Singapore’s sagging IPO market gets a big lift just in the nick of time from REIT listings

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Pay Televison Trust’s US$1.1 billion IPO in 2013. “IPO activity in Singapore stock exchanges showed signs of life after a lacklustre year in 2015,” says Tan. “The two listings underpinned Singapore’s reputation as a hub for real estate investment trust (REIT) and business trust listings in Asia.” She reckons the diversity offered by Singapore REITs amid heightened economic and geopolitical concerns have made them attractive to issuers. They are also viewed by investors as a safe haven or relatively defensive sector in volatile markets.

Led by the Frasers and Manulife IPOs, Singapore-listed equity offerings totaled US$1.4 billion in the first half of 2016, a 65.2% increase in proceeds from the same period last year. IPO proceeds accounted for 62.0% of the market share while follow-on offerings listed in Singapore represented 38.0% market share.

Singapore ECM soars

The fact that there were two jumbo IPOs in the first half of 2016 compared to no listings in the previous period was crucial to the revival of the Singapore Exchange (SGX) Mainboard. The Singapore equity capital markets (ECM) rebounded healthily as well because of these two IPOs plus the IPO of Singapore-based BOC Aviation listed in the Hong Kong Stock Exchange (SEHK) which raised US$1.1 billion in proceeds.

All in all, Singapore-domiciled companies tapping the ECM raised US$2.4 billion so far this year, a 79.3%
increase in proceeds compared to US$1.3 billion in first half of 2015, according to Tan.

Total IPO issuance from local companies in domestic and overseas stock exchange markets raised US$2.0 billion. Breaking down the ECM market share in terms of proceeds, Singaporean IPO accounted for 84.1% while follow-on offerings captured 15.9% so far this year.

Morgan Stanley currently leads the ranking for Singapore ECM underwriting with US$354.2 million in related deals and captured a sizeable 14.7% of the market share. Citi and BNP Paribas ranked second and third with 11.7% and 10.2% market share, respectively. Total IPO issuance from local companies in domestic and overseas stock exchange markets raised US$2.0 billion. Breaking down the ECM market share in terms of proceeds, Singaporean IPO accounted for 84.1% while follow-on offerings captured 15.9% as of the third week of June 2016.

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The Real Estate sector followed closely with 47.6% market share worth US$1.15 billion in proceeds, up 70% already from the US$674 million proceeds raised in the first half of 2015. According to estimates from Thomson Reuters/ Freeman Consulting Co., underwriting fees for equity deals issued by Singapore-owned companies amounted to US$29.1 million, a 6.9% increase from the same period last year. Tan notes that CIMB Group led the fee rankings for Singapore equity issuance with US$6.8 million in estimated fee revenue, taking 23.4% of the wallet share this year.

**REIT dominance**

Singapore's IPO market showed positive improvements with a total of 8 IPOs in the first half of 2016 – 3 Mainboard listings and 5 Catalist listings raising US$38.6 million – compared to only 3 in the first half of 2015, says a Deloitte Singapore report. The report further notes that the Singapore IPO market has seen a dominance of REITs and Property Trusts listings in the last five years, and that their popularity could stem from their higher-than-average yields.

"If you look at the sizeable trust listings over the years, the actual yield for REITs listed between 2011 and 2016 H1 (at an average of 7.90%) outperforms the forecasted yield at IPO (at an average of 7.10%)," says Dr Ernest Kan, Deloitte Southeast Asia Leader for Global IFRS and Offerings Services. Deloitte also found that the highest average yields are from Hotel & Resort REITs such as Frasers Hospitality Trust. Data also show REITs and Property Trusts on SGX have experienced high growth, and they remain attractive because of their appealing distribution yields which range between 6.1% to 8.7% and their relatively stable lease-based cash flows. "In spite of the ongoing erratic global economic developments, we ended the first six months of 2016 on a positive note with nearly a three-fold increase in IPO listings as compared against that of the same period in 2015," says Kan. "This sets a good stage for IPO aspirants and investors which we hope will encourage and whet their appetite for new share offering activities in the second half of 2016."

**A few more good REITs**

For the second half of the year, Tham Tuck Seng, capital markets leader at PwC Singapore, expects to see a few more REIT listings due to the proven strength of the Singapore market. "The pipeline for REIT IPO listings in Singapore remains healthy," says Seng, pointing to the upcoming EC World REIT's IPO, comprised of logistics properties in China, and Greenland Holdings' REIT IPO. Seng says that REITs will continue to be the main source of IPOs, although this will not be limited to local REITs since he believes more foreign REITs will also begin listing in Singapore. For the Catalist board, Seng foresees more domestic companies listing on the back of increased government grants such as those from SPRING. The strong rebound of the Singapore IPO market through REIT listings shows its difference from Hong Kong IPO market, which has a higher valuation as a whole. "If you
look at Singapore, although we are not as Hong Kong in terms of market capitalisation, but Singapore has a mark on niche spaces. We are very good at certain sectors, including REITs, consumer, and healthcare sector,” says Seng. “For REITs in particular, we have a very progressive tax regime. Because of the preferential tax treatment, Singapore is known as a good place to have REIT listings,” he adds. The Deloitte report agrees, saying that REITs and Business Trusts are one of the key strengths of SGX, along with consumer and healthcare stocks, which should enable a strong trend of REIT IPOs for the rest of 2016.

“We believe REITs will continue to perform, having dominated the market in the last five years accounting for more than 60% of total funds raised via IPO since 2013,” says Kan. “Following the pickup for fund-raising and public listings in the first half of 2016, I believe the window of opportunity remains open in the next six months as fund managers have deep pockets to invest in IPOs,” he adds. “This coupled with the Government’s support for enterprises and industries to transform through innovation will be major drivers for investing activities. There are also the high net worth individuals with ample liquidity whom we can expect to join the pool of investors to drive IPO activity in 2016.” Deloitte trend analysis over the past four years also suggest that the number of IPOs in the second half of the year are far more optimistic, sometimes more than doubled that of the first half, going against the conventional wisdom of market sentiments.

**Regulatory factors**

While REITs will likely continue to provide fuel to the Singapore IPO market, there are a number of factors, many of them regulatory, that might sway the market’s near-term outlook. One possible factor enabling more listings is the new Industry Transformation Programme which will allot S$4.5 billion to help enterprises and industries create new value and drive growth, as well as to transform through innovation. This amount is on top of the existing resources made available to already via the R&D and the National Productivity Fund. There is also optimism behind SGX’s ongoing exclusive talks to acquire The Baltic Exchange. If successful, the acquisition could complement the exchange’s iron ore swaps and futures business, lend weight to SGX’s commodities products business and open up doors for future listings from this sector, according to Deloitte Singapore.

**Companies that fail to comply could be delisted or be transferred to the Catalist board where there is no MTP requirement.**

**Average deal size of new listings (Jun-July) - Excluding IPO candidates that raised funds of more than HK$10billion**

**Source:** PwC