

Hopes high that Prada's IPO will set the style for Hong Kong

News analysis

Dealmakers are insisting that the Italian group could start a trend for the territory, writes **Robert Cookson**

Prada's decision last week to fire the starting gun on an initial public offering in Hong Kong – rather than Milan, London or New York – has created a buzz among dealmakers in the Chinese city.

Bankers are getting excited about the possibility of a wave of similar share sales from other European luxury goods brands such as Hugo Boss and Salvatore Ferragamo.

Some are even daring to dream that Hong Kong will rise to become the premier international listing destination for companies from all over the world, across sectors from mining to financial services.

Indeed, Glencore, the Swiss trading house, and Kazakhmys, Kazakhstan's largest copper miner, are among the groups known to be considering listings in Hong Kong in 2011.

"China will be the new America and Hong Kong/Shanghai will be the new New York," says Stephen Jennings, chief executive of Russia's Renaissance Capital, which last year opened an office in Hong Kong. "The city is fast becoming the capital of global finance."

The question, however, is whether expectations have run ahead of reality.

There is no doubt that Hong Kong's stock market has more than enough

depth to support deals from across the world. Companies raised almost \$58bn through new listings in Hong Kong in 2010, according to Dealogic – more than on any other exchange in the world. Like in previous years, the majority of the new listings were from companies based in the city or on the Chinese mainland.

But there was a notable new trend, which paved the way for Prada's plan. Hong Kong saw its first listings of companies from as far afield as Mongolia, Russia and France: namely Mongolian Mining Corp, Rusal, and L'Occitane.

The trouble is that not all of these pioneering deals have been regarded as a success by investors or dealmakers. Shares in Rusal, for instance, tumbled after its Hong Kong listing and have been thinly traded compared with its peers ever since.

Meanwhile, the Hong Kong-listed shares of Vale, the Brazilian iron ore miner, and Prudential, the UK insurer, have suffered from negligible trading volumes after the companies joined the city's stock market last year without raising any new capital.

The reason Hong Kong dealmakers are so excited about the Prada offering is that they expect it to prove particularly popular with Hong Kong investors and encourage more international companies to follow suit. "A well-known name like Prada will have a much better chance of success than an unknown Russian miner," says Eddie Tam, head of Central Asset Investments, a Hong Kong hedge fund.

According to bankers familiar with the Prada

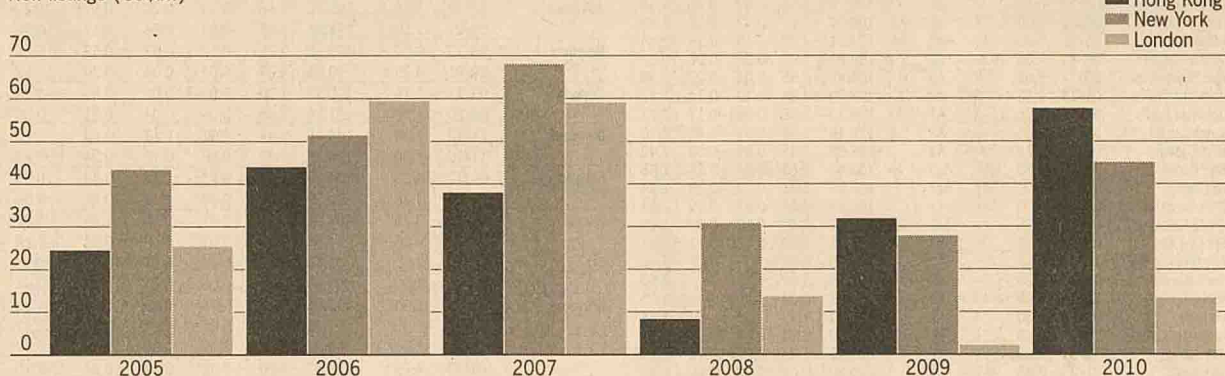


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ImagineChina

In fashion: the growing importance of Hong Kong

New listings (US\$bn)



Source: Dealogic

deal, the company will be able to sell its shares for a higher price in Hong Kong than it could achieve in Milan or London, because Asian investors "get" the story of rapidly-growing consumption of luxury goods in the region. "People out here can see the growth. They can walk out of their offices and see the *tai-tais* dropping hundreds in the shopping malls," says one banker, referring to the free-spending wives of

wealthy Hong Kong men.

However, according to CLSA, the broker, Asian-listed luxury goods companies do not trade at a premium over their European peers; both groups trade, on average, at the same valuation multiple – about 22 times forecast 2011 earnings.

Even so, the omens for simply getting a deal done are good. L'Occitane, the French cosmetics and perfumery company, which

like Prada has a strong brand presence in Asia, raised \$700m in a Hong Kong listing last May. Its shares attracted strong demand from investors and have since surged in value.

Investors say the minimum requirement for a successful IPO in Hong Kong is that a company must derive a significant and fast-rising proportion of sales – or, better, profits – from the region.

"You've got to have a

regionally relevant story," says one investor.

If Prada's listing is a success, it could open the floodgates to many more global companies hungry for capital. Hong Kong dealmakers are putting to the back of their minds the fact that Prada has abandoned several attempted listings in Milan in the past decade, each time citing market volatility.

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