

Coal and cars lift IPO results

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Higher sharemarket volatility and mining tax uncertainty have dashed hopes of a record year for floats. Poor performances from initial public offerings (IPOs) have also scared investors: three of the four largest floats in 2009-10 are trading below their issue price, and two out of every three floats have lost investors money since listing, analysis by the *Weekend AFR* shows.

But beneath the gloom are some exceptional performances from largely unknown companies. Share prices for many recently listed companies are sharply lower since listing. Large floats will have to price offers less aggressively than last year to attract fund managers, several of whom were burnt by Myer Holdings' float. Coal floats stood out this financial year. Mongolian coal explorer Hunnu Coal is the best performing IPO, up 390 per cent from its issue price. Mongolia, a mining hot spot, is viewed as a play on Chinese energy demand. Hunnu has been buying Mongolian coal projects and intends to dual-list on the Hong Kong Stock Exchange within 18 months to raise its global profile.

Stanmore Coal, which is exploring coal targets in Queensland's Bowen and Surat basins, is the second-best IPO, up 270 per cent from its issue price. Stanmore set up a 208 million tonne open-pit JORC-compliant inferred resource within six months of listing. Other recently listed coal explorers, such as Endocoal and Metrocoal, are down 22 per cent and 35 per cent from their issue prices respectively. A key test of investor demand for coal companies is the Aston Resources float, which began pre-marketing this week. Broker valuations for Aston mostly range from \$1.6 billion to \$2.3 billion.

Other strong IPO performers in 2009-10 include gold explorer Doray Minerals and Apollo Gas, exploring in NSW. Matrix Composites and Engineering, a maker of subsea buoyancy systems for deep-sea oil exploration, has leapt from a \$1 issue price to \$2.68, capitalising the company at \$188 million. Owned 51 per cent by Max Begley and son Aaron, Matrix was well supported by small-cap fund managers during its float. Matrix achieved 98 per cent of its full-year net profit prospectus forecast in the first half of 2009-10. The biggest IPO bright spot, by value, is Carsales.com, which is still trading 44 per cent above its issue price, despite the recent market sell-off. Carsales.com, 49 per cent owned by PBL Media Holdings, is the only large float of note to trade above its issue price.

Weekend AFR analysis shows 14 of 59 companies that listed this financial year are trading above their issue price – a surprise given the equity market rally in the second half of 2009. Five are unmoved from their issue price and 40 have fallen below it. Thirteen stocks have dropped 40 per cent or more since listing. Heavily promoted biotech, CBIO, has slumped 70 per cent, while technology stocks, Azurn International and Digislide Holdings, have slumped too.

The median loss for all 2009-10 floats since listing is 12 per cent.

Most damage to the IPO market has come from large floats – Myer, Kathmandu Holdings and Miclyn Express Offshore. Maritime vessel operator Miclyn is down 36 per cent from its issue price since listing in March. Like other mining service companies, Miclyn's share price has been hurt by resources tax uncertainty. Myer, and to a much lesser extent Kathmandu, have been hurt by waning sentiment towards retail stocks. Myer is also suffering from a starting valuation many fund managers considered too high. Myer's performance has dampened IPO activity and forced vendors, such as private equity firms, to delay or shelve floats. The European debt crisis has also crushed recent IPO activity.

"The large number of IPOs being worked on are unlikely to all be executed this year," says Wayne Kent, global head of equity markets at Macquarie Capital, which lead-managed the Carsales.com, Myer, Kathmandu and Miclyn floats. "Sharemarket volatility is hurting investor confidence, which is resulting in vendors delaying their sales' timetables and exploring other options such as trade sales to meet their price expectations."

The co-head of equity capital markets at UBS, Andrew Stevens, says a slowdown in the retail sector has weighed on IPO activity this year. "Many companies considering an IPO earlier this year were in retail," says Stevens.

"But with retail conditions softening, and retail stocks losing favour, it hasn't been a good time to launch such floats."

Stevens says trade sales have become a bigger competitor to IPOs. "Six months ago, an IPO was the main choice for vendors looking to exit. Trade sales are a much stronger alternative now. However, we still see a strong pipeline of IPOs in the second half of the year as markets stabilise."

The IPO numbers will expand if the float of Valemus, formerly Bilfinger Berger Australia, succeeds. It will become the second-largest listed construction group after Leighton Holdings, and as such, an important test of investor appetite for billion-dollar IPOs this year. Valemus is at least in a sector with reasonable medium term prospects, unlike retail, which is groaning from interest-rate rises and expiration of government stimulus.

