

Research on the Impact of Spin-Off Listing on Corporate Performance: A Case Study of Wuchan Zhongda's Spin-Off of Wuchan Huaneng

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Abstract: Spin-off listing is a capital operation strategy that effectively addresses the issue of limited financing channels for companies. It can also incentivize management, improve corporate operations, enhance the operational capacity and cash flow of subsidiaries, unlock growth potential, and deepen transformation. China introduced spin-off listings in 2000, but due to strict regulations and an underdeveloped capital market, substantial progress was not made until 2019 when the registration-based system was implemented along with the issuance of specific regulations. This officially marked the beginning of domestic spin-off listings. As policy reforms took effect, the number of listed companies spinning off high-quality assets increased. However, due to the nature of business operations and listing challenges, most Chinese companies choose to spin off subsidiaries to the STAR Market rather than adopting a "Main Board to Main Board" approach. Research on "Main Board to Main Board" spin-offs has largely remained theoretical. Therefore, it is necessary to analyze practical cases of companies spinning off subsidiaries to the Main Board. This study selects Wuchan Zhongda's spin-off of Wuchan Huaneng, the first successful "Main Board to Main Board" spin-off in China's A-share market, as a case study.

Keywords: Spin-off listing, Capital operations, Spin-off motivation, Main Board listing

1. Introduction

In the report of the 20th National Congress of the Communist Party of China, President Xi Jinping emphasized the need to accelerate the development of a new economic pattern centered on the domestic cycle, with the domestic and international cycles reinforcing each other. One of the key strategies is to establish a unified national market, deepen factor market reforms, and build a high-standard market system. In recent years, as China's multi-tiered capital market has continued to evolve, market competition has intensified. More listed companies are actively seeking diversified and comprehensive development strategies to enhance their scale and competitiveness. However, challenges such as inefficient resource allocation, frequent information asymmetry, and complex management structures have led to growing concerns over negative synergies. As a result, many diversified listed companies have begun exploring effective asset restructuring approaches. Spin-off listing is a strategic asset restructuring method that has gained significant attention in China's capital market. As a form of capital operation, spin-offs have been widely adopted by Chinese enterprises in recent years, primarily to alleviate financing difficulties or to allow parent companies to concentrate

on their core businesses and enhance specialization. Ultimately, spin-offs are expected to become an internal driving force, fostering high-quality growth for the parent company.

2. Background of Spin-off Listings

Since the early 1990s, China's stock market has undergone over 30 years of exploration, reform, and development. The stock issuance system has transitioned through different regulatory frameworks, including the approval-based system, the verification-based system, and the registration-based system, gradually forming a relatively comprehensive listing mechanism. Before 2000, China's securities market operated mainly under an administrative approval model, with stock issuances subject to provincial-level review and quota management. With the enactment of the Securities Law of the People's Republic of China on March 17, 2001, the country implemented the verification-based system, under which stock issuance had to comply with regulatory requirements and obtain approval from the China Securities Regulatory Commission (CSRC). Since March 2016, China has gradually introduced the registration-based system, initially piloted on the ChiNext Market, STAR Market, and the Beijing Stock Exchange. This period marked an experimental phase for the registration-based system, while the Main Boards of the Shanghai and Shenzhen stock exchanges continued to operate under the verification-based system, resulting in a coexistence of the two frameworks. On February 1, 2023, the CSRC officially announced a comprehensive reform of the stock issuance system, fully transitioning to the registration-based system. This shift signifies that in the future, the ChiNext Market will transition from verification-based to registration-based issuance, with China's stock issuance process moving from administrative control to a market-oriented approach.

