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Study of Profit Recognition and Performance in the Major Asset Restructuring of Liaoning Port Corporation

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Abstract: This project is based on the theories of asset restructuring and earnings management, analyzing the major asset restructuring event between Liaoning Port Co., Ltd. (formerly Dalian Port) and Yingkou Port, and further examining the various impacts of this event on the companies involved. The paper first identifies the earnings management behavior of the case companies, followed by an analysis of the improvement effects of this restructuring on the business and financial conditions of the companies. Drawing from the analysis of the case companies, conclusions and insights are presented in this paper, providing references for similar enterprises facing potential issues during asset restructuring.

Keywords: Major Asset Restructuring, Non-recurring Gains and Losses

1. Introduction:

In recent years, with the proposal of the new ideas of the 20th CPC National Congress, China's economy has ushered in a new round of opportunities and greater challenges. Significant asset restructuring, as an important way of corporate transformation, has been widely used in listed companies, which not only meets the economic law of survival of the fittest under the market economy but also provides an important path for enterprises to further upgrade their organizational structure. However, it should be noted that companies undergoing significant asset restructuring are more inclined to earnings management issues than general companies. This is because such large-scale restructuring actions have a significant impact on shareholders and the market, and the market capital tends to be eager to see the substantial realization of benefits, that is, the actual growth of company profits. Therefore, earnings management is an important tool for management to meet investor expectations, but not all asset restructurings will involve earnings manipulation.

2. Introduction to the Case of Enterprise Asset Restructuring:

Dalian Port is an A+H listed company, with its main business consisting of oil and liquid chemical products, containers, automobiles, ores, general cargo, bulk grain, passenger and roll-on/roll-off terminals, as well as related logistics and port value-added and support services. As of June 30, 2020, Dalian Port's total share capital is 12,894,535,999 shares, including 7,735,820,000 A-shares and 5,158,715,999 H-shares. The controlling shareholder of Dalian Port, Dalian Port Group, holds 6,032,421,162 shares, accounting for 46.78% of the total share capital.

Dalian Port has total assets of 35.098 billion yuan, while Yingkou Port has total assets of 15.220 billion yuan, meeting the requirements for a major asset restructuring. Therefore, this restructuring is a significant asset restructuring involving 50 billion yuan. After the restructuring, Dalian Port and Yingkou Port will be renamed "Liaoning Port Co., Ltd.," with the abbreviated name "Liaogang Co., Ltd.".

3. Analysis of Abnormal Non-Recurring Losses and Gains in Asset Restructuring:

Asset restructuring refers to the process in which the controlling party of a company collaborates with other external economic entities to reconfigure the company's asset status. Asset restructuring not only helps companies optimize their asset structure but also can to some extent improve the company's economic benefits. However, nowadays, the purpose of asset restructuring for some listed companies is no longer just to adjust the asset structure, but rather to obtain a large amount of non-recurring gains or losses from asset restructuring transactions to adjust profits. In order to further investigate the impact of non-recurring gains or losses on the net profit attributable to shareholders of listed companies, this paper will use the contribution rate of non-recurring gains or losses to represent the potential earnings management behavior in this asset restructuring.

Table 1 Non-recurring gains or losses of Liaoning Port Co., Ltd. from 2019 to 2022:

Years	Non-recurring gains or losses (CNY or RMB)	Net profit (CNY or RMB).	Contribution rate of non-recurring gains or losses.
2019	66,436,261.38	894,931,905.08	7.42%
2020	64,107,410.66	950,817,225.71	6.74%
Adjusted in 2020	1,304,558,266.83	2,230,052,297.55	58.50%
2021	447,716,739.27	2,078,195,893.44	21.54%
2022	49,810,127.54	1,431,360,219.66	3.48%

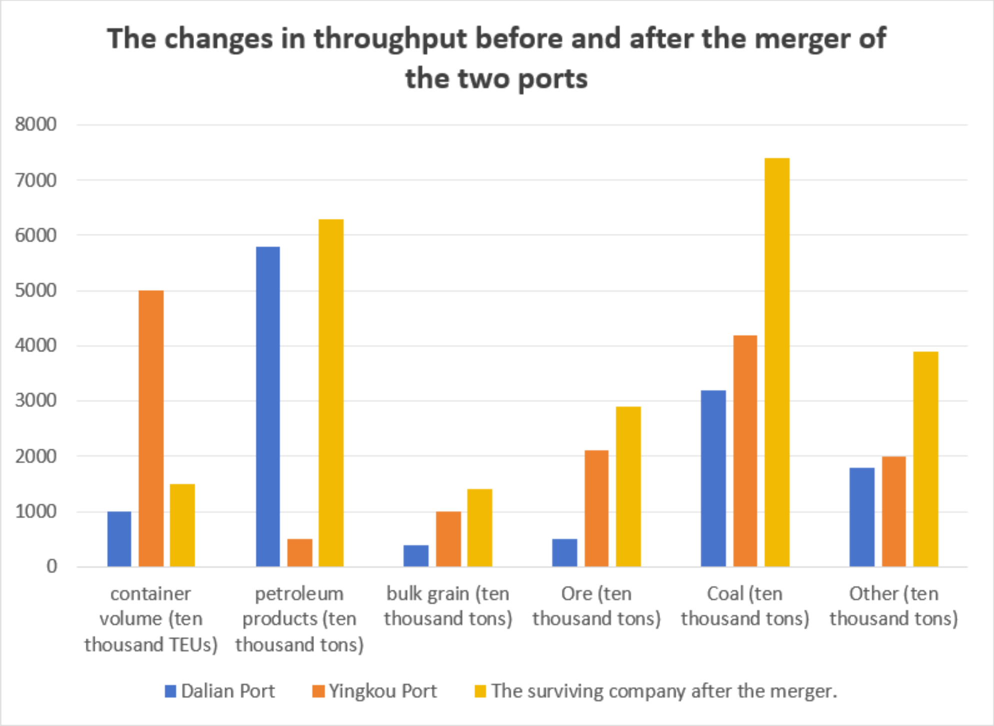
After the merger with Yingkou Port in 2020, there was a significant fluctuation in non-operating gains and losses, indicating that the company may have taken the opportunity to adjust profits through asset restructuring. Further research revealed that the abnormal non-operating gains and losses were mainly due to the consolidation of enterprises under the same control, reflecting the current net loss or gain from the beginning of the year to the date of the merger of Yingkou Port.

