Impacts for Different Markets on Stock Evaluation: Evidence from BeiGene LTD

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Abstract: Contemporarily, as more and more companies accomplished dual listing, the continued difference in valuations of A-shares and H-shares has got more and more attention. On this basis, this study takes BeiGene LTD. as an example, by analysing the investor structure, stock price momentum in its different markets. Explain the reasons for the BeiGene LTD.'s valuation difference between A-share and H-Shares from the perspective of behavioural finance as well as analyse the feasibility of spatial arbitrage. The research shows, difference investor structure in difference market, overconfidence of investors in the A-share market and herding often causes stock valuations to deviate from normal ranges, which results in the valuation difference between A-shares and H-shares. Besides, arbitrage limits and weak from efficiency would make spatial arbitrage difficult to achieve. These results help listed companies understand the differences in valuations of their products by different market investors as well as provide new perspectives and empirical basis for the development of financial theory.

1 INTRODUCTION

As more and more companies accomplished dual listing, due to different investor structure and valuation methods, there is often a significant price difference between A-shares and H-shares (Dong, 2024). The current mainstream research directions are exploring the formation mechanism of the premium of A-shares relative to H-shares, specific reasons for price differences (Gong, 2018), and the possibility of spatial arbitrage. Current research results include different structure have impact on stock valuation (Paul & Jie, 2017), the macroeconomic environment has a significant impact on stock valuation (Liu & Shrestha, 2008). The topics to be studied are the possibility of spatial arbitrage, specific reasons for price differences.

BeiGene LTD.'s Market capitalization in the A-share and H-share is similar, and both A-share and H-share are big cap stocks, its stock price is relatively stable. Since BeiGene LTD. went public, there has been a price difference between its A-share and H-share for a long time. For example, On February 6, 2025, BeiGene LTD.'s A-share closing price was 198.9RMB, H-share closing price was 140. 9HKD.Its A-H share premium rate was up to 50.77%. Also, On October 25, 2024, BeiGene LTD.'s A-share closing price was172.6RMB, H-share closing price was 123.8HKD. It's A-H share premium rate was up to 46.74%. The company's main business is innovative drug research and development. Its price difference between A-share and H-share can well reflect the impact of investor behavior in different markets. This article takes BeiGene LTD. as an example, by analyzing its price difference between A-share and H-share, make people understanding the reason which causes the different valuations in different market better, and analyze the feasibility of spatial arbitrage, then provide investment advices.

The analysis focuses on three aspects: Different investor structure in different markets, overconfidence of investors in the A-share market and herding often causes stock valuations to deviate from normal ranges (Almansour et al., 2023). arbitrage limits and weak from efficiency would make spatial arbitrage difficult to achieve (Shleifer & Vishny, 1997). Valuation differences between the A-share and H-share markets.

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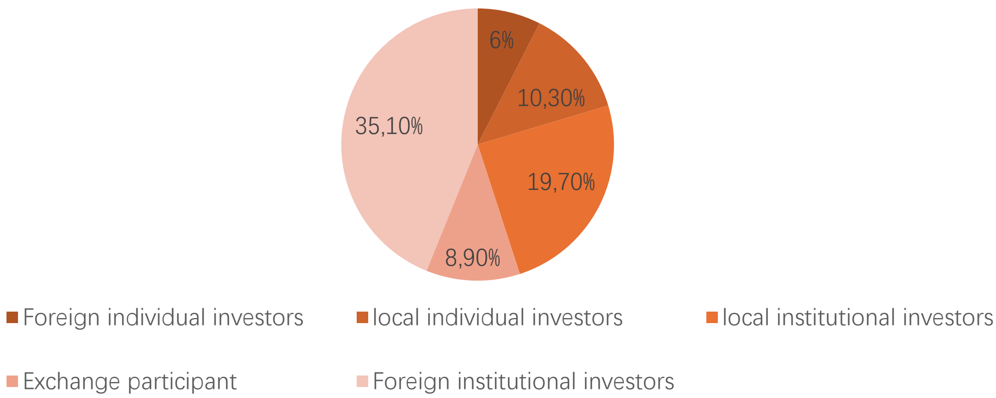

Figure 1: H-share market structure of data source from Wind (Photo/Picture credit: Original).

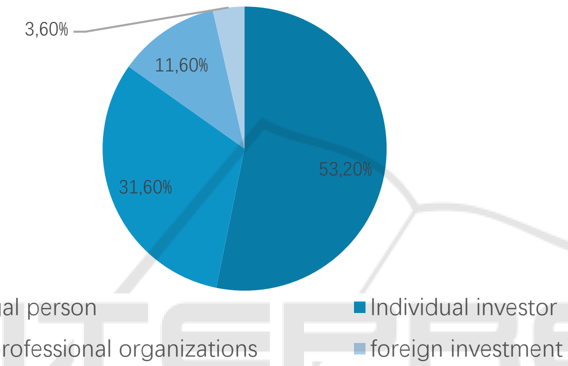

Figure 2: A-share market structure of data source from Wind (Photo/Picture credit: Original).

