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The Stock Price Changes and Performance of JD after Second Listing in Hong Kong

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Abstract: In recent years, the trend of Chinese concept stocks returning to Hong Kong stocks market has been continuously strengthening due to multiple factors. This article analyzes the changes of JD's stock price after its second listing, as well as its financial performance after its second listing. According to the analysis, the changes in costs and benefits of JD after its second listing can to some extent explain the changes in its stock price after its second listing. In addition, this study investigates the macro market environment of JD after its second listing, and finds that bearish factors such as the power game between the Chinese and American governments and the Chinese government's antitrust policies for Internet industry also affect JD's stock price. Overall, this study to some extent supplements the current research gap and provides suggestions for other Chinese concept stocks planning to return to the Hong Kong stock market in the future.

Keywords: China concept stock, secondary listing, JD

1. Introduction

The Chinese concept stock index refers to enterprises established in China or primarily operating in mainland China, while also listed overseas. Affected by multiple factors both domestically and internationally, the number of companies that choose to return to A-shares or Hong Kong stocks in Chinese concept stocks is constantly increasing. According to Wind's data, from 2018 to 2022, 31 companies listed in the United States have returned to Hong Kong stocks, with JD being a representative company. JD was established in June 1998 in Beijing, with domestic and international e-commerce as its main business. In May 2014, JD was listed on the NASDAQ stock exchange in the United States, with an opening price of $21.75 per share. In June 2020, JD chose to list on the Hong Kong Stock Exchange, with an opening price of HKD 231.66 per share on the day of listing.

Regarding the reasons for the return of Chinese concept stocks, the academic community has reached certain conclusions: from the perspective of the survival environment of Chinese concept stocks in the United States, Ma et al. believe that there is a serious contradiction between the Foreign Company Accountability Act passed by the US government in 2020 and the Securities Act implemented by the Chinese government in the same year. The irreconcilable contradiction between the governments of China and the United States has seriously worsened the development situation of Chinese concept stocks in the United States [1]. Sun et al. state that the existence of short selling institutions in the United States has led to doubts about the authenticity of information disclosure and the neglect of non-financial information disclosure for Chinese concept stocks, leading to investors losing confidence in the valuation of most Chinese concept stocks [2]. From the perspective of the attractiveness of the Hong Kong stock market to Chinese concept stocks, Su and others believe that the "Statement of the Comprehensive Main Board Listing Rules" issued by the Hong Kong Stock Exchange in 2018 has largely relaxed the conditions for Chinese concept stocks to return to Hong Kong stocks [3]. Cui argues that technology companies returning to A-shares or Hong Kong stocks can obtain more stable and sustainable investments [4]. Li claims that the return of Chinese concept stocks can enhance the valuation of enterprises and help them complete strategic transformation [5]. Liu et al. demonstrate that the return of Chinese concept stocks can alleviate corporate debt pressure and avoid risks in the single market.

Due to the large number of companies returning to the Hong Kong stock market in recent years, not all companies that choose to return to the Hong Kong stock market have received the attention of other scholars. By studying the reasons for JD's return and its performance after the return, this article can to some extent fill the gap in existing research. At the same time, this article explores the reasons for JD's return by comparing the valuation characteristics of the US and Hong Kong stock markets, and combines JD's recent financial data to analyze the reasons for the stock price changes after JD's return

2. Valuation Characteristics of the US Stock Market

The US stock market was established in 1811 and has been around for over 200 years. As of April 2023, the total market value of US stocks has reached $24 trillion. Because of the long trading history and large trading scale of the US stock market, many scholars believe that the US stock market has become a mature stock trading market with good liquidity. Song Jiaying et al. found through their research on the average price to sales ratio of stocks listed on the NASDAQ market that the most significant factors affecting the average price to sales ratio are the average annual turnover rate, average annual sales volume, and average annual sales volume. This led to the conclusion that the US NASDAQ market has abundant funds and good liquidity. Tan believes that investors in the US stock market have a more rational mindset, and about 90% of participants in the US stock market are institutional investors, which can maintain the efficiency and liquidity of the US stock market [6-8]. Based on the high liquidity of the US stock market, US stock investors tend to use price to earnings ratios that are biased towards value investments and investment returns for stock selection. The emphasis placed by US stock investors on the future value of enterprises is one of the reasons for the pricing differences between the Chinese and American stock markets [9, 10]. Chongsoo et al. found that value stocks outperformed growth stocks in terms of stock market performance and future expectations by studying the return on equity (ROE) of nearly 5000 companies in the Standard & Poor's 500 Index from 1999 to 2014 [11].

