

Research on the Listing Path Selection and Financial Performance of Xiamen Tungsten Industry

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Abstract: With the relaxation of China's spin-off listing policy and the comprehensive implementation of the registration system, the successful spin-off listing cases emerge endlessly. With the gradual expansion of the advantages of spin-off listing, many enterprises yearn for spin-off listing can bring greater economic benefits for enterprises. At the same time, domestic scholars have little research on the path selection and direction of spin-off listing. Based on this, this paper chooses Xiamen tungsten industry and Xiamen tungsten listing as an example to study the path selection of spin-off listing of state-owned enterprises and the impact on the financial performance of the parent company. By explaining the background of the parent-subsidary company, the reasons and the process of the split, the characteristics of the path selection of the split and the impact on the financial performance of the parent company are analyzed, so as to further enrich the content of the research field of the spin-off listing.

1. Foreword

The rise of the spin-off listing in China is relatively late. In October 2000, Tongrentang Technology was listed in Hong Kong, China, which aroused the attention of Chinese enterprises for the spin-off listing. Since December 13, 2019, the CSRC officially issued the Pilot Provisions on The Domestic Listing of Listed Companies, China has ushered in a boom of A-shares. In China, the number of A-share listed companies that have disclosed or are in the spin-off process of subsidiaries has increased significantly in the past three years."The wholly-owned subsidiary of the parent company issues shares to investors in the open market for the first time". As an important form of corporate restructuring, the spin-off listing is also a means for listed companies to focus on the core areas, obtain more financing and strengthen their competitive advantage. Unlike the spin-offs of overseas listed companies, there are relatively few successful cases of domestic A-share spin-offs, and many investors do not have a clear understanding of domestic spin-offs. Therefore, the domestic capital market needs to make a more comprehensive and thorough analysis of the choice of spin-off paths, the motivation for the spin-off, and the impact on the company after the spin-off, so that it can provide valuable information to more companies preparing or planning to spin-off their shares.

2. Xiamen tungsten industry split listing case analysis

2.1 Introduction to Xiamen tungsten industry and Xiamen tungsten new energy

Xiamen Tungsten Industry Co., Ltd. (hereinafter referred to as Xiamen Tungsten Industry) was established in 1997 and listed on the Shanghai Stock Market in 2002 (stock code: 600549). Xiamen Tungsten is mainly engaged in the research and development, production and sales of tungsten smelting products, tungsten powder, cemented carbide, tungsten and molybdenum wires, new energy materials, etc. It is the largest tungsten and molybdenum product manufacturer and exporter in China, and is also a national key high-tech enterprise, the first batch of demonstration enterprises for the development of recycling economy in Fujian Province, the most competitive listed company in Fujian Province, and the national "Top Ten Listed Companies with the Most Growing Potential".

Xiamen Tungsten New Energy Materials Co., Ltd. (hereinafter referred to as Xiamen Tungsten New Energy) is a wholly-owned subsidiary of Xiamen Tungsten Industry, a world leader in the tungsten industry. It was established on December 20, 2016. The business scope of the company includes: the manufacturing of electronic components and components, technology promotion services of new materials, engineering and technical research and experimental development, the import and export of the operation of various commodities and technologies, the export business of products produced by the enterprise and the import business of machinery and equipment, spare parts and raw and auxiliary materials required by the enterprise. On August 15, 2021, Xiamen Xineng disclosed the listing notice, the company's shares will be listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange^[1].

2.2 Analysis of the motivation for the split and listing of the company

2.2.1 Enhance the equity value of listed companies to maintain and increase the value of state-owned assets

Xiamen tungsten industry main business including tungsten molybdenum, rare earth and lithium ion battery cathode materials business, capital market valuation does not fully reflect the intrinsic value in the field of lithium ion battery cathode materials, more main business of listed companies, main business concentration, clear positioning of listed companies is more conducive to obtain higher valuation premium, realize the value of assets revaluation^[2]. Through a spin-off listing, XiamW New Energy has successfully established itself as a separate public company from Xiamen Tungsten Industry. This transition allows for more comprehensive and transparent disclosure of its business operations and development through continuous and independent public information dissemination. As a result, the capital market can conduct professional analysis with greater clarity, which will ultimately facilitate the realisation of the intrinsic value of XiAMW New Energy's lithium-ion battery positive material business. This process will significantly increase the share value of both the company and Xiashungwu New Energy, resulting in a capital premium. This, in turn, contributes to the growth and expansion of state-owned capital and the preservation and enhancement of state-owned assets.

