

The Impact of Renaming on Enterprise Value: An Example of Chenxin Technology

Xingyue Peng

Shanghai University, 20 Chengzhong Road, Jiading District, Shanghai, China

pengxingyue@i.shu.edu.cn

Keywords: Enterprise rename; Enterprise value; Tobin's q

Abstract: Enterprise renaming is a widespread economic phenomenon. The renaming not only represents the adjustment and transformation of the enterprise business model, but also demonstrates the courage of the enterprise reform. By changing the name, listed companies can quickly establish their market positioning, change the understanding of investors, and also play the role of advertising, which can be said to kill many birds with one stone. In recent years, Chinese listed companies have changed their names in order to promote the transformation and development of enterprises and seek the maximum value of enterprises. Since the "5.19" market in 1999, there has been a wave of renaming in Shanghai and Shenzhen Stock Exchanges. "Science and technology" and "high technology" have become the most frequently used words in the new names. In the trend of enterprise renaming, Chenxin Technology has changed its name three times since 2015. This paper first classifies the three renaming events of Chenxin Technology according to the operation situation and the change of stock rights, and then uses Tobin's q value as the index of enterprise value to study how the three renaming of Chenxin Technology affects the enterprise value. Finally, based on the conclusions of the study, this paper puts forward some suggestions for investors, listed companies and relevant departments.

1. Introduction

1.1. The Background of Enterprise Renaming.

Stock names are the first impression of listed companies to investors and an important manifestation of corporate personification. The renaming of foreign listed companies has a long history. In the 1950s, railroad and mine stocks soared, and many listed companies in Europe and the United States changed their names. Then there are the renaming of the automobile concept in the early 20th century, the aircraft concept in the 1920s, the electronic technology concept in the 1960s, and the biogenetic engineering concept in the 1980s. Especially in the Internet bubble era, corporate renaming has become more and more popular. From June 1998 to July 1999, 147 listed companies in the United States added the word "Internet" to their new names. Among them, 95 sample companies had accumulated over-earnings of 74% in 10 days. The Internet bubble era was not sustainable. From August 2000 to September 2001, 61 listed companies have removed the words related to the Internet from their names.

Chinese first initiative to rename the stock appeared in 1993. In 1998, 26 companies in Shanghai and Shenzhen Stock Exchanges changed their names, of which 23 were passively renamed. Because of their business problems or continuous losses, the securities regulatory authorities implemented the original stock abbreviation "ST" before them. Starting from the "5.19" market in 1999, science and technology concept stocks become the focus, and listed companies ushered in the tide of renaming. In that year, 36 enterprises in Shanghai and Shenzhen Stock Exchanges changed their names, including 21 enterprises with new names such as "science and technology", "information" and other high-tech words. The upsurge of renaming of listed enterprises in China since 1999 is essentially the epitome of enterprises' diversified growth. From the early high-quality resources to merge inferior resources, it has evolved into the current overall industrial transformation and upgrading, and the optimization of

resources allocation and competitive elements have gradually become the key development objectives of enterprise renaming.

After 2007, due to market policy and other factors, the new economic form with the key characteristics of network, information and knowledge capital has become an inevitable choice for the leapfrog development of listed companies. While strengthening the original field, most listed companies focus on high-tech fields such as media, information, new materials, and bio-pharmaceuticals. They hope to enhance the core competitiveness of enterprises by relying on industrial transfer, so as to realize the transformation from traditional industries to emerging industries. For example, household appliance enterprises tend to transform and upgrade to intelligent household appliance enterprises, and commercial enterprises widely build e-commerce platforms. Listed enterprises rely on knowledge, technology, mode and other innovative ways to achieve new leaps. The positive transformation of traditional industries has led to a large number of enterprises renaming.

In 2012, Chinese market continued to decline. Real estate, iron, coal and other typical traditional industries began to overcome the crisis through industrial reform, upgrading structure, and active transformation. So in 2015, the emergence of the renaming phenomenon is the inevitable result of the market trend, and this wave has continued till now. The case company has changed its name three times since 2015. From "Yi Qiao Marine Seeds" to "Chenxin Technology" today, the company has changed from "Sea Cucumber King" to "Mobile Games Big Shot", and its stock price has risen sharply.

1.2. Classification of Enterprise Renaming.

According to the voluntary renaming behavior of listed companies, enterprise renaming can be divided into active renaming and passive renaming. According to the changes of stock ownership and operation, active renaming can be further divided into the first major shareholder change type, the main business adjustment type and the substantive unchanged type [1].

