Financial Impact Analysis of the Restructuring and Listing of State-Owned Enterprises

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Abstract. In the rapidly evolving economic landscape, State-Owned Enterprises (SOEs) stand as prominent pillars, with their restructuring and listing being pivotal to both their development and the broader economic progression. This study delves into the financial impacts of restructuring and listing on three prominent Chinese SOEs: CNPC Capital, China Energy Construction, and China Communications Construction. The findings reveal significant growth in assets and liabilities, with a noticeable uptrend in net profits for all entities post-restructuring. The year-end cash balances exhibited a consistent upward trajectory, suggesting enhanced liquidity and operational efficiency. Additionally, the Earnings Per Share (EPS) analysis illustrated distinct trajectories for each SOE, highlighting the nuanced financial outcomes of their strategic decisions. These findings underscore the potential of SOEs to harness capital market access, strategic realignment, and operational optimization to drive financial and operational efficiency, emphasizing the importance of such endeavors in aligning SOEs with global market standards and bolstering economic competitiveness. This comprehensive analysis underscores the multifaceted financial benefits of restructuring and listing for SOEs, shedding light on their role in fostering economic development and market dynamism.

Keywords: SOEs; restructuring and listing; Financial data.

1. Introduction

State-Owned Enterprises (SOEs) are businesses predominantly owned by a country's government, historically playing a crucial role in national economies by controlling significant resources and monopolies in key sectors. The restructuring and listing of SOEs denote the transformation these entities undergo in both organizational and operational aspects to elevate efficiency and competitiveness. After restructuring, they aim to go public by listing shares on stock exchanges, a move designed to mobilize capital and widen their investor base. Notably, this transition is characterized by an improvement in governance, as SOEs align with the stringent regulatory demands of capital markets. The process enhances operational efficiency by streamlining operations and optimizing resource allocation. Additionally, the act of going public necessitates stricter reporting standards, fostering increased transparency. Furthermore, listing provides these enterprises improved access to capital, empowering them to better achieve their expansion and strategic directives. The underlying motivations for such restructuring and listing initiatives include the anticipation of economic benefits from heightened profitability due to advanced operational efficiency and better capital avenues. It also aims at diluting the monopolistic nature of SOEs, thereby stimulating competition and innovation within the economy. Listing has the added advantage of attracting foreign investments, and integrating these enterprises more closely with global financial markets. Lastly, a policy and regulatory push, wherein governments propel SOE restructuring and listing as components of broader economic reforms, often influences these endeavors in many ways. Some scholars believe that mergers and acquisitions can create value for enterprises, that is, to achieve value-added. mergers and acquisitions contribute to the enhancement of enterprise management levels, especially for inefficient enterprises, where this improvement effect is particularly significant [1].

2. Basic Descriptions of Target Companies

When examining the impacts of restructuring and listing of state-owned enterprises, insights from three illustrative case studies are leveraged: China Energy Engineering Corporation Limited, China Communications Construction Company Limited, and CNPC Capital Company Limited. CEEC went public in 2021, CNPC in 2017, and CCCC in 2023. The analysis of financial data for the three years before and after their respective IPOs has been chosen, which include 2018 to 2020 for CNPC, 2020 to 2022 for CEEC, and 2021 to 2023 for CCCC. The 2023 financial data for CCCC was estimated from quarterly reports to derive annual figures.

China Energy Engineering Corporation Limited (CEEC), commonly referred to as China Energy, stands out as one of the premier construction conglomerates in China, focusing on the design, construction, and operation of an array of energy facilities. This titan is deeply involved in hydropower, thermal power, and nuclear power construction, marking its vital role in China's energy infrastructure evolution.

Shifting the lens to China Communications Construction Company Limited (CCCC), it is recognized as a pivotal state-owned enterprise emphasizing transportation infrastructure. Its vast portfolio spans ports, highways, and bridges, underscoring its indispensable contributions to China's expansive urban and transport metamorphosis over the past decades. This restructuring is also seen as an attempt by China Communications Construction Group and China Building Materials to promote the structural adjustment and reorganization of central enterprises. Through this, they aim to drive state-owned capital towards key industries and pivotal areas, thereby enhancing the competitiveness, influence, and risk resistance of the state-owned economy [2]. Upon the completion of this restructuring, the engineering design and consulting sector under China Communications Construction will enter the capital market through the shell of Qilian Mountain. Qilian Mountain's original cement and commercial concrete businesses can achieve vertical integration with the upstream and downstream industry chains of China Communications Construction. This is expected to enhance and strengthen China Communications Construction's supply chain, thereby boosting its performance [3].

