

Jiangsu Guotai Spin-off Listing Motivation and Effect Analysis

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ABSTRACT

Since 2019, the China Securities Regulatory Commission formally issued on the specific provisions of the split listing, this landmark moves not only marks China's capital market in system innovation and enterprise development strategy, also indicates the domestic enterprises through spin-off listed business focus, value release and capital efficient operation of the new era officially opened. After the announcement of the China Securities Regulatory Commission, Jiangsu Guotai started the spin-off of Ruitai New Material, and was officially listed in 2022. By studying the motivation and effect of Jiangsu Guotai's spin-off listing, this paper hopes to provide reference for other enterprises interested in joining the spin-off listing track.

KEYWORDS

Spin-off and listing; Motivation; Financial performance

1. INTRODUCTION

In 2019, the China Securities Regulatory Commission (CSRC) issued a series of detailed and landmark rules and regulations, these regulations for the first time systematically defined the subsidiary independent landing capital market specific threshold, operation process and regulatory requirements, this for many limited development enterprises reveals the new development channel, then, the domestic listed companies circle raised the trend of independent listed subsidiary. Jiangsu Guotai followed the trend, successfully spun off its subsidiary Ruitai New Material, spun off into the Science and Technology Innovation Board and successfully listed in 2022. This paper analyzes the process of Jiangsu Guotai and Ruitai new material split, the reasons and market reaction, which can provide inspiration and reference for other enterprises.

2. JIANGSU GUOTAI SPLIT LISTING CASE INTRODUCTION

2.1. Company Overview

2.1.1. Introduction of Jiangsu Guotai

Jiangsu Guotai International Group Co., Ltd. (hereinafter referred to as "Jiangsu Guotai"), founded in 1997, is a large international enterprise group focusing on supply chain services and chemical new energy business, integrating research, design, production entities and financial investment. Among them, the supply chain service business is mainly based on the import and export trade of consumer goods, facing the international and domestic markets, focusing on the business of consumer goods, and is committed to providing one-stop value-added services for the whole supply chain.

2.1.2. Ruitai new material introduction

Jiangsu Ruitai New Energy Materials Co., LTD. (hereinafter referred to as "Ruitai New Materials") was established in 2017, listed on the Growth Enterprise Market of Shenzhen Stock Exchange on June 17,2022 (stock code 301238). It is mainly engaged in the production and sales of lithium ion battery electrolyte, various additives and new lithium salt. In recent years, Ruitai new material with excellent product quality and technical advantages to achieve continuous sales growth. With the continuous development of the downstream new energy vehicle industry, the lithium-ion battery materials industry is expected to continue to develop. In lithium ion battery materials industry, the company as the industry pioneer, in research and development, production, sales have first mover advantage, through the industry, mastered the lithium ion battery electrolyte and related materials manufacturing production required for the main core technology, with higher quality level and process precision, enjoy higher market position in the downstream customers. As the manufacturer of the first echelon of lithium ion battery electrolyte, the company has a relatively stable position in the industry with excellent product quality and technical advantages.

2.2. Jiangsu Guotai spin-off and Listing Process

On April 29,2020, Jiangsu Guotai announced the plan to split its subsidiary Ruitai New Material to the Growth Enterprise Board of Shenzhen Stock Exchange, opening the listing journey of Ruitai New Material. On December 29,2020, Ruitai New Material submitted the prospectus declaration draft for the first time, and on December 31, it received the acceptance announcement of Shenzhen Stock Exchange and entered the listing inquiry stage. On March 23,2022, the approval was received from the Shenzhen Stock Exchange for registration. On June 17,2022, Ruitai New Material was officially listed on the Growth Enterprise Market of Shenzhen Stock Exchange, becoming one of the 21 companies listed in the domestic spin-off from 2021 to 2022. After the issue, Jiangsu Guotai still holds 500 million shares of Ruitai New Material, accounting for 68.18% of the total share capital of the spin-off listing, and still has the control and voice of Ruitai New Material. Ruitai New Material shares in the first month of listing strong performance, up as high as 96.70%, won wide attention and warm response from the market.

The marketing process is shown in Figure 1.

