Research on why Nayuki Holdings Limited fell on its first day of trading

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Abstract. Nayuki went public in Hong Kong in 2021 and fell on its first day of trading. In recent years, the case of fall on its first day of trading often occurs, so it is necessary to analyze the reasons for fall on its first day of trading. This paper takes Nayuki as a case to analyze the phenomenon of fall on its first day of trading. Firstly, according to the comparative analysis, it is concluded that Nayuki has certain risks for investors; Then, Nayuki, Luckin Coffee and ChaPanda are compared and analyzed to find out the influence of different business strategies and marketing models on whether fall on its first day of trading occurs. In the end, the paper analyzes the reasons and concludes three reasons: the homogeneity of the new tea industry in China is too high, the cost is too high but the profit is unknown and the marketing strategy is wrong. The research of this paper has certain reference significance for Nayuki to deeply understand the shortcomings of its own development, so as to optimize the operation, increase the market value, and strengthen the competitiveness.

Keywords: Nayuki; fell on its first day of trading; financial analysis.

1. Introduction

In recent years, in China, new tea enterprises continue to develop. As the economy of these enterprises continues to increase, some new tea enterprises decide to apply for listing. Until now, the two new tea drinks that have been successfully listed have fallen on its first day of trading after going public. Nayuki Holdings Limited (Nayuki), known as the first stock of new tea, fell on its first day of trading after its listing. What caused Nayuki to fall on its first day of trading? For new tea companies that want to go public, whether they can reduce the possibility of falling on its first day of trading

An IPO fall on its first day of trading is when a stock closes below its offering price on the first day of trading [1]. Nayuki launched its public offering on June 18, 2021, and was officially listed in Hong Kong on June 30, 2021. The issue price was HK $19.8, but the opening price was HK $18.86, and the closing price was HK $17.12, down 13.54% from the issue price. Fall occurred on its first day of trading. In addition to the financial quality of the company before listing, the price quoted by institutional investors and the sentiment of retail investors in the secondary market may also lead to the abnormal first-day returns of the IPO [2].

There are many studies on the reasons for falling on its first day of trading. Shen made an analysis on the fall on its first day of trading in Zhihu's US stock listing. According to him, the reasons include high IPO pricing, the ownership structure of the internal management, the financial status of the enterprise itself, the IPO issuance system, the market environment and so on [3]. Ji analyzed the fall on its first day of trading in BeiGene, Ltd., and gave an analysis of two related reasons: the IPO system and the underwriter's perspective [4]. About ASR Microelectronics falling on its first day of trading, Yuan believed that the issuance price of ASR Microelectronics was much higher than its intrinsic value, the R&D project was not completed as scheduled, and the stock market was in a downward cycle [5]. Yue made an analysis of Chengda Biologics fall on its first day of trading, The reasons are given, such as low shareholding ratio of major shareholders, high operational risk of the company, high issue price, certain financial risk of the company, negative public opinion of the media, opportunistic behavior of sponsors and underwriters, and investor sentiment [6].

2. Financial Analysis before IPO and post

First of all, the pre-IPO financial quality is a major factor affecting the occurrence of anomalies on the first day of IPO. Through the data of Nayuki in the six months before and after the listing, we can try to analyze the reasons for the fall on its first day of trading after the listing.

The current ratio is a measure of short-term solvency. A smaller current ratio means a weaker ability to pay short-term liabilities [7]. The formula for calculating the current ratio is

$$Current\ ratio\ =\ Current\ assets\ /\ Current\ liabilities \tag{1}$$

By comparing the two data in table 1, it can be concluded that the current ratio in 2020 is much smaller than that in 2021. Therefore, it can be concluded that the ability to pay short-term liabilities in 2020 is weaker than that in 2021, that is to say, Nayuki Holdings Limited's ability to pay short-term liabilities before listing is weaker. The current ratio has a positive impact on corporate earnings, and if the liquidity level is good, the company can generate profits and attract more investors [8]. However, the current ratio of Nayuki in the first six months of listing is low, which makes investors have lower expectations for the company, which may lead to fall on its first day of trading. Total debt to total assets can represent the participation of debt in assets [9]. The higher the value is, the higher the participation proportion of debt is, and the higher the risk of the company is. The formula for calculating Total debt to total assets is

$$Total\ debt\ to\ total\ assets\ =\ Total\ debt\ /\ Total\ assets \tag{2}$$

According to the results in table 1, it can be found that the value of Total debt to total assets in 2020 is greater than 1, which is much larger than the value in 2021. It can be concluded that the total debt of Nayuki was greater than the total assets in 2020. As a result, Nayuki fell on its first day of trading to a certain extent.