From a regulatory perspective, the US Securities and Exchange Commission, as an independent institution, is only responsible for supervising and managing the compliance level of listed companies and does not participate in market decision-making. Meanwhile, the US stock market has a strong inclusiveness, and loss-making companies can also choose to list on the US stock market. Since the US government passed the Foreign Company Accountability Act, companies listed in the US need to disclose more information to the public. Dominique et al. believe that higher levels of information disclosure can better reflect the company's profitability in stock prices. The high level of information disclosure also enables short selling institutions to better study the relevant data of enterprises, urging them to stabilize their stock prices by ensuring the authenticity of the disclosed information [12].

Overall, the US stock market is a mature market that can provide a good listing platform for companies from different industries. Investors in the US stock market have a rational mindset, efficient investment behavior, and focus on value investing; However, the high requirements of the US

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government for information disclosure by listed companies and the presence of short selling institutions have reduced the trust of US stock investors in Chinese concept stocks listed in the US, posing challenges for these companies.

3. Valuation Characteristics of the Hong Kong Market

The Hong Kong stock market was officially established in 1891. As of the end of 2022, a total of 2597 companies were listed on the Hong Kong Stock Exchange, with a total market value of approximately HKD 36 trillion. Harold and Jianping pointed out that influenced by historical events and Chinese government policies, the Hong Kong stock market will fluctuate significantly with the occurrence of certain political event [13]. The Chinese government launched the Shanghai Hong Kong Stock Connect and Shenzhen Hong Kong Stock Connect in 2014 and 2016, respectively, which strengthened the dependence of the Hong Kong stock market on the Chinese Mainland stock market [14]. Some scholars found that there was a risk spillover phenomenon in the two stock markets by studying the data correlation of the Shanghai and Hong Kong stock markets. The Shanghai stock market's upward risk spillover to the Hong Kong stock market is greater than the downward risk spillover, that is, if the A-share market fluctuates significantly, this volatility will affect the Hong Kong stock market [15, 16].

Although the Hong Kong stock market is backed by the Chinese government, compared with the A-share market, the Hong Kong stock market is a more open and inclusive securities trading market with fewer restrictions [3]. Since the Hong Kong dollar can be converted into dollars at a fixed exchange rate, the Hong Kong stock market can directly connect with the overseas market. Hence, the Hong Kong stock market can obtain sufficient funds, so the investors in Hong Kong stocks are mainly overseas investors with language barriers Factors such as information asymmetry and differences in investment philosophy can cause investors to take on certain risks, thus underestimating the value of stocks in the Hong Kong stock market. At the same time, the Hong Kong stock market has low requirements for listing thresholds such as industry and profit margins for listed companies, and has issued preferential policies represented by the "Statement of Comprehensive Main Board Listing Rules" to attract the return of Chinese concept stocks. In the short term, the Hong Kong stock market has a strong attraction for Chinese concept stocks that choose to return.

After more than 100 years of development, the Hong Kong stock market has a relatively large market value and a listing process similar to that of the US stock market. The fixed exchange rate of the Hong Kong dollar has attracted abundant overseas funds for Hong Kong stocks, which is a relatively complete stock market. Influenced by political factors such as the power game, the Hong Kong Stock Exchange has released preferential policies to attract the return of Chinese concept stocks and relaxed listing restrictions to reduce the time required for listing. This is currently the first choice for Chinese concept stocks to choose to return or re list. However, the investor structure dominated by overseas investors in the Hong Kong stock market will bring certain risks to the return of Chinese concept stocks.

4. Analysis

4.1. Background

JD conducted five rounds of private equity financing totaling $1.877 billion from 2007 to 2013 to build and develop its own logistics system and network. But after five rounds of private equity financing, JD's logistics system was still under construction, and at that time, domestic e-commerce competition was in a heated stage. Moreover, JD's original financing channels could not continue to invest funds in JD. Therefore, considering its own profitability, JD decided to choose to list on the US stock market. JD applied for an IPO in January 2014 and went public in May 2014 through the

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issuance of American Depositary Receipts, with a total financing amount of $1.8 billion. It is worth noting that JD chose the "AB share" equity structure for its US stock listing, which means "the same share has different rights". JD's CEO owns B-shares, and has stronger decision-making power compared to A-share shareholders who can freely trade their stocks. As of June 18, 2020 (the second listing date of JD on the Hong Kong Stock Exchange), JD's total market value increased from $27.478 billion to $89.889 billion, with a market value growth rate of approximately 227%.

