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Impact of Listing and Financing of Chinese Companies in the Context of the New Crown Epidemic

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Abstract: This paper examines the impact of STEM on the listing and financing of Chinese enterprises and finds that enterprises' listing and financing channels are reduced, financing demand increases, and financing becomes more difficult. In 2020, due to the outbreak of STEM, the number of A-share IPOs and the scale of financing have increased year by year, but the break-up rate is relatively high. According to the different types and scales of enterprises, the financing methods of enterprises will be different. This paper also examines the relationship between the financial asset allocation of SOEs and loose monetary policy, as well as the role of internal control in corporate governance. Loose monetary policy helps to increase the level of financial asset allocation of real enterprises and promote economic growth. Strengthening internal controls can better promote the innovative performance of enterprises. The implementation of targeted fiscal policies and the strengthening of coordination and cooperation between fiscal and monetary policies will promote economic growth while ensuring the rational use of financial policies.

1. Introduction

The global economy has faced unprecedented challenges in the COVID-19 outbreak.As the world's second largest economy, China has played an important role in this crisis. The purpose of this paper is to understand the impact of the epidemic on corporate financing behavior and market by studying the impact of the novel coronavirus on Chinese corporate listing financing. The outbreak of the epidemic has had a huge impact on the world economy, and China has also been hit hard by corporate listing financial activities. In this context, studying the impact of Covid-19 on the financing of listed Chinese companies will not only help to understand the problems of corporate financing in the current economic situation, but also provide reference for governments, companies and investors.

At present, research on the impact of the new coronavirus on Chinese enterprises' listed financing is mainly carried out from the following aspects: First, the impact of the new coronavirus has led to the limitation of many traditional financing channels. As a result, investors are increasingly demanding business conditions and bank lending models. However, the existing research has some flaws. First of all, there is a lack of comprehensive research on the financing situation of companies of different industries and sizes in the context of COVID-19. Second, there has been no unified conclusion on the impact of government quarantine measures on corporate financing. Finally, the research on how to optimize the financing structure and improve the financing efficiency of enterprises is not deep enough.

Therefore, this paper will analyze the impact of listed financing of Chinese enterprises in the context of the new coronavirus, and explore the financing situation and differences between different industries and enterprises of different sizes. The listing situation in 2019-2022 is analyzed through external market factors, macroeconomic and government policies, and the mechanism of the impact of the novel coronavirus on the listing financing of Chinese companies. Second, it analyzes the impact through internal management failures that lead to unsuccessful public companies. Propose suggestions and measures that can optimize the financing structure and improve the financing efficiency of enterprises, and provide decision support for enterprises and investors.

2. Financing the IPOs of Chinese companies at the beginning of the epidemic

As a result of the epidemic, financial institutions have become more cautious in their credit reviews of enterprises and less risk-averse, which has made it more difficult for enterprises to raise capital. There were also investors who were more cautious about investing in enterprises and had stricter control over risks. In addition, the cost of enterprise financing has risen due to increased market uncertainty. The impact of the epidemic and restrictions on traditional financing methods, such as restrictions on offline financing and the need for enterprises to use online channels more often, as well as increased investor perceptions of risk, led to an increase in the cost of corporate financing.

2.1. Listing Status

According to the CSMAR database show (Figure 1), a total of 396 companies were listed on the mainland exchanges in 2020, raising gross proceeds of more than RMB 472.5 billion, a record high in IPO financing since 2011. Compared with 203 companies in 2019, the total amount of funds raised exceeded 472.5 billion yuan, up 86.39 percent from 253.5 billion yuan in 2019. From the perspective of the total IPO fundraising in 2020, Science and Technology Board was 222.6 billion yuan, close to 50%, followed by the main board of the Shanghai Stock Exchange, 123.4 billion yuan, the GEM was 89.3 billion yuan, and the small and medium-sized board was 37.2 billion yuan. According to the data, from 2020 to 2023, 1,738 companies will be listed on A-share IPOs, of which 1,652 will pass, 74 will not pass, 9 will be on hold and 3 will be withdrawn. The overall IPO approval rate was 95.05%.From the perspective of the total IPO fundraising in 2020, Science and Technology Board was 222.6 billion yuan, close to 50%, followed by the Shanghai Stock Exchange main board was 123.4 billion yuan, the GEM was 89.3 billion yuan, and the small and medium board was 37.2 billion yuan [1].

