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**РОЗВИТОК ІРО УКРАЇНСЬКИХ КОМПАНІЙ
В КОНТЕКСТІ ГЛОБАЛІЗАЦІЇ****Стефанишин М.В.***E-mail: L_Lubov@ua.fm**Львівський національний університет імені Івана Франка
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Підвищення конкурентоспроможності українських компаній в умовах глобальної економіки багато в чому залежить від успішного розвитку інвестиційної діяльності, що здійснюється за рахунок інвестиційних ресурсів. Обмеженість вітчизняних інвестиційних ресурсів спонукає компанії до пошуку їх на міжнародних фондових ринках, зокрема через такі фінансові інструменти, як: IPO (initial public offering), PP (private placement). Метою цієї статті є аналіз фінансових інструментів залучення інвестиційних ресурсів провідними українськими компаніями з різних секторів національної економіки України на фондових біржах впродовж 2005-2011рр., а також проведення тестування гіпотези «вікно можливостей». У статті досліджено особливості динаміки первинного публічного розміщення акцій українських компаній, проведені впродовж 2005-2011рр., проаналізовано особливості їх діяльності на основних міжнародних фондових біржах, які були використані для IPO компаніями різних галузей та дали їм найбільшу вигоду. Здійснено аналіз балансів агропромислових компаній за наступні, найближчі роки після первинного публічного розміщення акцій для підтвердження або спростування гіпотези «вікно можливостей». В цілому, за період 2005-2011рр. українські компанії залучили майже вдвічі більше довгострокового капіталу з IPO, ніж з приватних розміщень. В основному вони розмістили свої акції на Лондонській та Варшавській фондових біржах. Компанії агропромислового сектора української економіки залучили близько 1,5 млрд. дол. та були на першому місці з найвищими обсягами залучень в 2007-2008рр. і 2010р. Сільськогосподарський індекс S&P GSCI характеризувався найвищим рівнем в 2008 році, відображаючи сприятливу ситуацію на ринку. Незважаючи на великий обсяг залученого довгострокового капіталу саме в момент сприятливої ситуації на фондовому ринку для агропромислових компаній, гіпотеза «вікно можливостей» не була підтверджена, оскільки після IPO ці компанії показали дуже позитивну динаміку розвитку. Це засвідчує перспективність інвестування в українські агропромислові компанії іноземними інвесторами. Тестування гіпотези «вікно можливостей» на прикладі агропромислових компаній, які здійснили IPO, здійснене вперше в Україні. Результати такого дослідження можуть бути враховані вітчизняними компаніями при подальшому проведенні IPO. Наступні дослідження можна проводити в напрямку покращення інституційного механізму здійснення IPO на фондовому ринку України.

Ключові слова: первинне публічне розміщення акцій (ІРО), приватне розміщення акцій (РР), міжнародні фондові біржі, гіпотеза «вікно можливостей», компанії

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DEVELOPMENT OF UKRAINIAN IPO COMPANIES IN THE CONTEXT OF GLOBALIZATION

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Improving the competitiveness of Ukrainian companies in a global economy depends largely on the success of the investment activities undertaken with the help of investment resources. Limited investment resources on domestic market induce companies to look for them on international stock markets through such financial instruments as: IPO (initial public offering), PP (private placement). The purpose of this article is to analyze the financial instruments for raising financial resources by the main companies from different industries on stock exchanges during the period 2005–2011 years, and also to test the «window of opportunities» hypothesis. Main stock exchanges that were used for IPOs by Ukrainian companies during the period 2005 – 2011 years and the industries that raised the most capital have been analyzed. There has been made the analysis of agro companies' balance sheets in the years following the IPO to confirm or not the «window of opportunity» hypothesis. During that period Ukrainian companies raised almost twice as much with IPOs as with private placements. IPOs were mostly placed on London Stock Exchange and Warsaw Stock Exchange. Agriculture IPOs rose about \$1.5bn capital and was on the first place with the highest peaks in 2007-08 and 2010 years. S&P GSCI Agricultural Index had its best performance in 2008 showing the favorable market situation. Despite the high volume of capital rose during the favorable stock market situation for agro companies, the «window of opportunities» hypothesis was not confirmed as these companies showed positive performance after IPO. This indicates the perspective of investing in Ukrainian agro companies by foreign investors. Testing of «window of opportunity» hypothesis on the agro companies that made IPO has been performed for the first time in Ukraine. The results of this study can be taken into account by domestic companies for future IPOs. Further research could be done in improving of institutional mechanism of conducting IPO on the Ukrainian stock market.