Based on the above analysis, this article tentatively believes that the asset restructuring event is a normal change in assets and business for a listed company, with the main purposes being to “expand scale,” “develop diversification,” “transform primary operations,” and “optimize equity structure” to maintain the sustainable and healthy development of the company.

4. Analysis of the significant asset restructuring between Dalian Port and Yingkou Port:

4.1 Significant increase in port business volume

The business volume throughput of both ports before and after the merger is shown in Figure 2.



From Figure 2, it can be seen that there is a significant change in the business volume of the two ports before and after the major asset restructuring. The throughput of Dalian Port has generally increased by over 50% before and after the merger, particularly in the areas of steel and ore. The merger with Yingkou Port has significantly expanded the volume of similar businesses, which will play a significant role in the future balanced development of operations. The initial purpose of merging Dalian Port with Yingkou Port was to promote the integrated development of ports in Liaoning. Before the merger, Dalian Port and Yingkou Port collectively held about 80% of the port business market in the Liaoning region, and both were in a competitive relationship in terms of operations and market presence. This, to a certain extent, constrained the development of both ports. The merger has facilitated the consolidation of the two into one company, promoting regional synergy and operational coordination. The scale of the port will further expand, potentially attracting more ships and freight companies to choose the port, increasing cargo throughput, and enhancing the economic benefits of the port.

4.2. Continuous improvement in economies of scale

The merger of the two ports entails more than just an equity transfer; it has profound implications for operational practices. Between 2019 and 2022, Liaogang Co.'s inventory turnover rate witnessed a remarkable change, climbing from 0.81 to 1.32, marking a 62% increase. This not only signifies a substantial rise in the frequency of inventory turnover for Liaogang Co. but also signifies a decrease in storage costs for its inventory. Significantly, this improvement coincides precisely with the timing of the merger.

One of the contributing factors to this improvement stems from the post-merger coordination of the two ports' operations, enabling the Integrate and leveraging of resources and facilities. The collaborative utilization of their large-scale infrastructure optimizes logistics and transportation, thereby enhancing the efficiency of cargo handling. Furthermore, the sharing of facilities and technology aids in reducing congestion and wait times, thereby accelerating the flow of goods through the port.

4.3 Diversification of Service Routes

After the completion of the merger in 2021, Liaoning Port Corporation added a total of 8 container shipping routes, including 5 foreign trade routes and 3 domestic trade routes, to expand its container business market. Today, Liaoning Port Corporation has become the largest seaport in the northeastern region. After years of continuous development, Dalian Port has gradually improved its logistics system in aspects such as the Bohai Sea internal lines, iron ore distribution, crude oil transfer, and cold chain.

As the northeastern region's seaport, with the three eastern provinces and the four eastern leagues of Inner Mongolia as its economic hinterland, Yingkou Port has fully utilized its advantages in multimodal transportation, consolidating waterway, railway, highway, and pipeline resources to form a hub for multimodal transport. Liaoning Port Group has positioned Dalian as the Northeast Asia shipping center and combined the advantages of Yingkou Port to achieve interconnection between the extensive road transportation network and the railway transportation network, thus creating a comprehensive and modern logistics system.

5. Conclusion

5.1 Enterprises should choose the appropriate M&A method based on their actual situation

In merger and acquisition activities, the use of different M&A methods often has a significant impact on whether the transaction can be successfully completed and on the financial condition, production, and operation of the enterprise after completion. Therefore, from a long-term development perspective, it is essential for the company to clearly define the M&A method that is suitable for its own development. Dalian Port's use of a stock absorption merger to merge with Yingkou Port, which was of a similar scale, avoided significant short-term financing pressure compared to using other M&A methods. This restructuring method took into consideration the cash flow pressure of Dalian Port while also aligning with the current situation of having the same actual controller in terms of equity structure. However, this method is not without its drawbacks; for instance, the issuance of new shares resulted in adverse consequences for market indicators such as earnings per share. Therefore, comprehensive consideration of the company's financial situation and future implications is necessary when selecting the most appropriate M&A method for the company's restructuring.

5.2 Enterprises should focus on the subsequent integration of resources from both parties

The formal completion of a merger or acquisition does not signify the end of the M&A activity; the success also hinges on whether the surviving entity can achieve economies of scale and synergistic effects through the integration of resources from both parties. Consequently, following significant restructuring, companies should seize the opportunity to pool resources from diverse fields to foster further business advancement. This goes beyond a shallow collaboration where the sum is merely the addition of individual parts; instead, it necessitates establishing in-depth cooperation at the corporate level, spanning from resource sharing to strategic interoperability. Only by doing so can the pre-restructuring objectives be fulfilled.

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