Proceedings of the 2nd International Conference on Financial Technology and Business Analysis
DOI: 10.54254/2754-1169/47/20230384

Motivation and Performance of Backdoor Listing: A Case Study of Shunfeng

Jingtong Hu[1,a,*]

[1]*Glorious Sun School of Business and Management, Donghua University, Shanghai, 200051, China*
a. 1812211239@mail.sit.edu.cn
**corresponding author*

Abstract: With the arrival of the new normal of economic development, the growth rate of business volume in the express delivery industry has been gradually slowing down since 2015, while the emergence and development of the e-commerce industry will have an impact on traditional express delivery enterprises. Through the survey method, comparative method and literature method, this paper selects the case of the backdoor listing of SF, and through the analysis of the internal and external motivations of the backdoor listing, the performance analysis using the consolidated financial performance method, as well as the analysis for its listing risks, it can provide reference and reference for the future listing of enterprises. The results of this paper indicate that most of the courier industry chooses to go public by backdoor listing in order to broaden their financing channels, and that backdoor listing can improve corporate performance to a certain extent. In addition, this paper can provide an evaluation method and reference experience for other enterprises to list in shells, and provide reference ideas for potential shell companies whether to give up shell resources. It also provides regulatory suggestions for the formulation of relevant policies in China.

Keywords: backdoor listing, motivation, performance analysis

1. Introduction

SF Express founded in 1993, was subsequently reformed in 2015 and became SF Express Holdings (Group) Company Limited with a registered capital of 10 million. It is a leading integrated logistics service provider in China, with major business segments including express delivery, warehousing, cold chain transportation, supply chain transportation, heavy cargo transportation and financial services.

Maanshan Dingtai Rare Earth & s Co., Ltd. was Established in 2003, listed on the Shenzhen Stock Exchange through an IPO in 2010. Dingtai is mainly engaged in the production and sale of rare earth multi alloy plated wire rope and plated parts and other products; manufacture and installation of traffic safety facilities; and import and export of various commodities and technologies on its own or as an agent, and is a key high-tech enterprise in Maanshan, Anhui Province.

On 23 May 2016, Dintai announced that it intended to exchange all its assets and liabilities with the equivalent portion of the entire equity interest in SF Holdings held by all shareholders of SF Holdings. The equity interest in SF was ultimately valued at RMB43.3 billion, and after the transaction was concluded, SF landed in the A-share market by way of a shell.

The listing process of the shell of SF was divided into 3 steps:

1. Major asset swap.:The final price of the assets to be disposed of in the transaction was 796 million, and the appraised value of the 100% equity interest in SF Holdings to be purchased was 44.83 billion, after deducting the 1.5 billion that SF Holdings resolved to distribute in cash, the final price of the 100% equity interest in SF Holdings was 43.3 billion.

2. Issue of shares to purchase assets. The difference between the final price of the assets to be disposed of and the final price of the assets to be purchased is 42.504 billion, which will be purchased by the Company from all shareholders of SF Holdings by way of issuing shares.

3. Raising matching funds. Dingtai plans to issue by way of inquiry, not less than 11.03 yuan per share, to not more than 10 qualified specific object non-public issue of shares to raise matching funds, the total amount of not more than 80,000,000 yuan, the number of shares issued to raise matching funds for the transaction is about 725,954,700 shares.

This paper takes the backdoor listing of SF as an example. Through analysing the internal and external motivations of the backdoor listing, applying the consolidated financial performance method to analyse the performance, and analysing the risks of its listing, it can provide reference and reference for future listings.

The contribution of this article includes:

(1) Provide an evaluation method for the backdoor listing of other logistics enterprises. This paper analyses the motivation, mode, performance and risks of the backdoor listing of SF, a representative company in the logistics industry, and to a certain extent, provides reference experience for other logistics enterprises intending to go public in a backdoor listing and draws on their listing methods. In recent years, more and more logistics enterprises have been listed in shells, but only by correctly understanding the short-term and long-term impact of the backdoor listing on the performance of the enterprise and the impact on the various indicators of the enterprise, can we take advantage of the strengths and weaknesses of the enterprise and thus have an advantage over other enterprises in the new round of competition in the same industry. After the completion of the backdoor listing, the share price of most logistics companies will show a substantial increase.