Lastly, CNPC Capital Company Limited operates as an arm of China National Petroleum Corporation (CNPC). The company's central focus is on investment and financing endeavors within the bustling energy sector, acting as the financial backbone supporting CNPC's extensive energy projects and explorations. Establishing a financial holding company and choosing the right timing to enter the capital market is a strategic approach to optimize the group's business structure, broaden external financing channels, and coordinate the allocation of financial resources. It also represents a preferred method to achieve specialized management, standardized development, and market-oriented operations in financial businesses [4].

Given the magnitude and strategic significance of these companies in their respective sectors, their restructuring and subsequent listing on stock exchanges were largely driven by motives to attract more capital, enhance corporate transparency, optimize their asset structures, and fortify their competitive stances in both domestic and global markets.

3. Asset-liability Analysis

According to the Pecking Order Theory and the Trade-off Theory, there exists an optimal point for the debt-to-asset ratio. Moderate leverage can bring tax benefits to enterprises, but as debt increases, the possibility of the enterprise facing financial distress and the risk of bankruptcy also increases [5]. When observing the changes in assets and liabilities of CNPC Capital, China Energy Construction, and China Communications Construction in recent years, a significant growth trend has become a noteworthy point. From 2016 to 2018, CNPC Capital's assets grew from CNY 7.75 trillion to CNY 8.91 trillion, while liabilities increased from CNY 6.54 trillion to CNY 7.49 trillion. Similarly, from 2020 to 2022, China Energy Construction's assets rose from CNY 4.76 trillion to CNY 6.64 trillion, with liabilities expanding from CNY 3.38 trillion to CNY 4.96 trillion. China

Communications Construction's assets climbed from CNY 13.91 trillion in 2021 to CNY 17.46 trillion in 2023, while liabilities swelled from CNY 9.99 trillion to CNY 13.08 trillion as shown in Figure 1 and Figure 2.