3. Literature Review

Vijh conducted a study on over 600 enterprises spanning more than a decade, comparing their financial performance. The findings indicated that spin-off listings could significantly enhance corporate financial performance, with improved business focus identified as a key factor contributing to better operational outcomes [1]. Chahine and Zeidan, analyzing 158 companies, argued that if a company had weak corporate governance before listing, a spin-off would not necessarily enhance corporate value. Moreover, if managerial capabilities did not improve post-spin-off, the company's long-term performance could deteriorate [2]. Similarly, Madura and Nixon expressed reservations, asserting that spin-off listings could not resolve financial distress in companies facing severe funding challenges and might even result in negative financial consequences [3]. In China, Xiao Aijing and Geng Huijian conducted case studies on domestic enterprises, comparing financial performance indicators such as solvency, profitability, operational efficiency, and growth before and after spin-offs. Their findings suggested overall improvements, leading to the conclusion that spin-offs are beneficial for both parent and subsidiary companies in the long run [4]. However, Zheng Anran offered a different perspective. Using six parent companies—including Tongrentang—as samples and analyzing financial performance three years before and after their spin-offs, Zheng found that long-term financial performance did not consistently improve post-spin-off and, in some cases, was worse than pre-spin-off levels. This indicates that the relationship between spin-off listings and financial performance is not necessarily positive and requires further investigation [5].

Regarding non-financial performance, James and Bruno suggested that spin-off listings serve as a partial capital exit strategy for parent companies, allowing subsidiaries to streamline management structures and simplify business operations. This enables subsidiaries to focus more on core competencies, thereby improving operational efficiency and enhancing non-financial performance [6]. In China, Ye Weidong et al. argued that after spin-off listings, subsidiaries leverage public capital markets to deepen specialization, optimize ownership structures, and drive business transformation,

which contributes to global competitiveness and overall corporate value enhancement [7]. Xu Zongyu et al. employed a difference-in-differences (DID) methodology to examine the performance of spun-off parent companies in the Shanghai and Shenzhen stock markets. Their research concluded that spin-off listings generate value through financing, operational, and governance effects, ultimately maximizing shareholder interests. Despite differing research methodologies, there is consensus that spin-off listings improve non-financial performance to a certain extent [8].

4. The Process of Wuchan Zhongda's Spin-off Listing

On June 30, 2020, Wuchan Zhongda convened its 9th Board of Directors' 8th meeting, during which it approved the Proposal on Spinning Off Wuchan Huanneng for Listing on the Shanghai Stock Exchange (SSE) Main Board. In August, the company underwent a special due diligence review by its sponsor, CITIC Securities, to determine whether the spin-off complied with the Pilot Provisions on Listed Companies Spinning Off Subsidiaries for Domestic Listings. The review confirmed that Wuchan Zhongda's stock price volatility did not breach the disclosure standards stipulated in the Notice on Regulating Listed Companies' Information Disclosure and Related Party Behavior. Furthermore, legal and financial assessments by King & Wood Mallesons and Dahua Certified Public Accountants affirmed that the spin-off met regulatory requirements. On August 21, Wuchan Zhongda's Board of Directors approved the spin-off listing proposal. On December 7, 2020, Wuchan Huanneng submitted its application materials for listing on the SSE Main Board to the China Securities Regulatory Commission (CSRC). Four days later, on December 11, the company received the Acceptance Notice of Administrative Licensing Application from the CSRC.

Following statutory procedures, the CSRC approved Wuchan Huanneng's initial public offering (IPO) registration. On November 26, 2021, the company disclosed its A-share IPO Prospectus and Preliminary Inquiry Announcement on the Initial Public Offering of Zhejiang Wuchan Environmental Energy Co., Ltd.. On December 3, it published the IPO and Listing Prospectus for the ChiNext Market. Subsequently, on December 10, it released the IPO Result Announcement. Finally, on December 16, 2021, Wuchan Huanneng was officially listed on the SSE Main Board, issuing 100.43 million shares at a price of 15.42 yuan per share, accounting for 18% of its total post-issuance share capital.

5. Analysis of Wuchan Zhongda's Spin-off Motivations

5.1. Enhancing Business Specialization

An analysis of Wuchan Zhongda's revenue structure reveals that the company primarily operates in supply chain integration services, which contribute 90% of total revenue and 70% of total profits. This suggests that Wuchan Zhongda's growth trajectory is fundamentally rooted in supply chain services. In terms of business composition, its supply chain operations predominantly involve metals, fossil fuels, and coal, with coal trading revenue declining in recent years. Given China's carbon peak and carbon neutrality strategy, coal consumption is expected to decrease gradually, making coal trading an unsustainable long-term business focus for Wuchan Zhongda. Through the spin-off, Wuchan Zhongda can concentrate on its core businesses while divesting non-core operations. This strategic move allows the company to transition toward a more specialized and focused business model.

