Why China A Earning Call Transcript Matters

ORBIT
Financial Technology

China is the second largest economy in the world, and its stock market capitalization is also ranked just next to U.S. Due to the less matured governance and language barrier, it is difficult for foreign investors to understand China A listed companies and the China economy in general.

Earnings calls are considered one of the key resources for investors and equity analysts. The information provided during earnings calls can be incorporated into the fundamental analysis of a company.

In fundamental analysis, analysts can combine the information obtained during the event with the information presented in the management, discussion, and analysis (MD&A) section of the company's reports.

Quantitative hedge funds analyze transcripts by detecting sentiment, topics, trends and other bespoke attributes to generate trading signals to screen stocks.

Summary of the Data

Content:

1)<u>Earning Call Transcripts</u> – it is the transcripts of earning call meetings after annual or quarterly reports being released.

2)<u>Public disclosures on broker onsite research</u> – By regulation, if any broker/investment bank do on-site research to listed companies, they have the obligation to disclose such information publicly. Since it is an ad-hoc based activity, not every company has such disclosures. Statistically about 1/3 of the whole universe has such disclosures.

3)<u>Executive official responses on online platforms</u> – There are a few online forums that allow investors directly asking questions to executives of listed companies, and executives may reply selectively. Such communications can happen in real-time, which provides a most updated insights of the listed companies.

```
"stockcode": "601828",
"exchangecode": "XSHG",
"typesOfInvestorRelationsActivities": "ecm",
"transcriptuniqueid": "6eb0c05b-7492-3536-8740-7a89fc2b8931",
"transcripttitle": "[roadshow] A-share online investor exchange meeting of Macalline's IPO",
"versioned": 1,
"uploadtime": null,
"nameOfParticipatingUnitAndPersonnel": "",
"listedCompanyReceptionistName": "",
"time": {
    "start_time": "2018-01-02+080009:00:00",
    "end_time": "2018-01-02+080012:00:00"
},
"Location": "[roadshow] A-share online investor exchange meeting of Macalline's IPO",
"content": [
    {
        "contented": "6eb0c05b-7492-3536-8740-7a89fc2b8931-001000",
        "contenttype": "statement",
        "content": "Thank you for your wonderful speech. Dear investors and netizens: today,
    },
```

Key Selling Points

Full coverage: cover all the China A listed companies

Long history data: full coverage back to 2011.

High granularity to better assist with quantitative analysis

- Attributes on timestamp, attendees, statement/question/answer

- Mapped to stock tickers

Language: Chinese and English

ORBIT
Financial Technology

Earning Call Transcripts (ECM)

Year	No. of Reports	Company Count
2021	8591	3974
2020	5250	3242
2019	5088	3218
2018	4251	2927
2017	4481	2810
2016	3322	2375
2015	2651	1976
2014	2215	1733
2013	2392	1767
2012	1790	1434

Public disclosures on broker onsite research (BRD)

Year	No. of Reports	Company Count
2021	7894	1760
2020	7390	1530
2019	6452	1432
2018	7261	1540
2017	8317	1475
2016	8734	1446
2015	7884	1351
2014	9382	1288
2013	7568	1132
2012	2542	609

Executive official responses on online platforms (OQA)

Year	No. of Records	Company Count
2021	408563	4308
2020	489046	4072
2019	307605	3647
2018	343254	3457
2017	415743	3304
2016	435398	2790
2015	535710	2600
2014	488556	2320
2013	317238	2121
2012	137343	1491

