Market Timing of Equity Issues in China

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論　文　内　容　の　要　旨

Previous studies suggest that market timing is an important motive of seasoned equity offerings (SEOs) (Baker and Wurgler, 2002, 2007; Grahamand and Harvey, 2001), while private placements have different motives such as signaling of undervaluation (Hertzel and Smith 1993; Wu, 2004; Wruck, 1989). This dissertation investigates how regulations affect methods and motives of equity issues. In China, regulative screening process exists which generates long interval between announcements and execution of equity issues. Although the long interval makes market timing difficult, Bo, Huang, and Wang (2011) argue that market timing is the most important motive of Chinese SEOs. Meanwhile, the Chinese regulative authority sets offering price floor for private placements (20-day average market price prior to the announcement). Those facts motivate this dissertation to address the following questions: (1) Can Chinese managers really time the market in SEOs? (2) How can managers time the market with the long regulative process? (3) Does market timing motivate private placements in China? (4) How do Chinese managers choose between public offerings and private placements?

Chapter 1 describes regulation environments of Chinese equity issues and reviews previous studies after presenting motivations of this dissertation. Because of regulative screening by the China Securities Regulatory Commission (CSRC), the average length of time from the announcement of an SEO to final execution is 316 business days. This fact suggests that Chinese managers need to anticipate overvaluation at one-year later to successfully time the market. I also present that about 900 private placements are conducted during the sample period of this dissertation, while the database finds only 101 public offerings.

Chapter 2 examines how managers can anticipate future (one-year later) stock overvaluation. Even though overvaluation at the announcement is not necessary for market timing given the long interval, we find very similar stock price movements with US findings; SEO announcements are preceded by a significant stock price run-ups and followed by significant declines. The Rhodes–Kropf, Robinson, and Viswanathan’s (2005) measure of misvaluation identifies that SEO firms are overvalued during four years preceding initial announcements. These results suggest that persistent overvaluation and additional stock price run-ups motivate Chinese firms to announce SEOs. In addition, the market price at execution and actual offer price are also overpriced. Discounts are positively associated with the cumulative abnormal return during the announcement and execution. Firms conducting SEOs tend to stockpile cash. These findings provide additional evidence that market timing is an important motive for Chinese SEOs.

Chapter 3 investigates how managers successfully time the market in SEOs, given the long regulative screening process and significant stock price reductions following announcements. I principally examine stock price movements surrounding two post-announcement events: the CSRC's approval and the management's execution. I find that CSRC grants approval to SEO applicants after a significant stock price rise. Then, Chinese managers execute SEOs after additional stock price increases. As a result, the stock price at execution is not significantly different from the price at the announcement, and significantly higher than the price three months before the announcement. Stock prices show long-term underperformance following the execution. Further, CSRC tends to reject SEO applications with low market-to-book ratios and high volatility. Taken all together, regulative screening for market stabilization is beneficial for SEO market timing, and that Chinese managers have ability to choose a good execution day during the executable period (six month following the CSRC’s approval).

Chapter 4 examines motives for private placements. Analyses so far suggest that Chinese managers successfully time the market in SEOs. However, market timing with the long regulative process should be extremely difficult, and private placements are much more common in China than SEOs. Importantly, CSRC sets offering price floor for private placements which depends on the market price at announcement. This fact suggests that private placements may offer opportunities of market timing in China, although previous studies suggest that undervaluation motivates private placements. Empirical analyses find that firms conducting private placements are overvalued at the announcement and execution. Stock prices show significant run-ups before announcements, and long-term underperformance following the execution. These findings clearly suggest that overvaluation motivates private placements in China. Meanwhile, private placements offer significantly larger discounts than SEOs do. As a result, investors participating private placements do not lose money. The large discount of private placements also gives rise to a prediction that managers who are confident with future overvaluation choose public offerings rather than private placements. Consistent with this idea, I find that firms with large overvaluation at the announcement tend to choose public offerings as an equity issue method.

Chapter 5 concludes the dissertation. The results clearly suggest that regulations substantially affect methods and motives of equity issues. Chinese firms successfully time the market in SEOs through existence of long and persistent overvaluation, CSRC’s market timing for market stability, and managers’ choice of execution date. However, SEO market timing is still difficult in China, and the existence of offer price floor motivates private placements for market timing. This dissertation contributes to the equity issue literature in several ways. First, I provide additional evidence that market timing is an important motive of Chinese SEOs despite the regulative environment. Second, this is the first research to examine how regulative screenings affect market timing of SEOs. Third, I contribute the private placement literature by showing that regulations generate a new motivation for private placements, that is, market timing. Finally, we present an explanation on why private placements are much more common in China than public offerings.