(2) Provide reference ideas for potential shell companies on whether to offer shell resources. In addition to the significance of the case study of the backdoor listing of SF, this paper also has some significance for some enterprises that want to become shell companies. Due to the time and effort involved in traditional IPO listings, the number of companies choosing to list on a shell has been increasing in recent years, and many listed companies with unsatisfactory business conditions are also looking to sell their listing status. Shell resources are generally classified into three broad categories, namely empty shells, real shells, and net shells, based on their profitability, so listed companies also need to put in some effort before they can run themselves into an ideal net shell company. Therefore, not all listed companies can successfully become a shell company. Only those net shell companies with clear equity structure, simple liability structure and no legal disputes are ideal for the borrower.

(3) To provide reference experience for other enterprises attempting to list in a shell company. Although SF Holdings is a leading enterprise in the logistics industry, it is an asset-rich enterprise that can also serve as a reference for enterprises in other fields, so the analysis of the backdoor listing of SF Holdings in this paper can also provide reference experience for enterprises in other fields that are trying to go public. The key to a backdoor listing is the proper selection of a shell company, so it is necessary to choose a shell company with the right price on the basis of careful selection, rather than blindly and arbitrarily, in order to avoid a series of unnecessary problems later on.

The following sections of this paper are organized as follows: section 2: analyses the internal and external factors of the listing of SF's shell, section 3: performance analysis, section 4: risk analysis, section 5: conclusion.

DOI: 10.54254/2754-1169/47/20230384

2. Motivation

2.1. Internal Motivation

2.1.1. Improving Operational Difficulties and Seeking Capital Support

According to the financial statements of SF from 2013 to 2016 [1-4], It can be seen from Figure 1 that the Asset-liability ratio of SF increase from 33.40% in 2013 to 60.37% in 2015, and the Asset-liability ratio of SF Express was at a high level in the logistics industry. The high gearing ratio restricts the company's solvency level and reflects the unreasonable capital structure of SF before the backdoor listing, its debt financing is high and the leverage level is high, so it needs to increase equity financing to obtain multiple financing methods and optimise the asset structure.

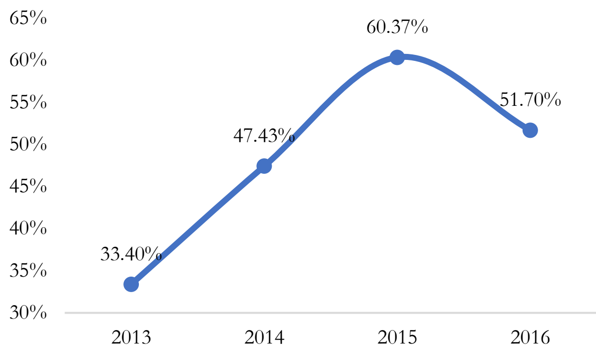

Figure 1: SF Asset-liability ratio from 2013 to 2016.

Data source: financial statements of SF from 2013 to 2016 [1-4]
Photo credit: Original

As SF has a direct management model, the overall operating costs of the company are much higher. At the same time, before 2016, SF was also developing its business, and its e-commerce platform, which cost hundreds of millions of dollars, suffered serious losses and its capital chain became increasingly short, so SF urgently needed to go public to seek more financial support for its development strategy.

2.1.2. Transformation and Upgrading through Capital Operation to Enhance International Visibility

Compared to the international market, many domestic logistics companies, such as SF Holdings, only provide basic logistics services, with a relative lack of resource integration and comprehensive service capabilities. As China is a labor-intensive country, the logistics industry is based on a labor-intensive development model and the express infrastructure is relatively backward. As a result, SF has been able to leverage on the substantial capital support from the capital market to help it complete its transformation and upgrade to an integrated logistics enterprise supported by heavy assets, and to raise its international profile to better compete for market share with international express companies.

2.2. External Motivation

2.2.1. Industry Background

Although the business volume of the courier industry has been increasing year on year, the growth rate is slowing down year on year in 2015 with the arrival of the new normal of economic development. At the same time, e-commerce companies began to develop their own logistics (such as Jingdong), which will have an impact on traditional courier companies (Figure 2).