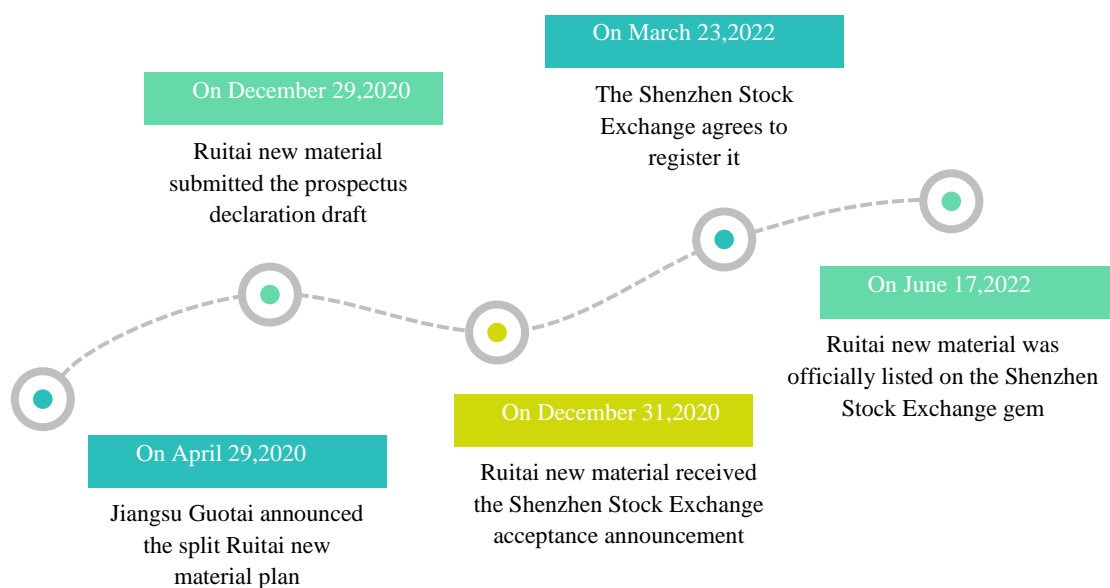


Figure 1. Summary of the spin-off and listing process of Jiangsu Guotai Pacific Company

Source: Great Tide Information Announcement.

3. JIANGSU GUOTAI SPIN-OFF LISTING CASE ANALYSIS

3.1. Analysis of the Motivation for the Spin-Off And Listing

3.1.1. Improve the market value of enterprises

Before the Thai new material spin-off listing, it has been shrouded in the parent company, investors and participants in the capital market mainly focus on the parent company, often will rui Thai new material as the subsidiary part of the parent company, while concern for subsidiary rui Thai new material is relatively little, which to a certain extent limits the market value of the new material and potential development space.

However, after the spin-off and listing of Ruitai New Material, it will begin to independently and comprehensively disclose the company's business information, and accept the supervision and management of relevant national institutions. This enables the financial market to have a more full and comprehensive understanding of Ruitai New Material, which helps to enhance the market value of Ruitai New Material. At the same time, the spin-off listing will also help enhance the market value of the parent company Jiangsu Guotai, as it demonstrates the company's strategic vision and long-term development plan, and enhances investors' confidence in the company.

Therefore, the spin-off listing is a beneficial strategic choice for Ruitai New Material, and the parent company, Jiangsu Guotai, both. It can not only enhance the market position and influence of Ruitai New Material, but also promote the coordinated development of the whole group to achieve a win-win situation.

3.1.2. Expand financing channels for enterprises

Lithium-ion battery material industry is a typical non-cyclical industry, with a large early investment and a long research and development cycle. Rui tai new material is lithium ion battery material industry, lithium ion battery material research and development cycle is long, research and development center and capacity expansion project construction and operation need continuous funding, related technology research and development and personnel training also need continuous financial support, the company financing channels is relatively single, rely on internal accumulation and bank loans cannot meet the needs of the future business scale expansion,

After the spin-off and listing, Ruitai New Material raised 3.38 billion yuan for the development of the enterprise through equity financing, and in the later stage, further financing can be conducted through additional shares. The spin-off listing not only broadens the financing channels of Ruitai New Material, helps the better development of enterprises, but also alleviates the capital pressure of Jiangsu Guotai.

3.1.3. Effectively motivate the management

Before the spin-off and listing, Jiangsu Guotai, as a diversified enterprise, had business in many fields, which made it difficult for its incentive system and management mode to accurately cover every business unit. Therefore, it is difficult for the management to conduct full and accurate performance evaluation and incentive for Ruitai New Material. However, after the spin-off and listing, Ruitai New Material has become an independent operating company, and its performance is directly evaluated and supervised by the market and investors. This change enables the management to pay more attention to the optimization of corporate governance structure to enhance the overall performance and market competitiveness. In addition, the spin-off listing also helps to relieve the management pressure of Jiangsu Guotai, so that it can focus more on the development and management of core business, and improve the overall operational efficiency. At the same time, the spin-off listing has also brought greater capital operation space for Jiangsu Guotai, which helped it to implement a more flexible and efficient development strategy.

