

# Analysis on the Formation Causes of AH Premium and the Reverse Premium Anomaly of Leading Companies

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## Abstract

As the interconnection mechanism of Shanghai-Shenzhen-Hong Kong Stock Connect keeps improving, an increasing number of enterprises choose to go public simultaneously in the A-share and H-share markets. However, the long-standing problem of “same stock with different prices” and the persistent premium of A-shares still exist. Taking the valuation difference between A-shares and H-shares as the research object, this paper uses literature review, comparative analysis and case studies to explore the formation mechanism and fluctuation characteristics of AH share premium from the perspectives of market structure, trading system, liquidity, investor sentiment and exchange rate changes. It also focuses on the reverse premium anomaly of leading enterprises such as CATL. The results show that structural differences between the two markets are the main cause of AH share premium, and macro liquidity and capital flows significantly affect the trend of the premium. Meanwhile, industry leaders with strong fundamentals and high information transparency are more likely to show H-share reverse premium. This study can provide references for cross-market investment decisions, corporate capital operation and the institutional optimization of capital markets.

## Keywords

AH premium rate, reverse premium, core leading companies

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## 1. Introduction

With the continuous improvement of the Shanghai-Shenzhen-Hong Kong Stock Connect mechanism, A+H dual listing has become an important financing channel for domestic enterprises, and the linkage between the two capital markets has been significantly enhanced. Nevertheless, the price divergence of the same share in the two markets has existed for a long time. Generally, A-shares maintain a sustained premium over H-shares, and the premium level changes with market sentiment, policy adjustments and hot events. Some stocks even show obvious H-share premium and price inversion.

The core reason for such valuation divergence lies in the institutional and structural differences between the two markets. The Hong Kong stock market is dominated by institutional and overseas investors who prefer value investing, while the A-share market has a higher proportion of retail investors, leading to stronger volatility in market sentiment. In addition, the two markets differ greatly in trading mechanism, trading hours and price limit rules. Coupled with exchange rate fluctuations, liquidity differences and cross-market information asymmetry, the price spread between A-shares and H-shares persists and fluctuates sharply. Under the background of rising uncertainty in overseas financing of Chinese concept stocks, the strategic position of

the Hong Kong stock market has become more prominent, so it is of great practical value to conduct an in-depth study on the formation mechanism of valuation differences between A-shares and H-shares.

Most existing studies explain AH share premium from macro perspectives such as market segmentation, liquidity and investor preferences, but pay less attention to practical market factors such as mismatched trading hours and short-term capital speculation. The analysis on special phenomena such as valuation inversion and periodic premium fluctuation is also insufficient. Based on the actual trading characteristics of the two markets, this paper systematically analyzes the causes of valuation divergence through a combination of qualitative and quantitative methods, which enriches the theories of cross-market asset pricing and market segmentation, and provides a refined theoretical supplement for AH share valuation research.

For investors, the conclusions help to clarify the pricing logic of the two markets, identify the driving factors of premium fluctuations, optimize cross-market investment decisions and reduce investment risks. For enterprises, it can provide a reference for A+H dual-listed companies to choose financing timing, formulate listing strategies and optimize capital operation. For regulators, the conclusions can lay a foundation for improving the interconnection mechanism between the two markets, optimizing trading rules, weakening unreasonable valuation deviation and improving the overall pricing efficiency of the capital market, so as to boost the standardized and internationalized development of China's capital market.

**A+H dual listing:** An enterprise is listed on both the mainland A-share market and the Hong Kong H-share market. A-shares are traded in RMB and H-shares in Hong Kong dollars. The two types of shares have the same rights.

**AH share premium and reverse premium:** The price spread is usually measured by the premium rate, and the core formula is:

$$(\text{A-share price (CNH)}/\text{H-share price (HKD)}) \times \text{exchange rate} - 1) \times 100\% \quad (1)$$

A positive premium rate means that A-shares are at a premium over H-shares, which is the normal state of the market. A negative premium rate means that H-shares are at a premium over A-shares, which is the reverse premium or valuation inversion anomaly studied in this paper.