4.2. The Reasons for JD's Return to the Hong Kong Stock Market

Affected by political factors such as the Great Power Game between China and the United States, the US government has introduced the Foreign Company Accountability Act, which requires audit documents of foreign companies listed in the US to be reviewed by the Public Company Accounting Oversight Board (PCAOB). The Company Law promulgated by the Chinese government stipulates that audit documents related to national security and consumer privacy cannot be provided to foreign institutions. There is an irreconcilable contradiction in policies between China and the United States, which poses certain political risks to Chinese concept stocks listed in the United States; US stock investors also underestimate the value of Chinese concept stocks due to information asymmetry.

In January 2020, Muddy Water Company shorted Lucky Coffee, which exacerbated the distrust of Chinese concept stocks among US stock investors. Since this short selling, multiple Chinese concept stocks have been attacked by short selling institutions. Although a few companies can resist the attacks of short selling institutions, a significant decline in stock prices or even suspension and delisting are common consequences of attacks on Chinese concept stocks. JD also experienced an attack from a short selling institution in 2018, with its stock price falling 16% in just two trading days. Although this short selling has been confirmed as malicious short selling, JD's unique business model and information asymmetry still pose significant risks to JD. Through its secondary listing, JD.com has sent a positive signal to investors, reducing the risk of being short sold.

According to JD's financial reports from 2017 to 2019, JD had a significant amount of liquid liabilities on its books at the end of 2017 to 2019, so JD may face liquidity risk in 2020. In the past, JD.com has tended to choose short-term borrowing and equity financing, with little use for bond financing. Because if a listed company uses bond financing, it is equivalent to telling investors that the company is facing a problem of insufficient cash flow. JD issued a total of $1 billion in bonds in 2016, and within two trading days of the issuance, JD's stock price fell by 9.6%. Therefore, choosing to go public for financing on JD.com can stabilize the stock price while obtaining large-scale financing.

The domestic e-commerce industry in China has a long and intense history of competition. JD not only needs to compete with its traditional competitor Alibaba for market share, but also needs to face challenges from new e-commerce platforms such as Pinduoduo and Suning.com. At the same time, Tiktok, Kwai and other live delivery platforms are also increasingly favored by domestic consumers, which means that JD cannot rely solely on e-commerce sales to ensure the development of enterprises in the future. According to the IPO prospectus released by JD, JD plans to mainly invest the funds raised from the IPO into its own intelligent logistics network construction, and export JD's supply chain to the international market, transforming JD from a simple e-commerce enterprise to a technology-oriented enterprise with technological innovation capabilities.

In April 2018, the Hong Kong Stock Exchange issued the "Statement of Comprehensive Main Board Listing Rules", which clearly stated that new convenient secondary listing channels should be established for Greater China and international companies seeking secondary listing in Hong Kong. This has enabled overseas listed companies with VIE and dual equity structures, represented by JD, to obtain a more time-saving and legal risk-free secondary listing path. The statement also

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exempts JD from certain conditions that need to be met for its secondary listing, such as allowing JD to spin off subsidiaries and list them separately within three years, and not disclosing the salaries of the highest paid management to the public. The listing process of Hong Kong stocks is similar to that of US stocks, and a secondary listing can ensure more open and transparent information. The favorable policies in the Hong Kong stock market can ensure that JD can quickly achieve a secondary listing and reduce the risk of significant stock price fluctuations faced by JD during the preparation for a secondary listing.

4.3. Stock Price Trend

After JD's second listing, its stock prices in Hong Kong and the United States showed similar trends, reaching their peak in January 2021 and then beginning to decline. Moreover, JD's stock prices did not differ significantly between the two markets. The specific stock price trend is shown in Fig. 1 and Fig. 2, respectively. The performance of JD stock can be represented by a rolling price to earnings ratio (TTM). The rolling P/E ratios of JD in the US and Hong Kong stocks are shown in Fig. 3 and Fig. 4, respectively.

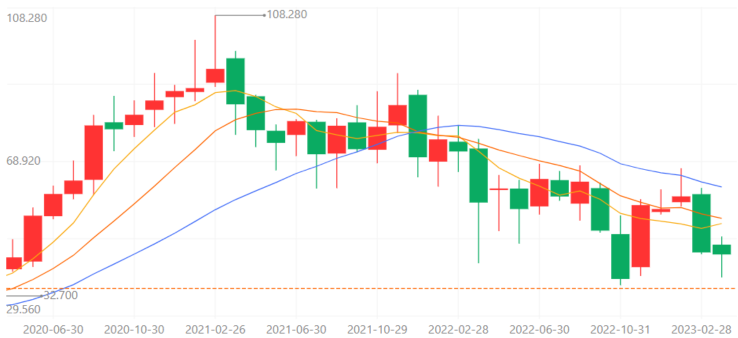

Figure 1: The trend of JD's stock price in U.S. stock market.

