

Stock exchange expects resurgence of listings

By KRIS HALL - The Dominion Post | Saturday, 24 January 2009

Tougher access to credit will encourage more Kiwi companies to list, says stock exchange operator NZX, with the focus firmly on raising equity and not debt.

In 2008, just over \$3 billion of capital was raised in new and existing debt and equity through NZX, compared with \$5.5 billion in 2007, a record year.

But with credit hard to come by from traditional sources such as banks, the bulk of corporate capital growth has been funded through issuances of primary debt, NZX products group manager Geoff Brown said.

"If we go back in time, one of the natural advantages the exchange had relative to private equity was to say the market will give you better valuations," he said.

"Then, with a period from 2003 on where access to debt was much easier and cheaper, private equity players were more aggressive in what they paid.

"Now we've gone back to a situation where that access to capital for private equity firms is much harder to get, therefore the pendulum has swung back in terms of public markets versus private equity."

According to Mr Brown, private equity will no longer be able to sell on the greater fool theory and faces having to exit in order to get cash. "Some of those companies are hurting really quite badly," he said.

In addition, a lot of mid-sized companies now viewed sharemarket valuations as more competitive with private equity than in recent years. Businesses looking to grow would need to raise equity now that banks had tightened up on credit.

"As the year goes on, you might expect to see an environment which is a bit more conducive to those wishing to enter the equity market as initial public offerings," he said.

Last year, just two companies listed: troubled consumer finance firm Geneva Finance, in July, and Cooks Food Group, in October. The market's 162 listings are over-shadowed by New Zealand's private sector, which boasts more than 1500 companies with revenues of \$25 million or more.

Auckland's Orion Health is one example of a private firm with no immediate intention of listing to increase its capital base. Its chief executive, Ian McCrae, says the sharemarket is good for nothing but "reporting headaches and share price pain".

Rather than follow listed technology players Rakon and Fisher & Paykel Healthcare, Mr McCrae said healthcare software company Orion had nothing to gain by listing.

"I have been told listing is a good idea, but I have yet to discover why," he said.

"We don't need to raise money so why do it? We've been able to grow, sometimes 30-40 per cent a year, well enough without it, so why suddenly change now?"

Grant Williamson of brokerage firm Hamilton Hinden Greene said it was disappointing that Kiwi-made success stories shunned the New Zealand market which "desperately needs new blood".

"It's a real shame when companies decide to remain private. Not only does [listing] offer up opportunities to raise capital, but it's also very important for investors of a company to be able to buy and sell shares," he said.

"But you can understand companies not wanting to list, especially if they already have capital at their disposal. Quite often companies don't want to comply with the regulations that come with being listed and that is quite understandable because they can be time-consuming and expensive."

Despite credit being tight, some private equity players remained well positioned, Direct Capital investment director Gavin Lonergan said.

"Absolutely, there's been a shift back from debt to equity, but equity is what we do," he said. "Private equity is typically linked to the very large buyout market with heavily leveraged transactions.

"That part of the market is really difficult right now, but that's not really the New Zealand market. New Zealand is the mid-market companies valued between \$20 million and \$150 million. The frothiness that came out of the market between 2004 and 2007 has come back."