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NY Listings ‘Flatter China’s Top 10’

Earning Outlook Is Poor, Report Argues Fears of ‘Cookie Jar’ Accounting

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Top Chinese companies listed in New York have poor quality earnings, argues a research report highly critical of the New York Stock Exchange for allowing the listings.

The report comes days after the NYSE opened an office in Beijing to persuade Chinese businesses to choose New York for listings.

Exchanges are in a fierce battle for business. New York, once pre-eminent, has suffered in recent times with many choosing London or Hong Kong instead.

RateFinancials, an independent research firm, studied the 10 largest Chinese companies with market capitalisation of about \$750bn and an average price/earnings multiple of 24.7 that implies they will generate strong earnings growth.

Studying the publicly available accounts of the 10, the analysts found a range of problems, differing by company. No rules were being broken, but poor earnings quality implies the outlook may be less rosy than investors expect. The NYSE declined to comment, but sources close to the exchange said its criteria for listings remained stricter than any other exchange's.

There were different problems at the companies including insufficient cash flow to fund cash needs and a history of negative working capital, a condition that exists when a company grows rapidly, but which is unsustainable in the long run. The study found signs of possible earnings management with low allowances for bad debt and other provisions not keeping pace with inventory growth. That may mean so-called ‘cookie jar’ accounting - where companies lower reserves and use excess cash to boost revenues.

“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.

The 10 companies, listed through American Depositary Shares, are: PetroChina, China Mobile, China Petroleum & Chemical, China Telecom, China Life Insurance, China Unicom, Huaneng Power International, Yanzhou Coal Mining, Suntech Power Holdings and Sinopec Shanghai Petrochemical.