

Research on the Motivation and Effect of Corporate Spin-Offs and Listings Based on Hai Di Lao's Spin-off of Super Hi

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Abstract. With the continuous development of the capital market, some listed companies select the spin-off listing method, diving some of their businesses into relatively independent subsidiaries and going public, aiming to better meet the development strategies of companies and the needs of the capital market. This paper aims to analyze the motivation and economic benefits of listed companies choosing a spin-off listing, in order to consider the conditions and significance of spin-off listing and provide reference suggestions for enterprises in the capital market and relevant government departments. This article takes Hai Di Lao splitting Super Hi as an example to study the motives behind the split and analyzes the economic benefits that the split brings to both the parent firm and subsidiary. Spin-off listing is an important measure for enterprises in the capital market. Finally, the paper provides reference suggestions for other firms in need in the capital market to choose spin-off listing cautiously and for the China Securities Regulatory Commission to regulate the behavior of spin-off listing.

Keywords: Spin-off listing, Economic benefits, Motivation, Regression analysis method.

1. Introduction

Spin-off listing refers to the act of a listed company publicly offering or restructuring its business or assets in the form of its directly or indirectly controlled subsidiaries in the securities market. It is an essential measure for enterprises in the capital market. Spin-off listing plays an important role in promoting the security market development, so relevant departments of the Chinese government have attached great importance to it. In 2019, the China Securities Regulatory Commission drafted the "Several Provisions on Pilot Domestic Listing of Subsidiaries under the Spin-off of Listed Companies" and began soliciting opinions from the public in August of that year, aiming to clarify the specific conditions that listed companies need to meet for domestic spin-off and listing, thereby regulating market order and promoting the development of capital market in China [1].

Hai Di Lao was founded in Jianyang, Sichuan Province in 1994 and has a history of nearly 30 years. The brand of Hai Di Lao focuses on hot pot and is famous for its comprehensive service. It officially launched on the Hong Kong capital market on September 26, 2018. As a leading enterprise in Chinese catering service industry, its strategic measures will have a significant impact on the domestic market and related industries. In 2022, the overseas business subsidiary of Hai Di Lao, Super Hi Holdings Limited, submitted a listing application to the Hong Kong Stock Exchange, planning to list on the main board of the Hong Kong Stock Exchange in the form of an introduction to separate its mainland business from its overseas business. Among them, the introduction form of listing can be defined as a company directly applying for listing without the need to substantially sell its stocks to the public before going public [2]. The joint-stock company applies to the stock exchange to obtain the qualification to list its securities for trading in the market, which does not involve immediate fundraising, so there is no need to make arrangements for the sale of securities. This article will take the example of Hai Di Lao's spin-off and listing of Super Hi to analyze the motives and effects of the company's spin-off and listing.

2. Motivation for the Spin-off of Super Hi

2.1. Optimization of Hai Di Lao Group's Performance

According to the prospectus data of Super Hi, Super Hi has been in a state of continuous loss from 2019 to the first half of 2022, with losses of US\$33 million, US\$53.8 million, US\$151 million, and US\$55.7 million respectively during the corresponding period.

The listing method adopted by Super Hi is the introduction of the listing, which does not require the issuance of new shares and financing, and does not involve fundraising, so the listing speed is relatively fast, omitting some traditional listing links and costs. The fact that Super Hi was listed on the Hong Kong stock market in the form of an introduction shows that the main purpose of its listing is not to raise funds but to quickly enter the market as an independent company.

2.2. Reduction of the Risks Taken by Hai Di Lao Group

In the prospectus of Super Hi Group, it was stated that the loss was mainly due to the impact of the epidemic on the catering industry. But, in addition to the impact of external market factors on Super Hi, there are also greater risks within Super Hi [3].

First of all, Super Hi's labor cost is too high. The catering industry is a labor-intensive industry, and Hai Di Lao is known for its excellent service. The demand for labor is even stronger. According to the financial report data, Hai Di Lao had a total of 102,793 employees in 2019, and employee costs (including salaries, wages, allowances and benefits) in 2019 were 7.9 billion yuan. And with the continuous expansion of Hai Di Lao, and the perennial higher labor costs of foreign countries than those in China, the higher labor costs of Super Hi have increased the risk to enterprises.