ORBIT
Financial Technology

Testing Scenarios

To test the rationale that popular stocks attract more broker research and will outperform benchmark, we run a simple strategy to buy when a BRD report is available and hold for 5/10/20 days. Out of full universe of 3500 stocks, there are 1991 had BRD available.
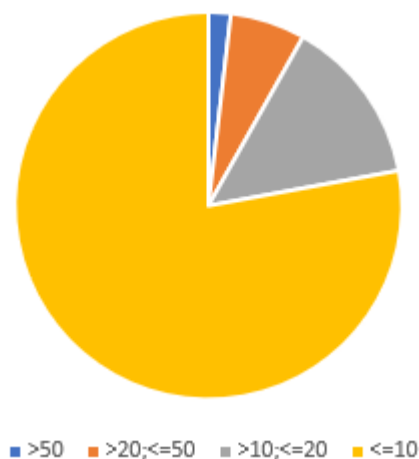
| No_of_BRD	No_of_Companies	Yield_Holding_5days	Accuracy	Yield_Holding_10days	Accuracy	Yield_Holding_20days	Accuracy
>50	37	20.10%	81.0%	27.08%	70.2%	30.90%	64.8%
>20;<=50	125	23.10%	69.6%	27.70%	68.0%	30.58%	61.6%
>10;<=20	278	18.23%	55.3%	21.67%	54.3%	12.03%	51.0%
<=10	1551	-0.55%	47.0%	-10.64%	42.9%	-50.90%	38.3%
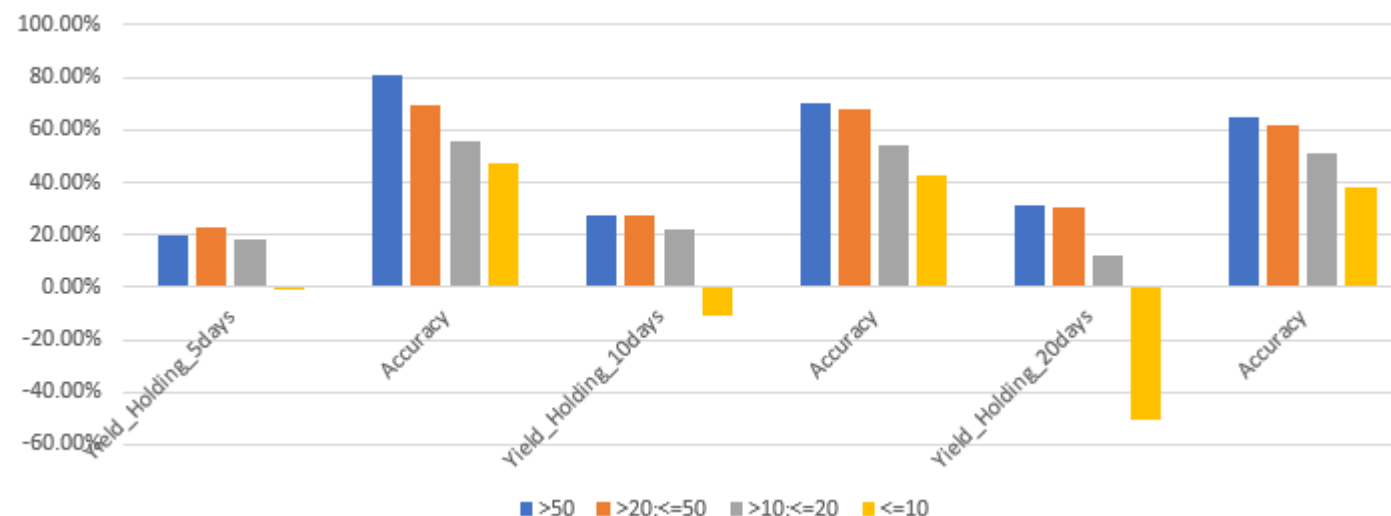
Metrics Definition

No_of_BRD: No. of BRD reports from Jan 2018 to July 2020

No_of_Companies: No. of companies have BRD reports fit into the group

Yield_Holding_xdays: Accumulated return in % to buy when report is released and hold for x days