To sum up, the spin-off and listing will not only help to enhance the market position and competitiveness of Ruitai New Material, stimulate the enthusiasm of employees, but also help to relieve the management pressure of Jiangsu Guotai and form a win-win situation for both sides. This strategic measure is of great significance for the long-term development of Jiangsu Guotai and Ruitai New Material.

3.1.4. Develop a naturalized nuclear strategy

When the diversified development of the group enterprises has drawbacks, the diversified business can be normalized, and the diversified business can be split out, so that the enterprise can return to rapid development. Before the spin-off and listing, Jiangsu Guotai had many businesses, mainly in supply chain services and chemical new energy business. With the increase of diversification, it may bring negative changes in operating benefits. However, the time span of Ruitai New Material business from start, growth to profit is relatively long, which makes it not easy for Jiangsu Guotai to make reasonable resource integration arrangements and achieve the goal of maximizing the interests in multiple subsidiaries or businesses.

Therefore, while focusing on the core business through spin-off and listing, Jiangsu Guotai separately listed a high-quality subsidiary with great growth potential, which is a favorable way for Jiangsu Guotai to obtain resources from the capital market alone and solve the group's resource allocation problem.

3.2. Performance Analysis of the Spin-Off and Listing

Due to the short time of Jiangsu Guotai splitting Ruitai new material, this paper studies the short-term performance changes.

3.2.1. Market value analysis

(1) Short-term share price performance of the parent and subsidiary companies

April 29,2020 is the disclosure day of Jiangsu Guotai's spin-off plan. At this time, the split intention is revealed to the capital market. The change of stock price can best show the reaction of capital market investors to the spin-off listing of Jiangsu Guotai. In addition, June 17,2022 is the listing date of Ruitai New Material, which will affect the volatility of the subsidiary and the market's reaction to this event.

a) Jiangsu Guotai stock price fluctuation analysis

Figure 2 shows the stock price volatility of Jiangsu Guotai in the 7 trading days before and after the disclosure of the spin-off plan.

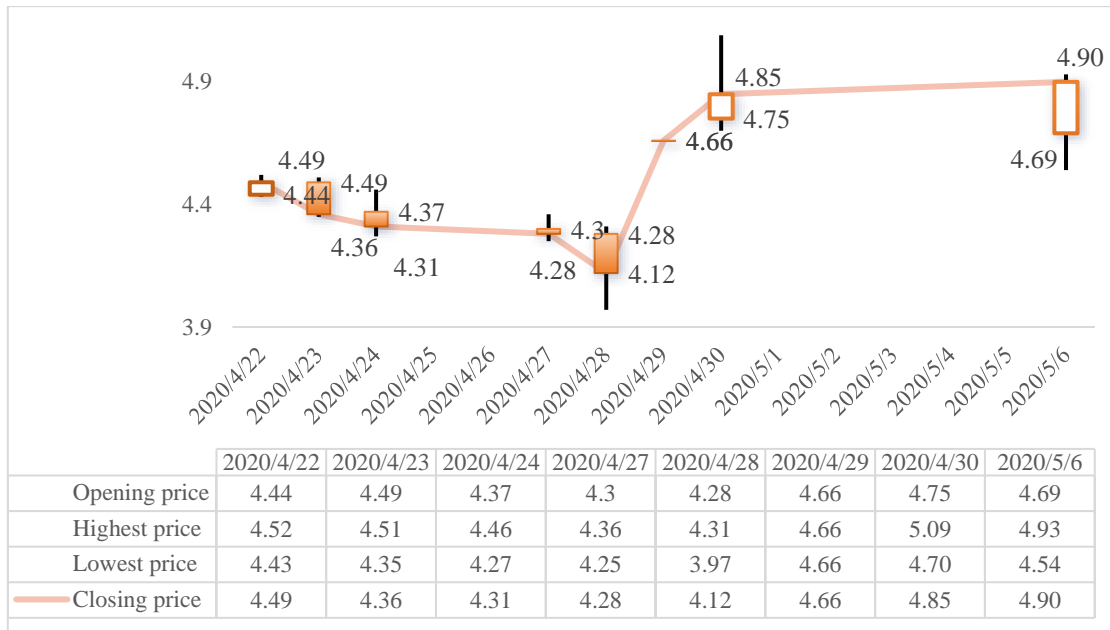


Figure 2. The fluctuation of Jiangsu Guotai share price before the disclosure of the spin-off plan

As can be seen from Figure 2, before the disclosure of Jiangsu Guotai spin-off plan, the stock price had been declining, but after the release of the spin-off plan, its stock price began to rise on the first day, and the stock price slowly recovered. Thus, investors reacted positively to the split event.

