Quantitative Monographs
Can we trade on company visits in China?

Equities

China

Quantitative

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Indicator for money flows

By studying a unique dataset that records different types of investors' company visits in China, we have found evidence that around the visits of both onshore and offshore investors, fund inflows are positive. Since investors' attention can be limited, we argue that intensified interaction between a company and its investors could create an easier approach to information acquisition and attract a higher level of investor attention and stronger money inflows.

Can we trade on it?

Based on the company visit dataset, we create a new factor for stock selection. A simple strategy that goes long the companies visited by both onshore and offshore investors would have generated an excess return of 13% per annum since 2013, after trading costs, and a risk-adjusted return of 1.1.

Screens for the most-visited companies

Figure 1 highlights the most visited companies by onshore and offshore investors. If you are interested in full screens, please contact us.

Figure 1: Top screens by investor type

Top-three companies most visited by onshore investors						
Ticker	Company name	Market cap (Rmb bn)	Sector	Number of company visits	Number of onshore investors	Number of offshore investors
002709	TINCI	92.2	Materials	3	592	21
300171	TOFFLON	23.9	Industrials	3	478	14
002241	GOERTEK	139.3	Tech	1	437	50
Top-three companies most visited by offshore investors						
Ticker	Company name	Market cap (Rmb bn)	Sector	Number of company visits	Number of onshore investors	Number of offshore investors
688366	HAOHAI	9.7	Health Care	2	94	62
688088	ARCSOFT	10.9	Tech	4	203	53
688036	TRANSSION	59.4	Tech	1	140	53

Note: Over past eight weeks as of 27 August 2021. Source: Wind, UBS Quant Research.

Summary

Unique dataset

We use the *Wind Institution's Field Research Dataset* to study investor visits to China A-share listed companies. It contains the detailed records of visits by both onshore and offshore investors, and also covers a variety of investor-corporate communication activities such as company tours, earnings calls and press conferences. It is a unique dataset in China with which to study the interaction between investors and corporate management.

The information content of company visits is a topic of interest for both academics and practitioners. Han et al. (2018)[1] found ample evidence showing that private access to company management could facilitate a better approach to information acquisition, while Cheng et al. (2019)[2] documented strong and positive market reactions around corporate site visits, suggesting these activities can be positively associated with companies' future performance.

Indicator for fund flows

Consistent with these academic findings, we document recurrent and frequent interaction between investors and listed companies, and in addition to stock market reactions, we also found accelerating money inflows around company visits. This is consistent with the hypothesis of limited investor attention, which states that since investors' attention tends to be limited, easier access to information acquisition could attract more investor attention and bring in stronger fund flows.

Can we trade on it?

Based on the company visit dataset, we create a new stock selection model. A strategy that goes long the companies with visits over the past eight weeks and hold for the subsequent eight weeks, would have generated reasonable turnover of ~700% pa, and an excess return of 11% pa (8% post t-costs) since 2013.

Last, we aggregate the company visits by different types of investors, and highlight the top-ranking screens ranked by the visits from:

- Onshore China mutual funds
- Offshore investment companies
- Both onshore and offshore investors

Combine onshore and offshore insights

Backtests show that initially, tracking the onshore investors' visits would have generated more alpha but in recent years, the performance of offshore managers' visits has been greater. Moreover, we demonstrate that by selecting the companies that received both onshore and offshore investor visits, we are able to create a portfolio with more consistent performance, which is 13% pa since 2013, post t-costs, and a risk-adjusted return of 1.1. This also provides a new source for alpha, which is both statistically and economically significant even after controlling for the generic factors.

[1] Han, B., D. Kong, S. Liu (2018), Do analysts gain an informational advantage by visiting listed companies? *Contemporary Accounting Research*
[2] Cheng, Q., F. Du, B. Y. Wang, X. Wang (2019), Do corporate site visits impact stock prices? *Contemporary Accounting Research*

Data description

Unique dataset in China

In China, data on company visits are available to the general public. Since 2009, Chinese A-share listed companies in their annual reports have been documenting visits from all interested parties, including analysts from brokerage firms as well as individual and institutional investors from both onshore and offshore markets.