5.2. Alleviating Financing Pressure

Wuchan Huanneng primarily generates revenue from coal transportation and sales. However, with China's green energy strategy, the coal trading business has faced significant challenges, adversely impacting its operations. To counteract these challenges, Wuchan Huanneng has diversified into

combined heat and power (CHP) generation, a green energy-based cogeneration technology. The company has also been actively engaged in biomass fuel research and development, continuously accumulating core technological expertise in the new energy sector. However, despite these efforts, Wuchan Huanneng has experienced financial constraints, as evidenced by its negative net financing cash flow. As a subsidiary of Wuchan Zhongda, Wuchan Huanneng has struggled with liquidity issues. By going public, the subsidiary can independently raise capital, easing the financial burden on its parent company.

5.3. Achieving a Fair Market Valuation

Wuchan Zhongda operates within the commodity trading industry, which has long been competitive both domestically and internationally. Between 2019 and 2023, its traditional bulk commodity supply chain integration services maintained a gross profit margin of less than 2%, while its high-margin businesses—such as energy solutions—achieved gross profit margins exceeding 30%. However, these high-margin businesses remain in their infancy, accounting for only a small portion of total revenue. Wuchan Huanneng primarily oversees these emerging energy operations. Under Wuchan Zhongda's diversified business model, its extensive business segments make it challenging for investors to recognize the potential of its new ventures. Additionally, under the current corporate disclosure system, high-potential emerging businesses often struggle to gain visibility, while the parent company's legacy business may negatively influence overall market valuation. The spin-off allows Wuchan Huanneng to establish an independent market presence, obtain a fair valuation, and unlock its true market potential.

6. Performance Analysis of Spin-off Listing

6.1. Impact of Spin-off Listing on Corporate Financial Performance

6.1.1. Profitability

From the perspective of gross profit margin and net profit margin, Wuchan Zhongda's gross profit margin has shown a downward trend since 2020. This is mainly due to the impact of both domestic and international pandemics, fluctuations in commodity prices, and supply chain disruptions from 2020 to early 2022, all of which significantly affected the company's costs. Through spin-off listing, the overall decline in gross profit margin has been mitigated. Meanwhile, in terms of net profit, Wuchan Zhongda saw a significant increase in net profit in 2022. This suggests that spin-off listing has improved Wuchan Zhongda's capital structure and organizational framework, leading to a reduction in period expenses. In a highly competitive market, reducing period expenses has helped enhance the company's net profit margin. From this perspective, spin-off listing may have positively contributed to Wuchan Zhongda's profitability.

Table 1: Wuchan Zhongda's Profitability Indicators

	2019	2020	2021	2022	2023
Gross Profit Margin	2.58%	2.98%	2.60%	2.40%	2.64%
Net Profit Margin	1.09%	1.00%	1.02%	1.05%	0.98%

6.1.2. Solvency

This study examines Wuchan Zhongda's solvency from 2019 to 2023. During this period, its current ratio showed a continuous decline. Despite the overall downturn in the industry, Wuchan Zhongda's current ratio began to recover gradually after the spin-off listing, reaching 1.18 in 2022. In terms of

the quick ratio, Wuchan Zhongda's quick ratio exhibited a fluctuating downward trend before the spin-off listing. However, after the spin-off, this trend reversed, rising to 0.77 in 2022. Regarding short-term solvency, spin-off listing has helped improve Wuchan Zhongda's current assets, thereby enhancing its short-term debt repayment ability. As for long-term solvency, Wuchan Zhongda's asset-liability ratio has shown an upward trend from 2019 to 2023. After divesting Wuchan Huaneng, its asset-liability ratio slightly decreased but generally remained on an upward trajectory. This indicates that spin-off listing only slowed the growth of the asset-liability ratio but did not significantly improve the company's long-term solvency.

