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Ten floats that delivered

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When the market is growing, there is usually a sharemarket rise in floats. This is dangerous due to market volatility risks being higher. Recent IPO successes from 2007 included Ampella Mining, Rex Minerals and Bathurst Resources. In 2009 Myer Holdings and Kathmandu Holdings IPOs made investors wary. Businesses that have navigated the financial crisis successfully and listed during 2008 to 2010 (not including Myer, Kathmandu or carsales.com in the analysis) include: Miclyn Express Offshore, Matrix Composites & Engineering (this is Macquarie Funds Management's pick in the medium term), Seymour White, NEXTDC (led by Bevan Slattery, co-founder of PIPE Networks), Corporate Travel Management (acquired Travelcorp Holdings. Montgomery Investment Management picks this company as having rising value and high returns on equity), Mastermyne Group, MACA, Redflow, Advanced Share Registry (obtaining work from small explorers on the ASX), ERM Power (Macquarie Group and RBS Morgans purchased stock in this company).

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Ten floats that delivered

As sharemarkets recover so will the number of new listings but many will disappoint. Here are some that made the grade, writes **Tony Featherstone**.

When it comes to sharemarket floats, investors often go back into the water just as the sharks circle again. A rising market usually sees a float rush with more promoters spruiking them and more vendors selling overpriced rubbish. The result is portfolios covered in red ink.

Take 2007. There were 242 floats that year as the bull market peaked: a record for the initial public offerings market by volume. *AFR* analysis shows the median loss from those floats (issue price compared with latest share price) is 40 per cent, with fewer than one in three trading above the issue price.

Of course, the bear market in 2008 and early 2009 whacked most stocks. But there were some spectacular IPO successes from 2007, such as Ampella Mining, Rex Minerals and Bathurst Resources. Yet the lesson is clear: an IPO boom often signals an overheating market and chasing stock in unproven listed companies in a hot IPO market is dangerous.

A smarter approach is to buy floats in tamer markets or buy shares in companies after they list and have an earnings history. Subdued market conditions, such as now, arguably see a better standard of small industrial companies – with slightly less aggressive valuations – come to the IPO market, although there are always exceptions.

Investors in the Myer Holdings and Kathmandu Holdings IPOs in 2009 are down on their investments and the market remains wary of private-equity vended floats where vendors sell all or most of their stock with "hockey-stick" earnings projections.

The 10 companies below listed between 2008 and 2010, a time when many investors gave up on floats. They have been chosen from the 206 IPOs in that period. Most of the stocks are too small or too new to be followed widely by analysts and fund managers. Larger IPOs for Myer, Kathmandu and the well-performing Carsales.com were excluded from the analysis and no speculative explorers made the list.

The goal was to find small industrial companies with established earnings, or prospects for near-term profit (they are ranked by the gain over their issue price). With the exception of Miclyn Express Offshore, each stock has performed well since listing and may rally further as the market recovers. Most are not as cheap as when they floated, but shares in top small-cap floats are usually reserved for clients of supporting IPO brokers anyway.

Matrix Composites & Engineering

Operations Oil and gas services
Listed November 2009
Raised $15 million
Issue price $1
Latest share price $7.85
Market capitalisation* $572 million
X-factor Gas projects boom

Matrix would easily win awards for best small-cap float. The Perth engineering company is the southern hemisphere's largest manufacturer of sub-sea buoyancy systems that support underwater structures for energy projects. Matrix nearly met its full-year prospectus profit forecast in its first six months as a listed company. Due for a pause, Matrix stock still only trades on a forecast price-earnings multiple of 12.5 times 2011-12 earnings, analyst forecasts show. Macquarie Funds Management's Neil Carter likes Matrix's medium-term prospects.

Seymour Whyte

Operations Infrastructure services
Listed May 2010
Raised $19.8 million
Issue price $1.10
Latest share price $2.68
Market capitalisation $208 million
X-factor Bigger project wins

Seymour's speciality in roadworks and bridge construction makes it an interesting long-term play on rising infrastructure demand in south-east Queensland.

Short term, the Queensland floods forced Seymour to defer some revenue. But it still maintained full-year profit guidance and its civil-engineering services should be in demand as parts of Queensland are repaired after flood damage.

Seymour won two key contracts – the Port of Brisbane Motorway and the Gold Coast light rail projects – in the December quarter. Watch for stronger earnings growth as Seymour works on larger, more complex projects and expands into NSW.

NEXTDC

Operations Data centres
Listed December 2010
Raised $40 million
Issue price $1
Latest share price $1.65
Market capitalisation $99 million
X-factor Cloud computing

Investors hope NEXTDC founder Bevan Slattery will replicate his success as co-founder of PIPE Networks. The Queensland company is planning two data-centre facilities in Brisbane and Melbourne and has its sights on Sydney. Slattery picked a growth industry: more internet traffic, the emergence of cloud (internet-based) computing and increased outsourcing of data centres will drive higher demand for data-centre facilities. NEXTDC believes there has not been enough investment in new data centres as corporate and government demand for them rises.

