for A-share IPOs by Chinese companies returning from Hong Kong or the U.S. The mean adjusted first-day return of the homecoming A-share IPOs is 96.53%. After control for firm size and other features, the A-share IPOs made by those firms already listed abroad do not appear to differ on the first day of trading than domestic offerings that are not cross-listed. The result is inconsistent with traditional IPO theories which suggest less underpricing for homecoming IPOs. In sum, there exists a stark discrepancy in first-day performance between domestically and overseas listed Chinese IPOs, even by the same companies. Our results are consistent with the notion that cross-listed Chinese IPOs behave more like American or Hong Kong IPOs when listed in the two markets, but more like Chinese IPOs when return to China.

结论：淮南为橘; 淮北为枳