Factors that Influence the Chinese Companies Listing on the oversea market

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Abstract

The purpose of this study is to identify the collected variables are affecting the Chinese company went for oversea listing or not. The variables used in this study included financing amount, firm size, firm growth and risky level. And those variable uses the total asset, total amount of fund raised, asset growth andasset leverage to measure the firms which listed in China A-Share, Hong Kong and US. This study uses publicly available data from audited annual reports of a sample of 165 public listed companies for the 2018. The result of this study revealed that two variables have positive significant relationship and two negative relationships with Chinese company listed on overseas market which are supported by correlation andmultiple regressions analysis.

Keywords: oversea listing, fining amount,firm size, firm growth and risk level

INTRODUCTION

In this rapid development era, many enterprises are thriving and more Chinese companies are starting to grow like mushrooms after rain. Increasing number of Chinese enterprises gradually joining the international market. One of the most important steps to help a company grow is by gaining more knowledge, raising bigger capital and going public. Although bond financing is the best way of long-term financing for most Chinese enterprises, it is difficult to meet the financing needs of companies relying only on bond financing, so listing has become the inevitable demand of Chinese SMEs (Liu Pei, 2014). The stock exchange market in China are the Shanghai stock exchange market and the Shenzhen stock exchange market. A lot of companies listed in these stock exchange market is proven to be very successful in their businesses. However, under the influence of various factors, not all domestic Chinese enterprises will choose to list in mainland of China. Well-known enterprises such as Alibaba, Tencent and Xiaomi prefer to be listedin overseas market.

In 1970, the first Chinese company, Herald Hold, was listed in Hong Kong. In the next year, the first Chinese mainland company, the South Pacific industry, was listed in the United States. And after that due to the impact of the financial crisis, the number of Chinese IPOs in the US remained tepid until 2016, when there were only nine (Yang, Feng, & Su, 2011). In 2017, overseas IPOs surged again, with a total of seventy-four IPOs, fifty of them in Hong Kong, and twenty-four Chinese companies

held IPOs on Nasdaq in 2017, increased ten compared with 2016. According to Connecticut-based IPO advisor Renaissance Capital (2018), There are twenty-three Chinese companies went public in the U.S. during the first three quarters of 2018. According to the US exchange (2018), the number of Chinese companies going to the oversea initial public offerings market is showing the high speed increasing trend and may continue growing in the future.However, the Chinese market is still in the development stage and China's stock market is not perfect as it is still affected by many factors beyond control. For example, the stock market is deeply influenced by policies and information and is not fully showing the current situation of domestic economic development (China Economy, 2018). The Shanghai index has a difference of about 10% within two days from the real performance. In addition, China's IPO premium is the highest in the world, which makes China's IPO premium as a topic often discussed and studied by other countries. Sarkissian and Schell's research results in 2004 found many factors of companies listing in overseas market. Among others, geographical factors, cultural factors, and industrial development level are found to be the key indicators for overseas listing decisions.

China's stock market has rapidly developing, 851 companies had been listed on the two stock exchanges by the end of 1998, compared with the first eight companies listed on the Shanghai stock exchange and the six companies listed on the Shenzhen stock exchange in 1991. The companies issued a total of 74.61 billion shares and a total of 355.31 billion yuan ($44.55 billion) was raised (Li Chengdong, 2000). According to the 2018 report released by PWC, a total of 63 new shares were issued in the first half of 2018, raising 93.1 billion yuan, down 74% and 26% from 246 new shares and 125.5 billion yuan raised in the same period last year.We can see that the total number of Chinese IPOs coming to market in 2018 is much lower than

the 312 in 2016 and 501 in 2017. But judging from the IPO distribution of A-shares, Hong Kong shares and US shares, Chinese companies are having a global perspective in 2018. In addition, according to statistics, 138 Chinese enterprises (mainland) IPO in overseas capital markets for the first time exceed A-shares, such as Hong Kong stocks and US stocks, accounting for more than 56%. Thus, Chinese enterprises are appealing for overseas listing.This study deals with the Hong Kong market as a separate market from the mainland market. One of the reasons is that although Hong Kong belongs to China, but it has a high degree of freedom in economic development under the one country, two systems system. Hong Kong still retains the capitalist economic system and legal system during the British rule. So, the Hong Kong stock market is a free system that can connect the world. On the other hand, US stock exchanges have an advantage in regulations settled, such as there is just one to two months from IPOs to official listing; and there is no profit margin requirement. Companies may even have negative net income. That is the reason why many companies choose to list here. (Ernst&Young, 2013)