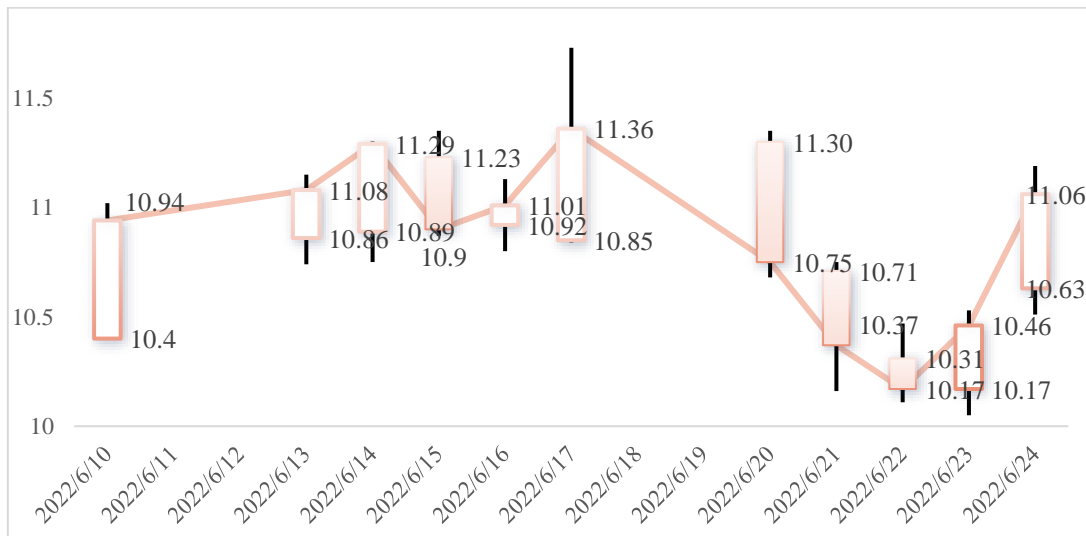


Figure 3. The fluctuation of Jiangsu Guotai stock price before and after the spin-off listing date

As can be seen from Figure 3, the stock price of Ruitai New Material rose to the highest point on the spin-off listing day, namely June 17, 2022. Although the overall fluctuation of the stock price in the seven days after the public spin-off was greater than the seven days before the spin-off listing, it remained at the level of around 10.75. It can still be seen from Figure 3 that the public listing of Ruitai New Material has a certain positive impact on the stock price of Jiangsu Guotai.

b) Stock price volatility analysis of Ruitai New Material

This paper selects the stock price fluctuation of 15 trading days from the listing date of Ruitai New Material for analysis. As can be seen from Figure 4, the closing price of Ruitai New Material on the listing day was 35.15 yuan, 83% higher than the issuing price of 19.18 yuan, which shows that investors were positive and optimistic about it when it was just listed. In addition, in the 14 public trading days after the listing, although the stock price fluctuated to a certain extent, it generally

showed an upward trend, indicating that investors continued to pay attention to the stock, and their attention gradually increased with time.

