

Malaysia – the next top IPO destination

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Malaysia is now the next top initial public offerings (IPO) destination, after making headlines worldwide with the listing of Felda Global Venture Holdings Berhad (FGVH) on June 28th, 2012 in the Main Market of Bursa Malaysia and the upcoming listing of IHH Healthcare Berhad (IHH), tentatively to be on July 25th, 2012. The listing of these two companies mark the world's biggest IPOs after Facebook. FGVH is the third largest oil palm plantation operator in the world based on planted hectareage in 2011, and IHH, one of the largest listed private healthcare providers in the world based on market capitalisation upon listing.

Other major listings in the Main Market of Bursa Malaysia for 2012 were the listing of Gas Malaysia Berhad and SapuraKencana Petroleum Berhad, pursuant to the merger exercise of Sapura Crest Petroleum Berhad and Kencana Petroleum Berhad.

Some analysts have remarked that the IPO boom in Malaysia is due to several factors, i.e., a resilient financial performance, the support of local investors, a large domestic pension fund system and ample liquidity, as well as a low interest rate environment with lower borrowing costs which encourages the raising of capital through the debt market.

Apart from the above, the Government's efforts to liberalise the economy by removing strict regulations and legislation on local and foreign participation may have also played a vital role in the IPO boom. The Malaysian capital market today features a sound regulatory framework that is geared for efficient access to capital and investment, while at the same time, providing robust protection for investors.

In fact, mega IPOs like FGVH and IHH, with strong fundamentals and significant interest from foreign funds entering the market, are timed well to attract funds looking for investment opportunities and a safe haven in which to rebalance their portfolios.

In determining a company's suitability for an IPO, there are two benchmarks outlined by "A Practical Guide to Listing on Bursa Malaysia by Bursa Malaysia Berhad (Bursa Malaysia) and the Malaysian Investment Banking Association (MIBA)" in which the company will be assessed, namely:

1. Regulatory benchmark – The regulatory benchmark is a prescribed set of rules under the Securities Commission Malaysia's Equity Guidelines and Bursa Malaysia's Listing Requirements. Before considering an IPO, one must first determine whether the

company is suited for a Main Market listing or an ACE Market listing and the factors considered in assessing a listing application.

Main Market listing: this market is for established companies with the following attributes:

- i) An identifiable core business
- ii) A good management team
- iii) No conflicts of interest
- iv) Strong business prospects:
- v) A healthy financial position
- vi) Good corporate governance

ACE Market listing: this market is an alternative sponsor-driven market designed for companies of all business sectors that have excellent growth potential with the following attributes:

- i) Visible growth prospects
- ii) Capable directors and management team
- iii) A commitment to compliance with the relevant rules and regulations.
- iv) Responsible directors
- v) Internal control and risk management systems in place
- vi) Good corporate governance and no conflicts of interest

Companies listed on the ACE Market may subsequently apply for a transfer to the Main Market provided they meet the profit track record required for the Main Market.

2. Market benchmark – The market benchmark has no prescribed set of rules and is purely market driven. These attributes include:

- i) the company's financial performance when compared to other companies of similar business and operations;
- ii) the track record of promoters, directors and management of the company;
- iii) the company's stage of development vis-à-vis its industry's business cycle; and
- iv) the company's position in the industry vis-à-vis the company's competitors (market share).

Azmi & Associates' Capital & Debt Markets Practice possesses a depth of experience advising on various assignments involving IPO exercises, advisory, due diligence and compliance for Bursa Malaysia's Listing Requirements.

Azmi & Associates acted as Malaysian co-counsels along with Albar & Partners, Cleary Gottlieb Steen & Hamilton LLP on US and UK law for the listing for FGVH.

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