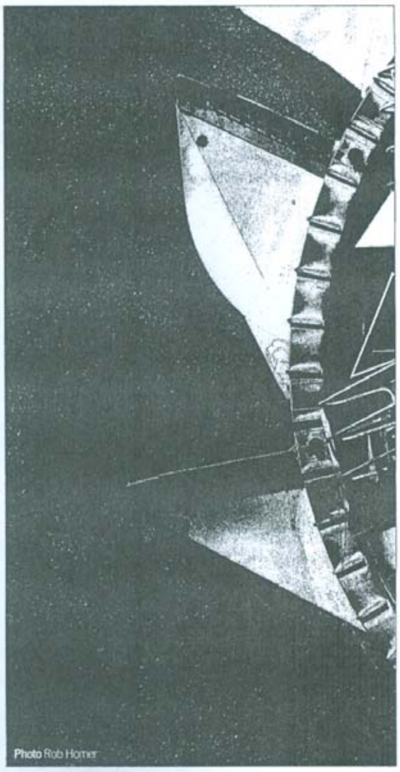

Photo Rob Homer

Corporate Travel Management

Operations Business travel
Listed December 2010
Raised $21.7 million
Issue price $1
Latest share price $1.70
Market capitalisation $119 million
X-factor More acquisitions

Corporate Travel's $1 shares raced to $1.70 within months of listing. Investors see Corporate Travel as a play on a business-travel recovery. The Queensland company acquired Travelcorp Holdings last month and may have other operators in its gaze. Montgomery Investment Management's Roger Montgomery was an early buyer after valuing Corporate Travel at $1.68 a share. He forecasts high returns on equity and a rising intrinsic value for this debt-free company.

Mastermyne Group

Operations Mining services
Listed May 2010
Raised $40 million
Issue price $1
Latest share price $1.45
Market capitalisation $106 million
X-factor NSW growth

Investors could not get enough of Queensland coal explorers in 2010. But a lower-risk way to play the coal boom is through mining services companies. Few are as leveraged to the Bowen Basin – Australia's largest coal reserve – as Mastermyne, which serves underground coal mines.

Mastermyne said in January it expected to meet prospectus forecasts for full-year net profit. The real story might be Mastermyne lifting operating staff numbers by more than 50 per cent this financial year. The Mackay-based company is making inroads in the NSW coal industry.

MACA

Operations Mining services
Listed October 2010
Raised $60 million
Issue price $1
Latest share price $2.57
Market capitalisation $385 million
X-factor Interstate expansion

MACA was a rare opportunity in 2010 to invest in a mining-services float. The Perth company ticked key boxes: a decent client base, recurring income and a forward P/E multiple of 6.5 times and implied 6 per cent yield upon listing. MACA said in January that its prospectus full-year net profit forecast of $23.1 million would be "comfortably exceeded" and announced a $258 million iron-ore contract in February. Watch MACA expand interstate.

Redflow

Operations Energy storage
Listed December 2010
Raised $17.5 million
Issue price $1
Latest share price $1.40
Market capitalisation $60.1 million
X-factor Rapid uptake of its product overseas

Shares in the emerging Queensland energy-storage company raced from $1 to $1.40 soon after listing. Redflow makes packaged energy-storage systems using its zinc-bromine flow battery module. Simply put, Redflow will sell its systems to electricity distributors that want to modernise their grids, lower costs and cope better with peak periods for energy demand by more effectively storing electricity. Renewable energy producers, in particular, will need better solutions to retain energy captured through solar panels.

Advanced Share Registry

Operations Share registry services
Listed June 2008
Raised $5 million
Issue price 40¢
Latest share price 95¢
Market capitalisation $40.3 million
X-factor More listings during the mining boom.

A share-registry company is an odd choice for mining-boom exposure. But Advanced Share Registry is winning work from the dozens of small explorers listing on the ASX. It provided share-registry services for six companies that floated in January and February alone, and should benefit as more miners list this year. ASR is not waiting for a takeover but it must look interesting to larger share-registry companies as its earnings and client base expand.

ERM Power

Operations Electricity
Listed December 2010
Raised $100 million
Issue price $1.75
Latest share price $1.78
Market capitalisation $283 million
X-factor Rising electricity demand

ERM set a benchmark for smooth IPOs in 2010 as its offer opened and closed within weeks. Macquarie Group and RBS Morgans clients snapped up stock in a company leveraged to long-term growth in the Australian electricity industry through its electricity sales, generation and gas-procurement operations. ERM shares briefly broke $2 before easing back towards the $1.75 issue price, partly due to a small earnings impact from the Queensland floods.

Miclyn Express Offshore

Operations Maritime services
Listed March 2010
Raised $305 million
Issue price $1.90
Latest share price $1.64
Market capitalisation $446 million
X-factor Asian energy projects

Miclyn was one of 2009's most prominent IPOs and among the worst performing. The provider of vessel services has mostly traded below its $1.90 issue price. It hit a 52-week low of $1.37 after announcing it would miss prospectus forecasts for 2010. But every stock has its price: at $1.64, Miclyn trades on a forecast P/E multiple of about seven times 2011-12 earnings, a valuation some brokers find attractive given the company's strong position in the fast-growing oil and gas industry in Asia and the Middle East. The average 12-month share-price target for Miclyn is $1.97, consensus analyst forecasts show.

Market capitalisation figures for all companies in this article do not account for restricted securities that may involve a proportion of vendor or promoter shares being escrowed for a year or two after listing. Price data sourced from AFR.com.

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