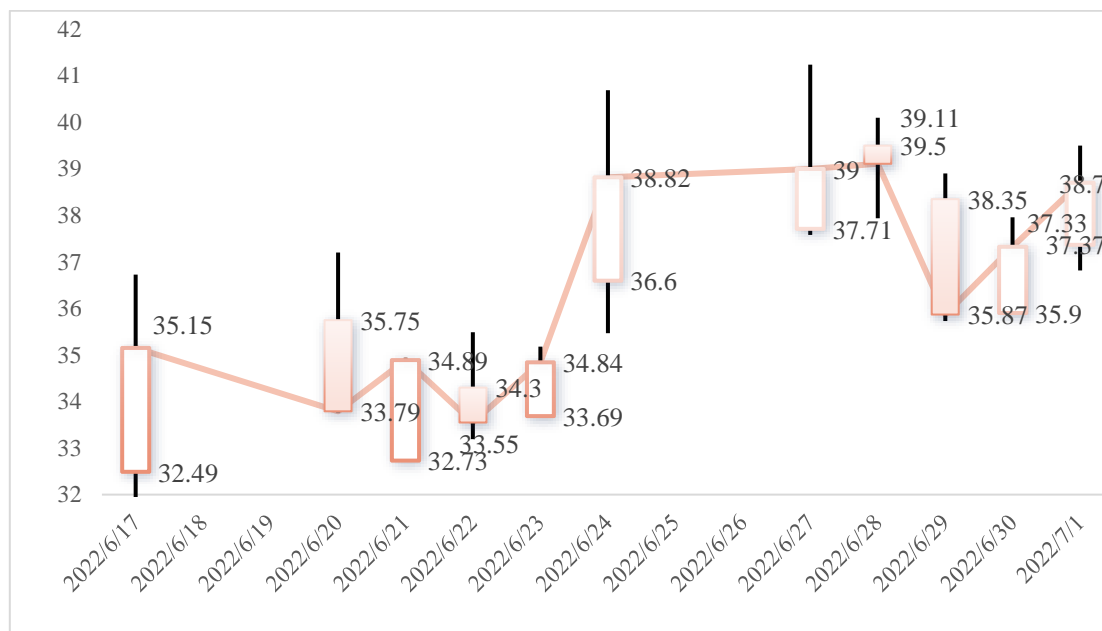


Figure 4. Stock price fluctuations of Ruitai New Material before and after the spin-off listing date

(2) Changing the valuation situation of Jiangsu Guotai

As shown in Figure 5, on the day of the spin-off listing, Jiangsu Guotai's price-earnings ratio rose significantly, reaching a small peak of 12.6395, reaching the historical peak of the month. Although there is a certain fluctuation after the spin-off listing; to sum up, the valuation of Jiangsu Guotai has been improved after the spin-off listing.

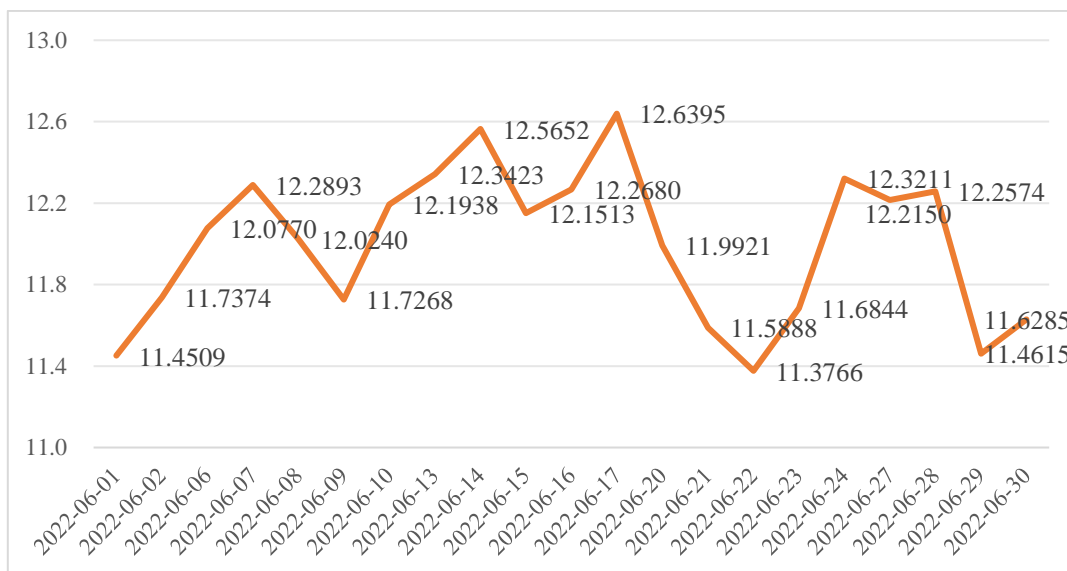


Figure 5. Changes in Jiangsu Guotai P / E ratio before and after the spin-off listing date

3.2.2. Financial performance analysis based on DuPont analysis

(1) Performance analysis of Jiangsu Guotai

After sorting out the regular announcements during the three quarters before and after the listing of Jiangsu Guotai split Ruitai New Material, it can be seen from Figure 6 that the return on equity of Jiangsu Guotai has increased, rising from 4.01% to 11.56%. According to the decomposition results, it is due to the rise of the net interest rate on sales, which is mainly due to the growth of the company's

supply chain service and new energy sector business and the impact of exchange rate fluctuations. It shows that the management quality and utilization efficiency of the enterprise assets and the profit acquisition ability are good. To sum up, the spin-off and listing plays a certain positive role in the performance of Jiangsu Guotai.