Table 1. Relevant financial data for 2020 and 2021

	Current assets	Current liabilities	Total debt	Total assets	Current ratio	Total debt to total assets
2020	1329.92	2728.19	3738.53	3314.11	0.49	1.13
2021	4670.92	1330.17	2385.02	7328.45	3.51	0.32

3. Comparative Analysis with competitors

Nayuki Holdings Limited, as the first new tea brand to be listed, the reason why Nayuki fell on its first day of trading can be analyzed by comparing it with other offline store beverage companies that were listed before or after it.

3.1. Comparison with Luckin Coffee

Luckin Coffee is an offline coffee brand that has gone public in recent years. Luckin Coffee went public in the U.S. on May 17, 2019. Unlike Nayuki Holdings Limited, Luckin shares rose 19.88% on their first day of trading. What makes these two companies so different? competitors will have a certain impact on enterprises' ipo [10]. Luckin had few competitors as offline coffee brands at the time of listing, with Starbucks China as its main rival. Luckin and Starbucks operate in a very different way. Luckin pays more attention to the time experience of consumers rather than the store experience. The most unique feature of Starbucks is its experiential marketing, that is, sensory experience, emotional experience and service experience [11]. Luckin Coffee has gained favor with investors thanks to its unique marketing strategy. Nayuki Holdings Limited, as a Tea brand, has many competitors in China, including Mixue Ice Cream & Tea, which is more affordable, and Heytea, which has a higher recognition and was established earlier. As an offline beverage company, its marketing model is similar to that of Starbucks, a listed company, with high-end drinks and space for social activities as the main model. Companies should be listed on the premise that investors are most optimistic about the company's prospects [12]. In this case, the probability of fall on its first day of trading after Nayuki is increased.

3.2. Comparison with ChaPanda

Following the listing of Nayuki Holdings Limited, ChaPanda became the second new tea brand to go public in Hong Kong on April 23, 2024. ChaPanda fell on its first day of trading, as did Nayuki Holdings Limited. ChaPanda's shares closed down 27% on their first day of trading. Different from Nayuki Holdings Limited, ChaPanda's main business model is store franchise, and the income from franchise stores accounts for 99.2% of its total revenue [13]. However, both Nayuki and ChaPanda are facing the same dilemma. There are already many similar tea enterprises in China, and it is difficult to give investors confidence due to the lack of innovation and differentiation. In addition, both of them have the possibility of overpricing, which may lead to fall on its first day of trading and further make the company in a weak position [14]. With a large number of new tea brands already available, going public requires more innovation and proper pricing.

The marketing model of ChaPanda and Nayuki is different. Unlike ChaPanda, which is mainly a franchise store, Nayuki is mostly a direct store. The fall on its first day of trading after the two brands were listed on the Hong Kong stock market reflects to some extent that the Hong Kong stock market does not have high expectations for the new tea brands. Direct store-based brand cost pressure, capital turnover is not high, and the brand based on the franchise and franchisee easy to conflict because of interest; Both direct and franchise rely heavily on store expansion. No matter what kind of business model new tea brand listed in Hong Kong has certain difficulties.

Table 2. First-day stock price changes for competitors

Brands	Nayuki Holdings Limited	Luckin Coffee	ChaPanda
First-day change	-13.54%	19.88%	-27%

4. Reason Analysis

Nayuki was valued at about HK $12.5 billion at the time of its last fundraising; By the time it went public, it would be worth about 34 billion Hong Kong dollars at the issue price. Less than half a year elapsed between the last fundraising and the listing. The valuation has risen a lot in a short period of time, and there is a high probability that Nayuki is listed at a high premium, so the secondary market is full of risks. The final listing did fall on its first day of trading. Nayuki fell on its first day of trading due to three main reasons: high homogeneity in the domestic new-style tea industry, high cost but unknown profit, and mistakes in marketing strategy.

