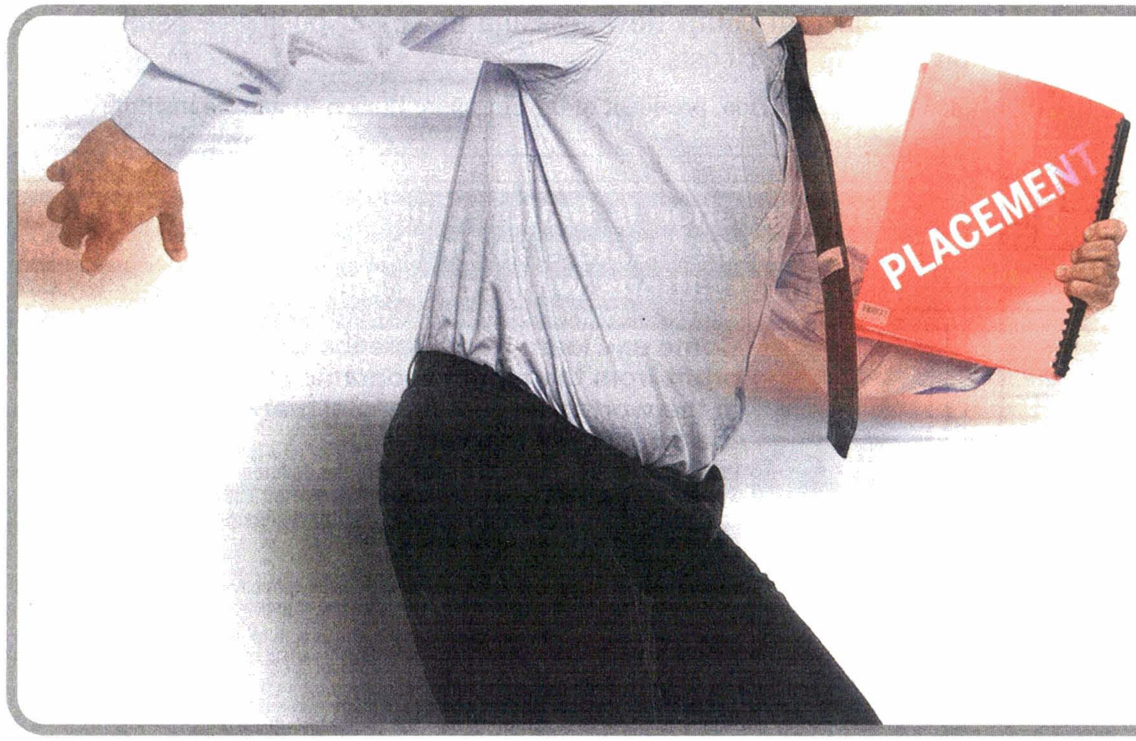
SMU

Publication: The Straits Times, B20
Date: 26 October 2009
Headline: Companies rush to place out shares



Companies rush to place out shares

PHOTOS: ISTOCKPHOTO

Most taking placement route instead of rights issues to raise capital

By Lee Su Shyan
ASSISTANT MONEY EDITOR

THE rush of liquidity into the market in recent months has prompted various companies – large and small – to tap investors for some of this abundant cash.

Most have taken the placement route, rather than undertaking rights issues, which were all the rage earlier in the year.

A placement is where new shares are "placed out" or sold to certain investors – institutional investors or private individuals. The price is usually at a discount to the prevailing market price.

Rights issues are where new shares are offered to all shareholders in proportion to their existing stake.

The Singapore Exchange (SGX) has rules on the number of shares that can be issued and the discount.

The largest placement recently was by Noble Group in an exercise that raised US$642 million (S$897 million). A new strategic investor, China Investment Corporation (CIC), a sovereign wealth fund, now holds a 15 per cent stake.

It is not just the big boys, however. A slew of smaller companies has also been bringing investors on board.

Just last week, life sciences company Transcu concluded a conversion of $5 million worth of structured notes and a $29.4 million private share placement.

Ying Li, a property developer that focuses on Chongqing in China, raised $30 million to develop the city's International Financial Centre, repay bank loans and use as general working capital.

Singapore Management University's finance professor Francis Koh said: "Many companies observed liquidity in the market, which they saw as a good opportunity to raise funds for future expansion."

Kim Eng's co-head of corporate finance Ding Hock Chai said: "We have seen heightened secondary fund-raising activities in the last few months."

Late last year to earlier this year, the stock market was in the doldrums, he said. As prices bounced back earlier this year, the action was confined mainly to blue chips. That rise permeated to the small and mid-caps only noticeably towards the second half of the year.

■ RECENT PLACEMENTS

Date	Company	Proceeds $m	Issue price $	Friday's price $
Oct	Transcu	29.4	0.096	0.13
Oct	C2O	60	0.469	0.48
Oct	Ying Li	30	0.28	0.825
Sept	Noble Group	642*	2.1137	2.74
Sept	Sinomem Technology	31	0.62	0.585
Sept	Pan Hong Property	11.8	0.5	0.565

* Proceeds for Noble Group are in US$

Market observers note that when the market is subdued, firms hoping to raise funds from investors face tough conditions. Share prices are low, so they have to issue many more new shares just to raise the same amount of capital as in good times. Major shareholders may be unwilling to see their stake diluted at a low price.

As interest rates are at record lows, investors are coming back to the market in the hope of achieving better returns.

Some firms raising funds recently are in the recovering sectors of oil and gas, offshore and marine, and property.

Pan Hong Property Group, a developer focusing on China's second- and third-tier cities, raised $11.76 million to fund the construction of its property projects and acquire land for development.

Offshore and marine company C2O raised $60 million, partly to look for opportunities in the petrochemical sector.

Prof Koh said that, in general, confidence is returning to the market, and if companies are planning to expand, they will seize the chance to raise money from the market. He said with a stronger balance sheet, a firm finds it easier to borrow from banks.

For some of these companies, a placement offers a time advantage in terms of getting hold of funds much more quickly than with a rights issue.

Boutique corporate firm Provenance Capital's chief executive, Ms Wong Bee Eng, said: "One advantage is the speed of raising capital with a placement issue. Once the investors are identified, the issue can be completed within a matter of a few weeks."

Undertaking a rights issue involves preparing a more detailed documentation that the SGX will have to approve and an offer period, during which investors are able to accept the rights.

A placement issue also allows companies to bring in key investors who can take a significant stake and add value to their operations.

For example, OCBC Research had been upbeat about CIC's contribution to Noble.

It said it regarded "CIC's investment positively, as it cements Noble's presence in China. It was an opportunistic move by the group to secure a long-term strategic investor and leverage on its strong share price to enhance its capitalisation for long-term planning".

sushyan@sph.com.sg