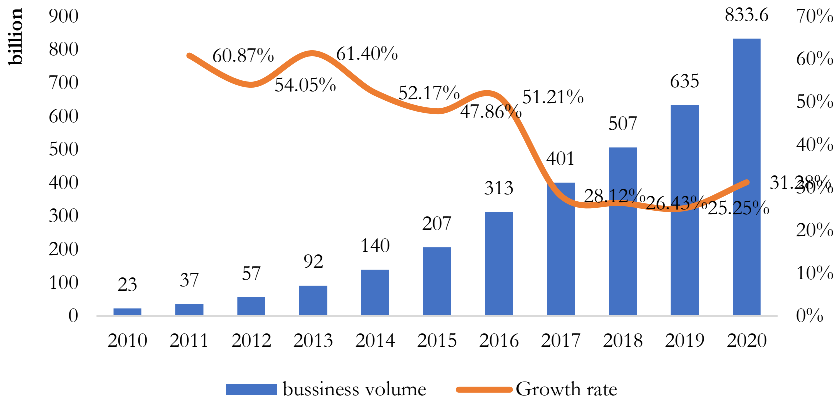

Figure 2: Business volume and growth rate of the courier service industry in China.

Data source: Shenzhen Foresight Industry Research Institute Co., Ltd. [5]
Photo credit: Original

2.2.2. Competitors Race to Market

In 2015, Shentong Express listed on the shell of Addis Ababa opened the listing of courier enterprises, the following year on January 16, Yuan Tong shell of Dayang Genesis. Subsequently, Yunda and Deppon also planned to go public and enter the capital market one after another. SF also faced competition from international courier service providers and domestic national and regional courier service providers.

2.3. The Courier Industry Environment is Highly Competitive

2.3.1. Politics

At the beginning of the 21st century, China's postal reform was in full swing and the country attached increasing importance to the express delivery industry, introducing relevant policies and systems one after another, which accelerated the pace of listing and financing of China's express delivery industry. Encouraged by the policy, SF Holdings entered the capital market for financing, responding to the national call to promote the construction of the logistics infrastructure industry and serve the market economy is an inevitable trend.

2.3.2. Economy

Online retail is the main growth driver for the express industry. 2010 has seen the growing popularity of e-commerce in China, leading to the growth of e-commerce platforms and a sharp increase in the volume of express parcels. As a key player in the express delivery industry, SF has a huge opportunity to grow and should seize the growth period of the industry in time to leverage the economic support of the capital market to continuously replace its own competitive ability.

DOI: 10.54254/2754-1169/47/20230384

2.3.3. Society

E-commerce is becoming a mainstream consumer habit and gradually replacing offline retailing. People are more inclined to buy online for the items they need in their working life, so the courier industry is growing rapidly and attracting more competitors to enter the market.

2.3.4. Technology

The biggest difference between logistics expresses and traditional express in the new century is the full use of modern high technology, in recent years the profitability of the express industry has gradually decreased, and the industry has entered a critical period of internalization, self-renewal and transformation. A backdoor listing can help courier companies quickly access large amounts of capital, gain capital support for internalization, transformation and upgrading, and find a breakthrough in the fierce market competition. Through the backdoor listing, SF can use the funds raised to optimize its information technology capabilities in all aspects of logistics, promote efficient management with big data decisions, effectively optimize its organizational structure, and thereby achieve higher returns.

3. Performance

3.1. Profitability

It can be seen from Figure 3: the backdoor listing has further expanded the scale of SF's operating income, which has grown by linear leaps and bounds. SF has yet to fully capitalize on its profitability in the industry and needs to be further strengthened. Although the scale of revenue has been leading for a long time, the most significant drawback of the direct mode is the heavy asset, which requires a lot of investment in manpower, material, and capital in the early stage, and is unable to lay outlets in some economically underdeveloped areas, and the users in these sunken markets are taken away by rivals, resulting in some of the profitability indicators of SF being lower than those of its competitors using the franchise mode.

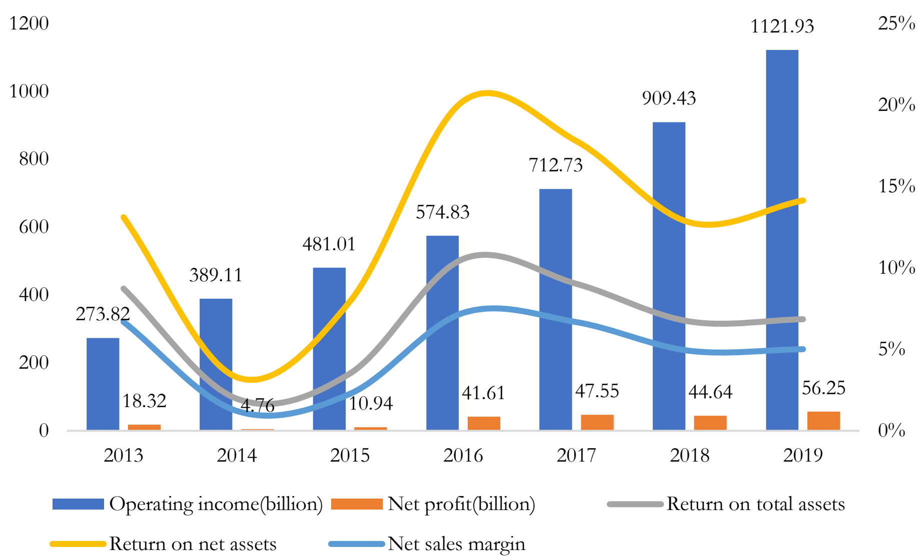

Figure 3: SF Holdings Profitability Trend.

