Comparative Analysis of Chinese Internet Company Listed on the NYSE and NASDAQ—Based on Financial Analysis of Baidu and Dangdang

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Abstract. At present, given that the research of Chinese internet companies listed overseas is rare, this article focus on the study of these companies’ financial performance, and offers some advice for Chinese internet companies wanted to list on the American capital market.

In order to avoid the strict listing conditions of domestic security market, most of the Chinese internet corporations listed on the NYSE (The New York Stock Exchange) or NASDAQ (National Association of Securities Deal Automated Quotations). Therefore, this paper firstly compared the NYSE and NASDAQ. Secondly, this paper describes the difference between financial performance on different listing locations, based on Baidu listed on NASDAQ and Dangdang listed on NYSE, through the financial statements analysis. Finally, this paper puts forward some countermeasures of Chinese internet corporation listed overseas.

The study suggests that the overall financial indicators performance of Baidu is better than Dangdang, which shows that the NASDAQ is better in the adaptability and adjustment for financial crisis than NYSE. Therefore, it is believed that the NASDAQ is more suitable for domestic internet enterprises listing overseas. Nevertheless, it is inevitable that both the NASDAQ and the NYSE require expensive listing fees and maintaining fees, which is strict with the listed companies’ profits.

Introduction

Compared with the domestic securities market, the US securities market has relatively looser demand in profits, and the lowest operating life. What’s more, the US securities market is mature and standardized. With various operation patterns, and low barrier to entry, the US securities market has the character of active capital, which provides a free environment for the small scaled, starting late but having good prospects companies. Therefore, the domestic internet companies would rather list on the US securities market.

The Listing Location Choice Theory Analysis

Because the majority of Chinese internet enterprises are emerging, the size and assets do not fully meet the conditions listed on the American securities market, Chinese internet companies mostly choose the NYSE or NASDAQ. The differences between NYSE and NASDAQ in the listing conditions, advantages and limitations are analyzed in this paper.

Specifically, in terms of the conditions listed, the NYSE has the longest development in the American capital market currently, so it has more stringent listing requirements than the NASDAQ. In the advantages of the market, the cost of listing on the NYSE is higher. For example, the cost of listing on the NYSE is about seven times higher than the NASDAQ\(^\text{[1-2]}\). After enterprises officially list on the NYSE, the annual maintenance cost is 20\%–50\% higher than the NASDAQ\(^\text{[3]}\). The strict listing standards and expensive listing threshold fit for large enterprises usually. Considering more high and new technology enterprises in the NASDAQ, especially computer technology enterprises, the NASDAQ is more suitable for internet companies. In terms of market restrictions, with the multiple market makers rule, the NASDAQ allows each market maker has relatively dispersed information, which reduces the risk of market makers bearing\(^\text{[4]}\). Therefore, for the large internet
companies which has larger scales, more assets, and long history, it is more suitable to choose the NYSE. And the NASDAQ is more suitable for the potential and emerging enterprises.

Because of the exist of differences between market conditions, the US listing location selection is divided into active and passive choice:

(1) Passive choice. If a company does not meet A market conditions, but meet the B market conditions, the company choosing B market is a passive choice.

(2) Active choice. If a company not only meets the A market conditions but also meets B market, with comprehensive consideration that A market is more beneficial to the future development of the company, the company choosing a market is active choice.

**Financial Analysis of Baidu after Listing**

With the comparison between NYSE and NASDAQ, it is known that different security markets effect the company's development differently, which can be reflected from the company's financial statements. Therefore, from the stock price movements, financial statement items and earnings per share, this article analyzes the different financial performance of Baidu and Dangdang after listing.

When just established, Baidu coped with a loss because of huge amounts of cash outflows. Baidu began obtaining the return of funds and met the break even until 2003. However, because of the strict conditions of the domestic stock market, Baidu was forced to choose the United States security market. Thus, Baidu listed overseas is a passive choice.

![Figure 1. 2005–2015 the stock price of Baidu.](image)

![Figure 2. 2004–2014 the assets, liabilities and owners' equity of Baidu.](image)
Figure 1 shows that after Baidu company listed on NASDAQ, the company's overall stock prices continued the trend of increasing, except the financial crisis in 2008 and the negative effect of macroeconomic in 2013. The stock price reflected that the American investors were optimistic about the future of the company.

Figure 2 and figure 3 show that during 2004--2014, Baidu's total assets, total liabilities and owners' equity grew constantly. The company's operating income, operating profit and net profit maintained sustained growth during 2002 - 2012. Besides, the operating profit and net profit growth slowed in 2013 and 2014, but maintained on a high level.

Figure 4 shows that until the end of 2014, the four indicators of earnings per share, net asset per share, operating income per share and operating cash net flow per share maintained sustained increasing since listing.

**Financial Analysis of Dangdang after Listing**

During the two years before the listing of Dangdang, namely in 2008 and 2009, Dangdang was faced with the situation of operating loss, which did not meet the domestic listing requirements that a company must maintain 3 consecutive years of profitability. Thus, Dangdang listing on the United States stock market also belongs to the passive choice.
Figure 5. 2010–2015 the stock price of Dangdang.