Secondly, Super Hi has a large debt. With the expansion of Hai Di Lao's stores, the cost of opening a store is higher but the return on profit is slow, and the continuous expansion investment has brought large debts to Super Hi Group. According to the cost of opening a store disclosed in the prospectus, Hai Di Lao's expenditure on opening a new store in Intercontinental except Asia is between 2.5 million and 6.5 million US dollars, which is four times the investment in new stores in China. The continuous expansion of overseas has increased the debt burden of Super Hi. Therefore, in order to reduce the overall debt level of Hai Di Lao Group, Super Hi was spun off and listed.

3. The Economic Benefits of Splitting up Super Hi

3.1. From the Perspective of the Parent Company

3.1.1 Focusing more on its core business for firms

Spin-off can enable the company to pay more attention to its core business, avoiding excessive dispersion of resources and energy, thereby improving the efficiency of the company's operations and overall performance [4]. In recent years, the operating performance of Hai Di Lao has not been optimistic. Since reaching the peak of HKD 86.75 per share in February 2021, its stock price has been declining over time. In 2021, Hai Di Lao achieved an operating income of HKD 41.11 billion and a loss of HKD 4.16 billion for the year. There are obvious differences in the development and stages of Hai Di Lao in mainland China and overseas. Therefore, Hai Di Lao decided to improve and adjust its strategy. The split of Super Hi helps Haidilao focus more on the adjustment of its scale and marketing strategy in Mainland China, to improve the predicament of loss.

3.1.2 Market flexibility of the company increased

Spin-off can enhance the flexibility of a company to some extent in the capital market. After the spin-off, independent entities can independently decide whether to raise funds based on their own funding needs and growth plans, thereby better meeting funding demands and promoting the development and expansion of their respective businesses, bringing considerable benefits to the two groups. In addition, Super Hi adopted an "introduction form listing", which can separate its financing and securities listing in terms of time, giving it higher flexibility.

3.1.3 Market value of enterprises improved

Spin-off can increase the market value of a company [5]. After being spun off into independent entities, each entity can more clearly demonstrate its business model, financial status, and market prospects for development, thereby better-attracting investors to invest and achieving the goal of improving the overall valuation of the company.

In this paper, the short-term event study is used to analyze the economic effects and market value enhancement brought by the split of Super Hi to Hai Di Lao. Event study refers to selecting a specific event based on the purpose, studying the changes in sample stock returns before and after the event, and then explaining the impact of a specific event on sample stock price changes and returns. In the short-term event study, there are main concepts such as event day, event window period and estimated window period, market returns, firm returns, abnormal returns (AR), cumulative abnormal returns (CAR), etc.

For Hai Di Lao, its event date, which is the listing time of Super Hi, is December 30, 2022, recorded as $t=0$. Taking a total of 19 days before and after the event date as the event window period, which is from December 21, 2022, to January 8, 2022. Finally, the 174 days before the event window period, from June 30, 2022, to December 19, 2022, are regarded as the estimated window period, as shown in Fig.1.

Equation (1) calculates the market returns and firm returns for the estimated window period and window period respectively. Then, by regressing the market returns within the estimated window period and the firm returns of Hai Di Lao, the following regression equation is obtained, where α is 0.0036, β it is 1.2976, with an R-squared value of 0.5215, indicating a correlation between the independent and dependent variables.