Key words: initial public offering (IPO), private placement (PP), foreign stock exchanges, «window of opportunities» hypothesis, company

Actuality of the issue. Improving the competitiveness of Ukrainian companies in a global economy depends largely on the success of the investment activities undertaken with the help of investment resources. Limited investment resources on domestic market induce companies to look

for them on international stock markets through such financial instruments as: IPO (initial public offering), PP (private placement).

By placing their own shares on the foreign stock exchange, the company has two main advantages – comparably cheaper financial resources, access to a larger number of investors that is offered by the open foreign capital stock market including stock market.

Analysis of the recent research. Theoretical basis of the study of IPO was led by such famous foreign scientists as Ritter J., Welch I., Chemmanur T., Fulghieri P., Pagano M., Panetta F., Zingales L. Problems of IPOs have been also investigated in the works of Burakovsky I., Dyby O., Krupky M., Sutormina V., Shkolnyk I. But at the moment there has not been tested «windows of opportunity» hypothesis on the Ukrainian companies that made IPOs.

The purpose of this article is to highlight both theoretical and practical aspects and results of IPOs of leading Ukrainian companies from different sectors and check the «windows of opportunity» hypothesis that was discovered on the USA IPO market by Ritter (1984) for start-up natural resource firms during the oil and gas boom that took place in 1980.

Main results. The first IPO of Ukrainian companies was made in 2005. While analyzing the IPO activities up to 2011 (Fig. 1), we can see that the highest volume of \$1.2bn was raised in 2007. The years 2008 and 2010 showed also good results mostly due to good favorable development of prices for agriculture and oil commodities during this period.

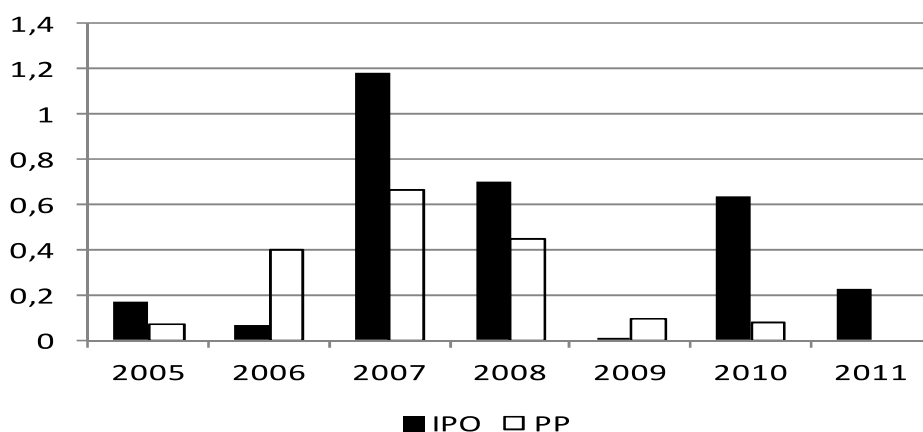


Figure 1. Capital raised by IPOs and PPs, \$bn

Source: calculations based on [1; 9, p.113-114], companies web pages

In total over the period 2005-2011 years there were made 31 initial public offerings and 47 private placements transactions. Private placements have lower requirements, for example, they don't need to have balance sheets prepared according to the International Financial Reporting Standards (IFRS),

transparent company structure. That causes also lower costs for capital raised in comparison to initial public placements. Private placement is more appropriate for small and middle size companies, IPO – for big ones. And in total over the period 2005-2011 years Ukrainian companies raised almost twice as much with IPOs as with private placements [1; 9, p.113-114].

