ABSTRACT

This study examines factors that affect share prices for Hong Kong-listed mainland companies by examining the outperformance of H-shares and red chips compared with local large-cap stocks on the Hong Kong Stock Exchange in 2013 and 2014. To the best of my knowledge, this is the first empirical study focusing on these three types of stocks. In efficient markets, share prices should reflect the fundamentals of the listed companies, as revealed by the firm’s earnings. If the assumption of market efficiency is relaxed, or markets are less efficient due to institutional factors, the correlation will be less pronounced. In this regard, I examine the links between firm performance, stock visibility, and share price movements. I find that the fundamentals of listed firms do not account for the superior price performance in the case of H-shares. By contrast, the price performance of Hong Kong large-cap stocks and red chips is more closely correlated to earnings. In addition, the hypothesis that the neglected-firm effect plays a role in the relationship between firm performance and stock returns of Hong Kong-listed China-related companies is not supported. Instead, I find support for the hypothesis that stock visibility acts as a moderator in the relationship between firm performance and stock returns, particularly in the case of China-related shares. With the introduction of stock visibility, the effect of Return on Equity (ROE) on stock returns is reduced, but still significantly positive. This indicates that stock visibility partially mediates the link between firm performance and stock returns, supporting the mediation hypothesis. By revealing the limited link between fundamentals and share prices in H-shares, this study also supports the notion, found in other studies, that market efficiency is less applicable to China H-shares in particular and the Hong Kong financial market in general.
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