$$R_{mt} = (P_{mt} - P_{mt-1}) / P_{mt-1} \tag{1}$$

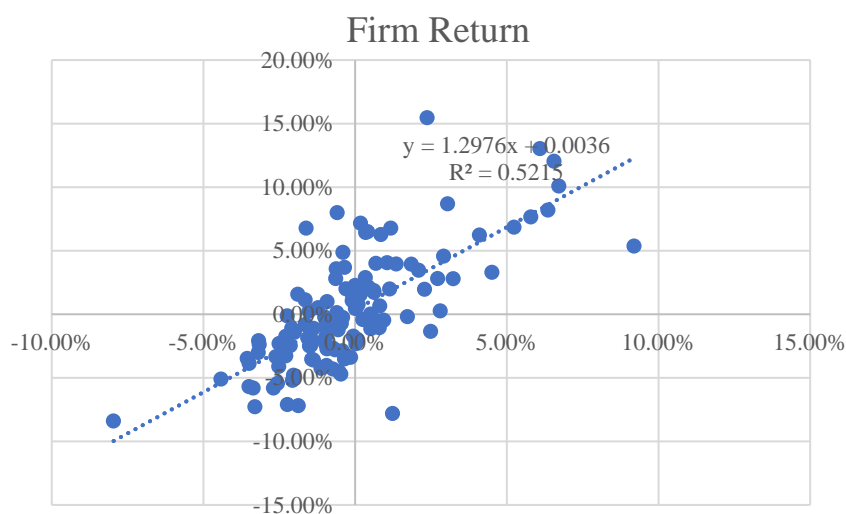


Figure 1. Regression fitting diagram of the estimated period for spin-off listing event

The market returns during the event window period are substituted into the regression equation to obtain the normal returns at different times during this window period. Then the normal return rate is subtracted from the firm returns during the event window period to obtain the daily abnormal return during the event window period. Eventually, all the abnormal returns are added up to obtain cumulative abnormal returns during the event window period, which is 4.00%.

From the above calculation data, it can be seen that during the event window period, the cumulative abnormal return was positive, indicating that the actual return on investment in Hai Di Lao exceeded the expected return and was over the market average. Therefore, it is clear that with the spin-off and listing of Super Hi, Hai Di Lao's market value has achieved positive growth and has shown good performance in the stock market, receiving market recognition. Although the stock returns have fallen and fluctuated unevenly in individual subsequent days, in the short run, the impact of the spin-off of Super Hi on the parent company is positive and has increased the market value of Hai Di Lao to some

extent [6]. If viewed in the long run, the good performance achieved by Hai Di Lao may not necessarily continue, as other influencing factors in the market and strategic decisions within Hai Di Lao will play a role over time.

3.2. From the Perspective of the Subsidiary

As of June 30, 2023, the total operating revenue of the Super Hi in the first half of 2023 was 323.9 million dollars, an increase of 31.8% from 245.8 million dollars in the same period of 2022. Its operating condition is continuously improving and strengthening. Additionally, the profit margin of Super Hi restaurant is 8.3%, an increase of 6.8% compared to the same period in 2022, and an increase of 2.2% in contrast to the second half of 2022. The restaurant's profitability is constantly improving [7].

In the first half of 2023, the prevention and control measures for the COVID-19 epidemic in the country where Super Hi operates have been canceled. The local consumer market continues to recover, and the operation of restaurants has returned to normalcy, which provides opportunities for the improvement of business situation and profitability in Super Hi. Besides, after the spin-off from its parent company, Super Hi has focused more on its overseas business, striving to improve the operational management mode of its restaurants in various overseas regions, such as repairing store management loopholes, reasonably controlling costs and expenses, and enhancing employment efficiency. Then, Super Hi constantly strengthens the quality of services and combines localization with innovation in a bid to meet the diverse needs of local consumers [8]. Ultimately, remarkable results were achieved.

4. Risks of spin-off and listing

4.1. Damages of Shareholders' Rights and Interests

Related-party transactions refer to all legal acts that occur between the company and its affiliates to transfer resources or obligations. It is characterized by the fact that Party B is the company and the other party is a related person of the company. And the transaction is decided by the related party. When there is a conflict of interest between the parties to the transaction, the related party may use the control to harm the interests of the company [9]. In the process of spin-off of a listed company, it is difficult to avoid the business relationship between the two parties in a short period. Especially when the industry is in a downturn and encounters capital market pressure, it is easy to generate risks.

Due to the parent company's long-term management and control of the subsidiary, it will likely be on the side of the related party. After the spin-off of the enterprise, the parent company is very likely to carry out illegal related party transactions for its own development, resulting in improper resource allocation, agency failure, and earnings management problems. This may lead to unclear management rights and responsibilities of the parent and subsidiary, and their business operations will also be affected, making it difficult for the subsidiary to develop independently, and causing damage to the rights and interests of the shareholders of the subsidiary.

