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## When IPO market sours, even early investors lose out

Goh Eng Yeow, Markets Correspondent

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Firms' pre-listing shareholders see paper gains eaten up as share prices slump  
THE market has become so bearish that it is hurting even the one group of investors that had seemed bullet-proof.

Pre-IPO investors - those who buy into firms that are about to list - are starting to suffer losses because some new listings have plunged way below their initial public offering (IPO) issue prices.

These investors used to have it their way in the bull market of recent years.

Even if a new firm dipped a little below its listing price, these pre-IPO investors were well-covered, as the price they paid for their shares was usually at a steep discount to the IPO price.

Some IPOs, however, are bombing so badly these days that they are taking with them the paper profits of pre-IPO investors, which range from private equity funds linked to banks to savvy individuals.

Their problems are compounded by legal obligations that compel them to keep their shares under lock-up for six months after a listing. This means they cannot sell their shares immediately to cut losses in a plunging market.

The risks can be seen in a recent listing - Dynamic Colours, a maker of compounded resins and packaging materials.

The company attracted three funds - Seavi Advent, Fortis Private Equity and Shun Hing Private Equity - as shareholders before its November listing.

The three paid 19 cents apiece for their shares and agreed to a lock-up after the offering. Dynamic Colours listed at 21.5 cents but has since fallen 49 per cent to close at 11 cents last Friday.

Some pre-IPO investors, however, have managed to lower their risk exposure by undertaking what are called vendor sales before the listing.

This involves selling their shares to the investing public during the IPO stage.

Take China handset designer Z-Obee Holdings, for example, which debuted in November. Its shares have fallen from their IPO price of 34 cents to 13 cents.

Pre-IPO investors, which included OCBC Capital Investment, had taken up a 13.9 per cent stake in the firm. This followed the conversion of a \$13 million loan into stocks, putting the cost of the investment at 22.9 cents a share.

They may have escaped part of the carnage, though, as they sold about 21 million shares at 34 cents apiece as part of a vendor sale during the IPO exercise.

Another example is Changtian Plastic & Chemical, which is trading at less than half its 47 cent IPO issue price, closing one cent up at 22.5 cents last Friday.

Among its pre-IPO investors was a fund linked to a pair of UOB Kay Hian trading representatives, Mr David Loh and Mr Han Seng Juan. They are well-known for making shrewd investments in firms like Synear Food Holdings, whose share price soared after they were listed.

A check with Changtian's IPO prospectus showed that the pre-IPO investors' costs worked out to 22 cents apiece, after converting an US\$18.5 million (S\$25.6 million) loan they made to the company into 116.65 million shares.

These investors, however, were left with only 40 million shares after the IPO, as they had already unloaded the bulk of them during the offering.

Still, despite the gloomy market sentiment, investors who assess a company's potential correctly could still make it big.

One good example is rig equipment supplier **KTL Global**. Two pre-IPO investors - investment holding firms Legacy and Seahaven - paid \$4.69 million for 32 million shares, which worked out to 14.7 cents per share.

With **KTL** closing 1.5 cents up at 44.5 cents on Friday, the two investors have earned a stunning 202 per cent return on their original investment.

engyeow@sph.com.sg