Philequity Corner (July 23, 2012)
By Valentino Sy

An Avalanche of Overnight Secondary Placements

Philippine stock investors were perplexed with the weakness in the markets last week. Whereas the global equity markets were quite firm, the local market actually came down. We, at Philequity, believe that the weakness was a direct result of an avalanche of overnight secondary placements.

From July 11 to July 18, a total of P26.55 billion was placed from companies such as Ayala Land, Ayala Corp. and Puregold Price Club. Within a one month period, the total overnight placements' value increases to P33.99 billion, if we include Universal Robina Corporation.

This avalanche of secondary placements caused indigestion in the local stock markets, sapping liquidity, and thereby causing the stock market to correct.

What are overnight secondary placements?

An overnight secondary placement, as the name suggests, is a transaction completed overnight or within a few hours, and is offered mainly to qualified institutional investors, whether foreign or domestic. These are usually placed at a 5-8% discount to the current market's closing price, enticing funds to invest.

So far, for the year we have had a total of P58.20 billion placed through these overnight deals. In contrast, the total capital raised from initial public offerings (IPOs) has only been made at P24.24 billion. Below is a table of overnight secondary placements as well as initial public offerings made within the year in detail.

2012 Overnight Secondary Placements				
Company	**Date**	**Offer Price**	**Deal Size (Php, In billion)**	**1 Day % Change After Offering**
Ayala Corporation	18-Jul-12	430.00	6.45	-6%
Puregold Price Club	12-Jul-12	26.00	6.50	-8%
Ayala Land	11-Jul-12	20.00	13.60	-5%
Universal Robina Corp.	14-Jun-12	62.00	7.44	-5%
Bloomberry Resorts	2-May-12	7.50	8.85	-38%
Century Properties Group	17-Feb-12	1.75	2.33	-16%
JG Summit Holdings	3-Feb-12	25.00	5.38	-12%
Petron Corp	18-Jan-12	11.00	7.65	-17%

Total Capital Raised YTD	58.20

Source: Wealth Securities Research

2012 Initial Public Offerings				
Company	**Date**	**Offer Price**	**Deal Size (Php, In billion)**	**1 Day % Change After Offering**
Calata Corp	23-May-12	7.5	0.27	3%
Eastwest Bank	7-May-12	18.5	5.22	7%
GT Capital Holdings	20-Apr-12	455	18.75	8%
Total Capital Raised YTD			24.24	

Source: Wealth Securities Research

As you can see from the table above, the total value generated from overnight secondaries, far outpaced the total value from IPOs, more than twice. Also, whereas IPOs are anticipated way in advance, secondaries take the market by complete surprise, and are offered within twenty four hours!

Major Types of Overnight Secondary Placements

1) Top Up Placements (E.g. Ayala Land)

In Ayala Land's case, parent company Ayala Corp (AC). sold 680 million shares of Ayala Land (ALI) to qualified buyers and institutional investors at P20/share through a private placement. The proceeds from AC's sale were then infused into ALI as subscription for the same number of new ALI shares at the same price. The capital that ALI raised will finance the capital expenditures for their projects in Makati, the Vertis North project in Quezon City and a potential entry into Ortigas Holdings (OCLP), owner of the Greenhills Shopping Complex among others.

2) Top Up Placements after a Backdoor listing (E.g. Bloomberry Resorts)

Bloomberry Resorts (BLOOM) is an example of a top up placement after a backdoor listing. In this case, Enrique Razon Jr's Prime Metroline Transit Corp acquired the remaining 75% outstanding shares via a cross transaction of 60 million shares from previous owners in listed firm Active Alliance Inc. (AAI), giving the former control in the firm. After the buyout, BLOOM sold 1.3 billion shares at P7.5/share via a top up placement and subscribed to the same number of shares. This equity fund raising allowed Bloomberry to raise equity funds for its billion dollar Solaire Manila project, an integrated gaming and resorts complex, which is expected to open by 1Q2013.

3.) Sale of Treasury Shares (E.g. Universal Robina Corporation)

Universal Robina Corp. (URC) raised P7.44 billion by selling 120 million treasury shares, which the company accumulated through a share buyback program. These shares were sold at P62 per share, equivalent to a 5.5% stake to institutional investors. The proceeds of the share sale will be used for expansion of its branded consumer food operations, a venture into ethanol fuel production, complementary to its sugar businesses. This biofuel and ethanol plant is expected to start operations in the latter half of 2013 with a capacity of at least a hundred thousand liters of ethanol a day.

4.) Sale from Majority Shareholders (E.g. Puregold Price Club, Inc.)

Puregold (PGOLD)'s primary shareholders – Lucio Co and family – sold 250 million shares to global institutional investors at P26/share. The company said that the goal of the share sale was to increase the stock's public float to 32%, similar to the public float level prior to PGOLD's acquisition of S&R.

Watch out!

The market players are now in a state of flux because of the stock market reaction from the huge placements. Investors have to contend with profit taking from those who were able to participate in secondaries. At the same time, market investors are wary of a double whammy, fearful of possible secondaries that may come. Who are these companies that will be taking advantage of this strong demand for Philippine corporate issues? We surmise that these are companies that will undergo aggressive capital expenditures in the next two to three years or companies that may need to increase their free float. Please consult your stock brokers and investment bankers for companies that may possibly do a secondary offering. In the meantime, fears from watching out for more secondary placements and the overhang of new shares continue to dampen market sentiment, albeit temporarily.

Perfect Opportunity

Normally, investment bankers are always on the look out for the opportunity to advise clients to sell more shares to the public. This is their mandate and job. Thus far, UBS, Credit Suisse, Goldman Sachs (Singapore), Standard Chartered, Deutsche Bank, JP Morgan, CLSA Ltd and BPI Capital Corp. have taken advantage of the strong liquidity and demand for Philippine shares by offering these placements. As long as the opportunity presents itself, just like the recent credit rating upgrade from Standard and Poor (S&P), it is their job to strike these kinds of deals. What we saw in the past month of offerings may not be the last, because if there are more opportunities, there may be more secondary sales offered.

Blindsided

The market reaction to the secondary placements was negative, not only because it was unexpected but also because of the huge size and the spate of offerings in such a short time frame. While the market expects secondary placements from time to time, a spate of three deals sapping P26.55 billion of liquidity within a week caught market players off guard, blindsided and unprepared. It is but natural that the market succumbed to profit taking due to the large and new supply.

Indigestion

The huge placements totaling P58.2 billion has caused stock market indigestion. If not for these huge placements within a span of one week, we envisioned that the local market would have made new highs, in consonance with global markets rallying last week. The stock market has to digest all of these new shares that were placed. A period of consolidation after the first half run-up, absorption of profit taking, and digestion of newly placed shares is quite healthy for the stock market.

"Sobra na!"

While we believe that the market will continue its consolidation due to indigestion and sapping of liquidity, the long-term fundamentals of the Philippines is still intact. We also believe that whereas Philippine multiples may be relatively higher against the region, we also reckon that our growth trajectory is clearer than the rest of the global markets. This warrants a higher P/E multiple relative to other markets. We therefore advise our clients to take advantage and buy on dips selectively. Buy companies that offer more value and have clearer plans for the proceeds of their equity offerings. If a well-defined growth strategy is in place, then any short term correction will be outweighed by the value added to the company in the long term.

On the other hand, there's a point when the market gets saturated, needs to take a breather and consolidate. P26.55 billion is too humongous not merely for the size alone but for coming unannounced and coming in trios within one week. There comes a point when one is left to exclaim *"sobra na, tama na, pahinga na muna, digest muna".*

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