

Seasoned Equity Offering Behaviour of Chinese Listed Companies

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ABSTRACT : *With the development and transformation of Chinese economy, and the constantly improving policy, equity refinancing has become an important way of Chinese listed companies to finance. But as the demand for money of companies increases increasingly, and companies prefer equity refinancing, it creates more and more problems. Therefore, to discuss equity refinancing behavior of Chinese listed companies is realistic. This paper will take a few listed companies as samples to analyze the performance of the enterprise after equity refinancing, and put forward the improvement opinion.*

KEYWORDS - *Chinese listed companies, seasoned equity offering, performance, interests of investors*

I. INTRODUCTION

In view of the fact that China is in the turning period of the international economic crisis, it may be necessary for the Chinese securities market to perfect and improve the function of capital allocation optimization. During the transition, the demand of Chinese companies for capital is increasing significantly, and those enterprises prefer seasoned equity offering. However, a few of listed companies raise funds blindly or with malicious financing purposes, which decreases the efficiency of the investment and the raised funds operation. Furthermore, it damages the interests of minority shareholders, which causes that there may be less willingness of investors to invest. This paper analyzes the performance of some enterprises before and after seasoned equity offerings, which is aimed to find underlying problems. Thus it suggests a few of constructive proposals.

II. Case Analyses

Though the comprehensive performance and investor earnings of most listed companies increase after they utilize capital highly efficiently, there are a few of listed enterprises who underperform expected level, and even harm the interest of shareholders. It takes four enterprises with large amounts of capital from the private placement for examples.

Stock Code	Stock Name	The Amount of Capital From Private Placement (YUAN)
000895.SZ	HENAN SHUANGHUI INVESTMENT & DEVELOPMENT	24,660,343,824.00
600221.SH	HAINAN AIRLINES	7,999,992,000.00
000539.SZ	GUANGDONG ELECTRIC POWER DEVELOPMENT	7,462,925,495.00
600820.SH	Shanghai Tunnel Engineering	6,369,105,091.00

Figure 2.1 The amounts of capital from the private placement about four enterprises in 2012

Source: Hithink RoyalFlush Information Network iFinD

Shuanghui Development and Hainan Airlines are the two enterprises whose private placement is controversial, and their performance declines after a large number of private placement. However, the Shanghai Tunnel Engineering and GUANGDONG ELECTRIC POWER DEVELOPMENT show good performance after the private placement of enterprises. Taking these four as examples, it wants to find out the problems in enterprise equity refinancing by analyzing negative performance mainly and positive performance as the auxiliary.

2.1 The Earnings per Share Indicator

Earnings per share or earnings per share ^[1](EPS) is the ratio of after-tax profits to total equity. It is the common shareholders who hold the share of a enterprise can enjoy the net profit or need to bear the net loss of the enterprise. The higher the index, the higher the profit per share and the better the market price outlook for the stock. Fig2.2 shows the earnings per share of 4 listed companies.

Figure2.2 2010-2014 Year Listed Companies Earnings Per Share EPS

	2010 (YUAN)	2011 (YUAN)	2012 (YUAN)	2013 (YUAN)	2014 (YUAN)
HENAN SHUANGHUI INVESTMENT & DEVELOPMENT	1.80	0.93	2.62	1.75	1.84
HAINAN AIRLINES	0.74	0.64	0.40	0.17	0.21
GUANGDONG ELECTRIC POWER DEVELOPMENT	0.28	0.13	0.43	0.71	0.69
Shanghai Tunnel Engineering	0.75	0.71	0.89	0.99	0.51

Source: Hithink RoyalFlush Information NetworkiFinD

In the actual issuing year 2012 of the private placement, the EPS of these enterprises generally increased, such as the EPS of Shuanghui Development as high as 2.62 yuan. Hainan Airlines has reduced, possibly because of the dilution of equity issuance and profit did not increase year on year. After the private placement in 2012, the earnings per share of GUANGDONG ELECTRIC POWER DEVELOPMENT and Tunnel Engineering rose in 2013. Earnings per share of Hainan Airlines and Shuanghui Development fell sharply in 2013 and performed worse than that before the private placement.