The first major shareholder change type means that listed companies often choose the central vocabulary in the name of the company owned by the new controlling shareholder after the change of the first largest shareholder. The main business adjustment type refers to that, because the original business name cannot keep up with the basic changes of the main business, listed companies often change their names to reflect more accurately the operating conditions and adapt to the future development. The substantive unchanged type refers to the renaming of some listed companies when their main business remains unchanged and there is no asset reorganization or equity change. They rename themselves with the reasons of enhancing brand image, eliminating regional restrictions, eliminating industry restrictions, eliminating the negative impact of penalties or attracting public attention. Finally, Passive renaming means that listed companies are specially treated, namely ST, which is a special mark of listed companies that appear abnormal in Chinese securities market. After the improvement of business conditions, ST companies can be renamed as normal. In recent years, the number of passive renaming has decreased significantly, while the number of active renaming has increased significantly. As shown in Figure 1, the proportion of active renaming has increased dramatically from 2008 to 2015.

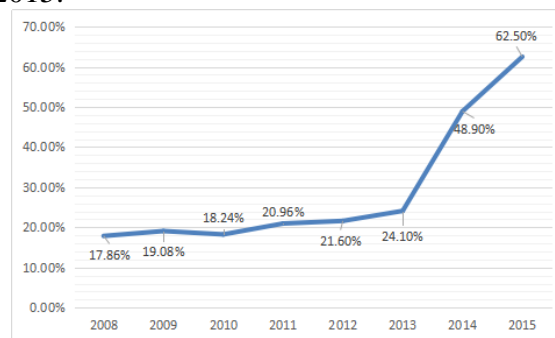


Figure. 1 Percentage of active enterprise renaming from 2008 to 2015

1.3. Market Effect of Enterprise Renaming.

Overseas, J. S. Howe is the first scholar to study the market effect of enterprise renaming. Using the event study method, he selected the market performance of listed companies in New York Stock Exchange from 1962 to 1980, and found that the market did not respond significantly to the renaming [2]. The renaming announcement does provide useful market information for investors, but it is often known in advance. Therefore, the renaming announcement does not bring real wealth value to investors [3]. Jean Claude Bosch and Mark Hirschey also concluded that the market effect of corporate renaming events is generally neutral [4].

However, on the one hand, some scholars are convinced that the renaming event has a positive market effect. Dan Horsky and Patrick Swyngedow adopted the event study method, and found that most enterprises will improve their performance after renaming, especially those with poor early operating conditions and traditional industrial enterprises [5]. Paul Sergius Koku used trend analysis to find that the P/E ratio of listed companies after renaming has increased, which indicates that the market has better expectations for the renamed companies [6]. Driven by the Internet boom in the late 20th century, the share prices of listed companies renamed Internet-related concepts rose significantly [7]. Hung Wan Kot and Ji Zhang found that the event led to significant excess returns on stock prices, and the market effect caused by major business change renaming events was more significant [8]. On the other hand, a few scholars believe that the event of renaming has a negative market effect. Josev, Chan and Faff focused on the enterprise renaming event of Australian Stock Exchange Limited and showed that the short-term market effect was significantly negative [9]. Panagiotis Andrikopoulos, Arief Daynes and Paraskevas Pagas also found significant negative excess returns within 36 months after the renaming [10].

Over the past decade, foreign scholars have paid more attention to the long-term market effect of renaming enterprises. The cumulative excess return was significantly negative within 12 months after the renaming announcement, while the long-term excess return with smaller main business scope was significantly positive [11]. In the UK stock market, after the name was added to the concept of "group", the volatility of stock price increased significantly. The degree of renaming was positively correlated with the amplitude of stock price, but the excess return was significantly negative in five years [12]. Hung Wan Kot holds a similar view that after the renaming event, the stock price of listed companies will be raised, and the short-term market effect is good. However, in the long run, the performance of listed companies has little to do with the renaming event, but is mainly related to their own operating conditions [13].

Chinese scholars have also made some research on the market effect of renaming enterprises, and confirmed the overreaction of the market. With the event window period extending from the rename announcement day, the trend of stock price changes has reversed significantly, so there is an overreaction phenomenon [14]. The overreaction to large shareholder renaming was the most obvious, and the overreaction to small and medium-scale enterprises was more intense than large-scale enterprises [15]. Yang Yang explained the reversal from two perspectives of investor concern and sentiment. Investor concern and investor irrational sentiment have the same direction change relationship with excess return [16]. Based on the overreaction, substantive renaming announcement will lead to a significant rise in stock prices, and renaming behavior can significantly promote the long-term valuation of corporate stock prices [17]. On the contrary, Dai Lizhen confirmed that the market sentiment will gradually decline with the extension of the window period, and the renamed enterprise will have a year-long negative cumulative excess return [18].