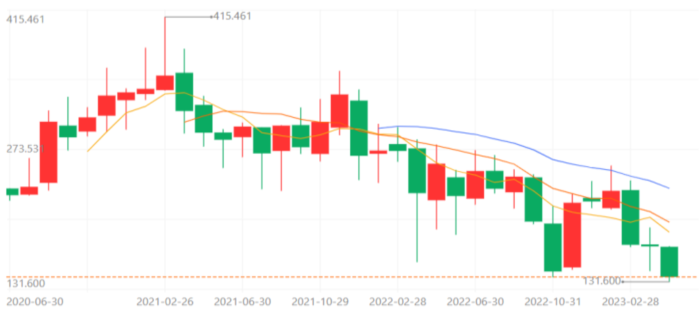

Figure 2: The trend of JD's stock price in Hong Kong stock market.

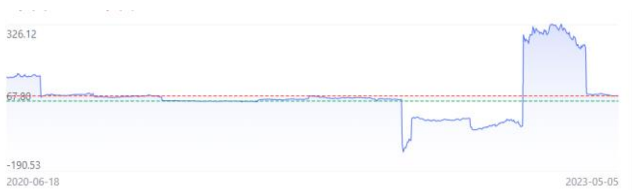

Figure 3: Changes in JD's P/E ratio in the US stock market.

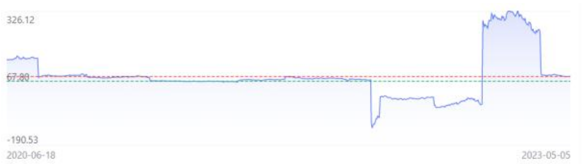

Figure 4: Changes in JD's P/E ratio in the Hong Kong stock markets.

As shown in the data in the figure, after the second listing, JD's P/E ratio experienced significant fluctuations, but the P/E ratio of Hong Kong stocks fluctuated to a lesser extent. The sharp decline in JD's P/E ratio, which has been negative for a long time, to some extent explains the phenomenon of JD's stock price continuing to decline [9, 10, 17]. Zhuo found that in the short term, JD's secondary listing reduced its non liquidity ratio in the Nasdaq market and Hong Kong stock market, while JD's turnover rate in both markets remained at the original level. That is, JD's secondary listing slightly enhanced JD's liquidity in the stock market [18].

Table 1: Trend of JD's equity multiplier changes.

Year	Equity multiplier
2018	3.499
2019	3.173
2020	2.252
2021	2.377
2022	2.790

Table 2: Trend of JD's operating profit margin.

Year	Operating margin
2018	-0.4
2019	1.3
2020	1.8
2021	0.6
2022	1.8

Based on previous research findings, the growth performance of a company significantly affects investors' valuation of the company. This article uses equity multipliers and operating profit margins to measure the growth differences in cost and revenue of JD after its second listing [19]. The calculation formula for equity multiplier is: equity multiplier=total assets/total shareholders' equity. The larger the equity multiplier, the higher the debt level of the company. By querying JD's annual report, the data is collected in Table. 1. As shown in Table 1, Before JD's second listing, its equity multiplier was in a continuous decline state; After the second listing, the equity multiplier decreased by about 29% within one year; However, the equity multiplier of JD has increased from 2021 to 2022, reflecting a sustained upward trend despite a significant reduction in costs after JD's second listing.

The calculation formula for operating profit margin is: sales profit margin=total profit/operating revenue. The higher the operating profit margin of a company, the stronger its profitability. By querying JD's annual report, the following data can be obtained. As shown in Table 2, before its second listing, JD's sales profit margin grew extremely fast and reached its peak in 2020. Although JD's sales profit margin significantly declined in 2021, it returned to its 2020 level a year later. The rebound in sales profit margin also partly explains why many investment institutions believe that JD's stock price is severely undervalued.

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In 2020, JD's costs significantly decreased and its profitability significantly improved, which led to JD's stock price reaching a historic high after its second listing. But then the cost level of JD slowly increased, and the profit level fluctuated significantly. Investors lost confidence in JD's future performance and seriously underestimated its stock price.

This article uses asset liability ratio and current ratio to measure JD's debt paying ability. The calculation formula for asset liability ratio is: asset liability ratio=liabilities/total assets. The calculation formula for current ratio is: current ratio=total current assets/total current liabilities. According to JD's annual report, the specific values are shown in Table 3.

