

Research on Market Response of Asset Restructuring of Listed Companies in China

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Abstract

Asset restructuring has been very active in the capital market in recent years. This paper takes the events of asset restructuring in the A-share market of Shenzhen and Shanghai from 2013 to 2017 as the research object. After screening, a total of 316 research samples are obtained. The results show that the market has a significant positive market reaction to the event in the selected window period, and this is the case. The positive market reaction had appeared before the event announcement, but had a downward trend in the later period, which indicated that the positive market reaction was short-term. In addition, the information leaked beforehand is very obvious, that is, the reorganization event exists by some people to use and seek personal benefits. Finally, combined with the conclusions of the above research, this paper puts forward relevant suggestions to protect the interests of minority shareholders.

Keywords

Asset restructuring, market reaction, The list company.

1. Introduction

In the current capital market, mergers, acquisitions, transfers and other asset restructuring activities are emerging one after another. Asset restructuring has become an important way for listed companies to change their status quo. However, a number of cases show that the stock price of listed companies will fluctuate abnormally after the announcement of restructuring announcement. Previous scholars have drawn similar conclusions in their research. Schwert [3] (2006) used the event study method to study the market reaction of 1824 M&A incidents that occurred between 1975 and 2001, and found that the shareholders of M&A companies can get 35% cumulative abnormal returns after the announcement of information. Benefit is a very positive market reaction. Kruse, Park, Suzuki [5] (2002) took 56 M&A incidents in Japan from 1969 to 1997 as samples, and found that the target company could obtain 7.02% abnormal returns during the event period, while the purchaser shareholders encountered -0.21% abnormal returns. In order to further explore this situation, this paper will take the latest data as a sample to analyze and study the market reaction of asset restructuring of Listed Companies in China in the past five years, and put forward suggestions based on the conclusions. At present, China's capital market is a weak and effective market. When listed companies issue relevant announcements to the capital market, the market will react in a certain time according to the information transmitted. Correspondingly, this reaction will be reflected in the stock price. Based on signaling theory, if the announcement is positive, the market will react positively accordingly. In general, the stock price will rise. In recent years, asset restructuring activities of Listed Companies in China have occurred frequently. From past experience, the occurrence of such events belongs to a good signal. At the same time, the asset restructuring described by the synergistic effect theory will bring the effect of "1 + 1 > 2", so this paper puts forward the hypothesis:

H: The asset reorganization of Listed Companies in China will make the market react positively. But at the same time, there are many types of asset restructuring. What are the differences in market reaction among different types of asset restructuring? This will be further discussed after the hypothetical conclusions are drawn.

2. Empirical Results and Analysis

Thus, the result of $CAR [-20, 20] = 0.198355^{***}$ (***) is significant at the level of 1 *) is obtained by the design method. That is to say, in the window period studied, there is a significant positive market reaction to asset restructuring. The overall trend changes as follows.