In 2016, Jia Luxi, Zhu Ye and Chen Dafei constructed the first set of enterprise name evaluation system reflecting the information processing experience of Chinese investors. Their research shows that enterprise name can not only directly affect enterprise value through the right shift of the stock demand curve, but also indirectly affect enterprise value through the base of shareholders and the level of stock liquidity [19]. In addition, for the change of short-term excess return, the results of a single study on an enterprise are the same as those of the same type of enterprise.

2. Tobin's q Model

2.1. Formula of Tobin's q Model.

Tobin's q refers to the ratio of enterprise market value (MV) to replacement cost (RC). Among them, MV refers to the price of assets in the trading market, and RC refers to the amount of money needed to recover the same assets in accordance with the current market conditions. Stock prices will affect corporate investment, and the ratio can be a measure of new investment decisions [20]. According to the strict definition of Tobin's q, it is difficult to obtain data. Therefore, Tobin's q approximation is generally used in practice. At present, there are many ways to approximate Tobin's q of listed companies in China.

During the period of non-tradable shares, the market value of non-tradable shares is difficult to determine. Usually net assets per share (NAPS) are used as the approximate price of non-tradable shares, and the book value of assets (BVA) is used as the approximate value of the replacement cost of enterprise assets. Therefore, the approximate formula of Tobin's q is shown as Eq.1. MVCS denotes the market value of circulating stock. S_{nt} denotes the number of non-tradable shares. And BVL is the book value of liabilities.

$$q = \frac{MVCS + S_{nt} \times NAPS + BVL}{BVA} \quad (1)$$

Because the replacement cost is difficult to obtain, the total assets of listed companies at the end of the year will be used to replace RC. And the market value of debt capital is the sum of long-term liabilities (LL) and short-term liabilities (SL). In this case, the approximate formula of Tobin's q is shown as Eq.2. Considering the availability of data and the feasibility of calculation processes, the second formula is used in the paper.

$$q = \frac{MVCS + S_{nt} \times NAPS + LL + SL}{BVA} \quad (2)$$

2.2. Advantages of Tobin's q Model.

Among the methods of enterprise valuation, the discounted cash flow model has poor accuracy in predicting future free cash flow. Due to the different understandings of evaluators, the calculation of free cash flow is prone to large deviations. P/E ratio is one of the relative valuation methods. Its application should be based on a certain comparable object. If there is no comparable company, the method will no longer be applicable. Besides, the deficit enterprises lack the basic application conditions. Similarly, P/B ratio has similar shortcomings. For EVA, in order to obtain accurate EVA, we should make corresponding accounting adjustments. In practice, the accounting adjustment rules of EVA need to be further improved. For enterprises with good future expectations, EVA can not fully reflect their value creation, so its applicability is relatively low.

Tobin's q has a strong advantage in practical application. We can simultaneously observe the capital market and industrial investment markets, which meet the needs of most realistic economic research. In addition, Tobin's q value is relatively easy to measure. Stock price data of enterprises can usually be found from stock exchanges, and total assets data can also be found from the financial statements of enterprises in each period. Moreover, the approximate formula is simple and feasible. As a result, Tobin's q has been favored by many scholars at home and abroad and widely used in monetary policy and enterprise value research.

2.3. Limitations of Tobin's q Model.

Firstly, the relevant data has time lag, which leads to the lack of foresight. Furthermore, because of the issuance premium, the return rate of stock investment is much higher than that of industrial investment, which leads to the return of funds. Therefore, the rise of stock price can not effectively stimulate industrial investment. When the level of earnings is generally low, the continuous rise of stock prices in the two tier market will lead to high price earnings ratio, and the stock market will

seriously deviate from the real value of the stock market. In these situations, the applicability of Tobin's q model is greatly reduced.

In Chinese stock market, there are many state-owned non-tradable shares and the value of these non-tradable shares is difficult to measure. In addition, the market value of creditor's rights is not easy to estimate. Therefore, we usually use the number of non-tradable shares multiplied by net assets per share to show the value of non-tradable shares, and use the book value of liabilities to replace the market value of creditors' rights. Meanwhile, the replacement cost is also difficult to estimate. In practice, we often use the book value of total assets instead. Although the measurement process is simplified, these substitutions could reduce the measurement level of Tobin's q. However, Tobin's q model provides a way for us to analyze the domestic economy. With the continuous improvement of Chinese capital market, Tobin's q model will be more and more suitable to national conditions and become an important economic analysis tool.

