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A dreary year for listings

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As the curtain falls on 2014, Bursa Malaysia has seen the capital raised through initial public offerings (IPOs) decline for the second year. Only RM3.94 billion was raised during the year, which is less than half of 2013's RM8.19 billion and just a fraction of 2012's RM23.2 billion, which was boosted by several mega-IPOs.

Only 14 companies made their debut on the local bourse in 2014 compared with 17 in 2013.

The shrunken IPO value this year could be blamed on the delay in several major IPOs, such as those of power producers Malakoff Corp Bhd and Edra Global Energy Bhd (formerly known as 1MDB Energy Group Bhd), which have been pushed to 2015.

Indeed, the local IPO scene has continued to be short of major IPOs since the 2012 listing of Felda Global Ventures Holdings Bhd (FGV), IHH Healthcare Bhd and Astro Malaysia Holdings Bhd, which together raised a staggering RM22.67 billion.

Compared with 2012, there were only two notable listings in 2013 — that of UMW Oil & Gas Corp Bhd (worth RM2.36 billion) and Westports Holdings Bhd (RM2.03 billion).

Many had expected the IPO scene in 2014 to be busier and bigger than in 2013 because of indications that Malakoff and Edra Energy were planning to list on Bursa, raising a total of over US\$4 billion.

As it turned out, Malakoff could not carry out its IPO because of its power plant maintenance schedule while Edra Energy delayed the submission of its IPO application several times amid controversies surrounding its debt-laden parent 1MDB Development Bhd.

The delay in Edra Energy's IPO was reportedly due to ongoing negotiations on the terms of the loans it was seeking from banks. Its listing is reportedly scheduled for the first quarter of next year.

The listing of IOI Properties Group Bhd (IOIPG) in January was the saving grace for 2014. This was by way of a spinoff from the company's parent IOI Corp Bhd via an in-specie distribution and a restricted sale offer of IOIPG shares to IOI Corp's shareholders, which raised RM1.87 billion.



The debut of IOI Properties (left) and Reach Energy on Bursa



IOIPG went on to become the largest listed property firm on Bursa with a market value of RM7.35 billion as at Dec 16, well exceeding UEM Sunrise Bhd's RM6.26 billion. UEM Sunrise, which is majority-owned by Khazanah Nasional Bhd, had been the largest property firm on Bursa in terms of market value for a number of years.

Listing of Boustead Plantations, 7-Eleven and Reach Energy

Apart from IOIPG, the other notable IPOs in 2014 include Boustead Plantations Bhd, 7-Eleven Malaysia Holdings Bhd and special purpose acquisition company (SPAC) Reach Energy Bhd. Boustead Plantations raised RM1.05 billion in total, 7-Eleven RM731.84 million and Reach Energy RM750 million.

The listing of Boustead Plantations involved Boustead Holdings Bhd privatising its plantation real estate investment trust Al-Hadharah Boustead REIT, which owned the plantation land that was previously leased to Boustead Plantations. The move consolidated all of the Boustead group's plantation assets under Boustead Plantations for listing purposes.

The privatisation of Al-Hadharah Boustead REIT was done at a decent 13.5% to 16.7% premium to its market price as well as its net assets while its shareholders could subscribe for shares in Boustead Plantations at RM1.60 apiece.

The IPO of 7-Eleven, which was also delayed several times, was considered a success, given the rich price-earnings ratio attached to its RM1.38 offer price, which valued the convenience

store operator at RM1.7 billion or over 25 times forward earnings.

Reach Energy, meanwhile, entered the market just as the Securities Commission Malaysia introduced tighter rules for SPACs. Nevertheless, it set a record for proceeds raised by a SPAC on Bursa with its RM750 million.

Despite its huge size, Reach's IPO was oversubscribed by 41.86 times. By comparison, Sona Petroleum Bhd and CLIQ Energy Bhd, which were listed in 2013, were oversubscribed by 5.97 times and 7.34 times respectively.

IPOs impacted by bearish market

Most of the newly listed stocks on Bursa have suffered from the bearish sentiment caused by the collapse in global oil prices. Year to date, only three of the 13 (excluding Only World Group Holdings Bhd, which was listed on Dec 18) are in positive territory.

The FBM KLCI hit a historical high of 1,892.65 points in July but had lost 10.34% at its close of 1,673.94 on Dec 16.

Analysts attribute most of the decline to foreign fund selling, most oil and gas stocks taking a tumble and the weakening of the ringgit against the greenback.

Lagging its peers in deal flow

Malaysia has fallen behind its peers in Asia-Pacific despite the region accounting for about 45% of global deals and 32% of the proceeds raised.

According to a note by EY, although not comparable to the levels experienced by Australia and Japan, relative political and economic stability in Southeast Asia has led to a steady

flow of IPOs that have contributed to the wider region's success.

The firm opines that after a record year for IPOs in Australia, a rejuvenated market in Japan and a steady flow of listings across China and Southeast Asia, the outlook for the IPO market in Asia-Pacific is positive.

"With IPOs in the region delivering average returns of around 49%, much higher than equity market indices, we expect IPO stocks will remain attractive as we move into 2015. We predict there will be around 94 IPO deals [in the region] in the first quarter of 2015, raising US\$10 billion," it says.