This paper employs three core methods: a literature review consolidates theoretical foundations related to market segmentation, cross-market pricing and AH share premium; a comparative analysis of trading rules, investor structures and cross-market premium differences identifies divergence drivers; and case studies of event-driven abnormal stocks concretely examine how capital and sentiment shape valuation spreads.

The innovations of this paper are reflected in research perspective and methodology. In terms of perspective, it breaks through the limitation that traditional research focuses on macro factors, and incorporates practical factors such as mismatched trading hours, exchange rate fluctuation and short-term event speculation, which is more in line with the current operation of the AH share market. In terms of methodology, it combines qualitative case analysis and quantitative data test, which can not only explain the internal logic of valuation difference, but also quantify the impact degree of core factors. It can effectively explain diverse market phenomena such as normal premium, short-term fluctuation and valuation inversion, forming an effective supplement to existing research.

## 2. Literature Review

Scholars at home and abroad have carried out a lot of research on the premium phenomenon of A+H dual-listed shares. This chapter systematically sorts out and reviews the existing literature from three aspects: classical explanatory theories, exchange rate factors and other influencing factors.

Focusing on the valuation difference between A-shares and H-shares, this paper first combs relevant literature, defines the research scope and summarizes the evolutionary characteristics of AH share premium. Second, it qualitatively analyzes the formation logic of valuation divergence from the dimensions of trading system, market structure and exchange rate fluctuation. Third, it compares the overall market premium and individual stock premium performance, and analyzes the causes of short-term premium fluctuations combined with hot event cases. Finally, it quantifies the impact of key variables through data statistics, summarizes the

research conclusions and puts forward relevant suggestions to improve the pricing mechanism of the two capital markets.

## **2.1 Classical Explanatory Theories**

### **2.1.1 Market Segmentation Theory**

In the 1970s, foreign scholars found that the share prices of the same company listed in different markets were significantly different, violating the Law of One Price in traditional economics. Solnik (1973) [1] first proposed the market segmentation theory, which has been continuously improved in follow-up studies, and gradually formed a complete theoretical system including liquidity difference hypothesis, information asymmetry hypothesis, demand elasticity difference hypothesis and risk preference difference hypothesis.

Peng (2024) [2] took 98 enterprises in the Hang Seng AH Share Premium Index as samples, confirming that A-share and Hong Kong stock market indices have strong explanatory power for AH share premium rate. The increase in daily turnover of northbound and southbound trading can weaken the effect of market segmentation and narrow the price spread between A-shares and H-shares.

### **2.1.2 Liquidity Difference Hypothesis**

The worse the liquidity of an asset, the higher the rate of return required by investors to obtain liquidity risk compensation. Amihud & Mendelson (1986) [3] showed that investors require additional compensation for stocks with poor liquidity.

From the perspective of investor structure, the A-share market is dominated by retail investors with high trading frequency and strong liquidity, while the Hong Kong stock market is dominated by institutional investors with relatively rational and stable trading, and its liquidity is weaker than that of A-shares, thus forming AH share premium in most cases.

### **2.1.3 Information Asymmetry Hypothesis**

Information asymmetry means that A-share and H-share investors differ in the difficulty, cost and accuracy of information acquisition, leading to price deviation of AH shares. Most A+H dual-listed companies focus their main businesses in the mainland, so A-share investors can obtain information more conveniently and at a lower cost, promoting A-share premium over H-shares.

Zheng (2025) [4] found that the AH share premium rate factor has significant differential impacts on the expected prices of stocks in different industries, and the larger the company's market capitalization, the lower the relative AH premium rate, which may be caused by information asymmetry across industries and company sizes.

## **2.2 Investor Sentiment**

Baker & Stein (2004) [5] pointed out that investor sentiment reflects the deviation between investors' value judgment and the real value of assets. Applied to the AH share market, Qing (2023) [6] found that the investor sentiment difference index and the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect policies have positive impacts on AH premium. Liu, L. B., & Guo, L. (2022) [7] demonstrated that the divergence in investor sentiment exerts a significantly positive effect on the AH premium of dual-listed companies. Zhang & Zhang (2025) [8] found that when investors hold extrapolative price expectations, the prices of A-shares and H-shares will diverge in equilibrium.