Due to the obvious weaknesses and problems in China's stock market, such as immature market, imperfect system, inadequate supervision, unreasonable structure of listed companies and investors, and excessive short-term speculation, the positive effect of stock index futures market is difficult to play a normal role. This could lead to Chinese companies eventually choosing to list overseas. At the same time, China's capital market is also developing rapidly and has attracted outstanding domestic enterprises from all over the place to be listed in A-share market. Under the background of greatly enhanced financing ability of the market, there are various factors that have prompted them to choose overseas listing and it is intriguing to find out the dominant factors. Other than that, most of the researches on this topic focus on around 2012 and there is a gap to fill for the

most recent research.

The study aims to explore factors that influence the company listing on oversea market by identifying the relationship between the decision for overseas listing and the financing amount, thefirm size, the firm growth in asset and the risk level in the business.

LITERATURE REVIEW

In recent years, the trend of Chinese companies choosing to list overseas is becoming more and more obvious. Among the stock exchanges (SE), Hong Kong SE, the United States SE, and other countries are most popular among Chinese companies.Hong Kong SE has always been the first choice for Chinese main-land companies to go public. In 2010, a total of 255 Chinese companies were listed in Hong Kong SE. Since Hong Kong SE belongs to China but is not subject to the rules of the Chinese mainland stock market, there are many mainland companies that choose to list in Hong Kong SE every year. For example, Tencent chose to list in Hong Kong SE, and Alibaba chose to list in the United States SE. Other than that, more China companies in retail services, internet finance, video services, hotel management services, education and training, and agricultural companies are gradually appearing overseas (Li Jiazhong, Tao Changgao, 2008).

Access to capital hypothesis refers to that in a relatively closed market, the company has limited financing channels and financing amount which makes it difficult to meet the company's needs. Therefore, overseas listing becomes the company's access to capital. Lins, Strickland and Zenner (1986) found that the market value of some non-United States companies increased after they went public in the United States, where higher liquidity and efficiency convinced companies that needed to raise capital that overseas financing was worthwhile. According to the study by Amihud and Mendelson (1986), based on the argument that overseas markets have better liquidity, it is believed that

stocks listed overseas have higher trading volume and trading frequency, so they choose to be listed overseas. Some scholars have concluded through research that stocks listed overseas have higher trading volume and turnover rate, which indirectly proves that it is easier to raise funds overseas than at home. Most companies experience rapid growth and need to have sufficient capital for long-term investment. Based on the market segmentation hypothesis, Wang Wei (2003) believes that enterprises' overseas listing is affected by objective conditions. Although it is believed that China's domestic stock market environment is sluggish and the financing system has many defects, enterprises still need to obtain more funds for their development. So, this paper predicts that enterprises with more demand for financing amount are more inclined to go public listing overseas. In accordance to Wei Hao (2016), the China's financial environment has great improvement than before, the continuous development and standardization of the capital market, the increasing degree of openness, the conditions for enterprises to enter the market has also been relaxed. The overseas legion of Chinese enterprises chooses to return to China for development, which also proves that China stock market are no longer constrained by a lack of funds.

Saudagaran (1988) found that the size of a company's domestic market has an important impact on its decision to choose overseas listing.According to LanChunhua (2008), the size of enterprises is negatively correlated with the possibility of listing overseas. Due to small and medium-sized enterprises in Shenzhen, Hong Kong, Singapore and Nasdaq in the United States were selected as samples.Its enterprise scale is measured by the total assets at the end of the year before listing.Due to the great difficulty in financing small and medium-sized enterprises in China, many enterprises hope to raise the capital. Therefore, they need development through the stock market.However, due to the limited capacity of the

stock market, when the securities regulatory authorities approve the listing of enterprises, they will give priority to the enterprises with a relatively large scale and a relatively high market position before the listing.Therefore, although China has small and medium-sized enterprises board and provides financing opportunities for small and medium-sized enterprises, in fact, it is still the larger companies that qualify for listings, leading many smaller companies to qualify for listing only at the overseas market.However, some people put forward the opposite opinion. According to Liu Pei (2014) hypothesis, larger companies are more inclined to choose overseas listing, because overseas listing involves a series of fees, which are more affordable for larger companies than small ones. Therefore, this paper predicts there is the relationship between firm size with Chinese companies listing on oversea market.

