

A Study on the Current Situation of State-owned Listed Enterprises at the Provincial Level in China--Taking Chongqing City Sample as an Example

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Abstract: Provincial state-owned listed companies are the main force in China's economic development and the leading figure in China's economic development. The analysis of these samples can help us to better understand China's state-owned enterprises, so as to better understand China's economic situation and its future development direction.

Key words: Provincial state-owned listed enterprises; research on current status; Chongqing

As an important part of the Chinese economy, China's provincial state-owned listed enterprises represent the leaders of China's high-quality economic development. Studying this sample helps to understand the current situation of China's state-owned economy, and thus the situation of China's economy and its future direction, and to judge the development trend of the world economy.

Chongqing is one of the 4 major municipalities in China, located in the central and western part of the country, with a population of 32.12 million people and a GDP of more than 2.9 trillion RMB in 2022, which is expected to reach 4 trillion RMB in 2027. The city's strategic economic position is very important, as President Xi Jinping clearly proposed the "two-point positioning" during his visit to Chongqing in 2016, i.e. Chongqing is an important strategic pivot point for the development of the west, and is at the link between the "Belt and Road" and the Yangtze River Economic Belt. In addition, historically, during the war between Japan and China from 1931 to 1945, a large number of important enterprises moved and settled in Chongqing as the wartime capital of the Republic of China. After the founding of the People's Republic of China, all these enterprises were nationalized, gradually forming the industrial base of Chongqing today. Therefore, Chongqing is a more representative area.

1. Basic situation of state-owned listed companies in Chongqing

As of December 30, 2022, among the A, B and H shares listed, there were 31 state-owned listed companies in Chongqing [in fact, there should be 32 state-owned listed companies in Chongqing, the other one is "Lemay Pharmaceutical", which is a listed company

under Guangxi state capital]. This accounts for 37.8% of the total number of listed companies in Chongqing. Among them, there are 13 central enterprises in Chongqing, 15 state-owned enterprises in Chongqing Municipality, and 3 state-owned enterprises in districts and counties. The total market value of state-owned listed companies is 512.9 billion yuan, accounting for about half (47.97%) of the total market value of all listed companies in Chongqing (106.92 billion yuan). Among them, the market capitalization share of central enterprises in Chongqing is 28.52%, and the market capitalization share of local SOEs in Chongqing accounts for 20%. Overall, Chongqing SOEs occupy a considerable position of local listed companies, owning nearly half of the market capitalization of listed companies with a higher than 1/3 ratio of the number of listed companies; the average household size is significantly higher than that of private companies and other types of listed companies (16.5 billion yuan/10.9 billion yuan).

Compared with GDP, the total market value of all state-owned listed companies in Chongqing accounts for 38.3% of GDP in 2021, while the market value of listed state-owned enterprises belonging to Chongqing city and districts and counties accounts for 7.46%. The total operating revenue of listed SOEs in Chongqing and its districts and counties in 2021 is 209.174 billion RMB, generating 21.745 billion RMB of profit and a net operating margin of 10.4%. The number of people employed by the society is 89,000, including 37,000 people with bachelor's degree or above, accounting for 41.7%. The per capita income generation is 1.922 million RMB, and the return on human capital investment [return on human capital investment = EBITDA/total remuneration] is 129. Chongqing listed SOEs have actively performed social and economic functions and made important contributions to the economic development of Chongqing.

Table 1: Comparison of size indicators of various listed enterprises in Chongqing

Category	number	Proportion (%)	Total market value (RMB billion)	Value share (%)	Average market value (RMB billion)
central government owned	13	15.85	304.9	28.52	23.5
Chongqing Municipal State-Owned	15	18.29	177.2	16.57	11.8
Chongqing district-level state-owned	3	3.66	30.8	2.88	10.3
other	51	62.20	556.3	52.03	10.9
总计	82	100	1069.2	100	130.4

2. major problems

2.1 The overall number of indicators is not large, and the industrial structure is not excellent

As of December 30, 2022, the total market value of listed state-owned enterprises in Chongqing was 238.2 billion yuan, accounting for only 41% of the average market value (572.2 billion yuan) of each administrative region (excluding the central enterprises). The average household market capitalization of 11.91 billion yuan is not only much smaller than the average market capitalization of central enterprises (56.64 billion yuan), but also substantially smaller than the average household size of state-listed companies nationwide (31.48 billion yuan). Among 32 administrative regions (including Hong Kong SAR), Chongqing ranks 17th in average household market capitalization, lagging behind neighboring regions such as Guizhou, Sichuan and Shaanxi.

In terms of the number of listings, including A-share, B-share and H-share markets, the total number of listed SOEs in Chongqing is 20, involving 17 SOEs (15 municipal SOEs and 2 district and county SOEs). Chongqing ranks 19th among all regions in the country, in the middle of the back position. The most listed are the central enterprises, up to 627 cases. Among local SOEs, the top 2 are Guangdong and Shanghai, both with more than 100 cases. Chongqing has a huge gap with the central enterprises and the top regions. Compared with neighboring regions, Chongqing is slightly higher than Hubei (19 cases) and substantially lower than Sichuan (37 cases), Hunan (34 cases) and Shaanxi (27 cases).

