

DOCTORAL THESIS

Can stock visibility or neglected-firm effect help explain the outperformance of HK-listed mainland companies?

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ABSTRACT

This study examines factors that affect share prices for Hong Kong-listed mainland companies by examining the outperformance of H-shares and red chips compared with local large-cap stocks on the Hong Kong Stock Exchange in 2013 and 2014. To the best of my knowledge, this is the first empirical study focusing on these three types of stocks. In efficient markets, share prices should reflect the fundamentals of the listed companies, as revealed by the firm's earnings. If the assumption of market efficiency is relaxed, or markets are less efficient due to institutional factors, the correlation will be less pronounced. In this regard, I examine the links between firm performance, stock visibility, and share price movements. I find that the fundamentals of listed firms do not account for the superior price performance in the case of H-shares. By contrast, the price performance of Hong Kong large-cap stocks and red chips is more closely correlated to earnings. In addition, the hypothesis that the neglected-firm effect plays a role in the relationship between firm performance and stock returns of Hong Kong-listed China-related companies is not supported. Instead, I find support for the hypothesis that stock visibility acts as a moderator in the relationship between firm performance and stock returns, particularly in the case of China-related shares. With the introduction of stock visibility, the effect of Return on Equity (ROE) on stock returns is reduced, but still significantly positive. This indicates that stock visibility partially mediates the link between firm performance and stock returns, supporting the mediation hypothesis. By revealing the limited link between fundamentals and share prices in H-shares, this study also supports the notion, found in other studies, that market efficiency is less applicable to China H-shares in particular and the Hong Kong financial market in general.

TABLE OF CONTENTS

DECLARATION.....	i
ABSTRACT.....	ii
ACKNOWLEDGMENTS.....	iii
TABLE OF CONTENTS.....	v
LIST OF FIGURES.....	viii
LIST OF TABLES.....	ix
APPENDIX A.....	x
APPENDIX B.....	xi
CHAPTER 1 INTRODUCTION.....	1
1.1 Research Topic.....	1
1.2 Research Questions.....	5
1.3 Dissertation Components.....	5
CHAPTER 2 LITERATURE REVIEW.....	7
2.1 Efficient Market Hypothesis.....	7
2.2 Assessing Expected Returns.....	11
2.3 Capital Asset Pricing Model (CAPM).....	13
2.4 The Dividend Discount Model.....	16
2.5 Stock Visibility.....	17
2.6 Neglected-Firm Effect.....	18
2.7 Media/Press Coverage.....	20
2.8 Analysts' Coverage.....	22
2.9 Funds' Holdings.....	27
2.10 Relevant Literature Related to Hong Kong and China Markets.....	29
2.11 Chapter Summary.....	31

CHAPTER 3 DEVELOPMENT OF MODEL AND HYPOTHESES	32
3.1 The Model.....	32
3.2 Hypotheses Development.....	33
3.2.1 Stock visibility as a mediator	33
3.2.2 Stock visibility as a moderator	35
3.2.3 Stock visibility and neglected-firm effect.....	37
3.3 Chapter Summary.....	38
CHAPTER 4 RESEARCH METHODOLOGY.....	39
4.1 The B-K Approach	40
4.2 The SEM Approach	42
4.3 Comparison of SEM and B-K.....	43
4.4 Chapter Summary.....	45
CHAPTER 5 DATA AND SAMPLE	46
5.1 Hong Kong Large Caps, H-shares and Red Chips.....	46
5.2 Descriptive Statistics.....	46
5.3 Measurements of Variables	48
5.4 Press Coverage – Page Count	49
5.5 Distributional Properties of Stock Returns.....	51
5.6 Chapter Summary.....	54
CHAPTER 6 RESEARCH RESULTS	55
6.1 Price Performance (2002-2014): HKLC, Red Chips, and H-shares.....	55
6.2 The 2-Year (2013 and 2014) Performance.....	57
6.2.1 Factor analysis results	57
6.2.2 Regression analysis	60
6.2.3 The equations: Set B (the main model)	61
6.2.4 The equations: Set C	63
6.2.5 The equations: Set D & E.....	65
6.2.6 The equations: Set F, G & H	67

6.2.7	The equations: Set I	70
6.2.8	The equations: Set J	72
6.3	Structural Equation Models (SEM)	73
6.4	Chapter Summary	85
CHAPTER 7 DISCUSSION AND CONCLUSIONS		86
7.1	Contributions	86
7.2	Limitations and Future Research	88
7.3	Managerial Implications	89
7.4	Notes on Recent Events	90
7.5	Conclusions	91
APPENDIX A	Estimated Equations and SEM Results	94
APPENDIX B	148
REFERENCES	185
CURRICULUM VITAE	197