The research results of Lu Ting & Yi Xianrong (2006) confirmed the importance of the urgency of financing for overseas listing decisions. Gao Qianyang (2011) concluded through data analysis that the insufficient amount of financing in China is one of the important factors affecting the overseas listing of enterprises. According to the access to capital hypothesis, the capital market of developed countries will be more abundant than the developing countries, and the amount of financing will be much larger than that of enterprises in their own countries. Therefore, companies in desperate need of financing will be more inclined to choose overseas listing. However, since China's IPO requires a series of strict reviews and screening, it will take longer than that of foreign countries, so it is more suitable for enterprises with urgent financing needs to choose overseas listing (Tian Wenzhou, 2012). It is usually because companies are in urgent need of funds due to their rapid development and it will take very long time for companies to list in China, so it can be a factor for those company decided to list overseas. Therefore, this paper predicts that enterprises with higher

development speed in terms of assets are more inclined to go public overseas.

According to the study of Stulz (1999), it is concluded that the globalization of the securities market will expand the shareholders of the company and make the risks more effectively dispersed to reduce costs. In addition, Foerster and Karolyi (1999) also concluded that overseas listing would affect the shareholder base and the cost savings will be significant for companies with more risk. Besides, Chinese investors are more conservative, they tend to hold a wait-and-see attitude toward riskier investments. Therefore, this paper predicts that enterprises with higher risks in assets have relationship with going overseas listing. However, some people put forward the opposite opinion. According to YuanHaiyan (2015), due to the Overseas companies are very strict about the performance after listing, when the company's financial performance is not good, there may be a risk of delisting. In contrast, China's stock market is not as strict about companies' post-IPO performance as it is abroad. Therefore, this paper predicts that enterprises with higher risk level are more inclined to go public overseas.

RESEARCH METHODOLOGY

Quantitative research is mainly focused on the statistical analysis of data and the discussion of quantitative measurement results. The main features of quantitative research are its quantitative analysis, tabulation and strong logic (Creswell, 2014). Secondary data will be used to support this research to examine the factors that influence Chinese companies go to oversee stock market. Secondary data is drawn from published statistics that is readily available on the internet, annual reports or wind database. And, public listed companies' annual reports from 2016 to 2018 which are used for this study. This research is conducted on all Chinese companies which has listed on A shares, Hong Kong and the United States on 2018. Due to most scholars believe that Chinese companies'

overseas listing decisions are completely unaffected by China establish the domestic GEM (Li Chenbiao, 2012). Therefore, the study will not consider companies listed on the China Growth Enterprise Market. In order to avoid the interference of other factors and the deviation caused by the timeliness of data. The data are collected from 2017 and 2018 based on previous research to prove this study. According to the above criteria, there are 243 companies. Due to Some companies have incomplete information, this research is used the calculator Raosoft.com (2016) by increasing the margin of error to five percent (5%), confidence level to ninety-five percent (95%), and response distribution to fifty percent (50%). Therefore, the expected sample size is to use minimum 150 public listed companies. And after excluding companies with missing data such as GLACU US Equity and LOACU US Equity and so on. A total of 165 companies were selected as research samples. Among them, 60 sample companies are listed overseas, and 105 companies are listed on the A-share version. Among the sample companies listed overseas, 43 companies are listed in Hong Kong and 17 companies are listed in the US.This research uses Statistic Package for Social Science (SPSS) software to analysis the data that collecting from the number of prospectus and annual financial reports of each listed company. The prospectus and annual financial report of a Nasdaq-listed company are obtained from the securities and exchange commission website and corporate websites.

The following is a description of the multivariate probability regression analysis model and related variables used in this paper.