From 2012, companies started to disclose records of company visits via online platforms[3], with an average announcement delay of only one day. This timely disclosure serves as a unique dataset to study China's equity markets.

In this report, we use *Wind Institution's Field Research Dataset*, which summarises the records of company visits since 2012. Specifically, this dataset covers a variety of company visit activities, such as on-site tours and virtual calls, press conferences, earnings announcement calls and one-to-one communication.

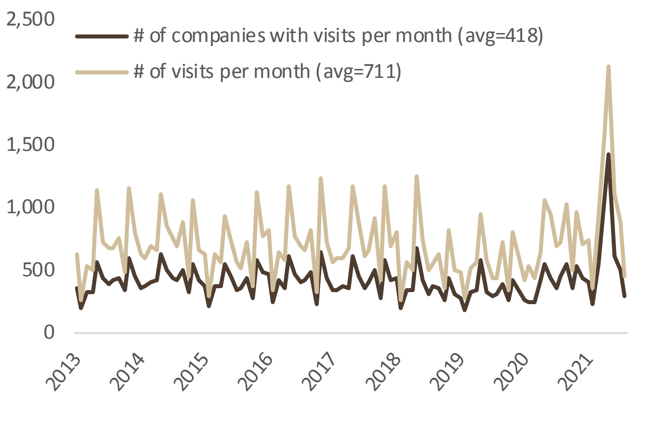
A typical record contains the type and date of event, the announcement date and participants' information—ie, total number of investors and their investor types, positions and names, as well as a detailed script of Q&A.

When investors visit a company …

To gauge how often investors interact with corporate management in China, we have totalled the sample number of events and participants by month over the past years. As shown in Figure 2, there have been more than 700 visits per month, with around 400 companies visited, one to two visits per company on average.

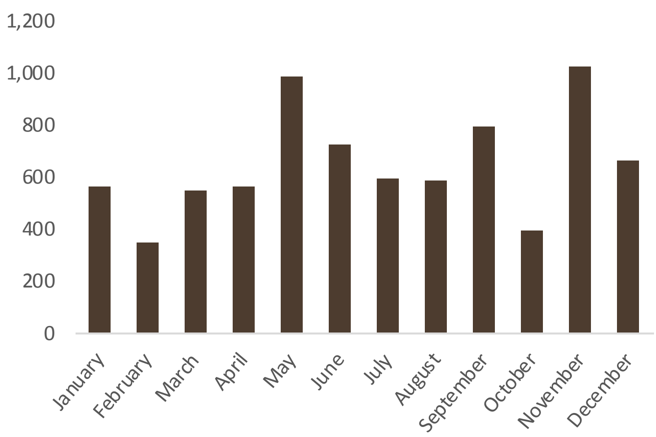
Moreover, there has been a strong seasonality in event arrangements. The average number of visits can be substantially higher in May, September and November, one month after the earnings-announcement seasons (Figure 3).