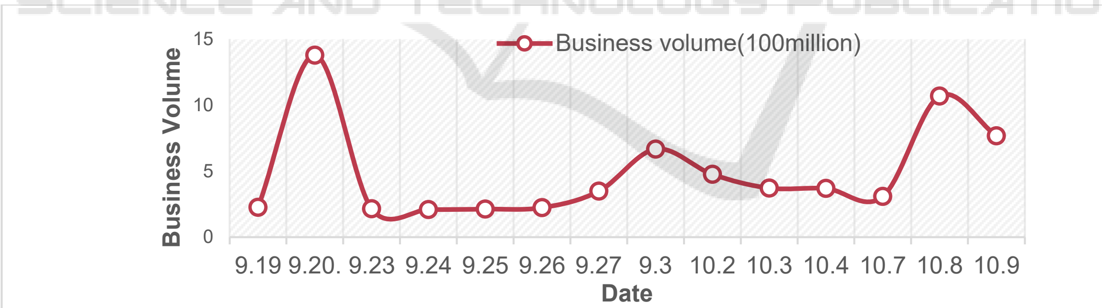

Figure 3: 9.19-10.9 H-share business volume of data source from Eastmoney (Photo/Picture credit: Original).

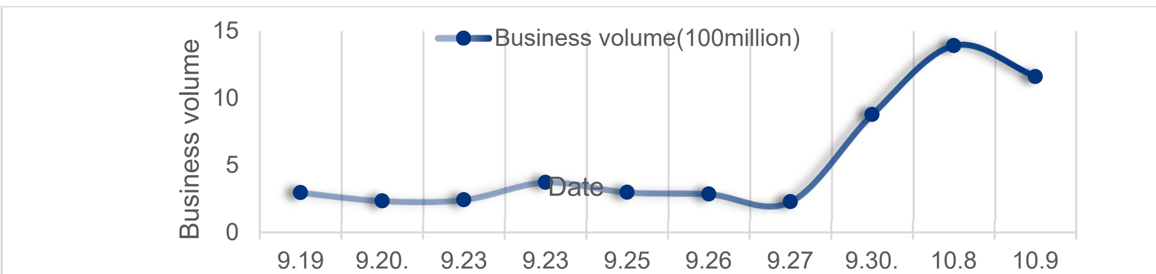

Figure 4: 9.19-10.9 A-share business volume of data source from Eastmoney (Photo/Picture credit: Original).

2 ANALYSES OF THE REASONS FOR PRICE DIFFERENCE IN DIFFERENT MARKETS

Different investor structure in different markets, overconfidence of investors in the A-share market and herding often causes stock valuations to deviate from normal ranges. Based on the data shown in Figure 1 and Figure 2, it can be known that in H-share market, the proportion of institutional investors is relatively high, and in A-share market, the proportion of individual investor is relatively high. Institutional investors' decision making is more rational and independent. However, individual investors' decision making often display overconfidence, and easily influenced by herding (Nielsen et al., 2024), shown as blindly follow the trend and buy when the price rise, make the stock's price beyond normal range. Between September 19 and October 8, 2024, the stock price of BeiGene LTD. was showing an upward trend. As illustrated in the Figure 3, When the stock price started to rise on September 20 and began to fall on October 8, the business volume of H-share market rose suddenly. It's able to be seen that H-share investors have a good grasp of market cycle, and their decision is more independence. In contrast, the data in Figure 4 demonstrates the business volume of A-share market rose suddenly on September 30, daily price momentum up to 12.96%. Soon afterwards, the business volume reached a new peak on October 8 after the National Day holiday. When individual investors saw the stock price rise; they would blindly follow the trend and buy-in influenced by herding and overconfidence. This makes the stock price of BeiGene LTD. beyond normal range, make a price difference between A-share and H-share.

The data of Table 1 of BeiGene LTD. 30-day price momentum comparison shows, the valuation of H-share is more stable. totally 30-day price momentum of BeiGene Ltd.'s H-share was 0.22%. This reflects institutional investors in H-share market who have larger proportion make decision more rationally, therefore, price of H-share will not deviate too much from its original value; By contrast, the valuation of A-share fluctuate greatly. Totally 30-day price momentum of BeiGene Ltd.'s A-share is -6.05%. As individual investors accounts for a large proportion of A-share market, they are very sensitive to price fluctuations and easily influenced by herding, which will cause stock price to deviate from their original value.

Table 1: 2023,3.1-3.30 BeiGene LTD. 30-day price momentum comparison (data source: Eastmoney).

