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IPO market sees resurgence

There is still a lack of larger, high-quality listings, say investment bankers



IPO MARKET SEES RESURGENCE

But there is still a lack of larger, high-quality listings, say investment bankers. Ahmad Naqib Idris & Samantha Ho have the story on Page 4.

BY AHMAD NAQIB IDRIS & SAMANTHA HO

KUALA LUMPUR: Malaysia's initial public offering (IPO) market is off to a good start in 2017, with 10 companies going public in the first half, compared with 12 for the whole of last year. Companies across all business sectors are returning to Bursa Malaysia, thanks to a recovery in oil prices and an improving economy.

The 10 listings in the first half of the year raised RM717.82 million in total, accounting for 71% of the RM1.09 billion raised in 2016. Despite the market's recovery, investment bankers are of the view that the market is still missing larger, high-quality IPOs that drive activity and volume.

According to Affin Hwang Asset Management head of equity strategies and advisory Gan Eng Peng, the IPO market was the poorest last year, since the 2008 global financial crisis.

"So, the current IPO pipeline looks healthy in that sense, despite concerns over tighter liquidity in the system," he told *The Edge Financial Daily*.

"However, the overall sense is that there is still a lack of large, high-quality IPOs in the local market. While the quantum of IPO activity might be higher this year, the overall supply of high-quality, must-buy names is limited," he noted.

Eng Peng believes that the presence of high-quality names would spur the local market as it broadens choices for investors and also attracts international investors, as opposed to low-quality listings.

The listing of Lotte Chemical Titan Holding Bhd (LCT) earlier this month raised RM3.77 billion, making it the biggest IPO since 2012. Eco World International Bhd was the second biggest, having raised

RM2.58 billion from investors. An investment bank Bhd executive vice-president Gan Kim Khoo pointed out that most of the upcoming IPOs for the balance of the year are relatively smaller in size. "Save for one food and beverage operator, which is slated to list in the second half of 2017, the other IPOs in the pipeline are relatively small in terms of offering size and are also predominantly ACE Market listings," he said.

The IPO performance in 2017 is generally expected to be better than in 2016.

While interest and participation have been healthy from both institutional and retail investors so far this year, Kim Khoo highlighted the recent listing of LCT, which saw the issuer cut its offering size and IPO price.

LCT's IPO could not attract enough investor interest, which resulted in it having to lower the price to RM6.50 from RM8 and the size of its public issuance cut to 25.13% of its enlarged share capital of 2.3 billion shares, from 30% initially. It was initially aiming to raise gross proceeds of RM5.9 billion.

It also saw the retail portion of its shares undersubscribed at 61.87%, with its share price closing below its IPO price on its maiden trading day.

RHB Investment Bank Bhd chief executive officer Robert Huray said LCT's performance does not reflect the overall health of the IPO market.

"LCT's recent IPO should not

be viewed as a harbinger of future Malaysian IPOs. The said IPO encountered many challenges, but we do not believe market depth or liquidity was a major cause.

A cursory view of the large IPOs in recent years indicates that the market had the ability to absorb IPOs that were larger than LCT's. This included Felda Global Ventures (Holdings) Bhd's RM9.9 billion IPO and HHI Healthcare Bhd's RM6.6 billion IPO," he said.

Huray added that these IPOs were completed a few years ago, and the pool of liquidity has continued to grow since then amid Malaysia's high savings rate.

Areca Capital Sdn Bhd chief executive officer Danny Wong concurred, pointing to the listings prior to LCT's this year, such as Serba Dinamik Holdings Bhd's and Advancecon Holdings Bhd's, which were oversubscribed.

"Advancecon had a better take-up rate. If LCT's performance was due to low interest from the market, then Advancecon would not have done as well, so that reason (poor IPO health) is not valid," he said.

Wong expects to see more listings in the second half of the year, adding that the IPO performance in 2017 is generally expected to be better than in 2016.

Of the 10 companies that have gone public this year, five were trading at a discount to their offer prices last Friday.

Going forward, all eyes are on the potential listings of Bank Islam Brunei Darussalam — reportedly aiming to raise up to US\$500 million (RM2.14 billion) — and Edra Power Holdings Sdn Bhd.

"Like all investments, it is hard to generalise if they will do well or not as each needs to be looked at from their own perspective of quality and price," said Affin Hwang's Eng Peng.



COMPANY	IPO YEAR	TOTAL RAISED (RM)
Lotte Chemical Titan Holding Bhd	2017	3.77
Eco World International Bhd	2017	2.58
Malakoff Corp Bhd	2015	2.74
UMW Oil & Gas Corp Bhd	2013	1.71
Astro Malaysia Holdings Bhd	2012	9.90
HHI Healthcare Bhd	2012	6.60
Petronas Chemicals Group Bhd	2010	12.80
Maxis Bhd	2009	4.60