

Resources

Commodity strength buoys IPO hopes

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The sluggish initial public offering market could be poised for a turnaround. Corporate advisers anticipate a sharp pick-up in interest for floats from resource juniors before the end of the year.

Sentiment towards new listings has been buoyed by the decent price performance of the latest floats as risk appetite returned to the market over the past few weeks together with hopes for a rally in prices going into the end of the calendar year.

Seven out of the top 10 IPOs this calendar year are of companies directly linked to the commodities boom and investors who put money into these new stocks would be sitting on returns of more than 70 per cent.

Junior explorers Ventnor Resources and Navarre Minerals are the best two IPOs for the year as their share prices have about doubled from their IPO price, while mining engineering contractors GR Engineering Services holds the third spot with a total return of about 93 per cent.

Today's listing of gold explorer Volta Mining will be keenly watched as its success or failure is likely to have an influence on the demand for new floats.

"There's certainly been an upswing in the last quarter," said the director of HLB Mann Judd Corporate Finance, Geoff Webster.

"I think that's due to the time of year – this is always a good time for IPOs as we head towards Christmas, for some reason – and believe it or not I think people are getting sick of all the bad news and they just want to get on with business."

The seasonality of the IPO market could be linked to the traditional year-end rally that frequently occurs around the holiday period and many resource juniors have exploration timetables that restrict the time they have to raise capital.

There have been 88 new floats so far this calendar year and 80 per cent of these listings are in the basic materials space, according to Bloomberg data.

Another 27 companies have announced their intention to list since July, and this means the number of IPOs in 2011 could easily rise above the 97 new listings achieved the year before.

Further, it isn't only home-grown companies that are keen on seeking access to Australian capital. Autus Capital managing director Troy Graham is helping two Canadian companies, Nechako Minerals and Copper Point, list in Australia and he believes there is strong interest from Canadian explorers to tap into our market.

"There is always going to be appetite for speculative resource companies down here regardless of what the market is like," Mr Graham said. "The appetite for the juniors is stronger here than up in Canada."

But the sustainability of the recovery in the Australian IPO market is still under a cloud as it is far from functioning normally and remains disjointed.

While resource and resource-related companies have a relatively easy time drumming up interest in their floats, those from other parts of the economy are struggling to gain traction. The trade sale of sports retailer Rebel Group to Super Retail Group this week is probably a reflection of the lack of market appetite for such companies.

The overwhelmingly disproportionate number of floats from the resources sector and the volatile market are also having an impact on the amount of money each company can raise. The average deal size in 2011 has collapsed to just \$12.7 million compared with last year's average of \$71.3 million.

Mr Webster also noted that the pricing of IPOs is about 20 per cent below the historical average and that the vast majority of new floats are not underwritten.

Whatever floats your boat

Performance of resource IPOs YTD

	Trading date	IPO price (\$)	Amount raised (\$m)	Total return from IPO price (%)	Underwritten
Ventnor Resources	24/02/11	0.20	6.00	102.5	No
Navarre Minerals	31/03/11	0.20	3.34	96.4	No
GR Engineering Services	19/04/11	1.00	30.00	92.5	Yes
Dicker Data	24/01/11	0.20	1.00	88.3	Yes
Algae.Tec	13/01/11	0.20	4.46	85.0	No
Ezeatm	7/10/11	0.20	3.50	75.0	No
Red October Resources	9/05/11	0.20	3.50	75.0	n/a
MRG Metals	8/06/11	0.20	2.00	50.0	No
Kidman Resources	18/01/11	0.20	4.00	50.0	No
International Coal	28/07/11	0.20	9.00	47.5	No

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