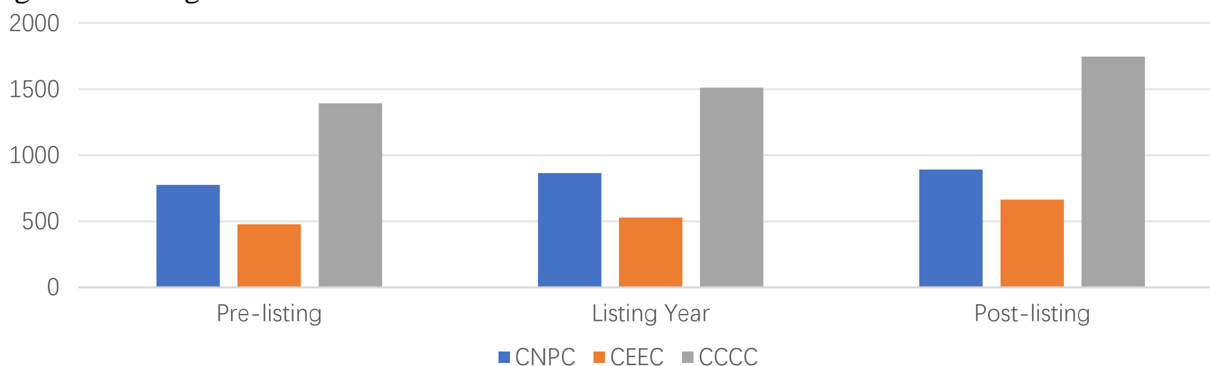

Fig. 1 Asset amount of 3 companies in billions

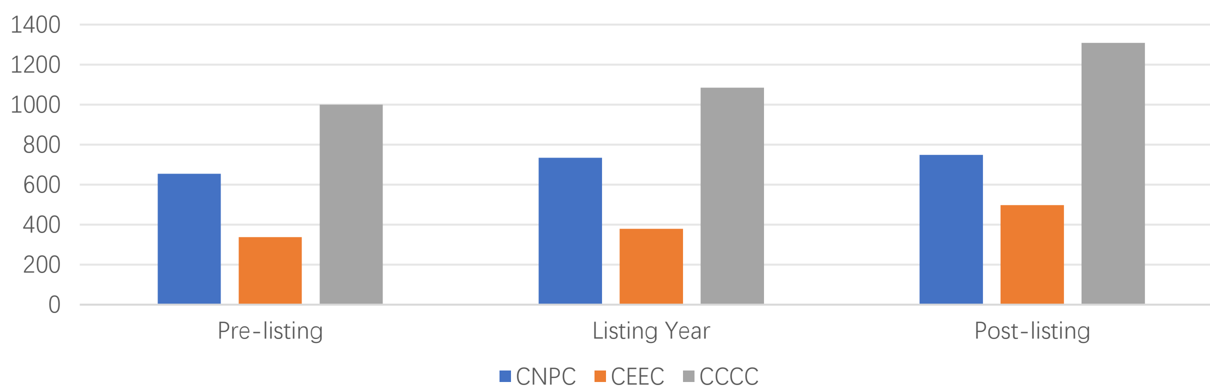

Fig. 2 Liability amount of 3 companies in billions

These trends reveal that these state-owned enterprises have witnessed noticeable increments in assets and liabilities after restructuring and listing. The growth in assets usually signifies business expansion and investment in new technologies or markets, reflecting the ability of these large state-owned enterprises to harness more resources for further growth post-restructuring. The rise in liabilities mirrors the financing strategies these companies adopt to meet funding needs or seize investment opportunities. Persistent growth in liabilities might also indicate challenges these firms could face concerning their capital structure and financial management.

By examining the relationship between their asset and liability growth, it seems that they've maintained a relatively balanced proportion. This indicates that their financial decisions have been robust, and capable of supporting their business operations and expansions. Such growth trends might also depict the operational efficiency and cost management capabilities of these firms.

In summary, the financial performance of state-owned enterprises like CNPC Capital, China Energy Construction, and China Communications Construction, especially the consistent growth in assets and liabilities, showcases how they effectively utilize financing strategies, asset allocation, and business management strategies to achieve larger economic scales and higher operational efficiencies post-restructuring. This growth is more than just an accumulation of numbers; it's a manifestation of their steady development, their ever-increasing competitiveness in both domestic and international markets, and their pursuit and preparation for larger business opportunities in the future.

4. Net Profit and Total Cost Analysis

Profitability and cost management are foundational pillars of a company's financial well-being, exerting a profound influence on its competitive standing and long-term sustainability. In this

comprehensive examination, the analysis delve deeper into the intricate dynamics of how the process of restructuring and listing has left its mark on the net profits and total costs of CNPC Capital, China Energy Construction, and China Communications Construction according to the Fig.3 and Fig.4, shedding light on their holistic business performance.

