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Views from the
Japan Equities Small Cap Desk

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'…the number of IPOs is likely to increase to 23 this month compared to 19 last December"

How to get through the December IPO rush?

The busiest time of year has come around again. As I'd written in this column last year, I am busy as a bee in late November. I have to cover not only a flood of earnings reports for the first-half of the fiscal year (ending in March) but also cover a string of companies that are aiming for initial public offerings (IPO) by the end of the year. I have complained about this phenomenon - a concentration of IPOs in December - to concerned parties from time to time. However, I've not seen any signs of change so far.

▪ Further concentration at year-end

I had assumed that an increasing number of companies would delay their IPO plans this year due to the slowdown in the economy. But on the contrary, the number of IPOs is likely to increase to 23 this month, by comparison there were 19 last December. The number of new issues taking place throughout the year decreased to 87, resulting in an increased level of concentration this month.

As a result, extra tasks such as making IPO-related appointments, collecting and analysing information - although we never know how IPOs play out until companies announce their plans - are falling on me at a peak period in my main job. So, I now find myself in the position of writing this column at dawn in an empty office.

▪ Ominous signs in the IPO market

Let's look into the details. While some issuances certainly lacked in appeal, others couldn't maintain their price level despite having sufficient growth potential as this was already priced in their offer price. For this reason, more recently, there have been cases where the public offering price has been significantly reduced from the expected prospectus price.

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We also found other situations that point to the poor-quality of the market. For example, some IPO stocks closed at the end of day high on the first day but the next day feel far below the bid price of the previous day. Under these circumstances' companies go public at their own peril. So, I feel uneasy if an increasing number of companies are heading for IPOs this year.

“If the IPO market plunges into turmoil, it might be a good chance for long-term investors to buy stocks.”

- **There may be a big opportunity to buy growth stocks**

If the overall market conditions remain strong, the market may be able to absorb all the new issues without any turbulence - considering that those planning on going public are mostly small businesses. In 2018, a listing of SoftBank put a great deal of pressure on the market as this was extraordinary not just in scale but also in its procedures.

This year there were rumours that prominent companies were planning IPOs but these haven’t transpired. There won’t be any ‘major’ deals this year.

If the IPO market plunges into turmoil, it might be a good chance for long-term investors to buy stocks. Don’t be swayed by short term price fluctuations but focus on the stock’s true value before making any investment decisions.

Source: Based on article by Tatsuro NIGAURI, featured in The Nikkei Online Edition on 3 December 2019

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Mr Nigauri has 26 years of investment research which dates back to 1991, when he joined Daiwa Institute of Research as a research analyst. Since 1995, Mr Nigauri has focused his research efforts on expanding his expertise in Japanese small-cap equities.
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