DICHOTOMY OF CHINESE DOMESTIC AND OVERSEAS IPOS

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Abstract

Due to regulatory constraints, many Chinese companies pursue overseas listings in Hong Kong and U.S. without being first listed in the domestic market. Some of them have, often after many years, eventually returned to the mainland by offering A-shares to domestic investors. This unique feature of cross-listed Chinese stocks provides a natural experiment field to test conventional IPO theories, which suggest less underpricing in homebound IPOs. Using a sample of Chinese IPOs made from 1990 to 2007, we find that substantial underpricing still prevails in homecoming IPOs by those already listed abroad, with an average first-day return of 96.38%. After control for firm size and potential self-selection bias, these IPOs do not differ on the first day of trading than purely domestic offerings. The hot short-run performance in their A-share debuts is in sharp contrast to what they experienced in their overseas listings: The mean first-day return is merely 5.75% for their ADRs and 11.55% for their Hong Kong IPOs.

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.

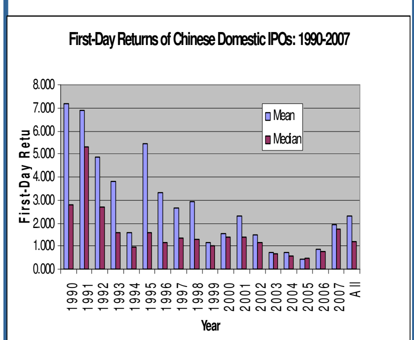
Data and Sample

Three sets of samples are used

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

First-Day Returns of Chinese Domestic A-Share IPOs:

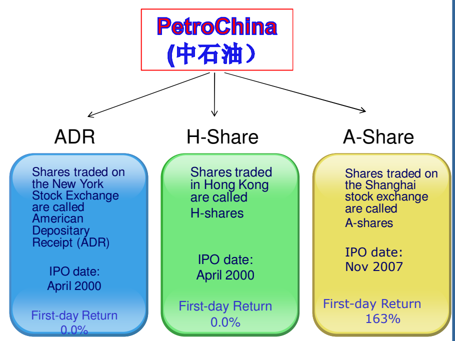
Mean = 230.8% and Median = 119.6%



Shanghai and NYSE Dual Listed Firms
Mean ADR first-day return = 5.75%

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	0.0054	11/8/1993	105	0.920
Huaneng Power International	10/6/1994	0.0000	12/6/2001	2618	0.716
Guangshen Railway	5/13/1996	0.0658	12/22/2006	3875	0.641
China Eastern Airlines	2/4/1997	0.1528	11/5/1997	274	1.992
China Southern Airlines	7/30/1997	0.0274	7/25/2003	2186	0.437
Yanzhou Coal Mining	3/31/1998	0.0159	7/1/1998	92	1.282
PetroChina	4/6/2000	0.0000	11/5/2007	2769	1.632
China Petroleum & Chemical	10/18/2000	0.0048	8/8/2001	294	0.033
Aluminum Corporation of China	12/11/2001	0.0328	4/30/2007	1966	1.805
China Life Insurance	12/17/2003	0.2698	1/9/2007	1119	1.062
Mean		0.0575		1530	1.052

An Illustration: PetroChina IPOs



Shanghai and Hong Kong Cross-Listed Chinese Firms

51 Chinese firms are A-H cross-listed. When these companies listed their shares in HK, the average IPO first-day return is only **11.55%**; But when they return to the mainland for their A-share IPO debuts, the average initial return is **96.38%.**

Panel A: All 51 A-H Cross-Listings			
	First-day return (H-share IPOs)	First-day return (A-share IPOs)	Univariate test in the difference
Mean	11.55%	96.38%	t-test: t-value = 6.91 p-value< 0.001
Median	3.54%	76.67%	Mann-Whitney test: z-value = 7.10 p-value < 0.001
Minimum	-32.02%	0%	
Maximum	208.08%	348.89%	
Standard deviation	35.21%	77.86%	

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%

Regression Model

First-Day Return = α + γ *Cross-Listing + $\beta_1$log(Sales) + β_2 State_Ownership + β_3 P/E + ε

where

Cross-Listing = an indicator variable that takes the value of one for the 51 homecoming IPOs from Hong Kong or the U.S. and zero for all others.

Sales = the annual sales (in yuan millions) in the IPO year

State_ownership = the post-IPO state ownership

P/E is the price/earning multiple

More complicated model to correct for self-selection bias is also used. But the results are robust.

Regression Results

The following table present the OLS regression results. The dependent variable is the 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 result in the last regression indicate no significant difference between the two types of IPOs.

	(1)	(2)	(3)	(4)	(5)
Constant	2.352 [20.91]***	2.501 [17.37]***	2.831 [12.12]***	5.430 [8.60]***	5.775 [8.91]***
Cross-Listing	-1.389 [8.91]***	-1.276 [-8.36]***	-1.235 [8.02]***	0.228 [0.63]	0.351 [0.96]
P/E		-0.0084 [-4.45]***			-0.0097 [-4.80]***
State Ownership			-1.204 [-2.78]***		-0.851 [-1.39]
Log(Sales)				-0.517 [-5.07]***	-0.501 [-4.82]***
Adj. R^2	0.003	0.018	0.008	0.02	0.04
F (p-value)	5.06 (0.02)	14.56 (0.00)	7.22 (0.00)	17.82 (0.00)	16.45 (0.00)

Conclusion

Significant underpricing still prevails for A-share IPOs by Chinese companies returning from Hong Kong or the U.S. The mean first-day return of the homecoming IPOs is 96.38%. After control for firm size and other features, the A-share IPOs by those 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