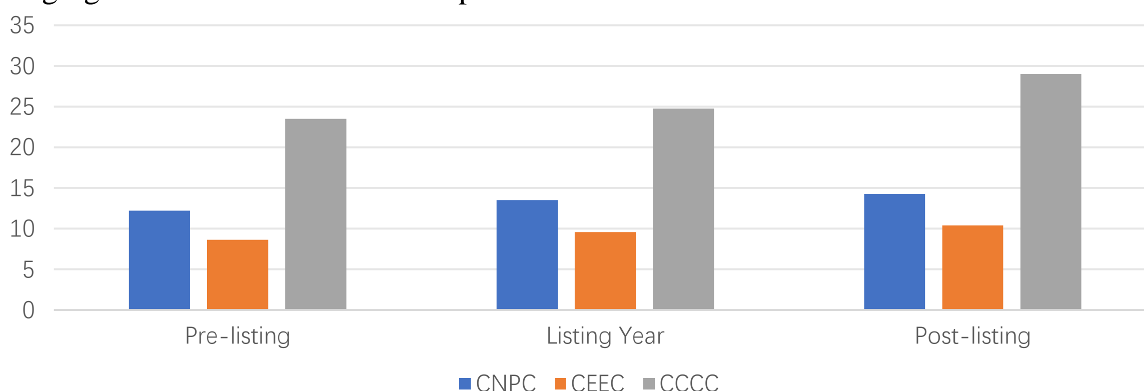

Fig. 3 Net profit of 3 companies in billions

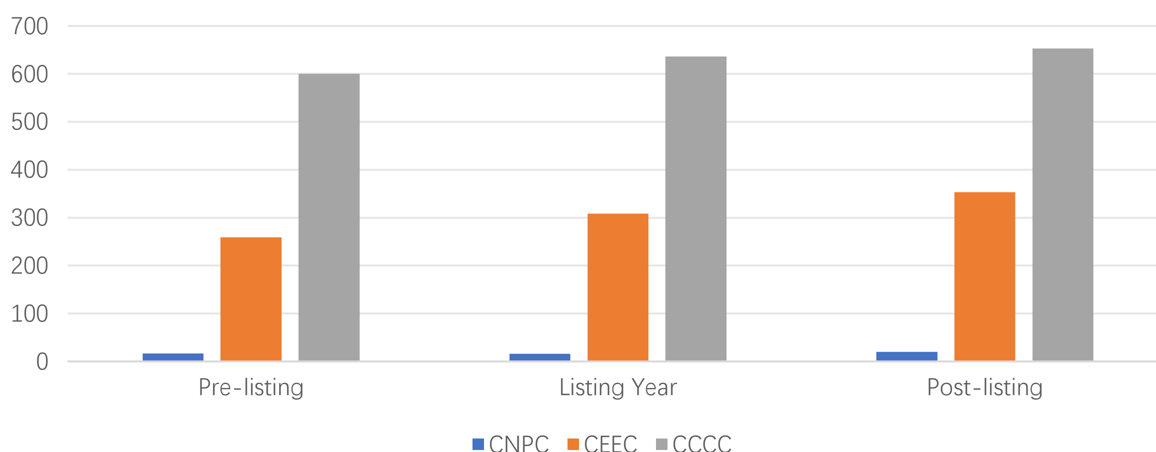

Fig. 4 Total costs of 3 companies in billions

The process of restructuring and listing has instigated a profound transformation in the net profits of these three companies. CNPC Capital's net profit, transitioning from CNY 12,200,878,166.77 to CNY 14,250,245,152.74, China Energy Construction's net profit, elevating from CNY 8,636,943,000 to CNY 10,406,556,000, and China Communications Construction's net profit, surging from CNY 23,497,978,203 to CNY 28,994,672,224, all bear witness to substantial increases according to the Fig.3 and Fig.4. These remarkable surges underscore the latent advantages of tapping into capital markets and optimizing financial structures as part of the restructuring process.

Concurrently, the corporate landscape has been marked by a significant upswing in total costs. CNPC Capital's total costs have surged from CNY 16,529,157,324.86 to CNY 20,066,261,780.07, China Energy Construction's total costs have catapulted from CNY 258,900,161,000 to CNY 353,060,810,000, and China Communications Construction has experienced a similar ascent, from CNY 599,954,206,747 to CNY 652,844,760,504. This underscores the intricate nature of expanding operations and adeptly managing augmented investments following the listing.

Scrutinizing the analysis of net profits and total costs unveils the multi-dimensional effects of restructuring and listing on these corporations. The substantial surge in net profits attests to their proficiency in harnessing the resources and market opportunities conferred by the listing, culminating in amplified revenue generation. This serves as a compelling testament to the potential advantages of capital market access and business expansion.

Nevertheless, the concurrent rise in total costs suggests that the post-listing expansion and investment endeavors have come hand in hand with escalated expenses. The escalation in operational and capital expenditures accentuates the imperative nature of stringent cost control measures and judicious financial planning for the sustenance of long-term profitability.