Table 3: Trends in JD's asset-liability ratio and current ratio.

Year	Asset-liability ratio	Current ratio
2018	63.3	0.868
2019	61.3	0.993
2020	47.5	1.349
2021	50.3	1.352
2022	53.9	1.317

Analysis of the data in the table shows that before JD's second listing, its asset liability ratio had been decreasing. After the second listing, JD obtained a large amount of liquid assets, offsetting the adverse impact of issuing bonds in 2020, thereby significantly reducing JD's asset liability ratio. From 2021 to 2022, JD's asset liability ratio slightly increased, but still lower than the level before the second listing. Prior to JD's second listing, its current ratio had been continuously increasing. The second listing significantly increased JD's current ratio, and the current ratio remained stable from 2021 to 2022. JD's asset liability ratio is somewhat related to changes in its stock price, but its current ratio is not related to changes in JD's stock price after its second listing.

Since the adoption of the Foreign Company Accountability Act by the US government, Chinese concept stocks listed in the US must face dual supervision from both the Chinese and US governments. Chinese concept stocks have been forced into a dilemma: if they disclose their own audit information according to the US government's requirements, they will be subject to warnings and penalties from the Chinese government; If the relevant requirements of the US government are not followed, US stock investors will lose confidence in Chinese concept stocks.

The Chinese government's anti-monopoly policy towards internet institutions has also dealt a heavy blow to the stock prices of the internet industry. In 2021, Alibaba, JD's largest competitor, was fined 18.226 billion yuan, and JD itself was also fined 500000 yuan by the Chinese government. The Chinese government's tough anti-monopoly policies against Chinese internet companies have constrained their development, creating a bearish atmosphere in the stock market.

Under the influence of the above two macro bearish factors, most of the Chinese concept stocks listed in the United States in 2021 performed poorly, as shown in Table 4. From the data in the Table. 4, the stock prices of most Chinese concept stocks have fallen in 2021, and over 65% of Chinese concept stocks have fallen by more than 50%. In 2022, the bearish sentiment mentioned above still exists. According to data from Dongfang Finance, as of December 31, 2022, the total market value of Chinese concept stocks was RMB 7.15 trillion, a decrease of RMB 5.27 trillion compared to 2021. Although JD's stock price still saw an overall decline of nearly 20% in 2022, it rebounded by nearly 25% at the end of 2022, indicating that the market is gradually repairing JD's undervalued valuation and is optimistic about its future development.

Table 4: Distribution of gains and losses of Chinese concept stocks listed in the US in 2021.

	Number	Percentage(%)
Stock price raised	27	9.93%
Stock price unchanged	1	0.37%
Stock price fell by less than 30%	26	9.56%
Stock price fell by 30% to 50%	40	14.71%
Stock price fell by 50%-80%	92	33.82%
Stock price fell by more than 80%	86	31.62%

4.4. Enlightenment

JD has greatly reduced the time and cost required for JD's secondary listing by accurately grasping the exemption rights of the relevant policies of the Chinese government and the Hong Kong Stock Exchange, and has absorbed sufficient funds through the secondary listing, with a stock price increase of nearly 200% in the short term. The secondary listing path chosen by JD is replicable, and other Chinese concept companies planning to return to Hong Kong stocks in the future can refer to JD's secondary listing method.

JD's stock price experienced significant fluctuations after its second listing. For JD's investors, the impact of macro bearish factors in the market from 2021 to 2022 has weakened, and the market's valuation of JD is being repaired in a reasonable direction. Other Chinese concept companies planning to be listed on the Hong Kong Stock Exchange for a second time should consider political risks, e.g., the Great Power Game between China and the United States, and the Chinese government's antitrust policies. Chinese concept stock companies should also correct their attitude, clarify their future development plans, and enhance their growth potential to ensure a reasonable valuation in the market after their secondary listing.

5. Conclusion

Considering internal and external factors such as JD's future development plans and government regulatory policies on JD's stock, JD's return to Hong Kong for a secondary listing is a commercial choice that aligns with commercial logic, stabilizes, or even elevates JD's market value. This article studies the financial indicators of JD after its second listing and finds that the equity multiplier after JD's second listing first decreases and then rebounds, and the operating profit first rises and then falls, all of which can to some extent explain the phenomenon of stock price fluctuations after JD's second listing. The negative conditions in the macro market, such as government policy regulation and the game between major powers, have led to the collective undervaluation of the stock price of Internet industry, and the delayed repair of valuation is also one of the factors that led to the decline in the stock price of JD after its second listing. These results offer a guideline for other companies planning to return to China's concept stock in the future.

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