Date	A-share price momentum (%)	H-share price momentum (%)
3.1	3.15	7.42
3.2	-0.94	0.07
3.3	-0.63	-0.07
3.6	2.8	0.7
3.7	-1.27	-1.45
3.8	-3.55	-3.16
3.9	1.22	-2.23
3.1	-2.37	-0.67
3.13	-1.12	0.9
3.14	8.94	6.67
3.15	0.51	1.94
3.16	-5.93	-6.4
3.17	-3.55	-2.77
3.2	0.64	-1.72
3.21	3.99	4.49
3.22	-2.18	-2.77
3.23	-2.36	-0.07
3.24	-1.11	0.53
3.27	0.12	-0.9
3.28	-1.52	-0.23
3.29	-0.18	0.91
3.3	-0.71	-0.97
Total	-6.05	0.22

Individual investors account for a high proportion of the A-share market, some of them overconfident in their investment ability and judgment. When stock price rise, they often show blindly optimistic attitudes, plus the herd effect. So, when the market is trending upward, a large number of individual investors will follow tendency and buy-in; when market is trending downward, there will be panic selling. So that the stock price will deviate from their original value. Investors in H-share market are mainly institutional investors, they are more rational, investment decisions are more independent, pay more attention to risk control, and their valuations of stocks are more conservative.

3 FEASIBILITIES FOR SPATIAL ARBITRAGE

Limitation of arbitrage and weak from efficiency would make spatial arbitrage difficult to achieve. The main methods of space arbitrage for BeiGene LTD. are: Simultaneous selling and buying of stocks or Simultaneous short selling and purchasing of equities in the A-share and H-share market. For the first method, because Chinese stock market has price limit rule, stocks are restricted or prevented from exceeding a predetermined price level, which makes it difficult for stock prices to effectively reach an equilibrium level (Tan et al., 2021). Thus, leading to price difference between BeiGene LTD.'s A-share and H-share remaining unchanged, make spatial arbitrage difficult to achieve. For the second method, since Chinese stock market has Regulatory Short Sale Prohibitions (Tan et al., 2021), investor can only short celling through securities lending. But the handling fee of securities lending is relatively high. In the case of little change in the price difference between BeiGene LTD.'s A-share and H-share, profits will be consumed by excessive costs. Therefore, arbitrageurs will give up arbitrage opportunities due to high costs.

Related studies have shown that the Chinese stock market belongs to a weak from efficiency (Chao et al., 2022), one can't use the past price to predict the future price due to the stock price change randomly, which means the technical analysis will lose its effect, the variation of new price only depends on the newly emerging information. The unpredictability of the price will make rational investors miss or give up the opportunity of arbitration.

Behavioural Finance considered that the cost of transportation, storage and transaction fees will limit the behaviour of arbitrager. At the same time, the spatial arbitrage involves the risks of exchange rate fluctuation and policy change. Behavioural Finance pointed out that arbitragers' risk-bearing capability are limited. Even if the stock price is departing from the value, arbitrager may give up the potential arbitrate opportunity due to excessive cost and risk aversion.

4 ANALYSES OF THE VALUATION DIFFERENCES BETWEEN A-SHARE AND H-SHARE MARKETS

Regarding to the analysis on the valuation differences between domestic and foreign financial markets, there are mainly six assumptions among the existing explanations. First, Because the two markets are segmented, onshore and offshore investors may need different risk premiums (and hence different returns) (Fernald & Rogers, 2002). Second, because their investment options differ, onshore and offshore investors may face distinct demands (Sun & Tong, 2000). Third, the discrepancies in liquidity circumstances between the financial markets in Hong Kong and the Mainland are also linked to the pricing discrepancy (Chan & Kwok 2005). Forth, the information obtained by onshore and offshore investors differs, resulting in divergent valuations of the same firm due to asymmetric knowledge (Chakravarty et al., 1998). Fifth, the price disparity is related to differences in aggregate market conditions between the Mainland and Hong Kong financial markets (Wang & Jiang, 2004). Finally, the pricing disparity may also be attributed to macroeconomic factors on the mainland.

5 CONCLUSIONS

To sum up, this study takes BeiGene LTD. as an example, after analysis, it was found that Individual investors account for a high proportion of the A-share market, some of them overconfident in their investment ability and judgment. When stock price rise, they often show blindly optimistic attitudes, plus the herd effect. Hence, when the market is trending upward, a large number of individual investors will follow tendency and buy-in; when market is trending downward, there will be panic selling. In this case, the stock price will deviate from their original value. Investors in H-share market are mainly institutional investors, they are more rational, investment decisions are more independent, pay more attention to risk control, and their valuations of stocks are more conservative. Thus, differences in investor behaviour and investor structure between A-shares and H-shares, is the main factor causing the price difference between A shares and H shares. Although there is a price difference, as limitation of arbitrage and weak from efficiency would make spatial arbitrage difficult to achieve, arbitrager may give up the potential arbitrate opportunity due to excessive cost and risk aversion. The main contribution of this article is identifying the factors that cause the difference in valuation between A-share and H-share markets. This article also analysed the feasibility of using valuation differences for space arbitrage. In order to help investors better understand the reasons for the price differences between the A-share and H-share markets, clarify investment strategy. Nevertheless, due to limitations on data sources and research scope, this research is unable to represent all listed companies in multiple locations. In the future, researchers should turn their attention to the futures and options markets, which offer more opportunities.

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