



## Energy and resources are the places to look for winning floats, Robin Bromby says

TIARO Coal shows how winning bets should be placed when it comes to picking a float. It raised \$3 million in 20c shares in March. Its first day of trading was relatively subdued, the stock ending up a modest 1c.

But coal stories — any coal stories — are being seized by investors these days. In early June, Tiaro's shares hit \$1.21 on news of an expanded exploration portfolio in Queensland.

It's a while since the initial public offering market offered a short-term gain of that magnitude.

Analysts say the safest bets these days are companies with energy assets — coal or gas — or iron ore.

Their common point is that the prices of these commodities are soaring. Further evidence takes the form of two recent iron ore exploration listings: Eastern Iron and Iron Road have both shown good profits in the days and weeks since their market debuts.

On the other side of the coin, investors have gone off the darlings of 1999 to 2002. Biotechs no longer have anyone clamouring to get aboard.

Here's something even more remarkable: if you look at recent floats

for hot-button issues — carbon credits and environmentally sensitive products aimed at boosting food output, as in the case of Carbon Conscious and Sub Soil Technologies — the share prices very quickly went off the boil after the stocks went public.

In all, it has been a dismal story for initial public offerings. This year has been one of the Australian Securities Exchange's lowest for new floats.

As always, the figures tell the story. In the first six months of 2007, 137 companies listed on the Australian Securities Exchange, having raised a total of \$9.48 billion.

This year, up to June 12, there had been 51 new listings, with another three due to debut by the end of the month — 54 in all.

Then there's the money side. In the first five months of this year, new listings represented a total of \$818 million raised by way of initial public offerings. That's less than half the number of floats, but more than 10 times the amount of cash raised in the corresponding period last year.

Then look at the initial capital raised through the ASX for three Aprils: in April 2006, companies with new floats took in \$3.4 billion for that month; in April 2007 the take was \$3.98 billion. For April this year? Just \$4.1 million — yes, million.

Not that this should have come as a great surprise, given that things were obviously going off the boil as 2007

ended. After all the frenzied trading, and huge stag profits earlier in 2007, the contrast was marked as the holiday season approached: three mining companies listed the Friday before Christmas and all three ended well out of the money on their ASX debut.

Then, just before New Year's Day, New Guinea Energy fell 24 per cent below its issue price on the first day of trading. The writing was on the wall for 2008.

There were 277 new listings on the ASX in 2007. That was up 42 per cent on the 195 initial public offerings listed in 2006 (and that itself had set a new record — albeit one that lasted only a year).

But here's the crunch: while the 2007 numbers looked impressive at first blush, it was mostly small beer, with more than 60 per cent of the new companies raising \$10 million or less.

The way things are going in 2008, we're not going to get half the 2006 total of new companies on the ASX boards by the time next December rolls around.

In the heady days of early 2007 it had been possible for drilling services group Boart Longyear to get away its \$2.25 billion float with shares priced at \$1.85. They closed on the first day at \$1.93, and then went as high as \$2.71 in October before the market chill took its toll.

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# Finding companies with the best prospects

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Just over a year ago, too, we saw mine site accommodation provider The Mac Services Group shoot out of the starting blocks, its \$1.50 issue price going to \$3.85 by December.

Junior mining floats, at least in the first half of 2007, were typically closing oversubscribed and early.

That was then.

Since the credit crunch and market meltdowns, a quick and smooth IPO is no longer assured — even for the trendy ones.

Coal is one of those, but Apac Coal ran into headwinds and had to extend its \$15 million raising to buy an Indonesian coal project from a Singapore vendor.

This time last year, uranium floats were queuing up for your money, now it's coal.

Apart from Apac there's Coalworks, which has projects in NSW and Queensland, and Malagasy Minerals, which is planning to produce coal in Madagascar.

Imran Valibhoy, equities analyst at independent research house Wise-owl, says an IPO in the present market climate is very much a hit-and-miss affair.

The level of liquidity in the market is running toward the low end at present, he says.

When it returns it will flow first into the big-cap end, only later trickling back down to mid and small-cap stocks — and IPOs.

“With small caps you need trust, and it will be a long time before they trust the small-cap end

of the market again,” he says.

Coal, gas and iron ore are the sectors Wise-owl sees as most likely to attract investment.

The more difficult ones to get away will be IT and biotech, seen by investors as sectors with very high cash burn.

The extent of investor disenchantment can be gauged from the plan of Macquarie Capital Alliance Group this month to privatise the listed fund because of the stock's illiquidity — a move unimaginable a year or so ago.

Australian investors have also been deprived of what would have been one of the star floats of the decade — Medibank Private.

Had the Coalition been re-elected, Medibank was to have been sold, and there's little doubt that investors would have been knocking down the doors to get aboard.

However, the new federal Labor government has canned the \$2 billion float.

Just as it is a mixed picture in Australia, so there are gaps opening between various markets internationally.

Some IPOs in the US have been pulled, or at least delayed.

Jinchuan Group, the world's biggest nickel producer, earlier this month called off its \$US4.3 billion raising in Hong Kong.

It appears that two factors influenced the decision: that nickel prices were falling, and some other recent listing debuts in the Chinese bourses had been flops.

One mainland-based Mongolian style restaurant operator, Little Sheep Group, fell 5.3 per cent within moments of its shares first trading on the Hong Kong Stock Exchange.

In the Philippines, Golden Arches Development Corp (the country's master franchise holder for fast food chain McDonalds) shelved its IPO plans, citing weak market conditions.

India's market is also more subdued, with some analysts predicting a much weaker year for what there are called primary offerings — the first five months of 2008 brought just 19 new floats, against 44 in the corresponding period of 2007.

Then there's Africa. The float in Kenya of mobile phone operator Safaricom was an immense success, many times oversubscribed, and there was a similar rush to buy shares in the float of Celtel Zambia on the Lusaka Stock Exchange.

Brazil, now one of the fastest growing economies, is also enjoying a rush of new companies going public.

Last September the Sao Paulo stock exchange operator, Bovespa Holdings, set a new record for Brazilian IPOs when it went public and raised about \$US4 billion.

Earlier this month, oil and gas explorer and producer OGX Petroleo e Gas joined the party, raising \$US3.6 billion.

Australian companies can only dream about such sums.