Figure 2: Sample number



Source: Wind, UBS Quant Research

Figure 3: Seasonality

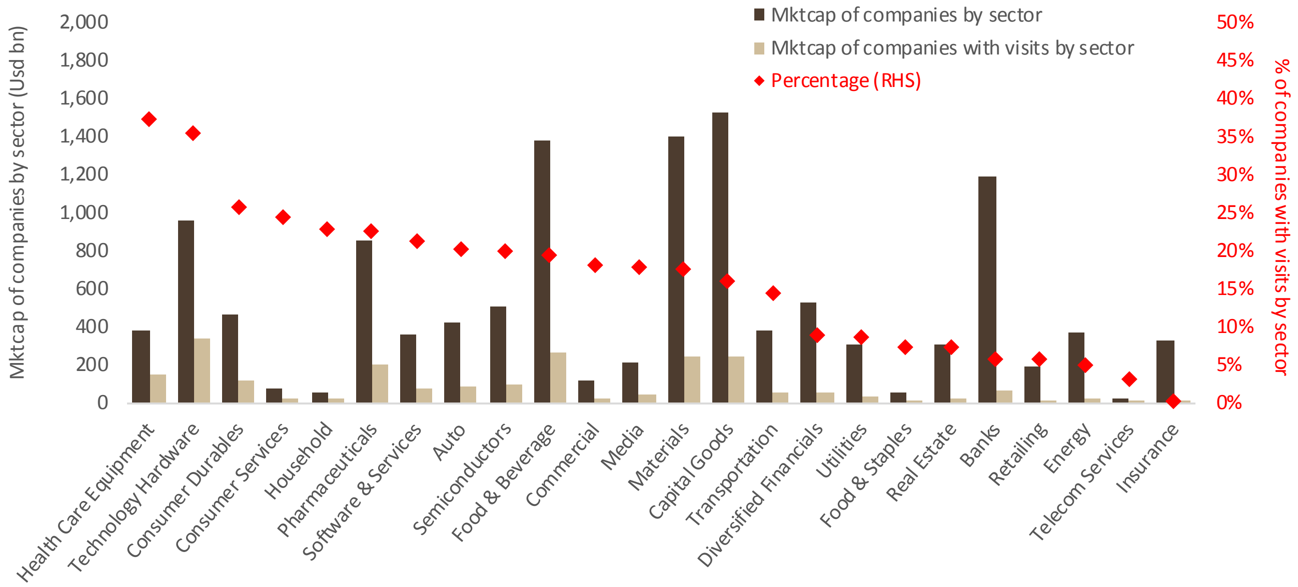


Source: Wind, UBS Quant Research

Year to date, the three most popular sectors have been health-care equipment, technology hardware and consumer durables, as measured by the percentage of visited companies within each sector (Figure 4). In comparison, the insurance, telecommunication services and energy sectors have received less attention.

[3] Such as irm.cninfo.com.cn, sns.sseinfo.com or www.cninfo.com.cn

Figure 4: Which sectors are more popular?



Source: Wind, UBS Quant Research

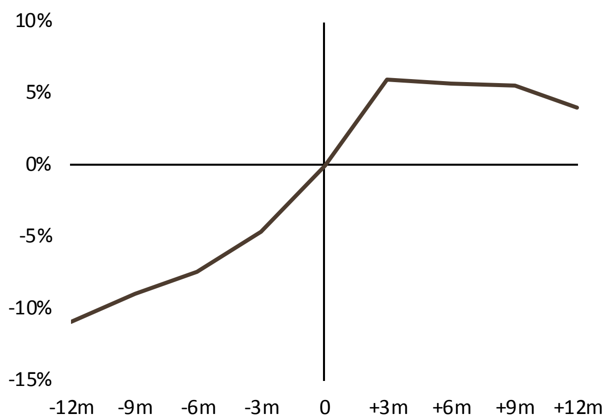
... what follows?

We observe the recurrent and frequent interaction between investors and listed companies, and in the next step we use an event study to detect money flows around the interaction.

We find it unsurprising to see that when investors visit a company, we can usually expect fund inflows to accelerate around the visits. Onshore investor inflows would peak about three months post the visits (Figure 5) while offshore inflows would continue over the following 3 to 12 months, albeit at a slower pace (Figure 6).

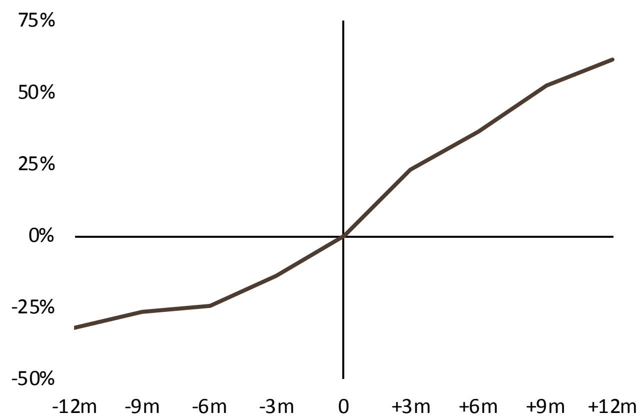
Our findings are consistent with the behavioural hypothesis of limited investor attention, which states that better access to corporate management or business operations facilitates a higher level of investor attention and therefore stronger money flows.

