24/7 WALL STREET

NYSE Gets Slapped Hard on Chinese Listings

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Shares of Chinese companies listed on the NYSE (NYX) have sub-standard earnings. That is the conclusion of a study by RateFinancials, an independent research firm, covered in the FT. Since the NYSE views itself as the blue chip global exchange, it is unlikely to be happy with the news.

The study covered “the 10 largest Chinese companies with total market capitalisation of about $750bn and an average price/earnings multiple of 24.7 that implies they will generate strong earnings growth.” What it found was firms with insufficient cash flow, negative working capital, and “managed earnings” (a term that would indicate that the companies are less than forthcoming about their actual prospects.

The evaluation gets worse. “These companies are government-controlled enterprises masquerading as independent public companies and it is virtually impossible to assess their financial condition given their poor level of disclosures,” said Victor Germack, founder and president of RateFinancials.

This opens the door to the question of whether the NYSE was willing to list companies including. Petro China (PTR), China Telecom (CHL), and China Life (LFC) while turning a blind eye to the potential that the Chinese government may be willing to cut financial corners at the firms. It is not as if the communists have a spotless history of being transparent.

If more evidence appears that would support the news study,the exchange has a very hard decision. Does it delist the Chinese companies and force them to list elsewhere, or does it keep them on to maintain its global image while knowing that they really do not belong?

The Asian Development Bank said it has revised its 2007 growth projections for Asia's developing economies to 8.3 percent from 7.6 percent earlier, citing solid growth in China and India.

Chinese companies listed on the New York Stock Exchange have more earnings quality issues than their strong valuations and market cap imply, the Financial Times reported, citing a report by independent research firm RateFinancials. It said the 10 largest Chinese companies, with a total market cap of 750 bln usd and an average price over earnings multiple of 24.7, appear to promise strong growth but suffer from a range of problems, including weak disclosure, indications of earnings management, and insufficient working capital or cash flow.