

Philequity Corner (July 22, 2007)

By Ignacio B. Gimenez

Not all IPOs are created equal

The resurgence of the stock market has ushered in a season for IPOs and follow-on issues, reminiscent of the heydays in the mid-1990s. Last year, market debutants were able to raise about P25 billion through IPOs alone and another P48 billion through follow-on offering. For this year, we estimate that close to P70 billion will be raised through IPOs and follow-on issues.

Herd mentality

It has become pervasive thinking among some investors that IPOs are the sure deals. We have heard not a few clients say that one can't lose on IPOs, regardless of the circumstances of the company going public. Maybe, this kind of reasoning was bolstered by the fact that many market debutants or those making a follow-on offer posted significant share price gains on the day they were listed.

It has spurred a herd mentality of sorts that all IPOs will do well. But the following table shows that such is not the case. We are sure you have read of the big disappointment that was Aboitiz Power (AP). The stock, which is backed by good fundamentals, has bucked the trend and closed flat on listing date, taking many by surprise.

Selected Public Offering

	Offer price	Price at listing date	Gain upon listing	Current price	% chge from offer price
IPOs					
SM Investments	250.00	241.00	-4%	445.00	78%
Manila Water	6.50	6.90	6%	14.50	123%
First Generation	47.00	45.50	-3%	67.50	44%
Citisec Online	1.36	1.60	18%	14.00	929%
Alliance Tuna	1.35	2.00	48%	2.22	64%
PNOC EDC	3.20	4.55	42%	6.60	106%
Pacific Online	8.88	13.25	49%	13.50	52%
National Reinsurance	3.80	4.50	18%	4.30	13%
Phoenix Petroleum	9.80	12.75	30%	12.00	22%
Aboitiz Power	5.80	5.80	0%	5.60	-3%
Average			21%		143%
Follow-on Issues					
Semirara Coal	36.00	48.50	35%	36.50	1%
Universal Robina	17.00	18.00	6%	18.00	6%
Megaworld Corporation	1.38	1.42	3%	4.05	193%
Robinson's Land	12.04	14.00	16%	20.00	66%
Metrobank	38.00	44.00	16%	69.50	83%
Chemrez	4.40	5.20	18%	5.50	25%
Filinvest Land	1.605	1.82	13%	2.14	33%
RCBC	27.00	27.50	2%	35.50	31%
Union Bank	59.00	62.00	5%	64.00	8%
Alliance Global	5.76	6.40	11%	6.10	6%
Average			13%		45%

Pricing matters...

The case of Aboitiz Power (AP) is interesting. We find nothing wrong with the company's fundamentals. It is into power generation and distribution which should fare well in an expanding

economy. It is debt free and the proceeds of the IPO are earmarked for acquisitions or construction of new plants. This makes the stock worth holding for its positive long-term prospects. That's why its IPO was reportedly several times oversubscribed.

However, the stock was priced at a significant premium to its peers' average multiple. The pricey valuation worked against AP's share price as it did on SM Investments and Manila Water when they went public about two years ago. Furthermore, AP's listing date coincided with the start of the much-anticipated GMA Network IPO and just ahead of the big-ticket follow-on issues by Vista Land and PNB. So upon trading, it was not surprising that many investors sold out on AP in order to stay liquid for the next IPOs.

..so does timing...

Another factor to consider is the timing of the IPO. The performance of an IPO can also be affected by market conditions during the offer period and the listing. There were some new issues that did well because, in addition to their good fundamentals, they were listed when the market was on an uptrend.

On the other hand, there were also some good stocks which did not fare well because of unfavorable market conditions prevailing during their listing. A case in point was the RCBC follow-on issue. The stock was attractively priced at about 1.5x adjusted book value when the industry average was at around 2.5-3x book value. However, the stock had a bland performance upon listing only because it coincided with a market downturn. Eventually, RCBC's share price recovered and is now 31% ahead of the offer price.

... demand...

We previously highlighted the importance of oversubscription to an offer given that this indicates interest in the stock. However, we have to distinguish between demand from investors who are in for the long-haul and those who want to make a quick buck.

Oversubscription does not mean much if most of the demand comes from short-term investors or the so-called weak hands.

...and issue size

Take the case of the Alliance Global follow-on offer. The issue was also reportedly several times oversubscribed despite being the biggest follow-on offer in Philippine history. However, the stock price is now just about 6% over the follow-on offer price. The sheer size of the issue has already made it hard to trade up upon listing. This was even made harder by the big number of investors who sold off their shares for a quick buck right on listing day.

On the other hand, small-sized issues sometimes tend to perform very well because the law of supply and demand applies. This is irregardless of the stock's fundamentals. In the case of Pacific Online and Phoenix Petroleum, it was not easy to acquire these stocks without having to bid up for the shares. This eventually contributed to their outperformance. However, be cautious because the reverse can also happen. Thin liquidity can make it quick for the share price to fall in case of any selloff.

Listing date

As can be gleaned from these examples, there is no guarantee for an IPO's good performance. A lot of factors will come into play and anything can happen. That is why we in Philequity always take time in evaluating any stock based on fundamental merits. While the performance on listing date is important because it is an initial indicator of market reception for a newly-listed company, it is not the be all and end all for the stock. Based on our experience, it is rewarding to focus on

long-haul prospects, be it for a market debutant or any stock listed in the exchange. After all, the listing date is just one day out of the company's entire life in the stock market.

For comments and inquiries, you can email us at info@philequity.net or at gime10000@yahoo.com.