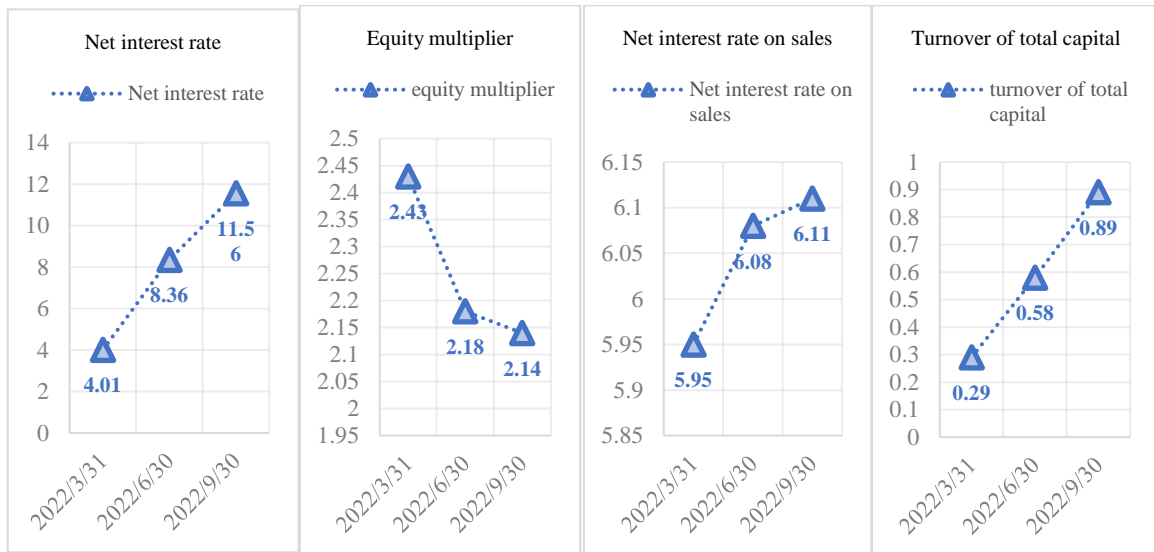


Figure 6. Jiangsu Guotai, DuPont analysis

(2) Performance analysis of Ruitai New Material

After sorting out the regular announcements after the listing of Ruitai New Material, Figure 7 can see that the return on equity of Ruitai New Material increased from 10.67% in the first quarter to 16.52% in the third quarter. From the decomposition results, the company's equity multiplier decreased after listing, indicating that the debt situation of Ruitai New Material improved, which further optimized the capital structure of the company; the total asset turnover increased from 0.33 to 0.61, indicating that the operating capacity of the company improved; and the net sales interest rate fluctuated during the period, but the fluctuation range was small. To sum up, after the spin-off listing, the operating performance of the spin-off has not been improved due to the spin-off listing.