Table 2: Wuchan Zhongda's Solvency Indicators

	2019	2020	2021	2022	2023
Current Ratio	1.14	1.11	1.08	1.18	1.10
Quick Ratio	0.77	0.74	0.74	0.77	0.72
Asset-Liability Ratio	67.16	68.21	69.64	68.34	69.10

6.1.3. Operational Efficiency

Accounts receivable turnover is a key indicator for measuring a company's capital flow and asset utilization efficiency. Before the spin-off listing, Wuchan Zhongda's accounts receivable turnover fluctuated. After the asset spin-off, the accounts receivable turnover rate declined significantly. The divestment of Wuchan Huaneng streamlined the company's operations and accelerated accounts receivable collection to some extent. However, the improvement in accounts receivable turnover was not particularly significant.

Table 3: Wuchan Zhongda's Accounts Receivable Turnover

	2019	2020	2021	2022	2023
Accounts Receivable Turnover	51.12	44.51	48.45	40.77	38.16

Regarding total asset turnover, the indicator showed fluctuations during the study period. However, since 2021, it has exhibited a downward trend. Although the total assets of the newly listed entity initially increased, the total asset turnover continued to decline over the next two years. This may indicate that the company still faces challenges in asset management and utilization, requiring further optimization and improvements.

Table 4: Wuchan Zhongda's Total Asset Turnover

	2019	2020	2021	2022	2023
Total Asset Turnover	4.00	4.04	4.77	4.20	3.73

6.1.4. Growth Capability

Regarding total asset growth, Wuchan Zhongda's total assets increased annually before the spin-off, reaching a peak of 21.38% at the end of 2021, the year of listing. However, based on the company's mid-year performance, the overall asset growth rate in 2022 declined significantly. This indicates that while spin-off listing can temporarily boost total assets, it does not necessarily lead to long-term asset growth.

Table 5: Wuchan Zhongda's Total Asset Growth Rate

	2019	2020	2021	2022	2023
Total Asset Growth Rate	8.46	14.27	21.38	12.21	14.37

In terms of core business growth, Wuchan Zhongda experienced significant growth between 2019 and 2020, with an increase of 39.25%. The data suggests that market fluctuations in 2021 were primarily due to rising commodity prices. After the spin-off listing, the company's core business revenue growth rate declined sharply in 2022. This suggests that changes in Wuchan Zhongda's business performance were largely influenced by market conditions, and spin-off listing did not directly enhance its business capabilities.

Table 6: Wuchan Zhongda's Core Business Revenue Growth Rate

	2019	2020	2021	2022	2023
Core Business Revenue Growth Rate	19.43	12.55	39.25	2.49	0.63

6.2. Impact of Spin-off Listing on Non-Financial Performance

6.2.1. Innovation Capability

In recent years, Wuchan Zhongda has actively explored digital transformation and smart supply chain development. Since 2019, its R&D expenditure has continuously increased, reaching 1.067 billion yuan in 2023, with further growth expected. According to the company's annual reports, Wuchan Zhongda released the "Group Digital Reform Implementation Plan (2021-2025)" in 2021, which outlined clear goals for digital transformation. To gain a competitive edge in trade and sales, the company must continue increasing R&D investment. However, the rising R&D expenditure has also placed greater financial pressure on the company. Continuous technological investments have enabled Wuchan Zhongda to expand into new business areas, such as high-end intelligent manufacturing and financial services, thereby creating new revenue streams.

6.2.2. Financing Capability

According to the financing needs theory, one of the main motives for Wuchan Zhongda's spin-off of Wuchan Huaneng was to adopt spin-off listing as an effective financing strategy, expanding funding channels between subsidiaries and alleviating capital pressure. Before the spin-off, Wuchan Zhongda relied on debt financing and external investment, but its net cash flow from financing activities remained negative for a long period, limiting its asset expansion and business scale. In the year of the spin-off, the company's net cash inflow from financing activities surged to 4.392 billion yuan. By the third quarter after the spin-off, this figure had increased to 5.032 billion yuan. This indicates that spin-off listing significantly improved Wuchan Zhongda's financial position and cash flow from financing activities.

7. Conclusion

Spin-off listing not only creates value but also realizes it. Looking ahead, spin-off listing is expected to become a widely favored operational strategy in capital markets. It facilitates corporate value restructuring and serves as an important means for state-owned enterprises to deepen reforms and unleash economic vitality. However, spin-off listing in China is still in its early stages, and its future prospects remain uncertain.

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