4.1. Big market competition

In recent years, many new tea brands have been developed in China. In 2023, the mainland's new tea offline stores reached 551,000, and the new tea industry has shown a trend of saturation in recent years. And it is inevitable that there will be homogeneity between various brands. For Nayuki Holdings Limited, Heytea has many similar aspects, such as drinks and brand positioning. Heytea was founded in 2012, earlier than Nayuki Holdings Limited. Heytea and Nayuki are also high-end beverage brands, and their business model is mainly based on direct stores. For consumers, Heytea is a more familiar brand and will be more inclined to choose Heytea. With many competitors, Nayuki has no absolute advantage and is easily surpassed by other brands. It brings great risks.

4.2. Cost Control Issues

The material cost and staff cost of Nayuki are very high, and the sales performance of Nayuki is not satisfactory. From 2020 to 2022, the cost of tea materials of Nayuki is 1.159 billion RMB, 1.401

billion RMB and 1.416 billion RMB, accounting for 37.91%, 32.60% and 32.99% of the revenue, respectively. Employee costs were 919 million RMB, 1.424 billion RMB and 1.362 billion RMB, accounting for 30.06%, 33.14% and 31.73% of the revenue, respectively. These two expenses are unavoidable expenses for Nayuki Holdings Limited. However, as far as income is concerned, these two items account for a large proportion, which will have a great impact on the loss of enterprises. Its growing trend poses a serious challenge to the profitability of enterprises. The surge in material costs and staff costs makes the company face severe financial pressure, which may lead to a sharp decline in net profit or even a loss. Apart from directly affecting corporate profitability, this situation may also affect the competitiveness and market position of Nayuki Holdings Limited. High costs may limit the flexibility of companies in product pricing and marketing, making it difficult to cope with fierce market competition and changing consumer needs. In this case, the risk of Nayuki is very high.

4.3. The Marketing Strategy Needs to be Improved

There was a problem with Nayuki Holdings Limited's marketing strategy, as its main marketing line was high-end products and space for social events. In the case of more and more new tea drinking companies, established brands need to continue to expand offline stores if they want to maintain a dominant position. Nayuki stores are larger and more refined than most other tea brands. In this case, Nayuki Holdings Limited's business strategy and direction became a drag on expansion. Therefore, it is necessary to spend a lot of money on store construction to develop. As the number of stores increases, so does the cost of keeping them open. This can lead to lower profit margins as companies pay more for rent, labor and operating costs. And large stores and elaborate decoration may lead to inefficient use of space. Some areas may not be fully utilized, resulting in wasted resources. Nayuki Holdings Limited's business strategy may also limit the company's flexibility. In a rapidly changing market, it is difficult to quickly adjust the layout and design of stores, which can lead to the company's delay in responding to competition and market demand. Because such a strategy leads to the difficulty of expansion, it takes a long time to develop, but because of the long time requirement brings risks.

5. Conclusion

With the continuous development of new tea, more and more new tea brands are eager to go on the market for development. However, the new tea enterprises that have been listed show the phenomenon of falling on its first day of trading after listing, which makes the behavior of listing reveal risks. Nayuki, as the first new tea brand to be listed, fell on its first day of trading due to excessive homogeneity in the industry, high costs, unknown profits and certain mistakes in business strategies. In order to avoid falling on its first day of trading in the future, the most important thing for the new tea brand to be listed is to maintain innovation. Through innovation, the competitiveness of the brand in the industry can be guaranteed, which can improve investors' expectations for the company and maintain more vitality after the listing.

In this paper, the reasons for the fall on its first day of trading of Nayuki are studied by means of data analysis and comparative analysis. It can be concluded that investors have a large risk expectation for Nayuki. The reasons include the high homogeneity of the new tea industry in China, the high cost but unknown profit, and the mistake of marketing strategy.

Through the analysis of this paper, it is suggested that Nayuki develop a more unique model and concept of a new tea business, try to adjust and optimize the cost of materials, and adjust the business model to some extent.

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