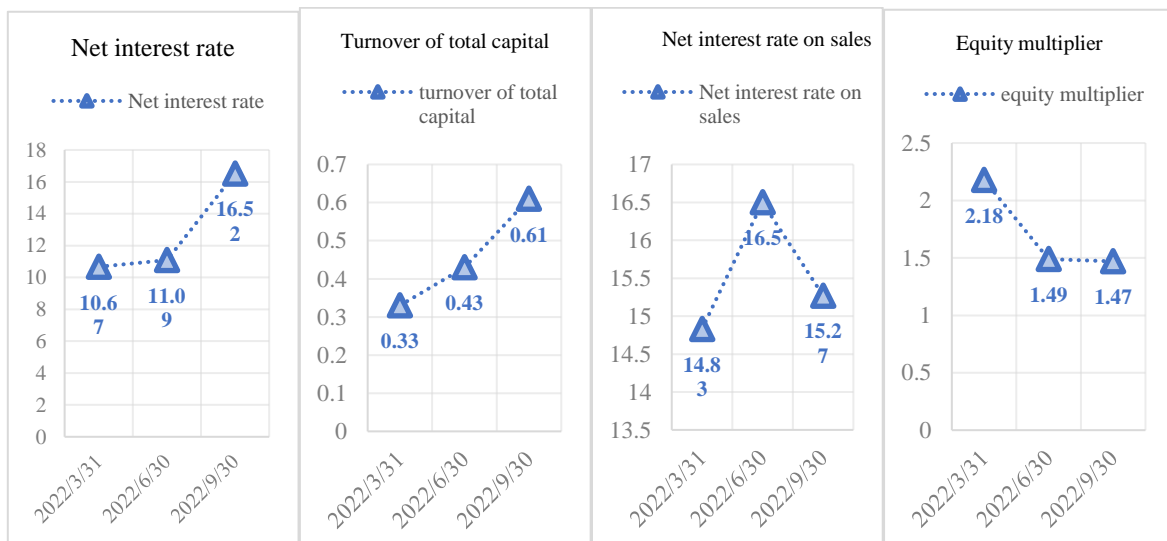


Figure 7. Ruitai New Material, DuPont analysis

3.2.3. Non-financial performance analysis

(1) R & D and innovation capability

Ruitai New Material used the funds raised by the spin-off listing to increase r & d investment. As shown in Table 1, the r & d expense ratio increased in the second quarter and the third spin-off quarter. In order to meet the company's positioning and its own development needs, it continued to increase r & d investment and ensured to ensure the company's leading product technology.

This listing issue of shares, Ruitai New Material will further improve the research and development platform and hardware conditions, improve the ability of scientific and technological innovation. Poland huarong new Prusice 4 ten thousand tons / year lithium ion power battery electrolyte project, ning huarong annual output of 80000 tons of new material project, huarong chemical intelligent transformation project will enhance the company's production scale and technical level, through practice to promote scientific and technological innovation achievements, to promote scientific and technological innovation and the depth of the lithium ion battery electrolyte industry fusion. The investment project of the raised funds plays an important role in supporting the company's technological innovation.

By the end of the third quarter report, the company's total R & D investment was 100 million yuan. After the spin-off and listing, Ruitai New Material raised a large amount of funds, which supported the follow-up development of the enterprise, was conducive to enhancing the company's core competitiveness and sustainable development ability, and consolidating the position of the first echelon of high-quality enterprises.

Table 1. R & D investment of Ruitai New Material

Unit:100 million yuan

	2022-3-31	2022-6-30	2022-9-30
research and development expense	0.32	0.66	1.00
sales income	20.08	33.49	48.01
Research and development expense ratio	1.61%	1.98%	2.08%

(2) Corporate governance ability

The spin-off and listing will optimize the incentive mechanism of Ruitai New Material and increase the linear incentive to the management. The management will tie their own interests with the performance and improve the company's business performance and governance level. In addition, after listing, external supervision is more strict. The comprehensive and strict information disclosure supervision system required by the Science and Technology Innovation Board requires enterprises to provide information about its core technology and business, product competitive advantages and governance mechanism, and to disclose the use of the raised funds and innovation and research, so as to promote them to improve their internal governance. So far, the internal governance structure and external management mechanism of the enterprise have been improved, which makes the corporate governance of Ruitai New Material more efficient and is conducive to promoting the improvement of business performance.

Specifically, the operating expense ratio can reflect the corporate governance situation. Figure 8 shows the operating expense ratio of Ruitai New Material, in which the management expense ratio is rising. The reason is that the increase of administrative expenses is caused by the increase of related expenses, employee salary and office expenses caused by the listing. However, the sales expense ratio fluctuates less and maintains a relatively stable state. It can be seen that Ruitai new material cost control ability is strong.