3. The Impact of Renaming on Enterprise Value

3.1. Renaming Events of the Case Enterprise.

Yi Qiao Marine Seeds is engaged in sea cucumber breeding, processing and marketing. However, in October 2014, a famous "run-away" incident of scallops and shrimps occurred in the aquatic industry. In order to avoid the negative influence of the market, the enterprise made the first decision to change its name. Yi Qiao Marine Seeds officially changed its name to Yi Qiao Sea Cucumber on January 7, 2015. In 2016, it acquired 55% of the controlling rights of Haoxin Interconnection through asset exchange and formed a dual business model of breeding and mobile games. The enterprise formally changed its name from Yi Qiao Sea Cucumber to Yi Qiao Stock on October 13, 2016 showing the future dual-main business operation. In 2017, the enterprise implemented a major asset restructuring. It mainly manages mobile game business, and no longer does seafood business. On January 31, 2018, the enterprise formally made the announcement of the name change to "Chenxin Technology".

This paper uses the event study method to analyze the enterprise value changes caused by three renaming events of Chenxin Technology. The event period (i.e. the window period) includes the period before and after the announcement date of renaming.

3.2. Calculation of Tobin's q.

The approximate formula for calculating Tobin's q is shown as Eq.2. From CSMAR, we can get the data of MVCS, S_{nt} and NAPS. At the same time, we can get LL, SL and BVA from the financial reports of Chenxin Technology. Finally, we calculate Tobin's q of the enterprise from 2014 to 2018, as shown in the last column of Table 1.

Because Chenxin Technology is in the suspension period in the second quarter of 2016 and the second quarter of 2017, it cannot obtain the MVCS of two periods, so it cannot get the Tobin's q of June 30, 2016 and June 30, 2017. Therefore, Tobin's q at the two time points could be eliminated. Finally, the trend of Tobin's q is shown in Figure 2.

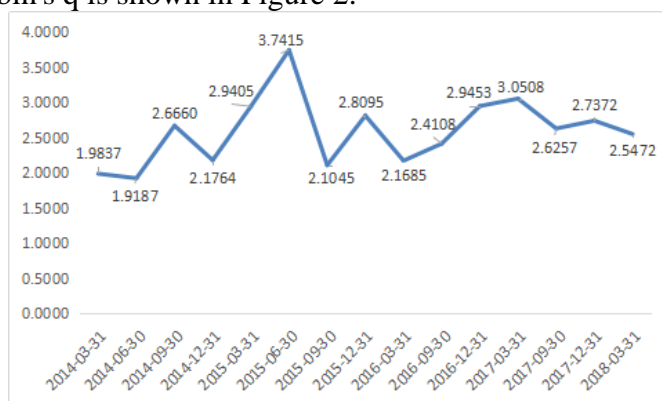


Figure. 2 Trend of Tobin's q from 2014 to 2018

Table 1 Tobin's q of Chenxin Technology from 2014 to 2018

Accounting period	MVCS [yuan]	S _{nt} ×NAPS [yuan]	LL [yuan]	SL [yuan]	BVA [yuan]	q
2014-03-31	2,701,264,500	2,290,375,405	470,968,184	299,031,711	2,904,511,000	1.9837
2014-06-30	2,699,068,350	2,242,422,075	606,290,910	209,174,205	3,000,385,819	1.9187
2014-09-30	3,794,947,200	3,607,083,509	601,290,910	218,087,661	3,083,788,267	2.6660
2014-12-31	3,228,340,500	2,942,796,251	593,786,365	228,984,084	3,213,513,862	2.1764
2015-03-31	5,717,959,590	2,959,154,133	468,786,365	364,862,152	3,234,409,372	2.9405
2015-06-30	7,151,025,000	3,986,813,235	402,281,820	354,279,945	3,179,070,784	3.7415
2015-09-30	4,067,652,600	1,896,312,132	402,281,820	348,540,048	3,190,746,363	2.1045
2015-12-31	5,567,779,800	2,961,600,093	185,609,091	476,172,816	3,271,487,153	2.8095
2016-03-31	4,148,428,680	2,153,635,774	169,109,091	376,956,335	3,158,073,686	2.1685
2016-06-30	-	-	96,500,000	475,675,084	3,164,503,410	-
2016-09-30	5,265,390,740	2,133,037,924	75,000,000	508,119,096	3,310,800,715	2.4108
2016-12-31	6,207,883,110	2,970,168,349	20,000,000	212,174,301	3,194,994,642	2.9453
2017-03-31	6,371,808,770	3,167,746,228	0	213,553,482	3,196,872,411	3.0508
2017-06-30	-	-	0	212,078,101	3,224,378,462	-
2017-09-30	5,749,930,410	2,550,669,418	0	214,321,052	3,242,932,769	2.6257
2017-12-31	5,081,404,750	1,924,294,198	0	515,608,162	2,747,839,828	2.7372
2018-03-31	4,792,140,720	1,820,293,935	0	480,714,555	2,784,725,123	2.5472