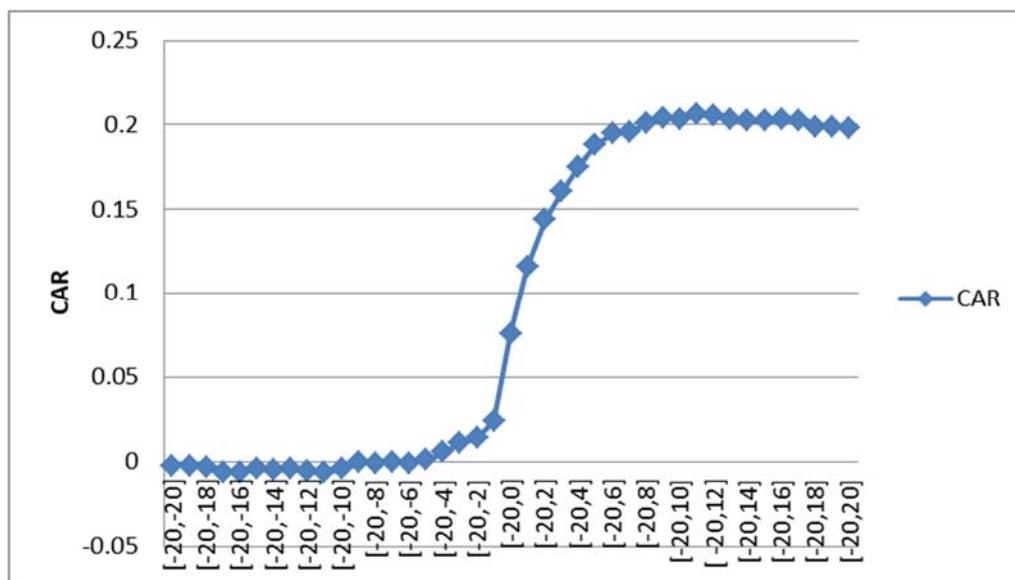


Figure 1

From Figure 1, we can see that CAR is negative in the event period [-20,-6] and in the previous periods. Since then, CAR has been greater than 0. That is, from [-20,5], the market has had a positive reaction, and the degree of positive reaction has risen rapidly since then, especially in the [-20,-1] to [-20,6]. It is precisely because the average abnormal rate of return has risen sharply in the closest days to the announcement day. Finally, the cumulative average abnormal return of 19.83% within [-20,20]. This shows that in the window period, the market reacts positively to asset restructuring events. However, with the passage of time, CAR shows a gradual downward trend after reaching its peak, that is to say, the positive market reaction is short-term.

Then, in order to further study the market reaction of different types of asset reorganization, this paper divides asset reorganization into four categories according to its frequency, namely issuing shares to purchase assets (242 cases), acquisition by agreement (58 cases), asset replacement (6 cases) and other (10 cases). However, there are many different types of reorganization in the others, and the number of each type of reorganization is generally small. The distinctive features are not obvious, so we do not study them separately here.

After data processing, the results of the study are as follows: Table 1, and the trend of CAR in Figure 2.

Form 1

Period	Issuing shares to purchase assets	Agreement acquisition	Asset replacement
[-20,20]	0.22861 ^{***}	0.06083 [*]	0.10626 [*]