2.2.2 Enhance the professional management level and realize the development of core capabilities

Through this spin-off, Xiamen Tungsten will further achieve business focus, in addition to focusing on tungsten and molybdenum materials and rare earth business, Xiamen Tungsten New Energy will become an independent listing platform for the company's lithium-ion battery cathode materials business, and through the listing on the Science and Technology Innovation Board (STB),

Xiamen Tungsten New Energy will further increase the investment in the core technology of Xiamen Tungsten New Energy, enhance the profitability and overall competitiveness of the lithium-ion battery cathode materials business, and realise the lithium-ion battery cathode materials business segment to further grow and strengthen, and turn Xiamen Tungsten New Energy into the most internationally competitive new energy materials industry base.^[3]

2.2.3 Expand the financing channels of subsidiaries and enhance the development sustainability

By independently listing its subsidiaries, Xiamen New Energy is able to establish direct contact with the capital market, open up direct financing channels, raise more funds for the development of the Company and fully play the financing function of the capital market. Through the spin-off and listing, Xiamen Tungsten New Energy can directly raise funds from the capital market, so that the source of funds is no longer limited to the parent company, thus broadening the financing channels, increasing the flexibility of financing and solving the problem of Xiamen Tungsten New Energy's own fund shortage before the spin-off.^[4]

2.3 The path choice of the company split listing

2.3.1 Xiamen tungsten industry to split the new energy of Xiamen tungsten process

In May 2017, Xiamen Tungsten Sunergy was identified by the Fujian State-owned Assets Supervision and Administration Commission (SASAC) as one of the first batch of pilot enterprises for employee shareholding in state-owned mixed-ownership enterprises in Fujian Province.

In May 2019, Xiamen Xiamen Tungsten New Energy increased its capital and expanded its shares, and successfully implemented the employee shareholding plan while introducing strategic investors such as Fujian Provincial State-owned Enterprises Reform and Restructuring Investment Fund, upstream suppliers Tianqi Lithium and Shengtun Mining.

On 13 March 2020, the Company held the 20th meeting of the 8th Board of Directors, which considered and passed the "Proposal on Spin-off of Xiamen Xiamen Xiamen Tungsten New Energy Materials Company Limited, a subsidiary of the Company, to be Listed on the Science and Technology Innovation Board (S&T Board)", the "Proposal on Xiamen Xiamen Xiamen Tungsten New Energy Materials Company Limited Adjustment of the Capital Increase and Employee Shareholding Plan", and other proposals related to the spin-off and listing.

On 20 April 2020, in the context of deeply implementing the spirit of the Central Government and fully implementing the era of deepening reform of state-owned enterprises, the Company held the twenty-third meeting of the eighth session of the Board of Directors, at which it considered and adopted the "Proposal on the Overall Change of the Controlling Subsidiary Xiamen Xia Tungsten New Energy Materials Company Limited into a Company Limited by Shares". The Company has agreed that Xiamen Xiamen Tungsten New Energy will be restructured and established as a company limited by shares with a base date of 31 March 2020 and the name after the restructuring will be "Xiamen Xiamen Tungsten New Energy Materials Company Limited" and RMB 188,679,200 out of the audited net assets of RMB 1,562,883,185.31 as at 31 March 2020 will be transferred to Xiamen Xiamen Tungsten New Energy Materials Company Limited. The share capital of Xiamen Xiamen Tungsten New Energy Materials Co., Ltd. was converted into the share capital of Xiamen Xiamen Tungsten New Energy Materials Co., Ltd. of RMB188,679,200 (par value of RMB1 per share) and the remaining balance of RMB1,374,203,985.31 was credited to capital surplus.

In December 2020, the application for listing of Xiamen Xiaotungsten New Energy Materials

Company Limited on the Kechuan Board was reviewed and approved by the Stock Listing Committee of the Kechuan Board of the Shanghai Stock Exchange.

On 5 August 2021, Xiamen Xiamen Tungsten New Energy was officially listed on the Technology Innovation Board of the Shanghai Stock Exchange, becoming the fifth company in China and the first company in Fujian Province to be successfully listed on the "A for A" stock exchange.