Fund managers are reportedly whining about Valemus's valuation range, although institutions often talk down offers to get a better price. Valemus is expected to list in July.

The controversial \$4 billion privatisation of Queensland Rail's coal and freight assets, and proposed listing in November, will also boost the IPO numbers.

Well-priced government privatisations historically attract retail investors back to IPOs and pave the way for other floats.

Newcomers

IPOs that have listed in the 2009-10 financial year Listings to June 17, excludes compliance or backdoor listings

	Market cap at listing (\$m)	Listing date	Issue price (\$)	Current price (\$)	Change on issue price	Operations
Hunnu Coal	32	Feb 12	0.20	0.98	390%	Coal exploration in Mongolia
Stanmore Coal	19	Dec 9	0.20	0.74	270%	Coal exploration in Bowen Basin
Doray Minerals	11	Feb 8	0.20	0.70	250%	WA gold explorer
Apollo Gas	40	Dec 15	0.20	0.59	195%	Petroleum explorer in NSW
Matrix Engineering	64	Nov 16	1.00	2.68	168%	Oil and gas services for deep sea exploration
Astivita Renewables	12	Dec 16	0.50	0.88	76%	Bathroom, kitchen and solar products
Australian Bauxite	14	Dec 24	0.20	0.32	60%	Bauxite exploration in Qld, NSW
Ethan Minerals	10	Dec 4	0.20	0.31	55%	Base metal explorer
Carsales.com	812	Sep 10	3.50	5.03	44%	Advertising portal for vehicles
Southern Hemisphere Mining	25	Jan 5	0.25	0.34	36%	Manganese exploration in Chile
Canyon Resources	5	Jun 15	0.20	0.25	25%	Gold exploration WA, possibly Africa
West African Resources	29	Jun 11	0.20	0.24	20%	Gold exploration in Burkina Faso
iShine International	16	Dec 18	0.20	0.24	20%	Copper gold explorer in Qld, nickel in WA
Renaissance Minerals	11	Jun 11	0.20	0.23	15%	Gold explorer, WA, Alaska
Coventry Resources	14	Oct 27	0.20	0.20	0%	Gold explorer in Canada
Mungana Goldmines	149	Jun 10	0.95	0.95	0%	WA gold explorer. Spun out of Kagara
Hot Chilli	23	May 3	0.20	0.20	0%	Uranium exploration, Chile
Luri Gold	22	Nov 19	0.20	0.20	0%	Copper-gold explorer in Zambia
Shenhua International	65	Jul 30	0.50	0.50	0%	Chinese home textile manufacturer
Seymour Whyte	86	May 31	1.10	1.06	-4%	Qld infrastructure consultant
Vantage Goldfields	89	Jun 27	0.40	0.38	-5%	South African gold explorer
Siburan Resources	13	May 18	0.20	0.19	-5%	WA gold, uranium explorer
NT Resources	7	Feb 1	0.20	0.19	-5%	NT uranium, gold explorer
Sumatra Copper & Gold	25	Oct 26	0.20	0.19	-5%	Gold explorer in Indonesia
Mastermyne Group	73	May 7	1.00	0.92	-8%	Qld mining services provider
Novarise Renewables	107	Apr 29	0.25	0.23	-8%	Chinese recycling group
Viking Ashanti	21	May 12	0.30	0.275	-8%	Gold explorer in Ghana
Wild Acre Metals	6	Mar 4	0.20	0.18	-10%	WA gold explorer
Kathmandu Holdings	380	Nov 13	1.90	1.68	-12%	Outdoor equipment retailer
Octanex	53	Nov 6	0.30	0.26	-13%	Investor in energy projects/companies
Genesis Resources	10	Oct 27	0.20	0.18	-10%	Gold, manganese, copper exploration
Kimberley Metals	27	Feb 25	0.20	0.17	-15%	Precious and base metal explorer
Careers Multilist	10	Feb 23	0.20	0.17	-15%	Human resource consultancy
Gerard Lighting Group	177	May 19	1.00	0.85	-15%	SA lighting manufacturer
Dourado Resources	11	Dec 1	0.20	0.16	-20%	Minerals explorer in WA, NT
Raisama	29	Dec 2	0.35	0.285	-19%	Uranium exploraton WA, Kyrgyz Republic
Winchester Resources	5	Dec 1	0.20	0.16	-20%	Gold, nickel explorer WA
Endocoal	71	Apr 30	0.60	0.47	-22%	Qld coal explorer