3.3. Analysis of Assessment Results.

The controlling shareholders of the enterprise have been Liu Dequn in all periods. Based on the main business, it can be judged that the first renaming of Chenxin Technology belongs to the substantive unchanged type, and the last two renaming belongs to the main business adjustment type. It can be seen that Tobin's q of the enterprise in each period is greater than one. The minimum value is 1.9187 on June 30, 2014, and the maximum value is 3.7415 on June 30, 2015. It shows that the market has been optimistic about Chenxin Technology, and its enterprise value has been overvalued by the market.

The first renaming announcement was issued on 7 January 2015. Before and after the renaming event, the Tobin's q of the enterprise increased from 2.1764 on December 31, 2014 to 2.9405 on March 31, 2015, with a growth rate of 35.11%. After that, the growth momentum continued, reaching a peak of 3.7415 on June 30, 2015.

The second renaming took place on October 13, 2016. The Tobin's q of the enterprise has gradually improved since March 2016, from 2.1685 on March 31, 2016 to 3.0508 on March 31, 2017. During this period, Chenxin Technology ceased trading from March 9, 2016 to August 29, 2016 due to major issues. After the reopening, the market value of the enterprise did not decline but rose, and Tobin's q also increased. It shows that after engaged in online games, the value of Chenxin Technology has been enhanced.

The third renaming announcement was issued on January 31, 2018. Although the stock price is rising and the number of shareholders is increasing in the period, Tobin's q of Chenxin Technology at the end of the first quarter of 2018 is 2.5472, which is 6.94% lower than 2.7372 at the end of last year. The Tobin's q of the enterprise increased from 2.6257 on September 30, 2017 to 2.7372 on December 31, 2017, with a growth rate of 4.25%. It indicates that the window period before the announcement date of the third renaming, investors could know in advance.

To sum up, the first and second renaming of Chenxin Technology had a positive effect on enterprise value creation, while the third renaming had not yet achieved the desired results. Only after Chenxin Technology re-trades, can the impact of the third renaming be proved in the follow-up.

4. Summary

4.1. Conclusions.

Tobin's q can reflect the market preference degree, the enterprise growth, the enterprise management level and other important factors. In this paper, we find that the Tobin's q of Chenxin Technology has always been greater than one, indicating that it is overvalued by the market. Renaming events often change investors' perceptions, affect enterprise performance, and have a influence on Tobin's q . Intuitively, the first two renaming changes of Chenxin Technology obviously brought about the growth of Tobin's q .

Before and after the first renaming, the sea cucumber business developed rapidly, which made the enterprise enhance its competitive position and brand awareness. The enterprise also gained the growth of value as expected. Its value increased from 2.1764 to 2.9405, with a growth rate of 35.11%. However, there was no significant change in the main business during the period. The substantive unchanged renaming for the purpose of highlighting "sea cucumber" has brought about a substantial increase in Tobin's q and promoted the enterprise value creation. In the second renaming event, the enterprise newly invested 55% shares of Haoxin and entered the Internet pan-entertainment industry. The market reaction of this renaming was very strong, which made the enterprise value reach the second highest point of 3.0508 from 2.1685. The third renaming took place after the major asset reorganization, but its Tobin's q dropped from 2.7372 to 2.5472, which did not bring the expected growth of enterprise value. There are two possible reasons. Firstly, the effect of asset restructuring on enterprise value has not yet been reflected, which awaits follow-up market reaction. Secondly, the major asset restructuring activity of Chenxin Technology may not be a substantive restructuring. The "statement reorganization" does not have much impact on the enterprise value.

4.2. Suggestions.

Firstly, investors should carefully consider the specific situation of the renaming event, identify the reasons for the renaming, and prevent the hot pursuit of the trend, so as not to be deceived by the renaming behavior of malignant enterprises. Many small investors neglect the fundamental analysis of listed companies and devote all their energies to the operation of bankers. However, these fundamental information plays a decisive role in investment decisions.

