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Status Possibility of Delisting on Vietnam Securities Market

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Abstract— *The number of delisting firms in Vietnam stock market has dramatically increased in recent year. There have been numerous studies in the world concerned with the determinants for delisting and the effect of delisting on the market in general, the company itself and the investors. The main objective of this research is to identify the factors affecting delisting probability of companies listed in three Vietnam stock exchanges: HOSE, HNX and UPCOM over the period of 2010 – 7/2017. More specifically, the research is concerned with these variables that are indicators of firm's financial ratios and managerial characteristics. Logistic regression model was used to distinguish the difference between delisted and listed firms. After running the model, major findings revealed: (1) the higher Net Income, the greater Total Assets and the lower Debt ratio with the renting of BIG4 as auditor, the less likely a firm will delisted; (2) the smaller the number of Board of Directors, the few number of large shareholders and the lower number of Master Degree and female member in Board of Management, the greater the likelihood the firm will go private. Also, the finding showed that if the shareholders in companies are foreigners and state, the firms will less likely delisted. The results found in this paper have numerous important implications for establishing stock markets in emerging economies.*

Keywords— *Delisting firm, Stock market, listed firms, debt ratio.*

I. INTRODUCTION

A. Rationale

For more than 14 years of development, Vietnam stock market has achieved some impressive milestones:

To begin with, the organizational structure of the market has been more and more completed with three Stock Exchanges. Ho Chi Minh Stock Exchange (HOSE) operated on July 28, 2000, while Hanoi Stock Exchange (HNX) officially launched on March 08, 2005 and Unlisted Public Company Market (UPCOM) was opened on June 24, 2009;

Another achievement is that there has been a growth in number of listed companies in Vietnam stock market, including both large-cap and small-cap enterprises. Until July 31, 2014, there are 304 stocks listed in HOSE; 359 stocks in HNX with total market capitalization of more than VND 89,000 billion. Meanwhile, 151 public companies register transactions in UPCOM with total transaction value of VND 21.326 billion;

Additionally, the total market capitalization has been developing continuously. Until July 25, 2017, the total capitalization of Vietnam's stock market is VND 1,100,000 billion, comprising Ho Chi Minh Stock Exchange (89%) and Hanoi Stock Exchange (11%). In particular, this figure of HOSE reached VND 979,000 billion, which is VND 136,895 billion higher than that of the previous year. Whilst, value of capitalization in HNX was VND 121,000 billion, increasing by VND 14,130 billion compared to 2013.

Therefore, the stock market has become an important channel of mobilizing capital for enterprises as well as an attractive investment channel for investors. Until July 25, 2016, the total capital of the Vietnam stock market was VND 1,700,000 billion, which is successfully mobilized in 14 years of operation. In particular, Government mobilized about VND 1,000,000 billion through government bonds; businesses did approximately VND 700,000 billion through the stock market during this period. 1,300,000 accounts of investors including 1,282,831 domestic investors, 17169 foreign investors were opened on Vietnam's stock market till July 20, 2016.

On the other hand, Vietnam Stock Market has to face up with a serious phenomenon that can hinder and threaten the sustainable development of the market. This is delisting problem in three Stock Exchanges: HOSE, HNX and HOSE. The number of delisting companies in these three Stock Exchanges is increasing annually.

From 2010 – 7/2016, there are 161 delisting companies that includes 69 voluntary delisting companies and 92 involuntary delisting companies

This situation affected adversely to stock market, investors and the company itself. Specifically, the delisting degrades the image of the companies in the eyes of investors, customers and partners.

Moreover, due to no completed research on delisting, State Security Commission (SSC) as well as Stock Exchanges has inactively responded to delisting proposal. Since 2009, although numbers of delisting companies have increased significantly, there was no adjustment from management body to restrain the negative impacts of delisting and delisting phenomenon.

In fact, the phenomenon of delisting is to a certain extent a common occurrence in developed economies as well. However, the difference is that there has been a myriad of worldwide researches on delisting problem.

In contrast, there is no academic research paper that evaluates the determinants of delisting risk and its consequences on Vietnam's stock market.

Therefore, it is necessary to have research papers to investigate the factors affecting delisting risk as well as to assess consequences and influences of delisting issue. This research will also help SSC and Stock Exchanges actively response to delisting cases as well as reduce the number of potential delisting firms.

From these above analyses, "Empirical research on factors affecting probability of delisting on Vietnam's Stock Market" is new research topic, valuable and practical to solve the problem of delisting on Vietnam's Stock Market.

II. Research Method

A. Sample

The research team first collects the population of all delisted firms on Vietnam's stock market between 2009 and July 2014. The data is completely secondary, which is mainly taken from companies' financial statements and annual report as well as from some journals and newspapers. The delisted firms are classified in two big categories: voluntary delisting and involuntary delisting firms. Then, based on specific reasons for delisting, delisted firms are divided into some kinds of sub-categories.

From firm's financial statements and annual report, the research team extracts the data into financial indicators and managerial characteristics to establish assessment criteria for delisting

B. Methodology

Quantitative research methodology is used effectively to analyze the data. As one of the most popular model when researching on delisting phenomenon, logistic regression model is chosen to distinguish the delisted and listed firms based on management criteria and financial ratios in order to determine the factors affecting probability of delisting in Vietnam.