Accuracy: the percentage that trades on a stock profit

ORBIT
Financial Technology
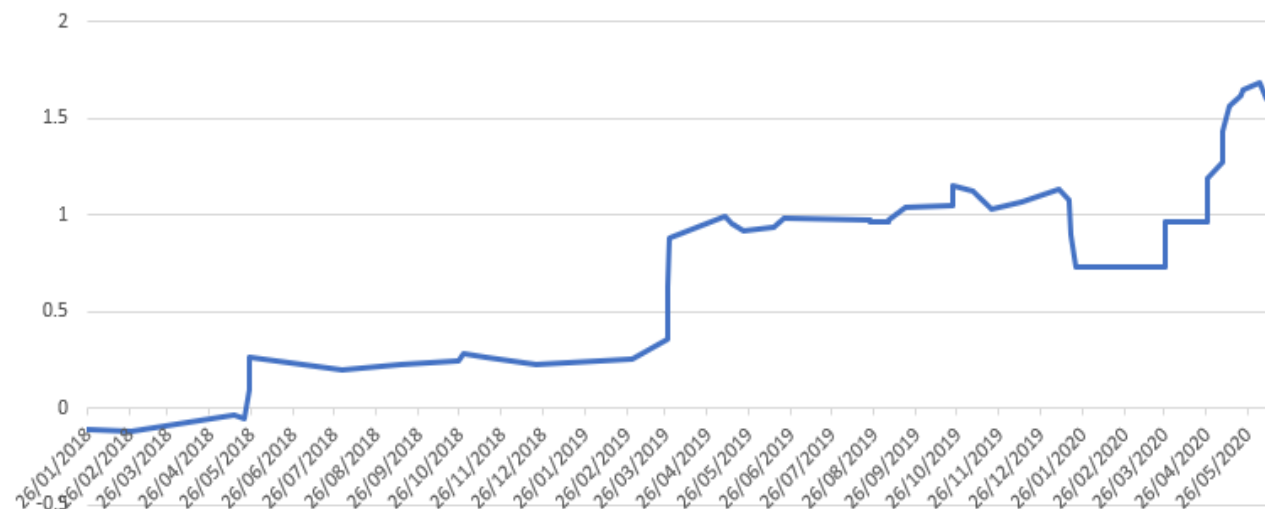
Accumulated return

Stock code: <u>002461</u>

- 77 BRD reports released since Jan 2018

- 65% of trades are profitable with holding period of 5 days

- Accumulated return of 189%

Conclusion

1) Brokers do on-site research on subjective basis, small amounts of stocks are more popular

2) Companies have more broker research outperform benchmark

3) A simple strategy on timing contains alpha: accuracy of profitable trades on first 2 groups is significantly higher than average

Testing Scenarios： Further from case 1, trade by sentiment score; buy and hold for 15/30 days when BRD report is available AND sentiment is above a threshold

Below result is from Jan 2018 to Aug 2020

	No. of trades	Accumulated return holding 15 days %	Return per trade %	Accumulated return holding 30 days %	Return per trade %
All BRD reports	15775	126	0.007987322	144	0.009128368
Total sentiment > 0	5313	155	0.029173725	201	0.037831733
Total sentiment > 0.5	4408	133	0.030172414	170	0.038566243
Answer sentiment > 0	4675	133	0.028449198	184	0.039358289
Answer sentiment > 0.5	4238	113	0.026663521	161	0.037989618
Statement sentiment > 0	3515	105	0.029871977	143	0.040682788
Statement sentiment > 0.5	3160	92	0.029113924	122	0.038607595
Answer sentiment - statement sentiment > 0	3838	118	0.03074518	165	0.042991141
Answer sentiment - statement sentiment > 0.5	2486	71	0.028559936	110	0.044247788

Conclusion：

Filtering by sentiment significantly improves return on trades

Calculating sentiment on answers and statements separately can further improve returns

Thank you!

About Orbit Financial Technology

Powering smarter investment decisions by consolidating unstructured data, information and knowledge. Orbit specializes in processing large volume of unstructured data with advanced big data, Natural Language Processing and machine learning technologies for financial services industry

Contact

Da Wei, director

da.wei@orbitfin.ai

+44 75 7298 0472