In conclusion, the ramifications of restructuring and listing have culminated in heightened net profits for CNPC Capital, China Energy Construction, and China Communications Construction, unequivocally underscoring the merits of capital market access and business expansion. However, it is imperative to acknowledge that the concomitant upswing in total costs underscores the pivotal significance of effective cost management in ensuring enduring financial success. Through this transaction, assets with suboptimal profitability are separated from the listed company, and high-quality financial assets with great industry potential and superior profitability are injected. This establishes a comprehensive financial services institution, achieving a transformation in the primary operational business of the listed company. This can optimize the current operational situation of the listed company, enhance its sustained profitability and risk resistance level, and effectively safeguard the interests of all shareholders of the listed company [6].

5. Cash Flow Analysis

The restructuring and listing of state-owned enterprises (SOEs) is an intricate maneuver with profound implications on a firm's financial health, investment readiness, and strategic direction. One pivotal financial metric, often considered a testament to an enterprise's liquidity strength and operational flexibility, is its year-end cash balance. By closely examining the year-end cash balances of CNPC Capital, China Energy Construction, and China Communications Construction over specified intervals, one can discern the potential effects of restructuring and listing.

Table 1. Each Company's annual cash flow summary

CASH FLOW	First-year	Second-year	Third-year
CCCC	95,880,170,794	138,022,132,635	152,180,302,635
CEEC	49,861,244,000	52,203,782,000	64,000,940,000
CNPC	111,598,034,380	117,668,567,859	137,515,519,756

Over the three years, CNPC Capital witnessed a steady increase in its year-end cash balances according to Table 1. Notably, the surge between 2017 and 2018 is over three times the previous year's growth, reflecting an accelerated cash accumulation, possibly post-listing.

China Energy Construction's year-end cash balance showcased a moderate increase from 2020 to 2021 according to Table 1, but a significant jump was observed in 2022. This suggests that post-listing, the enterprise likely harnessed more liquidity, either from operations or market channels.

The year-end cash balances for China Communications Construction saw a pronounced leap in 2022, followed by a more conservative growth in 2023 according to Table 1. This robust liquidity influx in the initial year could signify the immediate benefits of listing, such as access to capital or improved operational efficiency. The consistent upward trajectory in the year-end cash balances for all three SOEs post-restructuring and listing indicates multiple underlying factors:

Enhanced Liquidity Access: Listing provides firms access to a broader capital pool. The infusion of capital can augment their cash reserves significantly.

Operational Efficiency: Post-listing, enterprises might experience increased scrutiny from stakeholders. This often leads to more efficient operations and cash flow management.

Investor Confidence: A surge in cash balance can also be attributed to increased investor confidence post-listing, leading to more investments or favorable credit terms with financial institutions.

In conclusion, the rising year-end cash balances of CNPC Capital, China Energy Construction, and China Communications Construction after their restructuring and listing underscore the potential liquidity and operational advantages that such strategic financial decisions can confer. It is evident

that, at least from a liquidity standpoint, restructuring and listing have fortified the financial position of these enterprises.

6. EPS Analysis

Earnings Per Share (EPS), as an essential metric in financial evaluation, casts a spotlight on the operational success of a company. Its fluctuations, especially in the context of state-owned enterprises, can reflect if a company is doing better or worse, especially for big government companies.

6.1. CNPC

The consistency in EPS for CNPC Capital in the first two years could signal a cautious approach post-restructuring, suggesting that the company possibly maintained its core operations and strategies during this transitional phase according to Figure 5. The boost in the third year, albeit slight, signifies the company's progression towards harnessing the benefits of the listing. This could be attributed to a range of factors: successful integration of newly acquired assets, capital raised from listing invested prudently, or perhaps a positive shift in the industry dynamics benefiting the company.

Fig. 5 EPS of CNPC

6.2. CEEC

The initial rise in EPS for China Energy Construction during the first to the second year points towards an aggressive post-listing strategy, with the company possibly capitalizing on new market opportunities or improving operational efficiencies according to Figure 6. The subsequent slight decline, however, might hint at challenges encountered, possibly due to market saturation or increased competition. The retraction could also be attributed to investments in long-term projects that have yet to yield returns.

