

# Research on the motivation and performance of introducing strategic investors into mixed ownership reform of Huatai Securities

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**Abstract.** From the "Opinions on the development of mixed ownership economy by state-owned enterprises" issued by the State Council to the report of the 19th National Congress of the Communist Party of China, which clearly puts forward "deepening the reform of state-owned enterprises and developing mixed ownership economy", a series of top-level designs highlight the necessity and importance of the development of mixed ownership economy. Major state-owned securities companies have responded positively, promoted the pilot reform of mixed ownership of state-owned enterprises, adopted measures such as the introduction of strategic investors and restructuring and listing, and achieved breakthrough reform results. A series of problems and obstacles have also been found in this early exploration process. This paper selects Huatai Securities as the case study object, analyzes the motivation of mixed reform and studies the market performance of Huatai Securities before and after the reform, and verifies the impact of the introduction of strategic investors in the mixed reform on Huatai Securities. Based on the case of Huatai Securities, it can be concluded that state-owned securities companies can effectively improve the efficiency of corporate governance through mixed ownership reform.

**Keywords:** Mixed ownership reform, Performance, Strategic investors, Motivation.

## 1. Introduction

Through the reform of traditional state-owned enterprises, creating new state-owned enterprises with global competitiveness is an important measure to promote the sustainable and healthy development of contemporary Chinese national economy and society. As the lifeline of our national economy, the financial industry is an important link related to the lifeblood of national economic development. With the continuous deepening of the reform of the capital market environment, the securities industry will show a trend of mixed ownership reform. There are many ways to reform. The introduction of strategic investors into the mixed reform mode has unique advantages. It can promote the integration of state-owned capital and non-state-owned capital, and promote the coordinated development of the company's related business fields while improving corporate governance. At the same time, this kind of mixed reform may bring problems and challenges to the company. Therefore, this paper takes Huatai Securities as an example, explores the motivation of Huatai Securities to introduce strategic and evaluates the effect of introducing strategic investors. The research conclusion of this paper has certain applicability. It can provide a certain reference for other state-owned enterprises that adopt the introduction of strategic investors to carry out mixed ownership reform, and bring relevant policy enlightenment.

## 2. Case overview

### 2.1. Huatai Securities overview

Huatai Securities Co., Ltd. was officially opened in Nanjing on May 26, 1991. The net assets of the company exceed 10 billion yuan, and it is one of the first comprehensive securities companies in China. It is the first securities company listed in the mainland, Hong Kong and London. The company's main business consists of four parts: wealth management, institutional services,

investment management and international business. By the end of 2023, Huatai Securities has 28 branches and 243 business departments in China, covering all provinces and cities in the country except Hong Kong Special Administrative Region.

## 2.2. Introduction of strategic investors

On August 6, 2018, Huatai Securities issued about 1.089 billion shares to strategic investors through private placement at a price of 13.05 yuan/share, raising a total amount of 14.208 billion yuan. Upon completion of the transaction, the newly introduced strategic investors will collectively hold approximately 13.19% of the company's shares. Among them, Alibaba received 268 million shares, accounting for 3.25% of the total share capital after the issuance, becoming the sixth largest shareholder; Suning was allocated 261 million shares, accounting for 3.16% of the total share capital, becoming the seventh largest shareholder; Essence Securities and China State-owned Enterprise Structural Adjustment Fund became the eighth and tenth largest shareholders, forming a diversified ownership structure. After the completion of the directed issue of additional shares, Huatai Securities total assets, net assets and net capital will increase accordingly, and the net capital will reach 64.865 billion yuan, ranking fourth in the industry, and the business development space linked to the net capital scale will be further expanded.

## 3. Analysis of the motivation of introducing strategic investor

### 3.1. policy-driven

After the state successively issued policies on mixed ownership reform, Jiangsu Province, as a strong economic province in China, responded positively and began to carry out mixed ownership reform pilot work in state-owned enterprises in the province in 2017. On August 6, 2018, Huatai Securities was included in the list of the first batch of mixed-ownership reform pilot enterprises in the province.

### 3.2. Industry development

From the perspective of industry scale, the total assets and net assets of securities companies in 2018 increased slightly compared with the previous year. However, in 16-17 years, customer transaction settlement funds showed a downward trend, and the balance at the end of 2018 was 937.891 billion yuan, a decrease of 11.52% compared with 2017. In 2018, the market value of custodial securities was 32.62 trillion yuan, a decrease of 19.12% compared with 2017. The balance of financing decreased from 1029.8 billion yuan at the beginning of 2018 to 755.7 billion yuan at the end of 2018. The scale of financing business has decreased significantly, and market fluctuations have a significant impact on securities companies' margin financing business. Competition in the industry is still fierce.