Data source: financial statements of SF from 2013 to 2019 [1-4] and [6-8]
Photo credit: Original

DOI: 10.54254/2754-1169/47/20230384

3.2. Operating Capacity

It can be seen from Figure 4, the secondary coordinate indicates the value of total asset turnover rate. From the perspective of long-term corporate development strategy, the backdoor listing has improved the operating capacity of SF Holdings to a certain extent, but it has not invested all the funds obtained from the backdoor listing in the project within a short period of time, and the idle funds have weakened the operating capacity of current assets to a certain extent. In order to accelerate the expansion of market share, the franchise model will give franchisees a certain credit policy in the future, the amount of bad debts will increase with the increase in accounts receivable, and the operating risk will also increase accordingly.

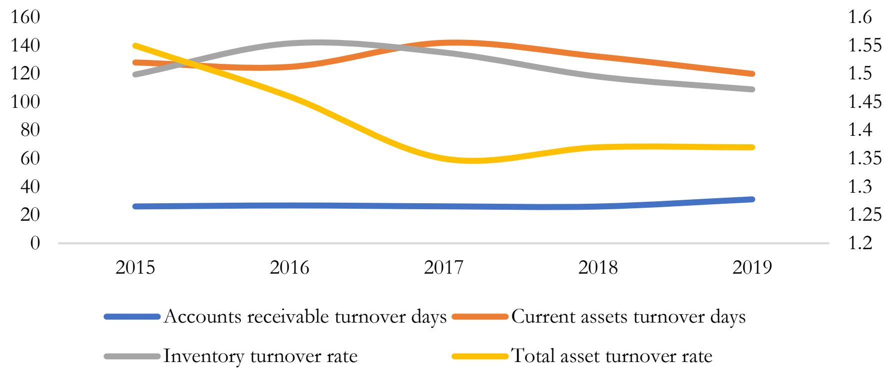

Figure 4: SF Holdings operating trend.

Data source: financial statements of SF from 2015 to 2019 [3,4] and [6-8]
Photo credit: Original

3.3. Solvency

It can be seen from Figure 5, the secondary coordinate indicates the value of the current rate. Before the backdoor listing, SF was forced to raise a large amount of debt in order to maintain its daily operations and develop new businesses when the introduction of private placements was still unable to meet its capital requirements. The company needs to make full use of the various short-term investments to preserve the value of the resulting large amount of idle funds, or to put them to use as soon as possible to ensure capital utilization.

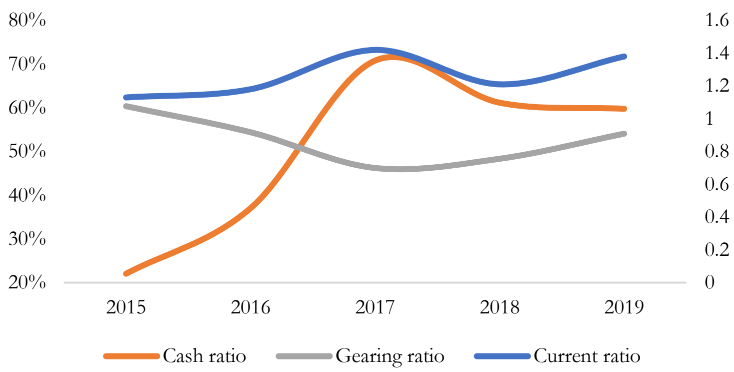

Figure 5: SF Holdings Solvency Analysis.

Data source: financial statements of SF from 2015 to 2019 [3,4] and [6-8]
Photo credit: Original

DOI: 10.54254/2754-1169/47/20230384

3.4. Development Capacity

It can be seen from Figure 6, the sub-coordinate indicates the percentage of net profit growth rate. The total assets, main business revenue and net profit of SF Holdings have been maintaining a stable upward trend, especially after the backdoor listing, and the growth rates have all increased in the short term, indicating a good short-term operating effect. However, the growth rate has slowed down significantly from 2018 onwards, reflecting its unstable development capability and insignificant operating synergies, so in the long run, there are certain sub-operating risks for SF Holdings.