In 2020, China's economic development slowed due to the impact of the COVID-19 epidemic, but the number of listed companies and the scale of financing increased significantly. Wind data shows that as of December 22, 2020, there were 606 new companies and 580 new companies, with a passing rate of 95.71%, which doubled compared with the same period in 2019. There is no doubt that the GEM registration system, which began in June 2020, doubled the number of participating enterprises, and the amount of corporate financing will also increase significantly. As of December 31, 2020, the Securities Regulatory Commission and the exchange held the issuing committee, and a total of 23 listed companies have suspended or failed to pass the deliberation.of these, 15 companies suspended their deliberations and eight failed to pass the meeting. The estimated fundraising amount of the participating enterprises in 2020 is 528.344 billion yuan (including the estimated fundraising amount of 7 companies). In the past three years (2020-2022), the number of A-share IPO queuing companies hovered around 900, but after the IPO tightening, the number of new records has plummeted, and more than 210 companies have closed down. According to Wind statistics, the three major exchanges IPO queued up a total of 766 enterprises, is expected to issue 28.87 billion shares, and proposed to raise 803 billion yuan. Among them, there are 586 registered enterprises and 180 translation enterprises.

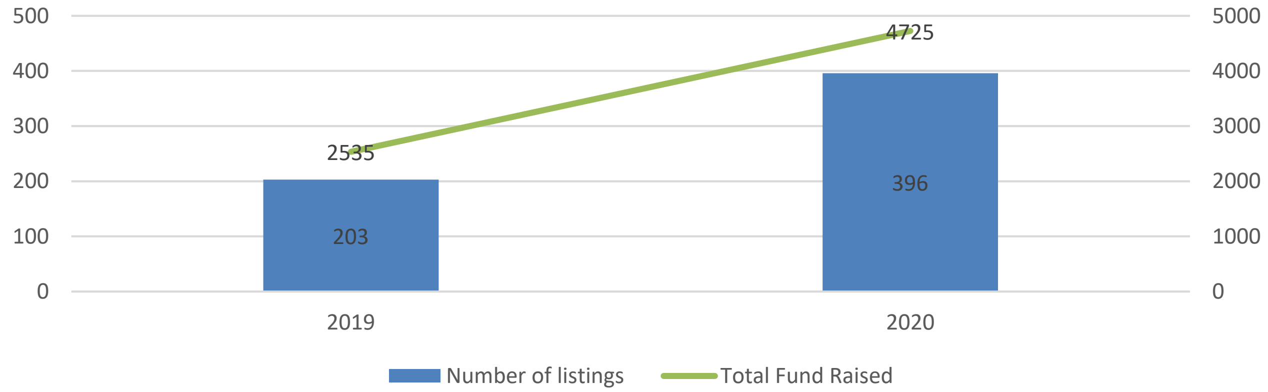

Figure 1: Comparison of IPO financing in 2019 and 2020

2.2. Amount of financing

According to PricewaterhouseCoopers (PwC), the number of IPOs and the amount of funds raised in 2020 increased significantly compared to the same period last year. 395 IPOs were listed in 2020, raising a total of RMB 471.9 billion, a record high of 97% year-on-year increase in the number of IPOs and 86% year-on-year increase in the amount of funds raised since 2011.The number of IPOs on the Science-Based Innovation Board (SBIF) in 2020 was 145, and that on the Growth Enterprise Market (GEM) was 107 cases, both exceeding the number of IPOs on Shanghai's main board (89 cases). On the other hand, the amount of financing raised by STEM has been impressive, with the amount of financing raised by STEM in 2020 amounting to 222.6 billion yuan, ranking first among all sectors, while the combined amount of financing raised by the Main Board, the GEM and the SMEs is 249.3 billion yuan. 7 of the top 10 stocks in terms of IPO financing amount are occupied by STEM. According to Wang Song, audit partner in charge of PwC's North China audit, A-share financing tops the list of global stock markets in 2022, thanks to the resilience of China's economy, the emergence of many tech companies, and the encouragement of large, foreign-listed red-chip companies [2]. In addition, the reform of the registration system is a key factor driving the success of A-share IPOs, with nearly 70 percent of A-share market financing in 2022 coming from the Technology and Innovation Board (TIB) and the Growth Enterprise Market (GEM).In 2022, A-share IPO companies will come mainly from the industrials and materials, information technology and telecommunication services, healthcare and pharmaceuticals, and consumer sectors.