Figure 5: Cumulative net inflows of onshore mutual funds around visits



Source: Wind, UBS Quant Research

Figure 6: Cumulative net inflows of Northbound investors around visits



Source: Wind, UBS Quant Research

Can we trade on it?

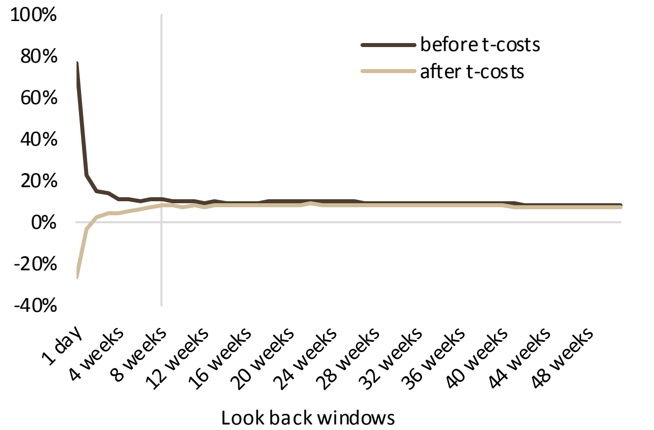
In the above section, we note the frequent interaction between China A-share investors and listed companies, and the interaction results in more investor attention and accelerating money flows.

The next question is whether this is also an indicator for subsequent share prices. In other words, is it profitable to trade on this event?

Look back over the past one day to 52 weeks

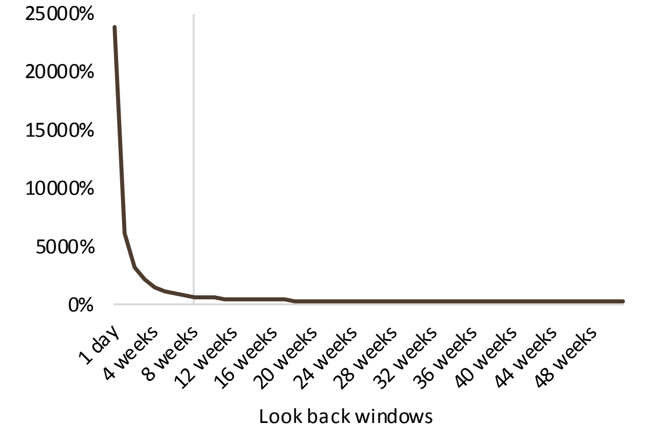
We start with a simple strategy whereby we long the companies with visits over a variety of look-back periods, ranging from one day to 52 weeks, and holding period also ranges from one day to 52 weeks (Figure 7 and Figure 8). In this way we investigate the impact from strategy turnover, and see if the events can drive share prices in both the short and long term.

Figure 7: Annualised excess return



Note: Strategy performance is excess return relative to the benchmark of all China A shares; cap weighted; portfolio is rebalanced daily; look-back and holding periods range from 1 day to 52 weeks. Source: Wind, UBS Quant Research

Figure 8: Strategy turnover



Note: Annualised one-side turnover; portfolio is rebalanced daily; look-back and holding periods range from 1 day to 52 weeks. Source: Wind, UBS Quant Research

As the events have been fairly frequent over the years, for a portfolio on a daily basis of rebalance, we have on average 10-20 events per day. The performance of the daily strategy is remarkable with an excess return of 76% pa (Figure 7), but this is before cost statistics. The strategy turnover is also heavy, with a daily turnover of up to 95% on each side (Figure 8). If we assume 20bps per side, t-costs would wipe out all the returns, as shown in Figure 7.

