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Small Talk: IPO recovery in doubt after sluggish start to the year

By Nikhil Tahir
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Even the most seasoned investors have had a tough time reading market trends in recent weeks. First, the picture was clouded by the turmoil in the Middle East and North Africa, which left investors struggling to keep up with the changes wrought by a sudden spurt of mass protests against authoritarian regimes; then, just as they were making sense of the geopolitical issues, the devastating and tragic earthquake and tsunami struck Japan.

This backdrop goes some way in explaining the results of the latest listings survey from PricewaterhouseCoopers, which shows that the first three months of the year proved disappointing for initial public offerings on European exchanges. Deal values slipped by a massive 71 per cent when compared to the final three months of 2010, while the number of floats fell by nearly 30 per cent.

In all, 94 floats were completed in Europe in the first quarter, raising just under €3bn (£2.6bn). That compares with 129 listings in the fourth quarter of last year, when floats saw companies raising more than €10bn. London can take solace from the fact that it continued to host the lion's share of listings, boasting 61 per cent of the IPO offering value across Europe, but the near-term outlook is complicated by the extended break between Easter and the royal wedding, which PwC said was likely to prolong the slump in activity.

For those contemplating an offering in coming months, the report also warns that investors were "proving uncompromising on their pricing expectations". "It's a bitter pill to swallow for companies to be told that the value of their business has fallen dramatically from their initial valuation," Richard Weaver, a partner at PwC, said. "Investors are currently so wary that the price they are prepared to pay often doesn't come close to matching sellers' expectations. Those companies who are taking the plunge in the coming weeks will be acutely aware of this."

Sector wise, industrial goods and services companies led the way with 18 listings, higher than the levels seen in the first quarter of 2010, but well below the 21 offerings in the final three months of last year. Thirteen investment companies took the plunge, which once again marked an improvement in year-on-year terms, but was down on the quarter. Oil and gas fared better both in annual and quarterly terms with eight listings over the first three months of the year – something that might well have been helped by the high oil price environment.

Mr Weaver said that while the fourth quarter of last year "seemed to promise a return to health ... current market conditions are significantly more uncertain against a backdrop of challenging worldwide political and economic conditions".

In terms of value, the top five listings in Europe accounted for two-thirds of the value raised over the first quarter, according to PwC, with three of the top five opting for London. But that was then. What happens next?

"Market conditions are still difficult, but the IPO window remains open," Mr Weaver said, striking a hopeful note. "April and May are traditionally two of the busiest months in the IPO calendar but lingering volatility, coupled with the prolonged holiday period, leaves companies with a tough decision to make."

"They must either commit now, or postpone to a later date, hoping that investors will return to the market after the royal wedding flush with renewed enthusiasm."

Squarestone's Golden project

Despite being the "B" in the Bric grouping of fastest-growing economies, Brazil is often overlooked in favour of Russia, India and, most often, China. But the South American giant still offers lucrative investment opportunities and Squarestone Brazil is among the companies looking to tap into that wealth.

In particular, the AIM-listed real estate development and investment group has its sights set on the Brazi's fast-growing retail sector.

Robert Sloss, the company's executive managing director, highlighted the opportunity by pointing out that the Brazilian middle class now makes up well over half of the total population of around 200 million people.

Squarestone's latest project is the Golden Square mall, which is being developed in the Sao Paulo suburb of Sao Bernardo do Campo, which has a population of over 80,000 people. The development is slated to throw open its doors by the third quarter of next year. To that end, last week saw the company announce funding arrangements to take Golden Square to completion, with Squarestone signing agreements with a leading Brazilian investment bank, believed to be BTG Pactual, and a US private equity group, believed to be Walton Street Capital.

The two have committed R$192.5m (£75m) through a convertible bond to help Squarestone– which made its market debut last April – acquire the 50 per cent it does not already own of the project, and give it firepower to finish it by next year. BTG and Walton also bring experience with big deals, with the former, in particular, bringing substantial knowledge and experience about business in South America. The mall, which is Squarestone's second development after the Bonsucesso Mall in Sao Paulo's Guarulhos suburb, is being readied to meet international standards, with the company aiming to host both domestic and international retailers under one roof.

The funding arrangements with BTG and Walton Street also contain an option for the joint development of at least three additional shopping malls in the country, giving investors some clarity about the future pipeline, which should go down well with the market.

"We believe that these developments will help us deliver on our strategy and ambitions to be a leading developer and manager of Brazilian shopping malls and, together, we now represent a significant force in this space," James Morse, Squarestone Brazil's chief executive, said at the time of the announcement last week.