2.3. Breakout Ratio

The breakout ratio is the likelihood that a stock's price will fall below its issue price. A breakout is usually due to a market downturn, its own issue price being too high, or a high price-to-earnings ratio. In the bear market stage, the chance of IPO breakout is higher. In addition, some listed companies due to the high performance statement before listing, to the listing of some individual stocks on the problem caused by the whole company's share price fell.

In 2020, a total of 432 companies will be listed, of which 19 companies will break on the first day, with a breakage ratio of 4.40%; in 2021, a total of 524 companies will be listed, of which 22 companies will break on the first day, with a breakage ratio of 4.20%; and in 2022, a total of 428 companies will be listed, of which 122 companies will break on the first day, with a breakage ratio of 28.50%[3]. As the registration system implements a more inclusive listing system, IPOs are more market-oriented, with prices, size and pace determined by the market. This makes the price-earnings ratio of IPOs no longer have a ceiling limit of 23 times. Thereafter, new share issuance on GEM and NSE, like that on STEM, will be entirely market-determined. The first day issuance rate of new shares remains low (below 5%) until 2021 and has risen sharply since 2022 and remains relatively high (over 20%) as of 2022. Issuance volumes reflect spontaneous adjustments by buyers and sellers in mature markets, with IPO issuance rates of around 30% in the US and Hong Kong markets, and 56% in Hong Kong in the first half of 2023 for first-day IPO issuance. To a certain extent, the breakout prompts listed companies and sponsors to choose reasonable issuance times, shifts IPO prices from gaming behavior to judging the true value of IPOs, and promotes reasonable pricing of IPOs.

3. Analysis of Causes

3.1. External Markets

With the occurrence of the global epidemic, the financial market has also suffered a great impact, investors' concerns about the economic outlook increased, market volatility increased at the same time as the implementation of the global scale of the epidemic prevention has also affected the normal operation of the financial market. And with the development and spread of the epidemic, the implementation of government blockade measures, inhibiting traditional financial and economic activities, further exacerbating the instability of the stock market, 2020 U.S. four meltdowns in March, by the direct impact of the global oil disputes, as of now the closing price of Brent crude oil futures has fallen to about 35.9 U.S. dollars or so, and the closing price of WTI crude oil futures has also sunk to 33.2 U.S. dollars a barrel or so.[4] On March 16, 2020, the market became extremely concerned about the economic outlook as the New Crown epidemic continued to spread. The New York stock market tumbled at the start of trading, with the Standard & Poor's 500-stock index falling more than 7%, triggering the third meltdown in March. After trading resumed, all three major stock indexes plunged more than 11%. Market jitters spread.

In the case of the bankruptcy of Silicon Valley Bank in the United States of America, for example, the Bank's main line of business focused on technology and innovative enterprises with high business risks and susceptible to market volatility and capital pressures. Therefore, during the epidemic, Silicon Valley Bank's cash flow was under constant pressure and failed to realize the risk of default and loss that was on the surface. At the operational management level, Silicon Valley Bank's over-reliance on a few large customers, lack of diversification and customer base, and regulatory deficiencies led to some loan defaults and bad loans. Since the beginning of the New Crown epidemic in 2020, the Federal Reserve started to issue more money and also reduced bank interest rates, which led to a significant rise in deposits at Silicon Valley Bank and rapid expansion of the bank. Due to the Fed's multiple interest rate hikes, Silicon Valley banks have had to take out deposits and have had to sell stock to maintain cash flow and book work. As a result, depositors' confidence in the bank declined, leading to a run on the bank that accelerated the bankruptcy of Silicon Valley Bank.

