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The Determinants of AH-Share Premium
AH 股溢價的決定因素

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Abstract

Previous research revealed that company stocks listed on different exchanges show a certain price difference based on market segmentation. Generally, the price of stock traded in developed markets is higher than that in emerging markets. However, the stock price of China's A-share market, an emerging stock market, is higher than that of the same in developed markets. This is called the equity premium puzzle in China's A-share market, and AH share premium is one of the abnormalities. The observed price-to-book ratio (PBR) of 130 AH shares at the end of 2020 showed that the PBR of A-share prices and H-share prices after exchange rate conversion was greater than 1. It also showed that A-share prices were more than twice that of H-share prices for almost half of the AH shares. The share price differences reflect investors' views of a company's value. Therefore, there is a need to discuss whether company value certainty affects the premium, whether the influence (if any) will produce different performances in different companies, and whether it will promote premium convergence in the short, medium, and long terms.

In this research, company value certainty was explained from information transmission and speculative opportunities perspectives, represented by the dividend rate and volatility difference. The data of 130 AH shares from 2017 to 2020 was used to build 96,724 share-daily data. Thereafter, an empirical analysis was performed, where the AH share premium and the convergent tendency of AH share premium were considered the dependent variables, the dividend rate and volatility difference the explaining variables, and registration system-based listing, institutional shareholding ratio, and margin trading and securities lending the grouping variables. Finally, the following conclusions were drawn: (1) Company value certainty affected the premium level and the convergent tendency of AH shares. To be specific, the higher dividend rate and lower volatility difference led to the lower premium and stronger convergent tendency of AH share premium. This indicated that if more information was transmitted and fewer differences existed in speculative opportunities, A-share and H-share prices would likely be more consistent and the price differences

decrease faster. Additionally, regardless of the length of the regression cycle, the higher the premium, the stronger its convergent tendency, indicating a constant presence of the premium reversal effect; (2) the differences between the listed companies under the registration system, which face high delisting risks, and those outside the registration system caused the heterogeneity in the two types of stocks. In this case, the risk caused by the high volatility difference offsets the positive impact of speculative opportunities in the AH share premium. Therefore, the higher the volatility differences among listed companies under the registration system, the lower the AH share premium. In the medium term, the listed companies under the registration system with high dividend rates, especially high-tech companies, can deliver positive messages to investors. These companies are sought after by investors, thereby promoting AH share premium expansion; (3) the institutional shareholding ratio reflect the different major investors in a company, causing the heterogeneity in the two types of stocks. Compared with ordinary investors, institutional investors have more extensive information sources and make more rational investment decisions. Therefore, for a company whose majority shares are owned by institutional investors, dividend rate and volatility difference have a relatively small impact on the AH share premium. However, for a company with a small number of institutional investors, the unsustainability of its volatility difference has a significantly weak impact on the AH share premium convergence; and (4) whether a company is listed as a margin trading and securities lending target determines the available trading stock, resulting in the heterogeneity in the two types of stocks. Short selling can raise market information efficiency to promote the consistency of fluctuations between the two markets. Therefore, in relation to margin trading and securities lending targets, dividend rate and volatility difference have relatively low impact on the AH share premium. However, a more flexible market trading mechanism can ensure the returns on dividend and incomes from volatility difference are accurately reflected in the stock price. In this case, volatility difference significantly affect the convergent tendency of AH share premium.

Based on the above-discussed conclusions, the following policy suggestions for listed companies, investors, and regulators were made in this research. (1) Listed companies should

identify the causes of AH share premium and the factors that affect the future convergent tendency, run the business well, standardize information disclosure, formulate reasonable policies on dividend payment, and inhibit share price manipulation, so as to promote reasonable and stable pricing of AH shares and the convergence of AH share premium. (2) Investors should be fully aware of the existence of AH share premium and its influencing factors. When choosing a target stock, investors should comprehensively understand the performance and future development of the invested company and mainly consider the value of investing instead of blindly following others. This is to promote the reasonable pricing of capital market and earning desired investment incomes. (3) Regulators should first improve the capital markets and be fully aware that the implementation of the registration system can reduce the listed company's rental of the listing system and increases its delisting risk while driving investors to become more cautious about stocks with high volatility difference and to chase after stocks with high dividend rates in the medium term. Meanwhile, the implementation of margin trading and securities lending can promote the efficiency of market information transmission to a certain extent. Second, regulators should improve the information disclosure requirements of listed companies to prevent stock prices from being operated. Third, they should frequently educate investors to improve their value-investing and value judgment ability so as to promote the sound development of capital markets.

Keywords: AH share premium, company value certainty, registration system-based listing, institutional shareholding, margin trading and securities