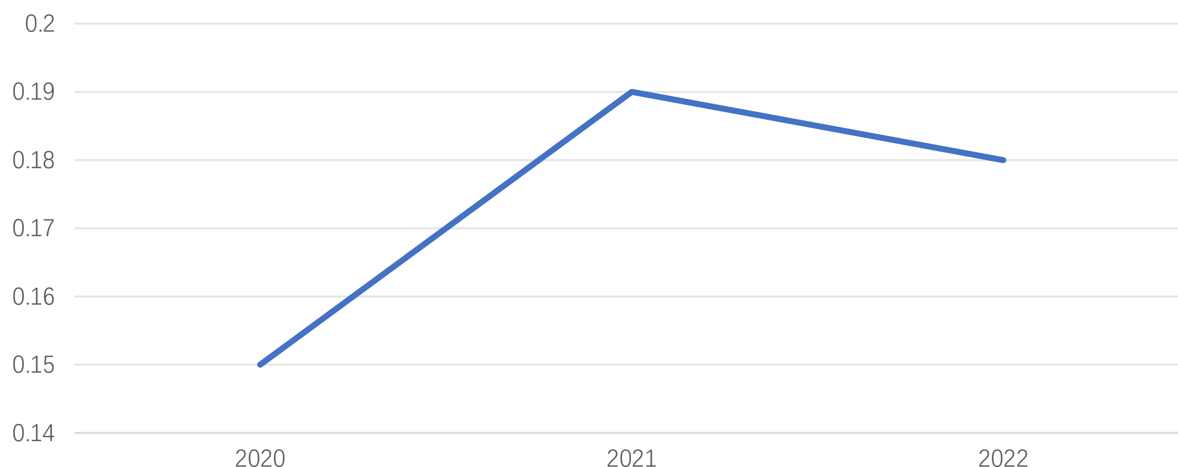

Fig. 6 EPS of CEEC

6.3. CCCC

The upward trajectory of China Communications Construction's EPS paints a promising picture. This consistent growth could result from the company's strategic alignment with national infrastructure projects, expansion into international markets, or leveraging technological advancements to improve operational efficiencies according to the Fig.7. Their steady climb also suggests a robust financial strategy, wherein the funds procured from the listing were judiciously allocated to high-return projects or to streamline existing operations.

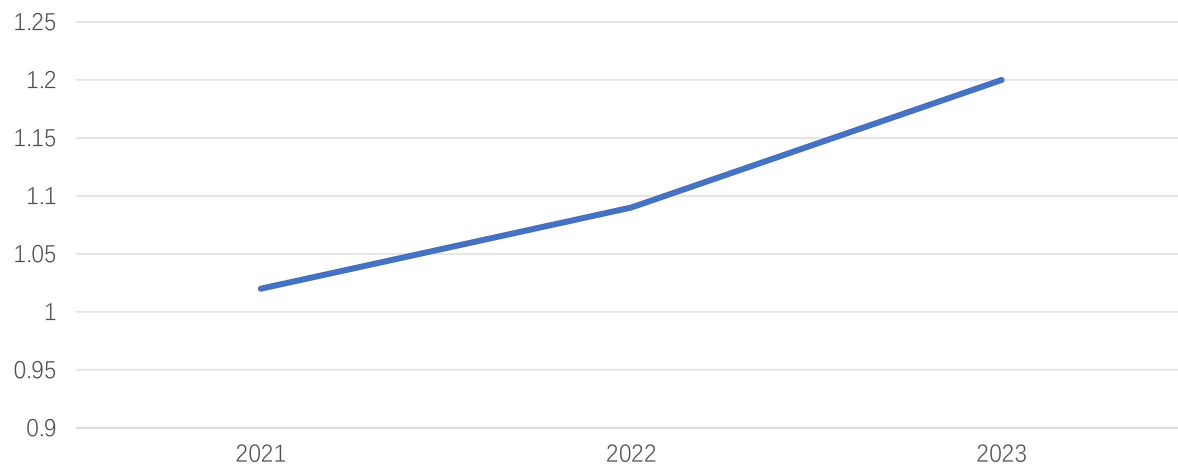

Fig. 7 EPS of CCCC

6.4. EPS Conclusion

State-owned enterprises have special challenges because they work with government plans, national goals, and the market. The EPS trends of these three entities post-restructuring and listing elucidate this delicate balance. While all three have showcased positive signs, their journeys underscore the multifaceted nature of financial performance in the context of large-scale organizational change.