In the process of spin-off and listing, it is also worth paying attention to whether the interests of the original shareholders will be harmed. The interests of the original shareholders will be affected by issues such as whether the parent company can continue to operate high-quality business after the spin-off and listing, and whether commercial interests and resources will be allocated by the subsidiary. Changes in the actual value of the parent company and changes in the share of shares will also cause fluctuations in the actual value of the shares held by shareholders. In order to protect the interests of the original shareholders, the Hong Kong Stock Exchange has adopted a guaranteed quota system, which stipulates that listed companies need to provide guaranteed quotas to the original shareholders, that is, to distribute shares of the new company to the original shareholders, or to give the original shareholders the option of preemptive subscription of the shares of the new company, so as to avoid dilution of their shareholders' interests.

4.2. Peer Competition Issues After the Spin-off

Intra-industry competition refers to the fact that the business engaged in by the company is the same or similar to the business engaged in by other enterprises controlled by its controlling shareholder or actual controller, and the two parties constitute or may constitute a direct or indirect competitive relationship [10].

For example, the Yunnan Yuntianhua Group (parent company) and Yunnan Yuntianhua Co., Ltd. (subsidiary) are a typical case. Both the parent and subsidiary companies are engaged in a comprehensive chemical industry with the phosphorus industry as the core. The parent company is the actual controller of the subsidiary, holding 38.48% of the shares of the subsidiary. And the parent company cannot be listed for financing, and only the subsidiary can be listed for financing. When a subsidiary is listed, the promoter (parent company) fails to load all the relevant assets and businesses that constitute a competitive relationship into the listed company (subsidiary), which ultimately leads to the formation of a competitive relationship between the existing business of the listed company (subsidiary) and the controlling shareholder (parent company). When there is intra-industry competition, the parent company can use its voting rights to determine the major operations of the subsidiary. If its vote is in favor of a non-listed company (parent company), it is unfair to the minority shareholders of the listed company.

5. Advice and Inspiration

The spin-off and listing of an enterprise should be based on the company's own actual situation. The success of the spin-off and listing of Super Hi has given it broader market and development prospects and has also brought better financial performance and less risk to Hai Di Lao Group. But that doesn't mean a spin-off is a completely beneficial decision. Enterprises should carefully consider and conduct risk assessment when choosing to spin off and go public, so as to reduce losses caused by decision-making mistakes.

At present, China's capital market is still in the process of continuous trial and improvement, and the government regulatory authorities should strengthen the supervision of spin-offs and listings, doing a good job in reviewing the qualifications of spin-off and listed enterprises, improving information disclosure, and strengthen industry norms. It is an obligation for government to establish a sound capital market, protect the rights and interests of shareholders, and promote the healthy operation of more capital.

6. Conclusion

This paper adopts the regression analysis method and finds that the spin-off and listing of Super Hi is beneficial to the stock market value management of Hai Di Lao Group. After the spin-off of Super Hi, the risk of debt risk and expected high labor costs faced by Hai Di Lao Group can be reduced, and after excluding the loss-making performance of Super Hi, Hai Di Lao's financial performance will be optimized, which will be more conducive to the financing and development of Hai Di Lao Group.

By analyzing the financial situation of Super Hi before and after its spin-off, the spin-off and listing of Super Hi are conducive to the development of Super Hi. After the spin-off, Super Hi will focus more on its core business, timely and effectively adjust the company's scale and business strategy in the Chinese mainland, improve the company's operating conditions, and turn losses into profits.

The pros and cons of a spin-off must be considered from both sides of the parent company. On the one hand, the spin-off and listing of enterprises must consider the development of the parent company itself. The spin-off of some enterprises may result in vacancies in management positions and industrial operations of the parent company in the short term. Therefore, the spin-off and listing of an enterprise must consider whether the long-term benefits after the spin-off are lasting and effective and whether the enterprise can bear short-term losses. On the other hand, the spin-off and listing of

an enterprise must take into account the expected development of the spin-off enterprise. After the spin-off of the company, it is necessary to consider whether it can bear its liabilities and its ability to finance and become independent. The issue of independent development of the spun off enterprise is the primary issue that needs to be considered in the spin-off.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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