2.3.2 Reasons for Xiamen Tungsten Industry to choose the existing spin-off listing route

Xiamen Tungsten New Energy chose to list on the domestic KTC for two main reasons:

First, the relevant departments relaxed the restrictions on the spin-off and listing of domestic enterprises. There are many successful companies abroad, but in China, the definition and systematic regulations on spin-offs and listings of companies are relatively weak, until Tongrentang Company spun-off the company Tongrentang Company in 2000, becoming the first company on the Chinese stock market that can be considered a spin-off and listing in the true sense in the territory, and in the following years, the number of spin-offs in the territory has gradually increased, and the state regulations on spin-offs and listings have also become more detailed and strict. The rules and regulations on spin-offs have also become more detailed and stringent. On 30 January 2019, the China Securities Regulatory Commission (CSRC) issued the "Implementation Opinions on the Establishment of a Science and Technology Creation Board (STB) and the Piloting of the Registration System on the Shanghai Stock Exchange", which clarified that "listed companies that have reached a certain size may spin-off their business-independent and qualified subsidiaries and list them on the STB in accordance with the law". On 13 December 2019, the "Certain Provisions on the Pilot Listing of Spin-off Subsidiaries of Listed Companies on the Domestic Listings of Listed Companies" was also issued and came into effect. The introduction of these provisions provides the basis and policy support for the spin-off and listing of Xiamen Tungsten New Energy.

Second, the choice of listing on the Science and Technology Board is imperative. Xiamen Tungsten New Energy's main source of revenue is the sale of lithium cobalt oxide anode materials, which has accounted for more than 60% of its revenue for three consecutive years, reaching nearly 80% in 2020. The company has ranked first in the world in the production and sales of lithium cobalt oxide anode materials for three consecutive years. In addition, in Xiamen Tungsten New Energy's new energy material planning for the next 5-10 years, NCM ternary material in the field of new energy vehicles is one of the most important business segments. At present, the company's NCM ternary material production capacity obviously can't support the company's strategic goal of becoming bigger and stronger. In tracking the medium and long-term supply needs of key customers, the company's current production capacity has not been able to meet, and will continue to expand more customers, the market demand of the entire customer base will be further expanded. It can be seen that Xiamen Tungsten Xinneng's business and strategy are in line with the requirements for listing on the Science and Technology Innovation Board (STIB), and it will also benefit from the advantages of listing on the STIB.

2.4 The impact of the company's spin-off and listing on its financial performance

2.4.1 Profitability analysis

Profitability refers to a company's ability to add value to its funds or capital, and the higher the level of profitability, the stronger the company's profitability. From Table 1, we can see that profitability plunged in 2019 because the property companies involved in Xiamen Tungsten faced a tough time and the market demand for tungsten products did not improve. However, after Xiamen

Tungsten proposed and considered the spin-off of listed XiAMW New Energy in 2020, there has been an obvious upward trend in terms of return on equity, return on total assets and operating net profit rate. After the successful spin-off in 2021, this trend still maintains, among which return on equity has increased most significantly, from 3.57% in 2019 to 14.41%. Increased by three times, the operating income in 2021 was 31.852 billion yuan, an increase of 67.96%, and Xiamen Tungsten's earnings per share increased by 92.22% in 2021, which can also be seen that the company has a good investment value and a certain return on investment.

Table 1: Analysis of profitability indicators of Xiamen Tungsten Industry in 2018-2021

	2021	2020	2019	2018
Return on equity	14.41%	8.20%	3.57%	7.10%
Net profit margin of total assets	3.58%	2.53%	1.13%	2.413%
Net operating interest rate	3.71%	3.24%	1.50%	2.55%
earnings per share	zero point eight four yuan	zero point four four yuan	zero point one eight yuan	zero point three five yuan

2.4.2 Operating capacity analysis

Table 2: Analysis of the operating capacity indicators of Xiamen Tungsten Industry in 2018-2021

	2021	2020	2019	2018
inventory turnover ratio	4.0	3.1	2.6	2.8
average accounts receivable turnover ratio	8.0	7.7	7.5	7.3
turnover of total capital	1.11	0.78	0.76	0.95

Operating capacity is the efficiency of using various assets to generate income, as can be seen from Table 2, Xiamen Tungsten's operating capacity also shows an all-round improvement before and after the spin-off, and the improvement in inventory turnover ratio can show that the company's inventory can generate more profit, and the efficiency of inventory management is better. Accounts receivable turnover ratio is used as an indicator to measure the liquidity of the company's accounts receivable, the company's accounts receivable turnover ratio increases year by year from 7.3 in 2018 to 8.0 in 2021, with a stable growth rate every year, which can show that the credit return of sales revenue is stable, the bad debt ratio is low, and the company's cash flow of working capital is normal and stable. The steady growth of the total asset turnover ratio from 2018 to 2020 can show that the sales capacity of Xiamen Tungsten is increasing, the speed of capital turnover is fast, and the spin-off and listing of Xiamen Tungsten Xinneng in 2021 has successfully raised net proceeds of 1.447 billion yuan. Then it can be reflected in the total asset turnover ratio.