Logit (Go abroad)=α+α₁LogFund+α₂LogTA+α₃

$$\text{Logit (Go abroad)}=\alpha+\alpha_1\text{LogFund}+\alpha_2\text{LogTA}+\alpha_3\text{AG}+\alpha_4\text{FL}$$

LogFund = Thelogarithm of amounts of company's financing at the time of issue

LogTA= The logarithm of a company's assets to measure the size of a company

AG = Asset growth

FL = Financial leverage (total liabilities/total assets)

Among them, Logit (Go abroad) indicates whether Chinese enterprises choose to list overseas (if listed oversea, it will be 1; otherwise, it will be 0). LogFund is the logarithm of financing fund at the time of the offering. LogTA is the logarithm of a company's total assets, which is to measure firm size. The company's assets are selected from the data of the company's balance sheet in the year before the listing. The monetary unit is the yuan. AG represents the growth in total assets in the year before the company went public. In this research, the growth rate of total assets of a company is selected to measure the development of the company. FL is financial leverage (total liabilities/total assets), which measures as company's risk factor.

DATA ANALYSIS

Descriptive analysis describes the overall condition of data by means of averages or medians. Table 1 shows the descriptive statistical results of sample variables of overseas-listed Chinese enterprises and their reference groups, including mean value, maximum value, minimum value and standard deviation.

Table 1: *Summary of Average Descriptive Statistics*

Variables	1	Mean	Maximum	Minimum	Std. Deviation
	0	1 represents a total of 60 companies listed overseas,0 represents a total of 105 companies listed in China			

LogFund	1	8.6466	10.73	6.81	0.90317
	0	8.8786	10.43	8.35	0.37327
LogTA	1	9.3829	11.57	7.13	1.02843
	0	9.4147	11.99	8.41	0.78724
AG	1	39.6425	218.41	-48.88	48.22080
	0	15.4723	73.08	-58.97	20.63678
FL	1	16.2055	79.18	0.58	14.15862
	0	37.3749	93.97	3.98	20.99171

As can be seen from the above table, the maximum amount raised by overseas listed companies is 10.73, the minimum is 6.81, and the mean is 8.6466, and the standard deviation is 0.90317. In comparison, the company in China listed companies raise the maximum value is 10.43, the minimum value of 8.35, the mean is 8.8786, the standard deviation is 0.37327. Themaximum totalfinancingamountfor Chinesecompanywhich choosing overseas-listed is higher than in China's A-share listed company, but theminimum amount is lower than in the A-share listed companies 1.5 mark. On the contrary, the minimum amount of capital raised by A-share listed companies is 8.35, and its standard deviation is 0.37327, indicating that the data does not fluctuate much. Therefore, it can be concluded that overseas listing of companies can bring more financing amount to some companies, but not all companies. In contrast, companies choosing to list in China's A-share markets can generate more stable funding.

For the overseas listed companies, the maximum value of firm size is 11.67, the minimum value of firm size 7.13, the mean is 9.3829, the standard deviation 1.02843. Compared with companies listed in China A-Share, the maximum value of firm size is 11.99, the minimum value is 8.41, the mean is 9.4147, the standard deviation is 0.78724. The average value of TA for companies listed in oversea is bigger than in China A-share listed companies. This is consistent with the conclusion made by Liu Pei (2014).For the overseas listed companies, the maximum value Asset growth is 218.41, the minimum value of firm size -48.88, the mean is 39.6425, the standard deviation 48.2208. Compared with companies listed in China A-Share, the maximum value of asset growth is 73.08, the minimum value is -58.97, the mean is 15.4723, and the standard deviation is 20.63678. The average value of AG for Chinese companies listed in oversea is much higher than China a-share listed companies. Therefore, this finding pointed out that Chinese companies which listed overseas market are having a positive relationship with asset growth. This is consistent with the conclusion made by Tian Wenzhou (2012).For the overseas listed companies, the maximum value of FL is 79.18, the minimum value of firm size 0.58, the mean is 16.2055 the standard deviation 14.15862. Compared with companies listed in China A-Share, the maximum value of FL is 93.97, the minimum value is 3.98, the mean is 37.3749, and the standard deviation is 20.99171. The average value of FL for Chinese companies listed in oversea is much lower than China A-share listed companies. Therefore, this finding pointed out that Chinese companies which

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listed overseas market are having a negative relationship with financial leverage.

Correlation analysis and multiple linear

regression analysis will be used to analyse Independent Variables (IV) and Dependent Variable (DV) and explain the results.

