Capital Markets Q&A

Business continues to look strong in the coming year for


Loo Choon Chiaw

ALB: There has been much global focus on the boom in IPO activity on the HKEX and also on the Asian economies driving the global economy out of the recession. Have you noticed an increase in market confidence in Singapore?
Loo Choon Chiaw: I am not an expert on Hong Kong IPOs nor a trained economist. However, from what I have read from the financial press, Hong Kong IPO market has indeed been doing rather well. There was a total of 69 IPOs in 2009, which has raised an aggregate sum of HKD240 billion. According to forecasts, the number of IPOs on the HKEX will reach 60, with a total of HKD300 billion to be raised this year. As a matter of causal connection, the Asian (including Hong Kong) IPO markets have been improving because their economies have already seen the light at the end of the tunnel, and not the other way around.

Market confidence has certainly returned across the globe, including Singapore. In its World Economic Outlook released in January this year, the IMF has projected world growth to be 3% this year, as compared to a negative 2.1% in 2009.

At the peak of the Global Financial Crisis ("GFC"), the worst and most wide-spread recession the world has ever witnessed in over 60 years, Singapore's GDP contracted by 10%. Barring another unforeseen major financial crisis, Singapore's economy is expected to grow by around 4.5% to 6.5% this year. The benchmark Straits Times Index has risen to a high of 2,988 points on 7 April 2010 from a low of around 1700 points in 4Q of 2008. These numbers speak for themselves.

ALB: Did the Singapore Government introduce any new measure to boost the economy and improve market confidence?
LCC: On 22 February 2010, Singapore's Finance Minister, in the course of his Budget speech, unveiled a wide range of tax incentives primarily designed to achieve a sustainable economic growth for Singapore. Those incentives attempt to: (1) induce local business enterprises to raise their productivity, and (2) facilitate the growth of more globally competitive Singapore businesses. Two incentives are germane to our present discussions: (1) a new Merger and Acquisition ("M&A") allowance ("M&A allowance") equals to 5% of the value of acquisition, capped at a maximum sum of SGD5 million in a single year of assessment, to encourage enterprise growth via the M&A route. In connection therewith, the stamp duties otherwise payable on the transfer of unlisted shares for such M&As shall also be waived, and (2) an angel tax deduction ("Angel incentive") to be made available to an eligible angel investor, who invests a minimum sum of SGD100,000 of equity investment in a qualifying start-up. The angel investor can claim 50% tax deduction on his investment at the end of a two-year holding period, capped at a maximum sum of SGD500,000 of investments in each year of assessment.

The M&A allowance will go some way in shortening the growth path of quality and well-managed businesses, when they acquire the technologies, talents and business operations of badly managed businesses via M&As, as opposed to the good old gradual organic growth path. The Angel incentive addresses the funding needs of start-ups at the early (and crucial) stage of their growth. This incentive acknowledges the higher risk which is assumed by angel investors in funding start-ups and will encourage well-known and experienced investors to fund, mentor and add value to start-ups.

Although the whole range of incentives unveiled by the Finance Minister was targeting at achieving a long term economic growth for Singapore, it has nevertheless signaled to the market the Singapore Government's support for capital markets activity. This surely helps in boosting confidence in the capital markets.

ALB: Has there been an increase in capital markets activity in Singapore?
LCC: Yes. There has been a notable increase in capital markets activity since 2H 09. Growth in the financial services sector contracted by 8.1% in 4Q 08. In contrast, it grew by 11% in 4Q 09. SGX has been kept busy with listing applications. CapitaMalls Asia was listed on SGX-ST in November 2009, which raised SGD2.8 billion. Tiger Airway was listed in January this year, which raised SGD247.7 million. Minzhong, a PRC vegetable processor has just launched its SGD237 million IPO yesterday, making it the

Singapore's specialist corporate finance firm

largest PRC-linked IPO in Singapore since the GFC. From January to April this year, there have been a total of 11 companies listed on SGX-ST. In the light of the number of preliminary prospectuses lodged to date, there should be a resurgence of IPO activities this year.