Secondly, most enterprises belonging to traditional industries should seize the opportunity of restructuring, improve their core competitiveness, move closer to high-tech fields, and realize the transformation from traditional industries to emerging industries. In this paper, Chenxin Technology not only changed its name, but also changed its main business. In recent years, Chenxin Technology has gradually abandoned seafood business, mainly did mobile game business, and planed to enter the block chain area. It enhanced the core competitiveness and realize its enterprise value growth.

Thirdly, relevant departments should improve the stock supervision system, pay more attention to information disclosure, restrain abnormal speculation, and cultivate a rational and healthy market environment. On the one hand, investors can get real and accurate information in time, and their illegal behavior will be punished by law, which ensures that the access to information is the same for every investor. On the other hand, insider trading that undermines market fairness can be curbed, which enables listed companies to enhance their own value in a legitimate and reasonable way.

4.3. Innovations and Limitations.

Researches on renaming are not common at home and abroad, which mainly focus on the reaction of the investment market. And there are numerous studies on enterprise value at home and abroad. But there are few precedents to explore the relationship between the renaming and enterprise value. In this paper, the two is studied together.

However, this paper studies one enterprise, namely Chenxin Technology. The results may not be universal, so there are some limitations for other industries or other enterprises in the same industry. At the same time, this paper focuses on the issues involved in the research and simplifies other information, which may lead to the neglect of some information that has an impact on the results.

References

- [1] Jianping Deng: An Empirical Study on the Renaming Effect of Listed Companies (MS., University of Electronic Science and Technology, China 2003), p.13. (In Chinese)
- [2] J.S. Howe: Financial Review, Vol. 17 (1982) No.4, p.271-278.
- [3] J.M. Karpoff: A Survey Journal of Finance and Quantitative Analysis, Vol. 22 (1987) No.1, p.190-126.
- [4] J.C. Bosch and M. Hirschey: Financial Management, Vol. 18 (1989) No.4, p.64-73.
- [5] D. Horsky and Patrick Swyngedouw: Marketing Science, Vol. 14 (1987) No.4, p.52.
- [6] P.S. Koku: Journal of Services Marketing, Vol. 11 (1997) No.6, p.392-408.
- [7] M.J. Cooper, O. Dimitrov and P.R. Rau: Journal of Finance, Vol. 56 (2001) No.6, p.2371-2388.
- [8] H.W. Kot and Zhang Ji: Price Reaction to Corporate Name Changes (Ph.D., Hong Kong Baptist University, China 2004), p.19.
- [9] T. Josev, H. Chan and R. Faff: Pacific Accounting Review, Vol. 16 (2004) No.1, p.57-75.
- [10] P. Andrikopoulos, A. Daynes and P. Pagas: Ssrn Electronic Journal, Vol. 9 (2007) No.4, p.67-74.
- [11] D.T. Robinson and Y. Wu: What's in a name? Causes and Consequences of Corporate Name Changes. Working paper, 2008.
- [12] B. Mase: Managerial Finance, Vol. 35 (2009) No.4, p.316-324.
- [13] H.W. Kot: Pacific-Basin Finance Journal, Vol. 19 (2011) No.2, p.230-244.
- [14] T.L. Pi and H. Yang: Statistics and Decision-making, Vol. 8 (2005) No.8, p.94-97. (In Chinese)
- [15] J. Chen: An Empirical Study on the Renaming Effect of Chinese Listed Companies (MS., Southwest Jiaotong University, China 2005), p.30. (In Chinese)
- [16] Y. Yang: Empirical analysis of investor concerns, investor sentiment and the announcement of renaming of listed companies (MS., Jiangxi University of Finance and Economics, China 2014), p.22. (In Chinese)
- [17] J. Wu: An Empirical Study on the Rename Effect of Chinese Listed Companies (MS., Tsinghua University, China 2010), p.15. (In Chinese)
- [18] L.Z. Dai: An Empirical Analysis on the Change of Stock Names of Listed Companies in China Stock Market (MS., Southwest University of Finance and Economics, China 2012), p.26. (In Chinese)
- [19] L.X. Jia, Y. Zhu and D.F. Chen: Financial Research, Vol. 5 (2016) No.5, p.173-190. (In Chinese)
- [20] J. Tobin: Journal of Money Credit and Banking, Vol. 1 (1969) No.1, p.15-29.