Changes in the environment of the market include changes in external objective conditions, the current status of the product market is not optimistic, the economic and business cycle leads to an uncertain balance of supply and demand in the market, fluctuations in interest rates and exchange rates lead to changes in the cost of investment, and the improvement of people's living standards causes the disappearance of the target market.

3.1.1. Macroeconomy

The epidemic had a major impact on the export trade as well as on Chinese industry, exacerbating the difficulties of many downstream enterprises in China and gradually spreading to the middle and upper reaches. Taking the automobile manufacturing industry at that time as an example, as automobile manufacturing enterprises stopped production, the upstream of the automobile industry chain involved metallurgy, non-ferrous metals, rubber, electronics, iron and steel, etc., so the entire industry chain's backlog of products stopped and waited for these links that had not resumed work.

In 2019, the total current value of GDP was $98,651.5 billion, and the year-on-year growth was 6.0% in 2018 [5], and the GDP in the first quarter of 2020 was lowered by 6.8% year-on-year due to the epidemic, and, finally, the total current value of GDP in 2020 was $101,356.7 billion, and the year-on-year growth was 2.2% in 2019 [6]. The average economic growth rate in China before the epidemic was about 6.62%, and during the epidemic China's average economic growth rate reached 0.72%. Using relevant IMF data, the global growth rate during the pandemic was about 0.62%, indicating that China's relevant performance was above the global average.

As a result of the Xinguang epidemic, digital technologies such as big data, cloud computing, the Internet of Things (IoT) and artificial intelligence (AI) have demonstrated their immense power. These technologies have provided efficient protection for the government's overall coordination of regional epidemic prevention and control work, as well as for the needs of the public to travel and enterprises to return to work. In addition, the stable operation of the online integrated management service platform has reduced the intensity of work and media exposure at the grass-roots level in the community, and improved safety and efficiency.

3.1.2. Policies

During the COVID-19 crisis, the central bank mainly adopted monetary policy to increase the money supply, lower interest rates, and support banks to lend to small and medium-sized enterprises to meet the financing needs of real enterprises. In 2020, the A-share index fell first and then rose, and the Shanghai Stock Exchange index rose 11.38 percent by the end of the year.

Market information is asymmetric, and banks have higher requirements for market position, financial status and risk resistance when granting loans, so it is easier for state-owned enterprises to obtain financial support from banks. In addition, local governments have strong incentives to influence and control commercial banks' decisions on loan issuance for the sake of local economic development, and SOEs can more easily obtain credit guarantees from local governments, which in turn allows them to obtain long-term bank loans with low interest rates.

State-owned enterprises (SOEs) need to cooperate with the government's economic development strategy and accomplish multiple goals such as employment, tax collection and social stability, so they are strictly managed by the government and the market and have weaker incentives to allocate financial assets [7]. Article 11 of the "Measures for Registration of Initial Public Offering" of the Securities and Futures Commission (SFC) stipulates that the issuer's internal control system is sound and effectively implemented, which can reasonably ensure the company's operational efficiency, legal compliance and reliability of financial reporting, and that the certified public accountant issues an unqualified report on the internal control assurance [8].

[Experimental conclusion: Deng Wei,Wang Min,He Binfeng. The impact of loose monetary policy on the allocation of financial assets of real enterprises--Tests from the period of New Crown

Pneumonia Epidemic [J]. Journal of Lanzhou University of Finance and Economics, 2022, 38(5):77-92] After the outbreak of New Crown Pneumonia epidemic, the loose monetary policy increased the level of financial asset allocation of real enterprises. Loose monetary policy makes the total supply of funds in the market increase, even if enterprises increase the proportion of financial investment, but the amount of funds invested in the real economy compared to the period when the new crown pneumonia epidemic did not occur and loose monetary policy was not introduced will also increase [9].

