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FLOATS CAUGHT UP IN A PERFECT STORM

All looked well for a number of new offerings, but then the Opes Prime crisis struck

Robin Bromby

LATE March was no time to be trailing one's coat before brokers with a junior mining float.

The atmosphere for most new floats in the last few days of that month was not good.

Initial public offerings were being pulled — just the previous week, Oceanic Uranium Fund had withdrawn its $50 million float.

Several companies in the process of raising initial capital had extended their closing dates and others had their expected closing dates listed as "to be advised" on the Australian Securities Exchange's website.

Then the Opes Prime crisis struck and a shiver of fright went through the market when it was revealed that a large number of junior explorers were caught up in the mess.

That was the time that Peter Buckley and his team were doing the calls on the brokers in Melbourne to get backing for their Eastern Iron IPO.

If Opes Prime hitting the fan wasn't enough, the newcomer was planning to look for iron ore around Cobar, NSW, a place better known for its gold and base metals riches.

It wasn't the Pilbara, the Midwest region of Western Australia or South Australia — all the places you normally expect to find companies drilling for iron ore.

"The brokers were looking at us with a very sceptical eye," Buckley says.

But luck was on Eastern Iron's side.

Iron ore is a story that is favoured these days — the Brazilians having recently extracted a 71 per cent hike in contract prices for 2008 — and money flowed in from across the country.

The $5 million IPO was oversubscribed and there was no need for an extension. In fact, says Buckley, they could have closed early if they had wanted to.

Better still, the shares did not sink on listing, as in the case of some other recent floats. Issued at 20c, the stock went as high as 33c during the first day of trading, then ended that day at 30c — a creditable 50 per cent gain on its debut.

Since then the shares have gone as high as 62c and have spent the first two weeks of June at well over 45c. Confidence has been stiffened by Eastern Iron getting down to the business for which investors had parted with their money — exploration.

By June 3, Eastern Iron had announced it was drilling its two project areas at Cobar.

The preference for iron ore was reinforced by the subsequent float of Iron Road. Its 20c shares closed at 28.5c on the first day of trading.

If anything, this backs up analyst advice that commodities explorers are among the safer things to choose from among the IPOs. The recent tripling of some coal prices, the soaring demand for gas, the insatiable appetite from the global steel industry for iron ore and other metals, not to mention 16 per cent growth in industrial output from Chinese factories in May, all point to rivers of cash continuing to flow in the commodities sector.

Another pointer to the viability of resources-related stocks is the performance of Queensland mining software developer Runge. It has consistently traded comfortably above its $1 issue price since listing.

The next big test of the coal story is the $20 million raising by Coalworks due to close on July 12. The company already has an established resource at one of its Australian deposits.

But luck was not flowing for everyone. Genera Biosystems spent its first week of trading well under water from its 50c issue price, going as low as 42c.

The company had a solid story with its development of diagnostic tools, and it had already signed a deal with Sonic Healthcare, one of the more established companies in the sector.

And all the green consciousness and alarm about global warming could not sustain the price of Carbon Conscious. It was briefly above its 40c issue value, but by June was starting to dip below that price.

Yet you could not have a more trend-conscious story, especially with all the hype about Australia signing the Kyoto Protocol on climate change.

The company went to the market with the plan to create carbon credits by planting Mallee eucalypt trees in Western Australia's wheat belt.

What could equal a mixture of recycling and boosting plant growth, at a time when there are dire predictions of food shortages and prices of agricultural commodities are soaring?

None of that has helped Sub Soil Technologies: it hit the boards with a $1 share issue price on March 27, ended that day at 70c and by early June was languishing below 40c.

Sub Soil also had a history.

It has been in business for more than a decade and its main product, NutriMix, is manufactured from agricultural waste products (including sugar and oil palms). The company's boast is that it boosts plant growth, especially in areas with poor soil and low rainfall.

But there was also another factor in the Sub Soil story: China.

Before listing, Sub Soil had signed a marketing agreement with the Timms Cho Group, a Hong Kong-based company that bought the exclusive rights to market NutriMix in China. There was also a marketing agreement in place for sales in the

Middle East and North Africa. Wise-owl analysts wrote at the time of the offering that "it is still relatively early stages for this product but a heightened market profile in China and the Middle East will certainly help the company gain recognition".