2.4.3 Solvency analysis

Table 3: Analysis of the solvency indicators of Xiamen Tungsten Industry in 2018-2021

	2021	2020	2019	2018
current ratio	117.6	91.1	99.6	109.3
quick ratio	64.0	49.3	55.2	51.8
asset-liability ratio	60.74%	60.46%	58.35%	59.29%

By assessing solvency, the company's financial position and operational ability can be examined,

and with better solvency, the company can avoid closure and bankruptcy. From Table 3, it can be seen that the current ratio of the company continues to decrease from 2018 to 2020, which indicates a decrease in liquidity and a decrease in short-term solvency, but in 2021, the current ratio and quick ratio increase by 29.1% and 29.8%, respectively, which can indicate that the short-term solvency has improved after the spin-off. The current ratios of the three quarterly financial reports in 2022 are 1.24, 1.30, 1.45, and the quick ratio is 0.64, 0.69, 0.85, respectively, which also shows that the spin-off and listing of Xiamen Tungsten Xinneng can further reduce the debt pressure of Xiamen Tungsten and improve the solvency ability of the company.

2.4.4 Development ability analysis

Table 4: Analysis of the development capacity index of Xiamen Tungsten Industry in 2018-2021

	2021	2020	2019	2018
net profit growth rate	92.24%	135.58%	-47.76%	-19.3%
Growth rate of total operating revenue	67.96%	9.02%	-11.05%	37.84%
Total asset growth rate	29.15%	6.96%	4.29%	19.39%

Just as shown in Table 4, Development ability is mainly used to examine the ability of enterprises to obtain funds to expand the scale of operations through daily business operations and other strategic planning, reflecting the company's future shipments where the trend and development potential. By observing the indicators of 2018-2021, we found that in 2019 the data decreased significantly, the main reason is still in the tungsten overcapacity inventory is too much, although the price of tungsten continues to decline, but the demand is slow to increase, resulting in the company's main business stagnation. However, after two years of technological transformation in 2020-2021 and the spin-off and listing of most core business, the growth rate of all growth rates increased significantly, which fully demonstrates that the spin-off and listing of Xiamen Tungsten Xinneng has brought a ray of hope for the development of Xiamen Tungsten Industry.

3. Study conclusions and implications

This paper presents a case study of the successful listing of Xiamen Tungsten's spin-off subsidiary, Xiamen Tungsten Xinneng, by its parent company, Xiamen Tungsten, on the Science and Technology Innovation Board (STB), and examines the choice of spin-off route and its impact on financial performance. The relaxation of domestic policies and many successful cases of domestic spin-offs contributed to the success of this spin-off listing. Xiamen Tungsten, as a veteran leader in the tungsten industry, chose to spin-off and go public in the declining industry environment in order to realise the value preservation and appreciation of state-owned assets and broaden financing channels. Through the analysis of this paper, it is found that the economic value added of the parent company in terms of financial performance has been improved after the spin-off, and it can also be seen that the spin-off has achieved its original purpose and also enabled Xiamen Tungsten to successfully occupy a place in the new energy market.

With the increasing number of successful spin-off cases in China, many companies want to increase their business concentration and financing channels, and they are eager to try the spin-off and listing method. Therefore, the following lessons are drawn from this case, which hopefully can serve as a reference for companies preparing for spin-offs. First, the parent company should choose the spin-off business rationally and pay attention to the industry and market changes that are conducive to the spin-off. Second, the parent company should choose a reasonable route for the spin-off and fully understand the listing standards of the stock exchange so as to choose the most suitable listing route for the company. Third, the spin-off plan should focus on both the short-term

benefits and the long-term development of the company. It should not be limited to the immediate problems and benefits, but should analyse what long-term and sustainable positive effects the spin-off will bring to the company.

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