

Companies and finance

Primary equity market - Volumes down sharply in the first half (Translated by Crédit Agricole CIB)

Against the backdrop of a weak recovery in mergers and acquisitions, the proportion of share issues in first-half primary equity market volumes was down sharply. IPOs now account for a quarter of the activity but continue to be based on windows of opportunity.

"We expected more IPOs and refinancing transactions linked to mergers and acquisitions in the first half," says Jean-Michel Berling, head of the primary equity market activity at Crédit Agricole CIB. In effect the market featured volumes down sharply compared with the previous year. In Europe, volumes recorded on the equity and equity-linked markets reached EUR 45 billion by mid-June compared with EUR 128 billion for the same period in 2009 and EUR 233 billion for the full year, according to Société Générale estimates. More specifically, French companies currently account for just 5% of European volumes compared with 18% in the first half of 2009. There have been several noteworthy trends since the start of the year. "Whereas financial institutions generated more than half of the business last year as most of them sought to rapidly pay back government aid, they have accounted for only a quarter of the activity since the start of this year," notes Laurent Morel, head of the primary equity market activity at Société Générale. In addition to clear changes in the split between financial institutions and corporates, there have been many changes in the nature of transactions.

2009 was marked by sustained activity in the share issue and convertible bond segments which have been much less dynamic this year. "In 2009 all share issues were linked to the crisis and the need for companies to strengthen their balance sheets. This was notably the case in France with the Saint-Gobain, Lafarge and Pernod Ricard share issues," explains Laurent Morel. "We are seeing considerably fewer transaction of this type this year. Given the balance sheet strengthening transactions already completed, the raising of significant funds on the bond market last year, the recovery in banking syndication and the improved economic environment, despite the tensions seen over the last two months, companies currently have cash reserves and are more sound." Bankers were hoping that a recovery in mergers and acquisitions would drive business. "However, the M&A market has not been very active in Europe," stresses Thierry Olive, head of Corporate Finance Europe at BNP Paribas. "Share issues related to demands for restructuring balance sheets were not followed by a recovery in mergers and acquisitions as had been expected. However, companies are increasingly reviewing acquisition opportunities and we are relatively optimistic with regard to the second half." Notably transactions could still be carried out, especially in the mining and metals sectors as well as in insurance.

IPOs: selective investments

Turning to convertible bonds, after some 20 transactions in the first quarter, in particular Gecina's issue of EUR 320 million of convertible bonds at the end of March, French corporates activity was penalized by the sovereign debt crisis. The increase in equity market volatility combined with the widening of credit spreads to make conditions for issuance difficult and all the more so in that the usual players in this market are most often of non-investment grade quality. The Crossover index thus rose to more than 600 bp at the crisis's peak compared with 400 bp in April, and is currently hovering at around 500 bp. Bankers expect a recovery in the activity if the markets continue to stabilize. The Swiss real estate company Mobimo carried out a small and domestically-focused transaction on June 16. While this issue did not really open up the market, it drew attention following the two-month freeze in activity.

In the face of the decline in volumes in the share issue and convertible bond segments, initial public offerings have picked up. In the first half, IPOs accounted for a quarter of total volumes whereas there had been no such transactions in the same period in 2009. "The IPO market has opened back up but

remains a market based on windows of opportunity,” warns Thierry Olive. The most significant transactions for the half year included the IPOs by Poland’s PZU, Rusal, Amadeus, Kabel Deutschland and Brenntag. In France, there was only one IPO of significant size, that of Medica in February for EUR 314 million whose price was cut. Moreover that was not an exception. Of the some 20 IPOs worth more than EUR 100 million since the start of the year in Europe, none came out at the top of their initial bracket. Only six were priced mid-bracket while all of the others came out at the lower end of the bracket, or even less. “Investors are being selective,” explains Xavier Larnaudie, co-head of equity syndication at CA-CIB. “They prefer candidates which offer liquidity, present a resilient business model and which should therefore allow them to rapidly record positive performances.” Meanwhile, numerous companies have chosen to postpone their IPOs. This was the case with Fideuram last week in Italy, Renovalia in Spain and Merlin Entertainments and Travelport in the United Kingdom. “More than 20 IPOs have been postponed until the second half, while in addition there are another 20 scheduled,” stresses Laurent Morel. In France, several IPOs have been discussed, in particular those of Lucien Barrière, Veolia Environnement’s transport division and Accor’s service division. ■

Angèle Pellicier

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