2.2 Return on Equity Indicator

Return on equity ^[2](ROE) is the percentage of net income to average shareholders' equity. This indicator reflects the level of return on shareholders' equity. The higher the index value, the higher the return on the investment. Fig2.3 shows the ROE data of listed enterprises' return on equity from 2010 to 2014.

	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)
HENAN SHUANGHUI INVESTMENT & DEVELOPMENT	34.24	15.90	37.43	29.58	27.07
HAINAN AIRLINES	31.70	19.53	10.07	8.56	9.59

GUANGDONG ELECTRIC POWER DEVELOPMENT	7.88	3.50	12.84	17.48	14.88
Shanghai Tunnel Engineering	13.21	11.16	14.51	11.00	9.93

Figure2.3 2010-2014 Year Return on Equity (ROE) of Llisted Enterprises

Source: Hithink RoyalFlush Information NetworkiFinD

It can be seen that the ROE of GUANGDONG ELECTRIC POWER DEVELOPMENT increased, and improved significantly compared with that of 2010 and 2011. Even after the private placement, the Shuanghui Development showed a state of decline year by year, while the growth of Hainan Airlines slowed down. Moreover, the ROE of Shuanghui and Hainan Airlines declined significantly compared with that in the years of 2010 and 2011.

2.3 The Case Summary of The Indicators Analyzation

Under the analyses of traditional indicators, all indicators of GUANGDONG ELECTRIC POWER DEVELOPMENT have increased to different degrees, showing good performance. The two indicators of Shuanghui Development and Hainan Airlines have dropped significantly.

According to the study, the purposes of GUANGDONG ELECTRIC POWER and Shanghai Tunnel Engineering are to restructure assets and reduce competition in the industry and improve core competitiveness, so as to improve performance and comprehensive profits. On the whole, these two enterprises have performed well in two years. Therefore, it can be seen that positive equity refinancing motivation and comprehensive investment plan enable enterprises to make efficient use of the funds collected, thus improving performance and benefiting the interests of investors.

The private placement of Shuanghui Development is also aimed at asset restructuring and integration. However, its development trend continued to suffer heavy losses and its financial situation continued to deteriorate. In October 2014, the stock price of Shuanghui Development dropped 4.99%, and the stock price of the company fell to 28.01 yuan on 29th. The external claims of enterprises are that profit products and business models have not been adjusted, and there are some problems about its own management of the departments. It can be seen that the operating efficiency and decision-making mechanism of an enterprise have an impact on the use efficiency of the raised funds.

Hainan Airlines added private placement of 8 billion yuan at a low price 4.19 yuan. Its purpose is to repay bank loans about 6 billion yuan, and the rest of the funds raised to supplement the company's liquidity. The poor performance after the private placement is mainly due to the high liability asset structure caused by the high leverage investment, which led to the tight capital chain. To put it simply, the unhealthy financial structure of the enterprise makes it may not use the capital efficiently in the business operation.

From the perspective of the impact of the external industry environment, the international aviation industry was in the stage of recovery and rise from 2011 to 2014, but the profit of the domestic aviation industry was in a state of decline. After expert investigation and analysis, the three major airlines all have the common problem that high leverage investment led to the decline of revenue capacity, so the influence of industry factors can be ignored.

Generally speaking, it can be seen from the case of HNA that the unreasonable asset structure and inefficient working capital of the enterprise may affect the development of enterprise performance after the secondary offering, thus affecting the interests of investors.

There are many possibilities that may affect the change of enterprise performance, including the impact of the entire economic environment, competition in the same industry, sudden risks, etc., or the long profit cycle of the enterprise. However, we can also see some problems caused by equity refinancing from this case analysis.

III. Conclusion

Perfecting equity refinancing is an important task of current capital market. Based on the performance of equity financing of listed enterprises, this paper analyzes and discusses the case of equity refinancing. Finally, the analysis results show that not all listed enterprises have good performance after equity refinancing, which may be caused by low efficiency of capital utilization and poor financing purpose.

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