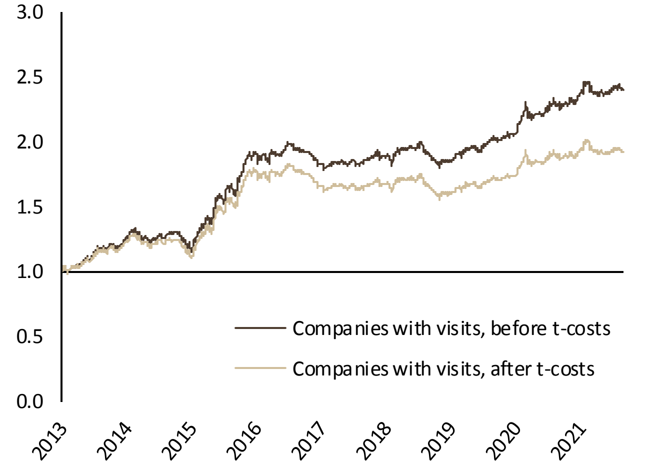
Strategy turnover can be significantly reduced when we adopt longer look-back and holding periods. Moreover, in the comparatively longer term, the pricing effects hold.

Long companies with visits over past eight weeks

For example, if we extend a look-back and holding period to 8 weeks, the strategy turnover is reduced to less than 700% pa, with a post-cost annualised return of around 8% (Figure 7). In Figure 9 and Figure 10, we also compare the strategy performance before and after t-costs.

More importantly, we can still get significant alpha out of company visits, even after regressing out the contributions from traditional risk premia—including Market, Size, Value, Price Momentum and Liquidity, as well as Earnings Revisions—as shown in Panel B of Figure 10.

Figure 9: Strategy performance



Note: Strategy performance is excess return relative to the benchmark of all China A shares; cap weighted; portfolio is rebalanced daily; 8-week look-back period.
Source: Wind, UBS Quant Research

Figure 10: Performance statistics

	Panel A: Performance statistics	
	Before t-costs	After t-costs
Annualised excess return	11.0%	8.1%
Annualised volatility	8.2%	8.4%
Risk-adjusted excess return	1.3	1.0
Annualised one-side turnover	685%	-
	Panel B: Loading on factors	
	Before t-costs	After t-costs
Market	0.01 (2.57)	0.01 (1.29)
Size	-0.2 (-11.83)	-0.2 (-10.66)
Value	-0.3 (-30.15)	-0.3 (-30.65)
Price momentum	0.01 (0.83)	0.02 (1.33)
Liquidity	0.1 (7.61)	0.1 (8.34)
Earnings revisions	0.1 (7.22)	0.1 (5.60)
Six-Factor alpha	4.9% (2.55)	4.2% (2.14)

Source: Wind, UBS Quant Research

To conclude, we demonstrated that it can be profitable to trade on the signal of company visits. A typical strategy with look-back and holding periods of 8 weeks can generate significant excess returns after trading costs. Moreover, this signal provides an alternative alpha source for stock selection after controlling for traditional quant factors.

Onshore investors versus offshore

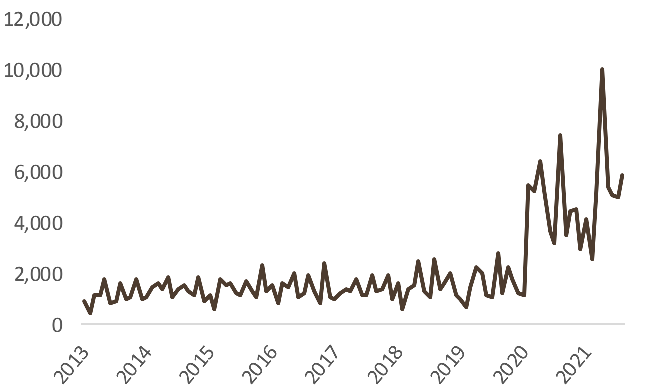
As shown in the above sections, our dataset discloses a wide range of information related to the investors interacting with listed companies. Therefore, in the following section we explore the details of investor identity and focus on a comparison between onshore and offshore investors.

Investor attention: onshore vs offshore

In Figure 11 and Figure 12, we summarise the number of onshore versus offshore investors who have participated in company visits in China, by month, since 2013.