It's also crucial to remember that EPS, while insightful, is just one of the many metrics that inform a company's financial health. Companies should disclose in the notes the calculation process for both the numerator and the denominator of basic earnings per share and diluted earnings per share. However, upon reviewing the annual financial reports of various companies in 2020, it was found that out of 476 companies, only 27 companies fully disclosed the specific calculation process as per the standards. 7 companies provided fragmented information, while the remaining 442 did not disclose or report as per the guidelines. Some companies even failed to disclose information on

diluted earnings per share, without providing any supplementary explanation [7]. Delving deeper into each company's specific strategies, industry dynamics, and broader economic factors will offer a more holistic view. However, as seen in these cases, restructuring and listing can open doors to rejuvenated operational strategies and fresh market opportunities, even in the complex landscape of state-owned enterprises.

7. Suggestion

Based on the preceding analysis, several recommendations and insights can be gleaned for state-owned enterprises contemplating or undergoing restructuring and listing. Firstly, while restructuring and listing have undeniably facilitated the growth and expansion of these SOEs, a conscious emphasis on streamlined operations and diligent cost management is paramount. Given the escalating costs observed, SOEs should implement rigorous cost-control measures and judicious financial planning to ensure sustainable profitability. Secondly, as the liquidity of these enterprises has enhanced post-listing, this presents an opportune moment for them to invest in cutting-edge technologies and strategic ventures, both domestically and abroad. Such investments can fortify their competitive stance and pave the way for long-term growth. Thirdly, as indicated by the EPS trends, SOEs need to maintain a delicate balance between aligning with national goals and responding to market dynamics. Continuous market research, combined with active stakeholder engagement, will be instrumental in identifying and capitalizing on new market opportunities. Lastly, it's essential to foster a culture of transparency and accountability. As these enterprises integrate more with global financial markets, meeting international governance and reporting standards will not only appease regulators but also bolster investor confidence.

Because spin-off listings can give rise to a series of regulatory issues that are not easily detectable, it took more than a decade for China to finally implement explicit regulations regarding the listing of subsidiary companies of listed companies on the A-share market [8]. The successive release of domestic spin-off listing documents, signifies that the domestic market for spin-off listings in China will become more active. This can be observed from the increasing number of disclosed and approved spin-off listing proposals in recent years. Furthermore, as the reform of domestic state-owned enterprises continues to deepen, an increasing number of centrally-owned enterprises listed domestically are also turning their reform efforts toward the trend of spin-off listings [9]. The company should promptly update its understanding of national policies and recognize the significance of the macro external environment for business development before going public [10]. Looking forward, the future for restructured and listed SOEs seems promising. With the right strategies in place, they can be pivotal players in driving national economic growth, while also becoming formidable competitors on the global stage. Their journey underscores the power of blending state objectives with market-driven approaches. However, as with all endeavors of this magnitude, periodic reviews and reform of strategies will be crucial in navigating the ever-evolving business landscape.

8. Conclusion

This analysis critically examines the financial impact of the restructuring and listing of key Chinese State-Owned Enterprises. Restructuring and listing of SOEs, as illustrated by CNPC Capital, China Energy Construction, and China Communications Construction, have significantly boosted their assets, liabilities, net profits, and cash flows, while also influencing their EPS trends. The transition to public markets enhanced corporate transparency, optimized financial structures, and attracted substantial capital, reflecting improved overall performance. The research highlights the intricate relationship between SOEs, capital markets, and their evolving financial metrics post-restructuring. The study provides valuable insights into the effectiveness of restructuring and listing strategies for SOEs, setting a benchmark for assessing similar entities in the future. Despite the comprehensive analysis, it's essential to consider the unique challenges and dynamics of individual

SOEs within their sectors. Future studies could delve deeper into the macroeconomic factors, global market dynamics, and long-term sustainability of these restructuring and listing efforts.

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