EY adds that investors in Asia-Pacific are leaning more towards companies in sectors with high growth potential, such as healthcare and technology.

Noting that Singapore has opened a liaison office in India to attract more Indian companies to list in the city state, Thailand and Mauritius, the firm sees more vibrant cross-border listing activity next year.

This year alone, three Malaysian companies listed on the Singapore Exchange's Catalist, which is equivalent to Bursa's ACE Market. They are eye specialist ISEC Healthcare Ltd, which was listed on Oct 28, legal advisory firm Zico Holdings Ltd (Nov 11) and glove maker UG Healthcare Ltd (Dec 8).

It is also worth mentioning that Tan Sri Vincent Tan listed his e-payment solutions company, MOL Global Inc, on American stock exchange Nasdaq — the first Malaysian company to be listed there in the past 10 years.

At an offer price of US\$12.50 apiece, some 7.48 million American depositary shares (ADS) were offered by the

company while 6.01 million were offered by certain selling shareholders of the company.

MOL Global has lost 78.88% since its listing on Oct 9. It closed at US\$2.64 on Dec 15, giving the company a market capitalisation of US\$178.2 million.

EY anticipates global IPO activity to remain robust, reaching 240 in the first quarter of 2015 and raising around US\$50 billion in capital. However, it cautions that a potential rise in interest rates across the globe in the second half of 2015, economic shocks triggered by geopolitical uncertainty and the cessation of quantitative easing may make the global IPO market less buoyant in 2015 than this year.

However, it believes opportunities still remain, although conditions are less predictable as the level of withdrawal or postponement may rise and companies focused on the IPO path will need to be well prepared with a strong management team, a compelling value story and a price that is in line with investor expectation.

A total of 160 IPOs was withdrawn and postponed this year across the globe compared with just 121 last year.

"The year 2015 is likely to see two investment strategies determining sector attractiveness. As markets become more volatile, investors may be more inclined to allocate a greater proportion of their investment portfolio to IPOs in safer and more stable sectors, such as financials and real estate," says EY.

Note that in 2014, technology and financials were the leading sectors in terms of capital raised across the globe, followed by energy.

IPO performance for new listings as at Dec 16

COMPANY	ISSUE PRICE (RM)	LISTING DATE	LEAD MANAGER	SHARES LISTED	AMOUNT RAISED	OVER SUBSCRIPTION RATE (TIMES)	CLOSING PRICE ON LISTING DAY (RM)	PREMIUM/DISCOUNT ON LISTING DAY (%)	CLOSING PRICE ON DEC 16 (RM)	CHANGE (CLOSING PRICE-ISSUE PRICE) (%)	CHANGE SINCE LISTING DAY (%)
7-Eleven Malaysia Holdings Bhd	1.38	May 30	Maybank Investment Bank	530,325,000	RM731.84 mil	4.8	1.53	10.86	1.35	-2.17	-11.76
Boustead Plantations Bhd	1.60	Jun 26	Affin Investment Bank	656,000,000	RM1,049 bil	6	1.58	1.87	1.43	-10.63	-9.49
Carimin Petroleum Bhd	1.10	Nov 10	M&A Securities	66,590,000	RM73.24 mil	22.1	1.15	4.54	0.89	-19.09	-22.61
EA Technique (M) Bhd	0.65	Nov 12	RHB Investment Bank	129,000,000	RM83.85 mil	5.12	0.48	25.3	0.48	-26.15	0
Enconpile Holdings Bhd	0.54	Jun 30	RHB Investment Bank	90,000,000	RM48.6 mil	35.4	0.69	30.56	0.77	42.59	11.59
Heng Huat Resources Group Bhd	0.45	Jul 25	Kenanga Investment Bank	61,160,000	RM27.52 mil	60.25	0.56	24.44	0.39	-13.33	-30.36
Icon Offshore Bhd	1.85	Jun 25	Maybank Investment Bank	510,767,000	RM944.91 mil	9.62	1.91	3.24	1	-45.95	-47.64
IOI Properties Group Bhd	2.51	Jan 15	Aminvestment Bank	3,105,523,549*	RM1.87 bil**	1.39	3.15	25	2.29	-8.76	-27.30
Kronologi Asia Bhd	0.29	Dec 15	Bank Islam Malaysia Bhd	59,247,000	RM17.18 mil	35.5	0.29	1.72	0.29	0	0
Reach Energy Bhd	0.75	Aug 15	Hong Leong Investment Bank	1,000,000,000	RM750 mil	41.86	0.70	-6	0.59	-21.33	-15.71
Sasbadi Holdings Bhd	1.19	Jul 23	Alliance Investment Bank	57,150,000	RM68 mil	33.15	1.49	25.21	1.33	11.76	-10.74
SCH Group Bhd	0.23	Feb 13	M&A Securities	90,692,000	RM20.85 mil	68	0.27	23.91	0.21	-8.70	-22.22
Tanah Makmur Bhd	1.25	Jul 17	RHB Investment Bank	101,590,000	RM126.98 mil	14.45	1.88	55.2	1.62	29.6	-13.83

*IOI Properties proposed up to 3.10 billion existing shares under its IPO by way of distribution-in-specie and restricted offer for sale to the existing shareholder of IOI Corp Bhd

**Funds were not raised as no new shares were issued, however the restricted offer for sale had raised proceeds of RM1.87 billion