Table 2: *Pearson's Correlation Coefficient Between the Variables*

		IPO	LogFund	Log TA	AG	FL
Initial public offering	Pearson Correlation	1	-.178[*]	-0.017	.331[**]	-.478[**]
	Sig. (2-tailed)		0.022	0.824	0	0
The logarithm of company's assets amount of financing at the time of issue	Pearson Correlation	-.178[*]	1	.753[**]	-.166[*]	.197[*]
	Sig. (2-tailed)	0.022		0	0.033	0.011
Log of company's total assets	Pearson Correlation	-0.017	.753[**]	1	-0.12	.485[**]
	Sig. (2-tailed)	0.824	0		0.126	0
Asset growth	Pearson Correlation	.331[**]	-.166[*]	-0.12	1	-0.151
	Sig. (2-tailed)	0	0.033	0.126		0.053
Financial leverage	Pearson Correlation	-.478[**]	.197[*]	.485[**]	-0.151	1
	Sig. (2-tailed)	0	0.011	0	0.053	
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

As can be seen from the above table, the relationship between Chinese company overseas listing and financing amount, firm size, firm growth and risky level were studied by using correlation analysis, and Pearson correlation coefficient was used to represent the strength and weakness of the correlation (Hauke J, 2011).

The table has shown that the value of the Pearsoncorrelation between companies overseas listing and logarithm of total financing raised is -0.178, and the significant value is 0.022, therefore the correlation is significant at the 0.05 level, which indicates that Chinese companies overseas listing,

and financing amount have a significant negative correlation. And this result is consistent with the descriptive analysis which is China stock market are more stable than overseas market to raised fund.The table has shown that the value of the Pearsoncorrelation between companies overseas listing and logarithm of total assets is -0.017, close to 0. And the significant value is 0.824, indicating that there is no correlation between Chinese company overseas listing and firm size.The value of the Pearsoncorrelation between Chinese companies overseas listing and total asset growth is 0.331, and the significant value is 0.000, therefore the

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correlation is significant at the 0.01 level, which indicates that Chinese company listed on overseas market and asset growth of company have a significant positive correlation. The result is consistent with the past researches which is when company grows rapidly, it will choose to go public overseas. The value of the correlation between Chinese companies overseas listing and financial leverage is -0.478, and the significant value is 0.000, therefore the correlation is significant at the 0.01 level, which indicates that Chinese company listed on overseas market and financial leverage have a significant negative correlation. The result is consistent with the body of literature which is company listed oversea have lower leverage.

Table 3:*MultipleLinear Regression Analysis*

Model	Regression	Residual	Total
Sum of Squares	19.679	18.502	38.182
df	4	160	164
Mean Square	4.920	.116	
F value	42.545		
Sig.	.000[b]		
a. Dependent Variable: Initial public offering			
b. Predictors: (Constant), Financial leverage , Asset growth, The logarithm of a company's assets amount of financing at the time of issue, The logarithm of a company's assets			

Anova studies the significance test of the difference between two or more sample means. Variance analysis was used to study the differences in LogFund, LogTA, AG and FL of overseas listing of Chinese companies. When F value was much greater than 1, it indicated that the differences between the means of each group were statistically significant. The smaller the significance, the stronger the relationship between IV and DV. As can be seen from the above table, LogFund, LogTA, AG and FL are taken as independent variables, whilst Chinesecompanylistingoverseas is taken as dependent variables for linear regression analysis. According to the data analysis, the significant in ANOVA is 0 (F=42.592, Sig <0.05), which proves that the independent variables in this study have relationship between the overseas listing of Chinese companies.