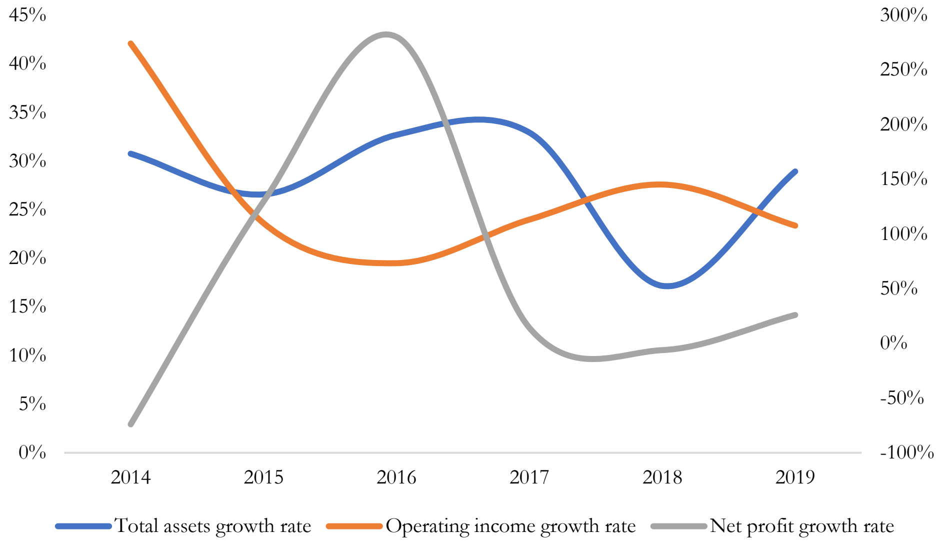

Figure 6: SF Development Capability Analysis.

Data source: financial statements of SF from 2014 to 2019 [2-4] and [6-8]
Photo credit: Original

4. Risk Analysis

4.1. Risk of Shell Resource Selection

In this backdoor listing, the share price of Dingtai is assessed to be about 800 million, which is already higher than the owner's equity of 700 million at the end of the period. Moreover, after the listing of the shell company, SF also needs to pay the original shareholders of Dingtai the corresponding shares, which will also dilute the equity of SF Holdings to a certain extent. Secondly, the debt relationship of the shell company is also particularly important to the borrower. As at the end of April 2016, Dingtai had debts of approximately 11.7 million in respect of tax payable and employee remuneration payable, which is equivalent to 92% of its non-financial liabilities. On the date of the announcement of the backdoor listing, Dingtai still had outstanding debts, which to a certain extent would pose a risk to SF's subsequent business development and could be caught in unnecessary debt disputes, etc.

4.2. Risk of Entering into Business Compensation Agreement

This time, SF and Dintai signed the "Profit Forecast Compensation Agreement" [9,10] in relation to the backdoor listing, in which SF undertakes that its net profit after deducting non-recurring gains and losses will not be less than 2.18 billion, 2.8 billion and 3.48 billion in the three years after the listing. The promised net profit amount is high, which will, to a certain extent, increase its own operating pressure and entail certain compensation risks.

4.3. Information Disclosure Risk

In the process of this transaction, Dingtai was already known to some major shareholders and the management of the company before the suspension of trading on 1 April 2016, which may cause the leakage of transaction information. In the process of the backdoor listing, Dingtai did not announce the transaction in time, which led the Shenzhen Stock Exchange to review and verify the documents immediately.

5. Conclusion

As the growth rate of the development of the express industry has become slower in recent years, SF chose to conduct a backdoor listing in 2016. Through the analysis of its backdoor listing process, this paper can provide an evaluation method for other enterprises' backdoor listings, as well as provide reference ideas for potential shell companies on whether to offer shell resources, reference experience for enterprises attempting backdoor listings, and regulatory advice for the relevant policy-making departments in China. This paper finds that:

(1) most of the courier industry backdoor listing mainly to broaden the financing channels. The courier industry belongs to the sunrise industry, but because the business of each courier company is basically the same, so most courier companies in recent years the growth rate has gradually become slow, if you want to break through the current pattern to further occupy the market share, enterprises should focus on their own advantages. The advantage of SF Express is its technological equipment, the construction of transit stations to ensure the absolute efficiency of express transport, which of course requires a lot of financial support. But the loan requires regular fixed interest payments, and the principal must be repaid at maturity. There is also a great deal of uncertainty about the amount of capital to be invested and the interest to be paid in order to carry out technological research and development. Therefore, bank loans and bond issues are not very suitable. Therefore, direct equity financing has to be put on the agenda.