Looking further at the market capitalization of Chongqing's listed SOEs, the smallest value is WSE International Securities, with a market capitalization of less than 100 million yuan; the largest value is YNCB, with a market capitalization of 36.334 billion yuan, making it the only company with a market capitalization of more than 30 billion yuan. In terms of overall distribution, about half (9) of the listed SOEs in Chongqing have a market capitalization of less than RMB 10 billion, and half (8) are in the range of RMB 10 billion to RMB 30 billion. The overall size is relatively small.

In terms of industry distribution, Chongqing listed SOEs are mainly concentrated in the industrial and financial sectors according to "wind" primary industry classification. There are 8 companies in the two categories together, accounting for more than half of the 15 listed companies. There are also 2 optional consumer categories, 2 public utility companies, and 1 each in materials, real estate and healthcare. In general, Chongqing listed SOEs have a single industry category and low attributes of science and technology.

2.2 Weak asset quality and lack of growth

1. From the horizontal comparison of financial indicators, the short-term performance of Chongqing municipal listed SOEs is generally average. The ranking of Chongqing municipal listed SOEs is basically located in the middle and back of the indicators of local and central enterprises, and rarely appears in the top. Specifically, ROA is 3.04%, ranking 19th, and ROE is 8.1%, ranking 10th. The gearing ratio is 58.67%, ranking 18th, and the asset turnover ratio is 0.46, ranking 15th. None of the above indicators are in the top of the comparable ranks. The lower ROA value and higher ROE ranking of Chongqing enterprises may be due to the high gearing ratio of enterprises and the larger profit pie taken away by debt expenses. Intuitively, the low ranking of Chongqing enterprises' operating indicators also indicates that Chongqing enterprises do

not have a clear advantage in product pricing power. This is in stark contrast to Guizhou. Chongqing enterprises face the challenge of improving their operating capacity for high-quality development.

2. In terms of growth indicators, Chongqing listed SOEs lag behind in growth indicators. In the 10-year period from 2011 to 2021, Chongqing listed SOEs' operating profit only grew 1.1 times, ranking 26th; assets grew 2.67 times, ranking 27th; and shareholders' equity grew 2.63 times, ranking 25th. These figures indicate that Chongqing listed SOEs have experienced poor growth over the past 10 years, resulting in the accumulation of corporate assets and shareholders' equity significantly lagging behind other regions. This explains to some extent why Chongqing listed SOEs have a lower market capitalization size.

2.3 Weak corporate governance structure

Shareholder composition. The most obvious feature of Chongqing municipal listed SOEs is that their shareholding structure is highly concentrated and their governance structure needs to be further optimized. Specifically, the shareholding ratio of the 1st largest shareholder, the shareholding ratio of the top three shareholders and the ratio of the top ten shareholders are all high, with the ratio of 40.52%, 59.94% and 68.58% respectively, corresponding to the ranking of 12th, 5th and 4th. Although the first largest shareholder lags behind in ranking relative to the latter two, the latter is a more accurate representation of equity concentration considering that majority shareholders are very common in China. Regardless of which indicator is used, it implies that Chongqing listed SOEs have a high concentration of equity, with the phenomenon of one share being dominant and state-owned shareholders being more powerful. Looking at the shareholding ratio of the second to tenth largest shareholders, the indicator values are substantially smaller than the shareholding ratio of the first largest shareholder, which further indicates that other shareholders of nature (e.g., private companies and individual investors) have weaker checks and balances or monitoring power.

2.4 Poor market performance and lack of market value management

Based on the closing price on December 30, 2022, the stock prices of listed SOEs in Chongqing are generally low, with an average price of only RMB 6.28. Except for Chuan Yi and Fuling Squash, which exceeded RMB 10, all other 18 enterprises' stock prices were below RMB 10, and three of the five Hong Kong stocks were below RMB 1. In terms of trading activity, the annual average turnover rate was low at 1.25%. Half of the stocks changed hands at less than 1%, and the Hong Kong stocks changed hands at an even lower rate. The average price-to-net ratio is only 1.23, and the stock value premium to NAV is not high. 12 stocks fell below NAV. Observe the P/E indicator again, the average P/E ratio is 41.64, indicating that the valuation given by the market is not low for the profitability of the enterprise. A comprehensive analysis can conclude that the main reason for the poor performance of Chongqing listed SOEs in the capital market is still the poor quality of enterprises and the lack of hard conditions such as growth.

3. Conclusion

Chongqing listed SOEs are a microcosm of Chinese SOEs, and his operating status reflects the situation of Chinese SOEs. In general, relying on the advantage of government background, these

SOEs have average financial indicators and limited operation level. They are also not good at capital operation and have little interest in capital operation. The shareholding structure and other governance arrangements are mostly not in line with the essence of modern

corporate governance, with nominally diversified shareholdings but in fact one share dominating. There are flaws in corporate governance mechanisms, which may be an important factor limiting the development of SOEs.

References

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