**Table 1.** 2016-2018 Capital scale of securities industry Unit: trillion

item	2016	2017	2018
Total assets	5.79	6.14	6.26
Net assets	1.64	1.85	1.89
Net capital	1.47	1.58	1.57
Customer transaction settlement fund balance	1.44	1.06	0.94
Market value of custodial securities	33.77	40.33	32.62

### 3.3. Powering digital transformation

Huatai Securities launched online trading in 1997, and began to move towards the Internet in 2009. In 2014, Huatai launched the mobile terminal platform and began its digital transformation. Therefore, Huatai Securities introduced Internet enterprises as strategic investors with the help of mixed ownership reform. Introduce advanced technology development capabilities and big data integration

capabilities of private Internet enterprises. Make full use of data resources to build core competitiveness and help Huatai Securities' digital transformation.

#### 4. Analysis of the performance of introducing strategic investor

The event study method is often used to examine the stock value of a listed company before and after a particular event. This paper uses event study to analyze the market effects of the introduction of strategic investors in Huatai's mixed reform.

##### 4.1. Event window selection

This paper chooses Huatai Securities mixed reform to introduce strategic investors as the research event. On August 6, 2018, Huatai Securities officially issued a mixed reform announcement. Therefore, this paper chooses August 6, 2018 as the event date, and identifies 20 trading days (-20,20) before and after the event as the investigation period, specifically from July 9, 2018 to September 3, 2018. Select the 120 trading days to 21 trading days before Huatai Securities announced the mixed reform plan as the estimated period of the event, that is, from February 5, 2018 to July 6, 2018, a total of 100 days.

##### 4.2. Calculate the normal rate of return

The expected normal rate of return is calculated using the market model, which assumes that there is a linear relationship between the return rate of individual stocks and the return rate of the market index. The formula is as follows:

$$r_t = \alpha + \beta \times r_{mt} + \delta \quad t = -120, \dots, -21 \quad (1)$$

$\alpha$  and  $\beta$  are calculated by regression analysis method, and then substituted into the formula, the expected normal rate of return of Huatai Securities in the "window period" can be calculated, and the formula is as follows:

$$e(r_t) = \alpha + \beta \times r_{mt} \quad (2)$$

This paper uses stata to return the individual stock returns and market returns of Huatai Securities from February 5, 2018 to July 6, 2018. The formula is obtained:

$$e(r_t) = 0.0305 + 1.4708 \times r_{mt} \quad (3)$$

##### 4.3. Calculate the ar and car

$$ar_t = r_t - e(r_t) \quad (4)$$

$$car_t = \sum ar_t \quad (5)$$

According to the above formula, ar and car of Huatai Securities during the window period (July 9, 2018 to September 3, 2018) are obtained and the picture is drawn as follows:

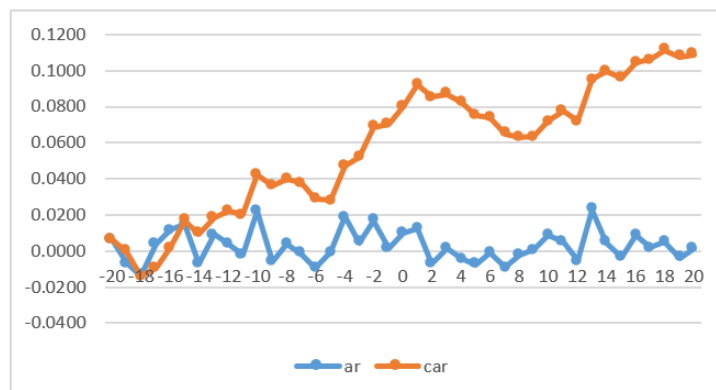


Fig 1. Trend chart of ar and car during the mixed reform window

#### 4.4. Result analysis

As shown in the figure, the ar of Huatai Securities has been showing an upward trend in the period of  $t=(-1,1)$ , that is, three days before and after the official announcement of the mixed reform plan. And the level of excess return rose from 0.023 before the announcement to 0.0336 on the day of the announcement, reaching the highest value in the window period. It shows that Huatai Securities announced the mixed ownership reform has been recognized by the market. Huatai Securities had a positive and very rapid impact on its market performance in the short term, but the duration of such influence was very short, and the market quickly returned to rationality within the window period.

#### 5. Summary

The improvement of corporate governance efficiency in ownership reform of Huatai Securities is verified by market performance. It shows that strategic investors bring convenient financing channels, top technical talents and future development direction to Huatai Securities, and realize the coordinated development of state-owned securities companies and Internet enterprises. The market is also optimistic about Huatai Securities' mixed ownership reform, waiting for further mixed ownership reform policies to land. Therefore, it can be concluded that the mixed ownership of Huatai Securities is a significant attempt, which has important reference significance for other securities companies to carry out the breakthrough of mixed ownership reform.

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