III. Empirical Findings

In order to estimate the influence of different factors on delisting we run the above two logistic regression models on the sample including all companies delisted on the Vietnamese stock exchanges since 2009 and 40 listed companies with the largest market capitalization. The two logistic regression models provide us with the results summarized in Table.

A. Financial Model

TABLE 1. Summary of significant factors in finance model

	Delisting data	Involuntary delisting data	Voluntary delisting data
Significant at 5% level	Net income	Net income	Net income
	Total assets	Total assets	Total assets
		Firm's auditor	
Significant at 10% level	Firm's auditor		Debt ratio
	Debt ratio		

Source: Group Estimation

TABLE 2. Summary of finance indicator causes

Indicators	Subjective causes	Objective causes
Net income	High net income is equal high financial strength; thus reduce the chance of delisting	Low net income reduces the attraction to the investors, decreases the liquidity of stock and the capital mobilization ability; thus lead to delisting
Total assets	Total assets is an indicator reflecting the financial strength of companies	High total assets companies are attractive to investors
Firm's auditor	Big 4 auditing services are much more expensive than other audit firms. Commonly, large companies hire Big 4 as their external auditor. Big 4 firms also provide advisory services help company enhance its financial strength	Audited by Big 4 gives companies reputation, high degree of transparency in their financial statements and helps them gain confidence of investors
Debt ratio	The lower the company's debt ratio, the low leveraged the company is and the lower its financial risk.	High debt ratio reported in the public financial statements are unattractive to shareholders and investors

Source: Group Estimation

B. Corporate Governance Model

TABLE 3. Summary of significant factors in corporate governance model

	Delisting data	Involuntary delisting data	Voluntary delisting data
Significant at 5% level	Board of directors size	Number of female in the board of management	Board of directors size
	Foreign ownership	Foreign ownership	Foreign ownership
		Number of board of management member has master degree	Number of board of management member has master degree
			Number of large shareholder
Significant at 10% level	Number of large shareholder	Number of board of directors members who are in the board of management	
	Number of board of management member has master degree	Board of directors size	
		State ownership	

Source: Group Estimation

TABLE 4. Summary of corporate governance indicator causes

Indicators	Subjective causes	Objective causes
Board of directors size	The more people, the more specialized each person's profession.	The larger the board of directors size, the more effective its decision making, especially with large firms whose issues are deep and complex
Foreign ownership	Foreign investors when become shareholders can join managing the company	Foreign investors are only attracted by firms which have healthy financial strength and bright prospect.
Number of female in the board of management		Companies with more women in board management are 42 percent more profitable, less likely to have problems with fraud, and more likely to have the kinds of healthy, productive board meetings
Number of board of management member has master degree	The more professional managers are, the more effective companies' performance	More professional managers gain confidence and attract investors.
Number of large shareholder	Multiple large shareholders structure is responsible for the competence for corporate control and	Conflict of interest among large shareholders and the concentration of voting rights issue.

	harm the company	
Number of board of directors members who are in the board of management	Dispersion of management	
State ownership		Firms with higher state ownership receive more privileges and investment.

Source: Group Estimation

IV. Other Recommendations

Delisting may sacrifice not only the firm's fate but also huge investors' costs. The results of this study are potentially useful to shareholders, especially to small investors, when they invest on Vietnam's stock market.

Regarding financial indicators, our main message to prospective investors is to invest in firms with high Net Income, high Total Assets and low Debt ratio. In contrast, the companies with poor Net Income, small Total Assets and high Debt ratio are likely to be delisted. Also, the companies are audited by Big4 firms (KPMG, Deloitte, PwC, EY) should be preferred to invest.

Additionally, carefully examining the governance characteristics can assist investors in selecting healthy companies. These healthy firms have large Board of Directors and many large shareholders. There should have female and members with Master degree in Board of managers. Another sign is the ownership structure of company. If the firm is owned a part by Government and Foreigners, it will be a good investment.

According to Hanoi Stock Exchange, in 2016, a brighter prospect has been revealed for over 206 listed companies, most of them reported positive profit in the fiscal year of 2016. However, there are 20 companies which recorded the total loss of more than VND 378 billion. In the Ho Chi Minh Stock Exchange, there are also numerous cases of companies which are prone to delisting chance in the future. For example, after the fiscal year of 2014, HOSE has committed documents warning Dong Nai roofing and building materials JSC (DCT), Vietnam transport and chartering JSC (VST), Hai Au sea transport JSC (SSG), Construction number 15 JSC (V15), Hanoi transformer manufacturing and electric materials JSC (BTH) for incur loss in their financial statements for three years in a row. Besides, there are some companies which have not yet disclosed their financial statements but incur loss two years in a row and confronted by a high possibility of forcing out the stock exchange such as Infrastructure investment and urban petroleum JSC (PTL), Vietnam housing investment JSC, etc. This fact placed the State Securities Commission (SSC) on the alert against the continuity of delisting.

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