Pipeline of green energy and tech IPOs builds up

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The mainland's technology and alternative energy sectors are likely to be the source of more initial public offerings this year, but not on last year's giant scale, analysts predict.

The US$1.5 billion listing last year of mainland e-commerce group **Alibaba.com** (SEHK: 1688, announcements, news) was the largest internet share sale since Google, and Giant Interactive's US$1 billion offering in New York was the city's biggest from a Chinese company last year.

More deals may come from mainland technology and energy plays but not on this scale, said analysts.

"While there are a lot of high-growth companies waiting to be listed, I do not see any as large as Alibaba or Giant in the sectors I cover," said JP Morgan internet analyst Dick Wei.

Alternative energy is another mainland sector that is yielding hotly sought offerings, though the deals range from US$200 million to US$500 million, rather than in billions of dollars.

Solargiga Energy Holdings, a solar panel component maker, is raising US$300 million in Hong Kong. The offering will be launched on January 21 and trading is expected to start on February 1.

Other mainland offerings in the pipeline include CTV Goldenbridge International Advertising's US$200 million deal, and an online gaming company, **Shenzhen** Domain Network, that plans to raise US$300 million in New York, sources say.

Time Share Advertising & Communications, a **Beijing** outdoor media firm partly owned by US private equity fund Carlyle Group, plans to raise up to US$150 million in the United States, and Beijing Novel-Tongfang Information Engineer, a digital television device maker partly held by Tsinghua University, plans to raise as much as US$400 million in an offering on the New York Stock Exchange.

Jiangsu Shunda Group and rival Asia Silicon, two mainland suppliers of silicon for solar energy equipment makers, plan to raise between US$200 million and US$300 million in Hong Kong or New York.

SouFun Holding, a property website, seeks to raise about US$500 million and Taiwan's fabless chipmaker MStar Semiconductor targets US$500 million.

Baidu.com, the mainland's biggest internet search engine, may seek a Hong Kong listing as it steps up competition with Alibaba Group in the online auction market.

Meanwhile, Alibaba's recent management revamp was seen by analysts as a sign of possible new spin-offs, either as separate listings or asset injections into Alibaba.com, the Hong Kong-listed unit, said Mr Wei.

The US market historically drew most of the Chinese high-profile technology firms for listing.

"If you have a sexy story to sell, such as high growth and high margins, you would go for the US market," said Mr Wei.

Last year, mainland companies raised US$4.93 billion from 18 offerings on the NYSE and US$1.89 billion from 11 deals on the Nasdaq for a total of US$6.82 billion, a sixfold leap from the US$1.08 billion raised in 2006, Dealogic said. Most were technology or media-related offerings. Not all have delivered sterling returns to investors. Shares of online game provider Giant are now 19 per cent off their listing price on the NYSE.

"Giant's margins are seen as high in its industry. Investors are worried it will have more downside risk than upside potential," said Mr Wei.

The outperformers include market debutants such as LDK Solar, which makes solar wafers. The firm raised US$486 million in May last year, the second-largest China deal for the year. Its shares have since leapt 62 per cent.

But the newcomers have also not been without scandal.

On the Nasdaq, last year's largest deal came from Xinhua Finance, which raised US$300 million in March. Its shares have since dropped 58 per cent since and shareholder Israel Bollag sued the company in May, saying it had failed to disclose that one of its executives worked for one of the brokers arranging the sale.

Merrill Lynch climbed atop the league table for China offerings on either the NYSE or Nasdaq last year, with US$1.59 billion raised in 10 deals, followed by UBS with US$1.41 billion from seven deals and Morgan Stanley with US$880 million from six, Dealogic said.

Better valuations were one reason for the preference for a US listing. "Valuations can be achieved in the US market for Chinese firms that are at a premium to global comparables given the right growth sectors," said Jason Cox, co-head of Asia Equity Capital Markets at Merrill Lynch.

With the help of good analyst coverage, investors in the US can understand and appreciate the value of high-growth mainland firms.

"Recent deals highlight the ability of a sophisticated US investor base to understand and evaluate companies with specific industry expertise or direct US comparables, even in the current markets," Mr Cox said.

"In return, investors gain exposure to a US-listed entity that offers both a play on China's phenomenal growth and on the growth of specific sectors, be it technology, consumer spending or lifestyle changes."

US funds, meanwhile, are paying more attention to China as growth in their domestic market shrivels.

"Demand from US domestic funds has grown significantly" noted Mr Cox. "Recent transactions have generated multibillion dollars in demand, of which about two-thirds in some cases are in the US market, indicating US funds are seeking access to the China growth story."

Mr Cox said the US listing option would continue to lure select mainland firms with a growing, increasingly liquid institutional market that would support further equity issues from proven firms.

But with Alibaba.com's listing last year, Hong Kong as another option for listing-bound mainland technology plays has become more appealing. "Many US investors have set up offices in Hong Kong. There were many new hires to provide the analyst coverage. The valuation gap is diminishing," said Mr Wei.

Moreover, compliance with the Sarbanes-Oxley Act could be expensive for a small mainland firm listed in the US, and there was less of a language barrier in Hong Kong, he said.

Mainland online game companies Kingsoft (SEHK: 3888) Corp and NetDragon Websoft (SEHK: 8288) also listed in Hong Kong last year, raising HK$768 million and HK$1.42 billion, respectively.

Mr Cox notes that the relative importance of Europe has diminished.

"Issuers and arrangers are able to harness important new pools of demand such as the Middle East as well, and accordingly the historic importance of the European investor to emerging market issues and to China has moderated," he said.

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