According to the prospect theory proposed by Tversky & Kahneman (1979) [9], investors are loss-averse and more sensitive to losses than to gains of the same amount. Therefore, market sentiment has a stronger impact on stock market returns during pessimistic periods. Taking 43 AH dual-listed companies in the Shanghai-Hong Kong Stock Connect as samples, Sun (2022) [10] confirmed that investor sentiment difference can effectively explain AH share premium, and its explanatory power is stronger during periods of sharp market fluctuations.

### 3. Case Introduction and Selection

#### 3.1 Criteria and Basis for Case Selection

As of April 2026, there are 183 companies listed on both A-share and H-share markets, providing sufficient samples for this study. First, this paper selects the AH share premium index from April 18, 2018 to April 30, 2026, and uses the market-value-weighted average individual stock premium rate to calculate the index premium rate, which can better reflect the overall premium trend of AH shares at the macro level.

Second, this paper screens stocks with reverse premium in the past year to fully reflect the company's latest operation. To eliminate large fluctuations of new shares, stocks listed for less than half a year are excluded. Finally, four stocks are selected: CATL, Hengrui Medicine, China Merchants Bank and WuXi AppTec. CATL is taken as the main case because of its significant reverse premium rate and representativeness.

Note: All data are as of April 30, 2026.

#### 3.2 Data Source and Case Background

All data are from [www.10jqka.com.cn](http://www.10jqka.com.cn).

As shown in Figure 1, From 2018 to 2026, the overall AH share premium shows a trend of rising, fluctuating at a high level and then falling. From 2018 to 2020, it was affected by the COVID-19 pandemic. From 2020 to 2022, liquidity in the A-share market was loose, while the H-share market was under pressure from overseas liquidity tightening. Coupled with divergent market sentiment under the pandemic, the AH premium soared from about 20% to around 60%. It fluctuated at a high level from 2022 to 2024, and narrowed rapidly from 2024 to 2026 due to Hong Kong stock valuation recovery and the inflow of southbound capital.

Figure 1: AH share premium index, 2018.4.18–2026.4.30.



### 4. Case Analysis: Causes of the AH Share Premium Anomaly

#### 4.1 Common Characteristics of Case Companies

From the above data, stocks with reverse premium all have a market capitalization of more than 30 billion CNY, and they are industry giants with economic moats and stable profitability. Mature business models largely solve the problem of information asymmetry. Under the overall low liquidity of the Hong Kong stock market, foreign investors are more willing to invest in these companies, thus forming reverse premium.

#### 4.2 Causes of the Anomaly Based on Theoretical Framework

From the perspective of market segmentation theory, the A-share and Hong Kong stock markets have long been clearly segmented in investor structure and trading system, and most companies show A-share premium. The four enterprises selected in this paper are all industry leaders with stable asset quality and high global recognition, which effectively weaken the valuation gap caused by market segmentation. The Hong Kong stock market, dominated by overseas institutional investors, tends to follow international valuation logic, while

the A-share market is more susceptible to short-term sentiment and policies with relatively low valuation, eventually forming H-share reverse premium.

From the perspective of liquidity difference hypothesis, ordinary AH share companies usually have better A-share liquidity, thus presenting A-share liquidity premium. However, H-shares of leading enterprises have smaller tradable shares and stable institutional holdings, resulting in relatively scarce tradable chips and forming a scarcity premium instead. A-shares have larger tradable shares with no obvious liquidity advantage, reversing the pricing logic between the two markets and promoting the emergence of reverse premium.

From the perspective of information asymmetry theory, leading enterprises have standardized governance, transparent information disclosure and certain international layout, enabling overseas investors to fully understand their operation, significantly reducing cross-market information asymmetry. Foreign investors do not have to offer discounts due to information disadvantages and are more willing to give reasonable valuations, supporting the rise of H-share prices.

Combined with investor sentiment factors, A-share investors pay more attention to short-term performance and market sentiment fluctuations, making valuations vulnerable to disturbances; Hong Kong stock institutions focus more on long-term value and fundamentals with more rational pricing. The divergence in investment preferences between the two markets coupled with cross-border capital flows further narrows and eventually reverses the traditional AH premium, leading to H-share reverse premium for high-quality leaders.