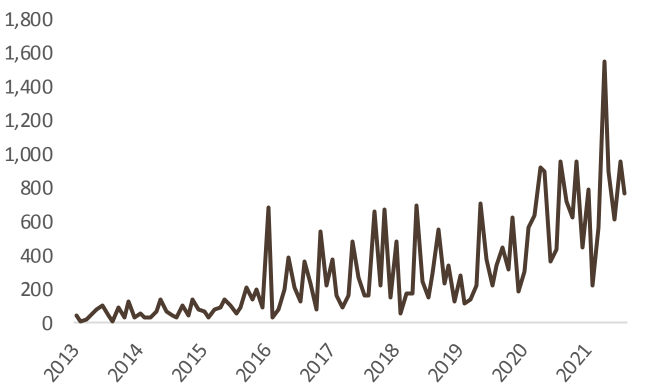
During the earlier years, there could be 1,000-2,000 onshore investors joining tours and calls with corporate management and brokerage analysts every month (Figure 11).

Figure 11: Number of onshore visitors



Source: Wind, UBS Quant Research

Figure 12: Number of offshore visitors

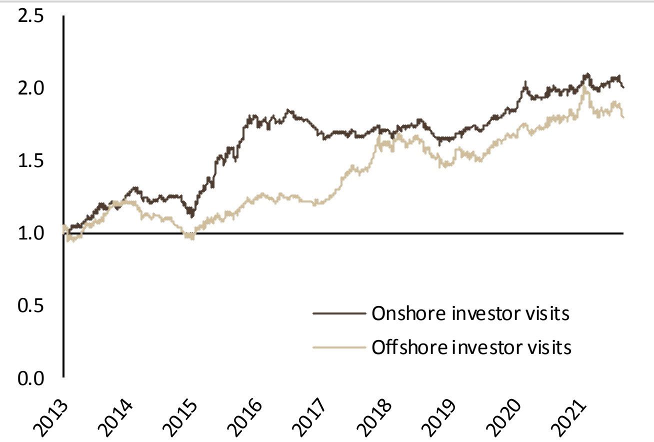


Source: Wind, UBS Quant Research

Moreover, there was a sharp rise in the number of onshore participants in early 2020, as shown in Figure 11. This was when on-site visits turned into online calls and virtual conferences due to the outbreak of COVID-19, and interaction became accessible to more participants as travel costs were reduced. In May 2021, we witnessed another spike in company visits as it was a very first annual reporting season when COVID-19 spread largely contained in China.

Meanwhile, offshore participation has been growing steadily over time, with fewer than 50 investors per month in 2013, but more than 1,000 per month in recent years (Figure 12).

Figure 13: Which is more informative?



Note: Strategy performance is excess return relative to benchmark of all China A shares, cap weighted; portfolio is rebalanced daily; 8-week look-back period.
Source: Wind, UBS Quant Research

Figure 14: Performance statistics, after t-costs

		Onshore investor visits	Offshore investor visits
Since 13	Annualised excess return	8.6%	7.3%
	Annualised volatility	8.7%	10.2%
	Risk-adjusted excess return	1.0	0.7
Before 17	Annualised excess return	**14.7%**	5.2%
	Annualised volatility	**10.7%**	11.0%
	Risk-adjusted excess return	**1.4**	0.5
Since 17	Annualised excess return	3.8%	**9.1%**
	Annualised volatility	6.5%	**9.5%**
	Risk-adjusted excess return	0.6	**1.0**

Source: Wind, UBS Quant Research

In Figure 13 and Figure 14, we compare the performance of strategies that go long the companies with onshore investor visits on the one hand and the companies with offshore investor visits on the other. Since 2017, the strategy based on offshore samples has generated an annualised excess return of 9%, relative to all China A shares. By comparison, the excess return has halved before 2017.