(2) backdoor listing can improve corporate performance. For the shell company, the original main business of Dingtai is in the sunset industry, facing increased difficulty in selling goods, increased inventory, and reduced profitability, resulting in insufficient cash flow and low share price. After the backdoor listing of Dingtai's debt service, earnings, operations, development, and other indicators of capacity is also a significant increase, the former controlling shareholder of Dingtai Liu Jilu even publicly said: "ten years of hard work to start a business, it is better to sell the shell once". For the shell company, although the net interest rate of SF Holdings has fluctuated down after its backdoor listing, its total assets, operating income, and net profit have increased steadily, and the decline of SF's net interest rate is the general trend of the whole express industry, which cannot be reversed through the backdoor listing. The shelling move can play a big role in promoting the long-term development of the company.

The backdoor listing of SF Holdings chosen for this study took place in 2016, the firm has been listed for a very short time, and there is less publicly available data, thus the evaluation may not be entirely convincing. The financial performance evaluation data was only chosen for a little period of time, so it might not be sufficient to assess the numerous performance facets of the company's backdoor listing, etc. Additionally, there is some subjectivity involved in the selection of indicators, and the criteria used to evaluate indicators may not be all-inclusive and may have certain restrictions. The author will continue to study the subsequent progress of this backdoor listing of SF Holdings and pay attention to other cases of backdoor listings in the capital market to supplement his own research in this area.

In the process of backdoor listing, some shareholders have early access to the corporate strategy and want to earn excessive benefits through it. In addition, some companies are listed on a shell in order to increase their share price in the short term, which is a capital speculation. Therefore, in order to avoid mistakes in the process of backdoor listings, the authorities should not only raise the threshold for backdoor listings, but also adjust the traditional IPO model and improve the entry and exit mechanism of the stock market, so as to rationalize the entry and exit of the stock market.

References

[1] *Tonghuashun Finance. (2014). 2013 Balance Sheet, Shunfeng Holdings (002352) Money Flow_Stock Quotes_Flush Finance (10jqka.com.cn)*

[2] *Tonghuashun Finance. (2015). Balance Sheet, Shunfeng Holdings (002352) Money Flow_Stock Quotes_Flush Finance (10jqka.com.cn)*

[3] *Tonghuashun Finance. (2016). 2015 Balance Sheet, Shunfeng Holdings (002352) Money Flow_Stock Quotes_Flush Finance (10jqka.com.cn)*

[4] *Juchao.com. (2017). Shunfeng Holdings: 2016 Annual Report. http://www.cninfo.com.cn/new/disclosure/detail?plate=szse&orgId=9900010448&stockCode=002352&announcementId=1203150372&announcementTime=2017-03-13*

[5] *Shenzhen Foresight Industry Research Institute Co., Ltd. (2021). 2010-2020, China Express Industry Business Volume and Growth, 2010-2020 China Express Industry Business Volume and Growth_Logistics Industry Data - Qianzhan Logistics Industry Research Institute (qianzhan.com).*

[6] *Juchao.com. (2018). Shunfeng Holdings: 2017 Annual Report, http://www.cninfo.com.cn//new/disclosure/detail?plate=szse&orgId=9900010448&stockCode=002352&announcementId=1204472912&announcementTime=2018-03-14*

[7] *Juchao.com. (2019). Shunfeng Holdings: 2018 Annual Report. http://www.cninfo.com.cn/new/disclosure/detail?plate=szse&orgId=9900010448&stockCode=002352&announcementId=1205903220&announcementTime=2019-03-16*

[8] *Juchao.com. (2020). Shunfeng Holdings: 2019 Annual Report. http://www.cninfo.com.cn/new/disclosure/detail?plate=szse&orgId=9900010448&stockCode=002352&announcementId=1207395450&announcementTime=2020-03-24*

[9] *Meng Yuting. (2019) Research on the back door listing of S.F. company. Jilin University of Finance and Economics. 10.26979/d.cnki.gccsc.2019.000136.*

[10] *Liu Zhuang. (2021). Research on the Competitive Strategy of Private Express Enterprises in China——Take SF Holdings as an example. Xiangtan University. 10.27426/d.cnki.gxtdu.2021.000586.*