### **4.3 Uniqueness and Comparative Analysis of Each Case**

#### **4.3.1 CATL: AI-Driven Energy Storage Expansion and Global Leadership**

CATL has successfully built energy storage as the second growth curve, with substantial revenue growth in the first quarter of 2026. The growth rate of energy storage battery shipments far exceeds that of power batteries, formally forming a dual-engine development pattern of power batteries and energy storage.

The surge in AI computing demand drives the upgrading of power infrastructure, and energy storage has shifted from traditional auxiliary supporting positioning to the core energy base supporting the operation of AI data centers, greatly broadening the industry development space.

Meanwhile, relying on a mature cost transmission mechanism and large-scale advantages, the company maintains a stable gross profit margin amid raw material price fluctuations with strong profitability certainty. In addition, CATL ranks top in the global, mainland Chinese and European power battery markets, as well as the global energy storage battery market, with prominent global competitive advantages and a solid industry moat.

#### **4.3.2 Hengrui Medicine: R&D-Driven Barriers in the Pharmaceutical Industry**

It has built a closed-loop moat covering the whole innovative drug chain with high R&D investment, rich innovative drug pipeline, full technical platforms, strong commercial channels and sound finance.

#### **4.3.3 China Merchants Bank: Deep Competitive Barriers in Retail Finance**

It has formed a collaborative moat with high-quality retail customers, low-cost liabilities, wealth management, financial technology and robust risk control, featuring deep and irreplicable barriers.

#### **4.3.4 WuXi AppTec: Leadership in Integrated CRDMO Services**

The firm has established the strongest competitive position in the CXO industry via end-to-end CRDMO integration, high customer switching costs, technological and scale advantages, and strategic partnerships with global leading clients.

As shown in Table 1, CATL shows the most obvious reverse premium, which is not only due to its solid fundamentals and stable profitability from the power battery business, but also because overseas investors are optimistic about its unique energy storage technology in the era of AI infrastructure. Foreign investors reprice CATL in line with international standards based on the future AI mainstream narrative. The premium of China Merchants Bank mainly comes from foreign investors' optimism about its business model and growth potential. Its unique operating model ensures steady profit growth, and as a banking stock, it has a high dividend payout compared with the other three stocks. Thus, foreign investors revalue China Merchants Bank as a high-quality

Chinese banking stock. Hengrui Medicine has R&D barriers and sustained high R&D investment, and foreign investors are more optimistic about its internationalization potential of innovative drugs. WuXi AppTec exhibits relatively lower business growth, hence a milder reverse premium.

Table 1: Typical reverse leading companies.

Stock Name	Average Premium Rate in the Past Year (H/A)	A-share Market Cap (CNY)	H-share Market Cap (HKD)
CATL	26.92%	1.99 trillion	2.77 trillion
China Merchants Bank	7.16%	965.16 billion	1.19 trillion
Hengrui Medicine	6.99%	357.61 billion	431.42 billion
WuXi AppTec	1.55%	326.87 billion	405.79 billion

## 5. Conclusion

This paper studies the AH premium and reverse premium phenomena, finding that differences in investor structure, trading system, liquidity and market sentiment between the A-share and Hong Kong stock markets are the core causes of the long-term AH share premium, while exchange rates and capital flows will aggravate premium fluctuations. Industry leaders, favored by foreign investors in the Hong Kong stock market due to complete information and stable profitability, present reverse premium, indicating that high-quality fundamentals can weaken the impact of market segmentation. This study has limitations such as limited sample coverage and dominance of qualitative analysis, failing to accurately characterize the impact degree of each factor.

For investors, it is necessary to participate in cross-market investment rationally by combining the differences between the two markets and corporate fundamentals. For regulators, efforts should be made to continuously improve the interconnection mechanism, promote the convergence of trading rules and information disclosure standards, and enhance cross-market pricing efficiency.

Future research can expand the sample scope, introduce quantitative models to test premium influencing factors, and combine high-frequency data and sentiment surveys to deeply analyze the impact of capital behavior and expectations on price spreads, so as to further deepen cross-market asset pricing research.

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### **Funding**

This research received no external funding.

### **Conflicts of Interest**

The authors declare no conflict of interest.

### **Acknowledgment**

This paper is an output of the science project.

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