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IRC Shares Slump 8% In Hong Kong Debut

By The Moscow Times

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HONG KONG — Shares of IRC, the iron ore unit of London-listed gold miner Petropavlovsk, slumped 8 percent on their trading debut Thursday, reflecting caution on prospects of Russia-related companies.

IRC, which more than halved the size of its initial public offering to $242 million, is the second Russian-related company to list in Hong Kong, after the world's top aluminum producer United Company RusAl. But shares in RusAl, which raised $2.2 billion in January, dived on their debut and have traded below the IPO price ever since.

Teresa Chow, a fund manager at RBC Investment Management in Hong Kong, said visibility was low for Russian companies' assets and production as the mines are located outside mainland China. The lack of familiarity among Hong Kong investors with the mining industry also played a part, some analysts said.

“People tend to buy in the industries that they understand, and mining companies probably would need a bit more time for investors to get familiar with,” said Alfred Chan, chief dealer at Cheer Pearl Investment.

IRC had initially planned to raise up to $513 million by offering 1.325 billion shares, of which 80.8 percent were to be new shares and the rest secondary shares, at HK$2.20 to HK$3.00 each. Due to poor demand, however, the company did away with the secondary shares and slightly cut the number of new shares on offer and lowered the price to HK$1.80 per share.

Shares of IRC, which operates in the Russian Far East, fell as much as 11 percent from its offering price, before pruning the losses to close down 8 percent at HK$1.65, compared with the Hang Seng Index’s 0.4 percent gain.

The market had expected a weak debut for IRC as there are several IPOs in the market competing for investors.

That includes AIG’s AIA Group, which could raise up to $20.5 billion with upsize and greenshoe options.

IRC’s poor showing compares with Mapletree Industrial Trust, which owns factories and other industrial properties in Singapore, and whose shares ended up about 25 percent on their trading debut on Thursday.

IRC, which sells all its iron ore concentrate and ilmenite to China, will benefit from China’s stimulus package, said chairman Jay Hambro.

“It’s a great positive for companies like us that are feeding the resources necessary for the stimulus,” he said in an interview ahead of the trading debut.

IRC’s mines are close to Russia’s border with China, which allows the company to move its products to customers at much lower costs than its competitors in Australia or Brazil, he added.

IRC had secured two cornerstone investors to subscribe to $60 million worth of IRC shares.

Investors are usually cautious about early-stage resource plays as those companies often suffer losses during the development stage and lack supporting infrastructure or transportation.

“It is difficult to persuade investors to buy a company which is still suffering a loss and future prospects are dependent on variables such as market demand and commodities price,” said Chow of RBC Investment.

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