ALB: As a specialist corporate finance practice, does your firm experience any influx of new cases?
LCC: We are lucky to have been receiving increasing instructions because of the improvement in market sentiments and increase in capital markets activity in general. We are surely not alone on this. I understand that most of my colleagues from the other specialist corporate finance practices have likewise been inundated with new instructions and enquiries.

ALB: What kinds of clients are you currently acting for?
LCC: Our regular institutional clientele includes MNCs, local listed corporations, SMEs, IPO aspirants, foreign central banks, domestic and international banks and financial institutions, financial intermediaries, Chinese (PRC) and Taiwanese (ROC) government-linked corporations and foreign legal firms.

ALB: In a post-GFC climate, what kinds of issues are concerning your clients most with respect to capital markets transactions?
LCC: The GFC has permanently altered consumer, investment and regulatory behaviours. There have been a 'resetting' of mindsets, business models and practices by all concerned. For those of our clients who have been adversely affected by the GFC, they will need time to recover from their wounds. For others who have not been so affected, it will be the time for them to seize the opportunities presented by the economic recovery.

As the GFC is still relatively fresh in the minds of our clients, 'counter-parties' risk has been an important issue featured in most cross-border transactions. Most clients insist on settlements being effected via central clearing mechanisms.

Unlike previous transactions involving distressed assets, where parties had to work under extreme time constraint and bear with accelerated due diligence process, recent transactions witness the lengthening of deal preparations. There are more comprehensive financial, operational and legal due diligence. Even clients who used to view due diligence process as a mere box-ticking formality are beginning to be more serious about the due diligence process.

Despite the apparent liquidity prevailing in the money market, it will take some time for the financial institutions to be more relaxed on their lending policy and undertake higher credit risks associated with capital markets transactions, as they did during the pre-GFC days. Further, notwithstanding the apparent liquidity in the money market, funding costs for capital market transactions are still kept rather high. On a separate but related note, clients who need external funding to consummate the transactions are finding it difficult, unlike the GFC days, to make transactions conditional upon their successful procurement of the requisite funding.

ALB: Has there been a change in the instructions flowing into your practice, and what type of cases are you currently acting for?
LCC: There has been a change indeed. During the GFC days, we were advising on transactions involving sale or purchase of distressed assets, credit defaults, restructuring and insolvency. Many of our clients' IPO cases were then shelved.

The situation is very different now. Distressed assets transactions have stopped. Credit defaults, restructuring and insolvency cases have dwindled. In lieu thereof, many of our clients' IPO cases, which were shelved during the GFC, have been reactivated. We have just lodged a prospectus relating to the IPO of a PRC-linked group, dealing with environmental protection business. We are executing several new Singapore IPO cases, for local, PRC-linked, Russian-linked, Korean-linked and Taiwan-linked groups respectively; a handful of Taiwanese IPOs for local and Malaysian entities; several Taiwan Depository Receipt (TDR) applications for local listed companies; a couple of RTOs and delisting applications in relation to local listed companies; and a handful of energy and resources ("E&R") acquisitions in inner-Mongolia, Indonesia and Russia. There has also been an increase in instructions for Post-IPO support work, for instance, corporate governance and compliance matters.

ALB 8: I understand that you have been keeping an impossible travel schedule. With such a good head start this year, don't you think it is time for you to take a breather?
LCC: Admittedly, things are looking good at the moment. However, this day and age, nothing is really certain but death and taxes. Who would have expected Dubai World, a government owned conglomerate, to rock the global financial world with its bomb shell on 23 November last year? Or Greece to be in financial crisis prior to the dramatic admission by its Prime Minister in December last year?

As a firm, we are always vigilant and on our guard, in good times or bad. All our colleagues and I believe that in maintaining a quality law practice, there is no substitute for hard work. I am constantly reminded of the saying 'diligence is the mother of good luck', which my secondary school teacher has drilled into the heads of all his students.

Loo & partners LLP
俊 昭 法 律 事 務 所

Loo & Partners LLP
88 Amoy Street
Level Three
Singapore 069907

Tel : (65) 6322-2288
Fax : (65) 6534-0833
Email : ccloo@loopartners.com.sg
Website: www.loopartners.com.sg