Table 4 : *Coefficients*

Model		(Constant)	LogFund	Log TA	AG	FL
Unstandardized Coefficients	B	.710	-.479	.455	.003	-.016
	Std. Error	.383	.068	.054	.001	.002
Standardized Coefficients	Beta		-.623	.830	.217	-.725
t stat		1.853	-7.047	8.439	3.844	-10.900
Sig.		.066	.000	.000	.000	.000

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Since a phenomenon is often associated with multiple factors, the dependent variable is predicted or estimated by the optimal combination of multiple independent variables.Therefore, it is more effective and more practical to predict or estimate with only one independent variable. There are four independent variables in this research, so usually multiple regression can explain the relationship between four factors and overseas listing. Usually, when the significant is lower than 0.05, it can show the relationship between two variables. (Ye Feng, 2015).The regression coefficient of (LogFund)logarithm of financing amount is negative 0.479, and the significant value is 0.000, which means that financing amount will have a significant negative impact on Chinese enterprises' overseas listing. And the result is same with previous results. Table 4 shows the regression coefficient value of (LogTA)logarithm of total assetof 0.456 and the significant value is 0.000, (t=8.446, Sig=0.000<0.01), which means that firm size has a significant positive impact on Chinese enterprises' overseas listing.Apart from that, the regression coefficient value of Asset growth is 0.003 and the significant value is 0.000 (t=3.847, Sig=0.000<0.01), which means assetgrowthhas a significant positive influence on Chinese enterprises' overseas listing.The last regression coefficient of Financial Leverage is -0.016 and the significant value is 0.000 (t=-10.908, P=0.000<0.01), which means that FL has a significant negative influence on Chinese enterprises' overseas listing. The result is same as Foerster and Karolyi (1999) analysis, which is oversea listed company having a lower risk in business.According to the summary and analysis, firm size and firm growth have significant positive influence on Chinese companies which listed on overseas stock market. Financing amountand risk level of company will have a significant negative impact on Chinese companies which listed on overseas stock market. The formula is build through analysis which is:

$$IPO = 0.709 - 0.479*LogFund + 0.456*LogTA + 0.003*ag - 0.016*FL.$$

CONCLUSION

In this paper, the specific factors that affect Chinese companies' choice of overseas listing are analysed. The factors that were selected to measure the influence of Chinese company's choice of overseas listing include firm size, financing amount, firm growth and risk level. Total asset, total financing fund, asset growth, and financial leverage are used to demonstrate the factors. This paper uses all Chinese companies listed in China's A-share market, Hong Kong stock market and US stock exchange in 2018 as research samples to help achieve the main objectives of the research. The result has majorly referred to the multiple linear regression results. Other three factors provided there is a relationship between them and Chinese companies decision for listing overseas. The four hypotheses, as demonstrated by the normality test, descriptive analysis, and multiple linear regression analysis, are all proved to be relevant to Chinese enterprises' choice of overseas listing. The total financing fund andthe financial leverage are negatively correlated with the overseas listing of Chinese enterprises. The size of the company and the growth of the company's assets show a positive correlation with the overseas listing of Chinese enterprises. Early studies that were done before 2014 claim that Chinese companies can raise more capital by listing overseas. However, with the development of China's stock market, the stock market is also developing and gradually relaxing its policies, leading many companies to choose to list on China's stock market. The domestic valuation of Chinese companies is higher than that of overseas markets, so the amount of financing is larger than

that of Chinese companies listed overseas. However, it is also important to note that China's capital markets have faced a lack of capital in a long time, while mature markets such as the US and Hong Kong have more global investors and are more well-capitalized. As descriptive analysis explains, these overseas listings may raise a lot of funds, though not all of them. If the small and medium-sized enterprises are not well known, they have not raised as much money as those listed in China's A-share market(Wei Hao, 2016). On the other hand, the negative correlation between the risk level and overseas listing of Chinese enterprises can be explained by governance. As the relevant indicators and requirements for listed companies in the United States are increasing year by year, the debt ratio requirements for listed companies are also higher. However, we can draw a conclusion from the analysis that the development speed of companies listed in Hong Kong or the United States has a very strong positive correlation with the company's choice of overseas listing. Therefore, it is proved that due to the rapid expansion of enterprises, the demand for capital is also increased. In addition, larger enterprises need more capital, and overseas listing can reduce risks for them, so the relationship. This study suggests that companies should make clear the purpose of listing overseas, make reasonable use of the funds raised to improve their operating efficiency. Since more Chinese enterprises choose to list overseas due to the financing of a larger global capital market and the promotion of international visibility of enterprises, the Shanghai and Shenzhen stock exchanges should improve the multi-level capital market system and strive to promote the internationalization of domestic exchanges. Government departments should create a fair competition environment for Chinese enterprises, simplify the examination and approval procedures, and lower the threshold for listing in China.

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