According to the financial data released by the Central Bank, M2 and the size of social loans grew by 10.1% and 13.3% respectively at the end of 2020, the interest rate on corporate loans fell by 0.51 percentage points year-on-year to a record low in December 2020, the balance of RMB loans from financial institutions grew by 12.8% year-on-year, the supply of money increased, the growth rate of the size of social loans accelerated, the level of interest rates declined, and the growth rate of loans were all able to meet the recovery needs of the real economy.

3.2. Internal control

Strengthening internal control has become an important measure to improve corporate governance in countries around the world, especially in developed countries [10]. After the development in recent years, internal control plays an increasingly important role in accounting, auditing, and stock. Internal control can effectively inhibit stock market manipulation (Li Zhihui et al., 2023), and high-quality internal control can help improve the quality of information disclosure of listed companies in China (Xu Ziyao et al., 2023).

From the perspective of the latest IPO terminated enterprises about the internal control system deliberation issues, the regulator focuses on the internal control issues mainly include: whether the accounting and financial fundamentals are standardized, the use of funds, fund management issues, and the soundness of the internal control system related to the business and production, etc. Specific categories of the cases mentioned are as follows.

[Zhan Liangtong, Zhang Erhua. Internal control, R&D investment and innovation performance of listed companies [J]. Productivity Research, 2024(2):100-105] The results of the study show that there is a significant positive relationship between internal control and innovation performance, and that strengthening internal control of enterprises can effectively promote their innovation performance. It also points out that by strengthening internal control and management to curb the problem of embezzlement and corruption, to promote the exchange and communication of internal and external information of enterprises, and to attract more investors to invest [11].

4. Recommendations and insights

From the perspective of monetary policy, the central bank can ensure the stable operation of the economy by lowering the reserve requirement and providing short- and medium-term lending facilities. At the same time, the central bank can also continue to take targeted credit support measures, such as to the epidemic-affected regions, industries and enterprises to provide differentiated preferential financial services. However, the central bank must ensure that financial palliative policies such as preferential interest rates and on-line financing are not abused without limits. Second, the central government will rely more on targeted fiscal policies to stimulate economic growth and make proactive fiscal policies more effective, such as eliminating value-added tax (VAT) and personal income tax (PIT), and providing relative tax relief for some small and medium-sized enterprises (SMEs).

The impact of the epidemic has led to increased support for reagents, pharmaceuticals, and biological research and development, and accelerated development of biomedicine, medical equipment, 5G communications, cloud computing, artificial intelligence, robotics engineering, and industrial Internet. In the medical industry, the development of rapid intelligent medicine and telemedicine is vigorously promoted, and in the electronics industry, telecommuting promotes the development of online office software such as Nail.

5. Conclusions

This paper analyzes, the number of A-share IPOs as well as the scale of financing in 2020, focusing on the multifaceted impact of the epidemic on corporate listings. From the macroeconomic perspective of external conditions, as well as the impact of national policies and the implementation of the registration system on the listing of enterprises. In addition, from the internal management case study, financial fraud, inadequate information disclosure and other internal control reasons lead to the failure of enterprise listing. The epidemic has caused SMEs to face serious financing difficulties, including the contraction of financing channels, difficulty in investing in fixed assets, difficulty in equity financing and increased demand for short-term borrowing. SMEs need to strengthen cooperation with financial institutions and the Government, adopt diversified financing channels, improve their credibility and operational capacity, find suitable partners and make full use of market capital.

The SFC issued the "Notice on Further Playing the Function of Capital Market to Support the Accelerated Recovery and Development of Areas and Industries Seriously Affected by the Epidemic" on May 20, 2022, increasing policy support in the areas of enterprises applying for initial public offering, listing on the Beijng Stock Exchange, refinancing, mergers and acquisitions and restructuring, corporate bonds, and asset securitization products, through four aspects: increase direct financing support, the implementation of the extension policy, optimize the regulatory work arrangements, play the role of industry institutions [12].

Dramatic market turmoil is also a good time for capital and corporations to group together for survival and strategic industry consolidation. After the initial panic subsides, strong and visionary capital and companies can partner with governments and banks to undertake mega primary market transactions that could redefine the industry landscape for the next round of market recovery.

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