Now the feeling at Wise-owl is that it may have been a mistake to price the shares at $1. Had they been issued at around 40c, the post-listing decline might not have been so pronounced.

Sub Soil chief executive James Callianiotis says he has thought about the face-value pricing issue, but the company followed the advice it was given.

And that was given before the recent market wobbles.

But he believes the stock price will get a big boost once the company announces the beginning of cash flow from China later this year.

He has gained confidence that the seed investors have all stayed loyal and gets comfort from the fact that there are not a lot of sellers in the market.

"We're definitely in the right sector and we've got a fantastic product," he adds.

LeeDee Holdings was another IPO that seemingly sounded the right note for the times.

It ticked the correct environment boxes with its business being the production of biogradable cellophane for food packaging, gift wrapping and other products.

Moreover, it already has a plant operating in China's Zheijang province, and the $12 million to be raised was earmarked for expansion of production of the cellophane. There was also to be a first-year unfranked dividend.

But investors gave it a wide berth.

Company secretary Graham Seppelt says LeeDee was just sitting on its hands while the market uncertainty continued, but it would be back — some time in the future — with its IPO.

And what do you make of a market in which even pub owners take a hit?

Western Australia's Compass Hotel Group issued units at $1 each. They hit $1.09 on the first trading day in January but have since lost nearly a third of their value.

Most of the IPOs in progress now are small-caps, including several junior resources companies and a $3.5 million float by interactive multimedia company Adventure Learning Channel Worldwide. Many of the bigger ones have been cancelled or postponed.

Earlier this industrial supplies group Jeminex shelved its $300 million initial raising.

What the market clearly needs is one big, successful float to restore confidence. It could have been Medibank Private, but that is off due to a change of government in Canberra.

An IPO out of MBF is no longer on the cards, either. There was briefly talk of the NSW Government sweetening the privatisation of its power generating assets by including a share issue to the public.

But, as this was being written, it looked as if Premier Morris Iemma might have to back down from his controversial plan. And there are no more parts of Telstra left to sell off. No one would touch a new property fund at present, which is why Mariner Financial earlier this month shelved plans for German and Japanese investment vehicles.

And even the resources sector has not been immune from cold feet: in January, Hazelwood Resources canned a planned $7 million tungsten spin-off of BigHill Resources, and the project has been kept within the parent company.

There has been talk — nothing more — of a Myer float, but the state of today's retail sector environment may mean some delay to any such plan.

One upcoming big float is Qantas's frequent flyer program. The airline said a decision on the future ownership structure could be made in August.

On the coal front, we're still waiting to get a date from Hong Kong-based Noble Group as to when it will launch its public offer for its Hunter Valley miner, Donaldson Coal, which operates two thermal coal mines and has a third approved for development.

In the short term, though, the next big thing should be a $1.2 billion initial public offering for Brisbane Airport Link. A prospectus is expected by July, listing possibly in August.

Leighton Holdings and Macquarie Group are spinning off the company after winning the contract to build the Queensland capital's longest road tunnel.

RECENT FLOATS

		Date listed	Issue price	Price (June 18)			Date listed	Issue price	Price (June 18)
Advanced Share Registry	(ASW)	June 10	40c	41c	Energy & Minerals Aust	(EMA)	May 23	40c	56c
Automotive Technology	(ATJ)	May 20	25c	23c	Genera Biosystems	(GBI)	June 11	50c	45c
Caledon Resources	(CCD)	June 4	$1.10	$3.11	Iron Road	(IRD)	June 12	20c	30c
Carbon Conscious	(CCF)	May 16	40c	38c	Oakajee Corp	(OKJ)	June 11	20c	18c
Chrysalis Resources	(CYS)	May 29	20c	30c	Richmond Mining	(RHM)	June 12	20c	18c
Eastern Iron	(EFE)	May 16	20c	50c	Runge	(RUL)	May 27	$1	$1.12

Source: ASX

Winner: Eastern Iron Ore's Peter Buckley says that his float was oversubscribed, despite broker scepticism **Picture: Vanessa Hunter**