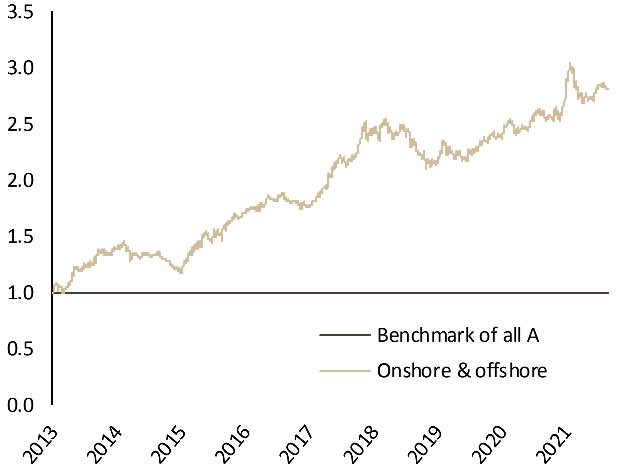
Considering the difference in onshore versus offshore histories, we find it unsurprising that offshore investors' attention was less informative in the earlier years and more informative in recent years. In a following step, we could combine the insights of both onshore and offshore investors.

Combining both insights

Figure 15 and Figure 16 show a strategy that goes long the companies that receive visits from both onshore and offshore investors. This results in a strategy that delivers more consistent outperformance, with an excess return of 13% pa since 2013, and risk-adjusted return at 1.1. This supports our hypothesis that when the insights of onshore and offshore investors intersect, it acts as a stronger indicator for future outperformance.

Last, we assess the portfolio exposure to generic factors and demonstrate that our new signal contributes to additional alpha. Panel B in Figure 16 shows that in general, the new signal exhibits some small but significant loading on Value, Liquidity and Earnings Revisions. Yet after controlling for typical quant factors, the strategy still generates an alpha of 7.8% that is both statistically and economically significant.

Figure 15: Where do onshore and offshore intersect?



Note: Strategy performance is excess return, after costs, relative to all China A-shares, cap weighted; portfolio is rebalanced daily; 8-week look-back period.
Source: Wind, UBS Quant Research

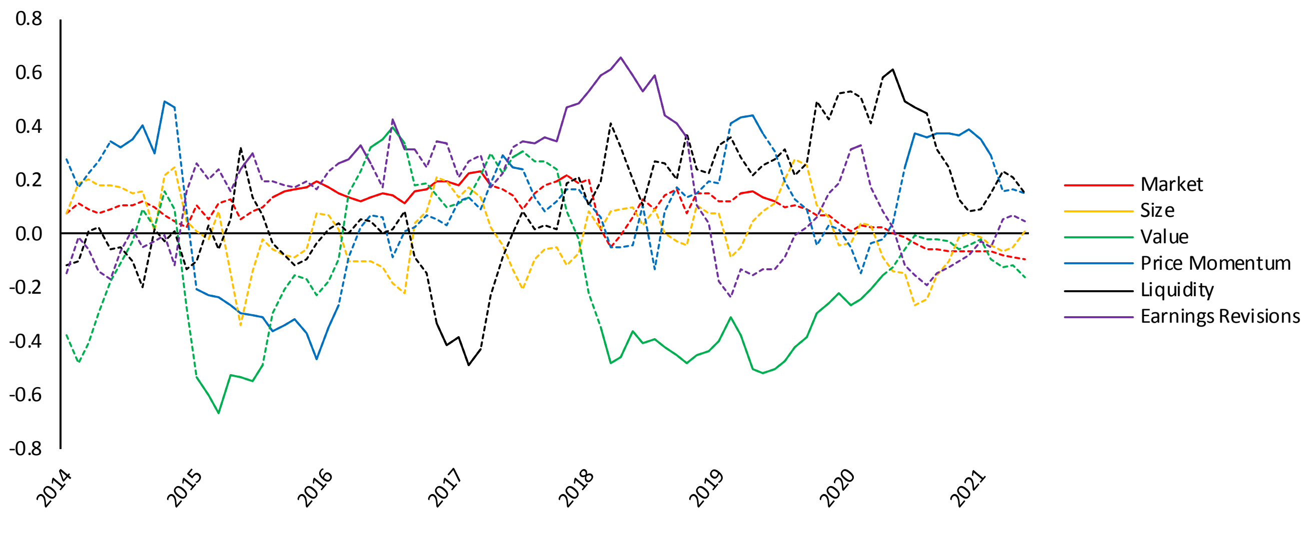
Figure 16: Performance statistics, after t-costs