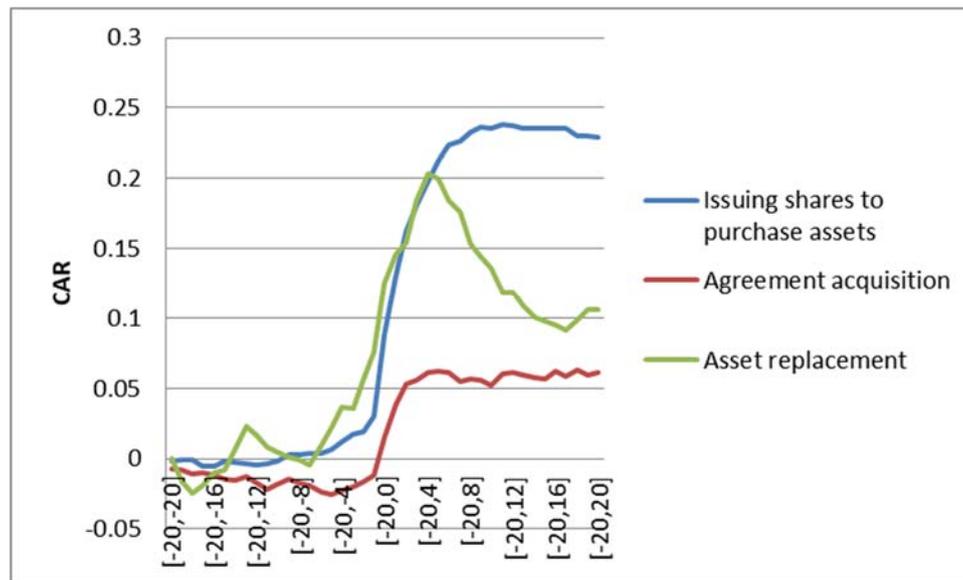


Figure 2

As can be seen from Figure 2, the trend of asset acquisition by issuing shares is similar to that by agreement acquisition, but the cumulative abnormal returns of the two reorganization methods are different. The market reaction of issuing shares to purchase assets is obviously higher than that of agreement acquisition in the window period, and the cumulative abnormal rate of return is greater than 0 at the beginning of [-20,-9], while agreement acquisition begins to be greater than 0 at [-20,0]. After the announcement date, the cumulative abnormal return on assets purchased by issuing shares has risen much more than that by agreement acquisition. Finally, the cumulative abnormal return fluctuates around 5% and 10% respectively. For asset replacement, because the frequency of this kind of asset reorganization is far less than the other two, and there are only 6 cases in the sample, the trend of the result is more abnormal than the other two kinds of reorganization, but we can see that the abnormal return of asset replacement is greater than zero at the beginning of [-20,-6], and from the whole research interval of [-20,20], the market is biased towards this kind of reorganization. Benefits lie between the other two.

Through the analysis of the whole research window period, the market has a positive market reaction to the three reorganization modes, but the market prefers the reorganization mode of issuing shares to purchase assets, followed by asset replacement, and finally by agreement acquisition. According to the characteristics of the three ways of reorganization, equity payment is the main way of issuing shares to purchase assets when paying the reorganization price. Sometimes some listed companies will use the method of combining equity and cash payment, but equity payment is still the main way. Compared with cash payment, equity payment has less financial pressure on listed companies and is more conducive to the continuation and completion of asset restructuring events. This is similar to asset replacement when payment is made. The main consideration is to reconstruct the respective assets of the two parties, supplemented by cash compensation difference. Therefore, the market reaction of this kind of asset reorganization is second only to issuing shares to purchase assets, but the agreement acquisition needs cash transactions, and there is greater pressure in this respect.

Secondly, from the frequency of these three types of reorganization, the issuance frequency of issuing shares to purchase assets is the highest, which shows that whether listed companies or investors prefer to reorganize such assets, so the market is more receptive to such reorganization, and the market reaction is obviously greater than the other two types of reorganization.

However, judging from the time when the cumulative abnormal rate of return is greater than 0, the early occurrence of asset purchase by issuing shares indicates that information leakage is more likely to occur in this kind of reorganization mode. Firstly, because issuing shares to purchase assets involves issuing new shares, the steps involved in reorganization are more cumbersome and relevant information is more comprehensive. In addition, the more attention the market pays to this restructuring method is also one of the reasons why the market reacts earlier and the cumulative abnormal return is greater than 0.

3. Research Conclusions and Suggestions

Firstly, the market has a positive reaction to the asset restructuring event during the research window period, but it gradually declines from the announcement day to the last few days, which indicates that the positive effect of the event on China's capital market will gradually decrease with the passage of time, that is, the positive market reaction is temporary. And before the announcement, there was a positive market reaction, which indicated that there was an early disclosure of information related to asset restructuring events in the market. From the type of reorganization, issuing shares to purchase assets is more attractive to the market than the other two ways, and abnormal returns appear earlier, which means that this kind of asset reorganization is easier to disclose information than the other two ways, because it involves cumbersome issuing steps.

Therefore, it is suggested that the regulatory authorities can set higher standards for asset restructuring-related issues and reduce the malicious manipulation of holding prices by listed companies. This standard can be formulated from the frequency of asset restructuring of listed companies and the establishment of enterprise credit rating standards for applying for restructuring, so as to reduce market manipulation. To broaden the content of asset information disclosure, for example, if the stock is very active before the announcement of asset restructuring, it should be published immediately to warn the market. Finally, further improve the capital market incentives and penalties. Strict penalties should be imposed on listed companies that violate asset restructuring events to raise their share prices, increase their cost of violations and reduce the bad behavior of asset restructuring.

References

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