Figure 6. 2009–2014 the assets, liabilities and owners' equity of Dangdang.

Figure 7. 2009–2014 the operating income, operating profit and net profit of Dangdang.
The stock price of Dangdang company (Figure 5) shows a downward trend. Thus, with stock price falling again and again, the U.S. investors are not optimistic about Dangdang.

Figure 6 and Figure 7 show that during 2009–2014, the company's total assets and total liabilities maintained a rising trend. But the owner's equity had always been a cutting state since 2010, when Dangdang listed on the NYSE. The operating income maintained growth, while the operating profit and net profit during this period had frequently appeared negative. More seriously, the operating profit rate and net profit loss rate are higher than the revenue growth rate, which means that the company was faced with embarrassment.

Earnings per share (Figure 8) shows that with the affection by the continued growth of operating income, the company’s operating income per share maintained growth. But the earnings per share, net assets per share and net cash flow per share decreased in a fluctuation way. The most serious year was the year after listing, in 2011, the net cash flow per share dropped to -3.78 billion yuan from 41 million yuan in 2010, whose decline was close to 300%.

The Comparative Study between Financial Analysis of Baidu and Dangdang after Listing

Baidu and Dangdang are both the domestic internet companies listed on the relatively loose conditions of the U.S. capital markets, which are both passive choices. Through the financial analysis of Baidu, the stock price movements and the excellent operating performance fully proved that Baidu’s choice of listing on NSDAQ is correct. By making use of the overseas market, Baidu achieves a huge development and expansion of scale. Baidu listed overseas is a very successful case, which fully use the advantages of the NASDAQ. The lessons learned from Baidu are as follows:

1. Overseas listing opens the door towards financing for Baidu.
   The money of the United States market is in dollar terms. Thus, in the case of a strong dollar, the financing effect of 1 dollar equivalents to 6-7 yuan. In the environment of high exchange rate, the huge amounts of money fully meet the development of Baidu.

2. Overseas listing urges Baidu to strengthen enterprise management and internal control.
   Although the NASDAQ market has strict requirements of the internal control and risk management for listed companies. Baidu makes efforts to strengthen the company's risk management and internal control, which is the key factor to realize the sustained and stable development.

3. Overseas listing provides a higher platform for the development of Baidu, which promotes the international business strategy.
   After listing on NYSE, stock price and earnings of Dangdang continued declining, which is different with Baidu. The reasons may include:

1. Dangdang did not make use of the advantages of NYSE, but remained subject to the restrictions, which leads to stock price declining, earnings cutting and capital outflows.
(2) The expensive cost of listing on the NYSE often leads to the net profit declining and the stock price falling, although the operating income is increase. It is not proportional to income and to pay, which causes a huge cash flow pressure.

(3) Investment cultural differences increase the listing difficulty. Foreign securities market information disclosure is more stringent. Besides, the law and its implementation mechanism is more perfect. In the process of information disclosure, the domestic enterprises listed overseas are prone to loopholes, which exists the risk of litigation.

Research on the Countermeasures of Domestic Internet Corporation's Overseas Listing

In order to improve the quality of overseas listed companies, choose a favorable environment for long-term development, and speed up the pace of earning profits, this paper puts forward the following countermeasures and suggestions, hoping to provide the corresponding reference for the internet companies listed overseas.

(1) The implementation of talent reserve strategy
The domestic internet companies listed overseas take greater risks and cost pressures than the domestic business. Therefore, it is urgent to reserve a large number of adapting the international operation requirements compound talents, and to establish the diverse compensation system.

(2) Pay attention to publicity and packaging
With the increasingly fierce market competition, “Brand Image” has become the dominant strategy of enterprise fame and sustainable development. On the one hand, the enterprise should get the support of the society, the cooperation of the partner, and the support and trust of the masses through the higher visibility and good reputation. On the other hand, enterprises should also get more customers through their own brand. In order to improve the enterprise value, the company can propaganda the development strategy, management style, enterprise culture to improve investors’ recognition, especially institutional investors’ identity and loyalty.

(3) Establish a sound risk monitoring mechanism
In order to control the overseas listed risk to a minimum, the domestic internet companies should control risks according to the change of environment, strengthen a variety of information collection and research, correctly grasp the overall market trends and business orientation, timely adjust business strategy, take effective internal control measures to be on guard.

Conclusion

Although Baidu and Dangdang are both domestic internet enterprises listed overseas, Dangdang company's financial indicators show that the choice of listing overseas belongs to a case of unsuccessful. Based on the analysis of the two companies, this paper draws the following conclusions:

(1) Baidu listed on NASDAQ shows better adaptability and adjustment to the financial crisis. The performance of financial indicators overall are better. Therefore, NASDAQ is more suitable for domestic internet enterprises listing overseas.

(2) Whether listed on NASDAQ or NYSE, enterprises are unable to avoid expensive listing cost and maintenance cost, so it is strict with listed companies on profits.

(3) To reduce the risk of listing overseas failure, enterprises should strengthen its information disclosure transparency, improve the internal governance capacity, and establish a sound financial system.

References