	Onshore & offshore intersection
	Panel A: Performance statistics
Annualised excess return	13.2%
Annualised volatility	12.2%
Risk-adjusted excess return	1.1
Annualised one-side turnover	1017%
	Panel B: Loading on factors
Market	0.01 (1.61)
Size	0.01 (0.42)
Value	-0.2 (-9.63)
Price momentum	0.03 (1.43)
Liquidity	0.2 (5.70)
Earnings revisions	0.1 (4.03)
Six-factor alpha	7.8% (3.21)

Source: Wind, UBS Quant Research

Figure 17 shows the factor loadings over time. The new portfolio has displayed some exposure to expensive stocks and high earnings revisions, but overall the loadings are small in magnitude, and most of the time we can observe no consistent or significant exposure. We therefore believe that the new company visit portfolio is mostly orthogonal to traditional quant factors, and can provide an alternative source for alpha.

Figure 17: Portfolio exposure to factors



Note: In the above chart we report the loading coefficients of the portfolio returns regressed on the traditional factors, with solid lines representing loadings that are statistically significant at the 5% level, and dotted lines standing for insignificant loadings. Source: Wind, UBS Quant Research

Latest screen

In Figure 18 and Figure 19, we screen out the highest-ranking companies ranked by the participation from onshore investors versus offshore investors.

Figure 18: Top-10 companies most visited by onshore investors

Ticker	Company name	Market cap (Rmb bn)	Sector	Number of company visits	Number of onshore investors	Number of offshore investors
002709	TINCI	92.2	Materials	3	592	21
300171	TOFFLON	23.9	Industrials	3	478	14
002241	GOERTEK	139.3	Tech	1	437	50
002557	QIAQIA FOOD	19.7	Cons Stpls	5	384	43
300896	IMEIK	29.5	Health Care	1	377	41
002906	ADAYO	19.7	Cons Disc	6	360	34
002326	YONGTAI TECH	30.8	Materials	8	344	5
000100	TCL TECH.	92.4	Tech	2	279	18
300296	LEYARD	19.6	Tech	16	276	8
002507	FULING ZHACAI	21.5	Cons Stpls	9	267	50

Note: 8-week look-back period; data as of 27 August 2021. Source: Wind, UBS Quant Research

Figure 19: Top-10 companies most visited by offshore investors

Ticker	Company name	Market cap (US$ m)	Sector	Number of company visits	Number of onshore investors	Number of offshore investors
688366	HAOHAI	9.7	Health Care	2	94	62
688088	ARCSOFT	10.9	Tech	4	203	53
688036	TRANSSION	59.4	Tech	1	140	53
002241	GOERTEK	139.3	Tech	1	437	50
002507	FULING ZHACAI	21.5	Cons Stpls	9	267	50
688561	QI AN XIN	42.0	Tech	5	167	50
002557	QIAQIA FOOD	19.7	Cons Stpls	5	384	43
300896	IMEIK	29.5	Health Care	1	377	41
002906	ADAYO	19.7	Cons Disc	6	360	34
002410	GLODON	59.6	Tech	3	216	33

Note: 8-week look-back period; data as of 27 August 2021. Source: Wind, UBS Quant Research

Conclusions

In this report we demonstrate that company visits attract investor attention and positive money flows. Moreover, by trading on these events, with a reasonable look-back period to reduce turnover and t-costs, we can find a new source for alpha, which has been fairly consistent over time, and mostly orthogonal to the traditional quant factors and fundamental risk premia.

Valuation Method and Risk Statement

Our quantitative models rely on reported financial statement information, consensus earnings forecasts and share prices. Errors in these numbers are sometimes impossible to prevent (as when an item is misstated by a company). Also, the models employ historical data to estimate the efficacy of stock selection strategies and the relationships among strategies, which may change in the future. Additionally, unusual company-specific events could overwhelm the systematic influence of the strategies used to rank and score stocks.

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Buy	FSR is > 6% above the MRA.	53%	32%
Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2021.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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