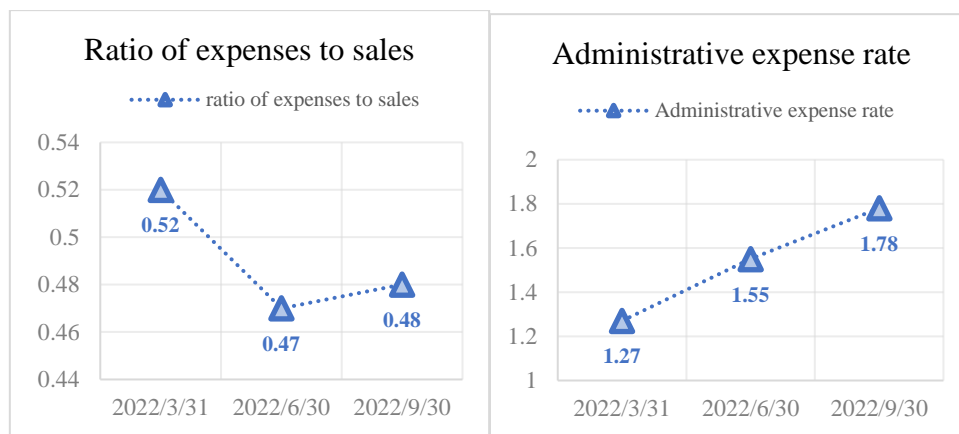


Figure 8. Changes of operating expense ratio of Ruitai New Material in the first three quarters of 2022

4. CONCLUSIONS AND REVELATION

4.1. Conclusion

Jiangsu Guotai split its subsidiary Ruitai New Material to the science and Technology Innovation Board, which not only marks a profound change in the capital operation and business layout, but also a win-win financial and strategic restructuring. This decision is like injecting a new source of vitality into the development of the enterprise, effectively alleviating the pressure of the parent company Jiangsu Guotai in capital allocation, so that it can concentrate superior resources, focus more on the deep cultivation and technological innovation of the core business, and then consolidate and expand its leading position in the industry.

For Ruitai new material, the spin-off listing is undoubtedly a historic leap. It not only successfully landed more innovative and inclusive kechuang board market, also take this opportunity to open the new financing channels, for the enterprise's subsequent expansion, technology research and development and market development provides a strong financial support and the favour of the capital market, makes rui Thai new material valuation significantly improved, for its in the competitive market environment occupies a favorable position laid a solid foundation.

Through the in-depth analysis of the financial data before and after the spin-off, we can see that the spin-off listing has brought significant benefits to both the parent and subsidiary company, which fully proves the correctness of this strategic decision. However, it needs to be clear that the spin-off listing is not a once and for all solution, and the future business decisions still need to maintain a prudent and prudent attitude to ensure the sustained and steady development of both sides.

4.2. Suggestions

Admittedly, as a means of capital operation, spin-off listing can often bring significant market response and financial effect to the parent and subsidiary companies in the early stage, which is manifested in positive phenomena such as stock price rise, market value increase and financing ability enhancement. However, we must keep a clear understanding that the market is changing dynamically. After the short-term prosperity, the market reaction will eventually become rational and stable, and the relevant financial and business indicators may also face the risk of volatility or even decline. Therefore, a spin-off listing cannot be regarded as a master key or permanent source of power for the continuous growth of enterprises.

When deciding whether to adopt the strategy of spin-off and listing, the enterprise should uphold the principle of prudence and comprehensiveness, and deeply analyze the business characteristics, market

positioning and development strategy of the parent-subsidary company, while taking into account the multiple factors of the external environment. This includes but is not limited to a deep understanding of the current market environment, an accurate grasp of the industry competition pattern, and an accurate prediction of future capital needs and financing costs. By comprehensively considering these factors, enterprises can more scientifically evaluate the feasibility and potential value of the spin-off listing, and avoid blindly following the trend or making impulsive decisions.

More importantly, after the spin-off and listing, the enterprises need to maintain strategic focus, adhere to a steady business strategy, and constantly promote management innovation and optimization. This requires enterprises to strengthen internal governance, improve risk prevention and control mechanisms, and ensure that the parent and subsidiary companies maintain their core competitiveness and sustainable development capabilities in their respective fields. At the same time, enterprises should also pay attention to the integration of resources and synergistic effect, promote the benign interaction and resource sharing between parent and subsidiary companies, jointly respond with market challenges, and maximize the overall benefits.

In addition, enterprises should also pay close attention to the changes in market dynamics and policies and regulations, and flexibly adjust their business strategies and business layout to adapt to the uncertainty of the external environment. In the long-term development after the spin-off and listing, enterprises should maintain an open mind and innovative thinking, constantly explore new growth points and business areas, and inject a steady stream of vitality and power into the enterprise.

In short, as an important way of enterprise capital operation, the value and significance of the separation and listing lies in providing new development opportunities and space for enterprises. However, enterprises need to be clearly aware of the risks and challenges behind them, and maintain a high degree of rationality and caution in the decision-making and implementation process. Only in this way can we ensure that the spin-off and listing will truly bring long-term development benefits and sustainable value creation for the enterprise.

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