According to the Law of Ukraine №3480-IV «On Securities and Stock market», as of February 23, 2006, Ukrainian issuer can place their securities on the foreign market only with allowance of Ukrainian Securities and Stock Market State Commission.

This allowance can be given only when the following requirements are fulfilled:

- registration of securities issue;
- trade allowance on one of Ukrainian stock exchanges;
- compliance of securities number, placed abroad, with settled requirements by Ukrainian Securities and Stock Market State Commission [5].

Mostly, Ukrainian companies use another way for selling of their securities on foreign stock exchanges. They made it with depository receipts or create a company/subsidiary abroad that owns 100% of Ukrainian ones and can issue shares.

A depository receipt (DR) is a financial security that is traded on local stock exchange but allows investors to hold shares in equity of foreign countries. There are two typical types of depository receipts: American Depository Receipt (ADR) which is mostly traded on a U.S. stock exchanges and Global Depository Receipt (GDR) - on European stock exchanges. They are usually denominated in U.S. Dollar, but can be also in euros [9].

For example, if one Ukrainian company wants to sell their stocks on the American stock exchanges, it should sell them to the Bank of New York Mellon's local (Ukrainian) custodian bank. Then they inform about this the depository bank (Bank of New York Mellon) in America and after that he will issue the ADRs to the foreign investor.

Bank of New York Mellon has a DR's market share of 62% in the world and works only with one custodian bank in Ukraine – ING Bank. Deutsche Bank with 15% market share works also on the Ukrainian market. In June 2007 it launched its first DR program for Ukrainian company “Motor Sich”. Citibank has about 12% of the market but it didn't enter the Ukrainian DR market yet.

As we can see from Fig. 2, there are two foreign exchanges where Ukrainian companies mostly place their securities: London Stock Exchange and Warsaw Stock Exchange.

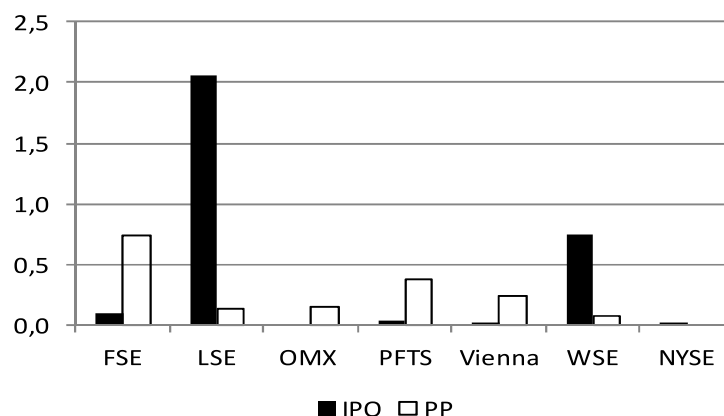


Figure 2. Stock exchanges according to capital raised by Ukrainian IPOs, \$mn
 Source: calculations based on [9, p.113-114], [1], companies web pages

In 2005, Ukrproduct, Cardinal Resources, XXI Century were the first companies that made IPOs on the alternative market (AIM) of LSE and raised about \$0.17bn. In 2007, Ferrexpo AG made a record in the history of IPOs with the highest equity raised among all Ukrainian companies in the last years - \$0.42bn for 25%. Other such big companies as Dragon-Ukrainian Properties & Development (equity raised - \$0.21bn for 100%) and Landkom International (\$0.11bn for 54.9%) are also good examples that foreign investors are interested in the securities of Ukrainian companies.

London Stock Exchange is really the leading stock exchange of UK and the best place for equity capital raise in Europe. LSE is considered to be the most international stock exchange. A big advantage of LSE is a very suitable tax climate for international companies in UK [6].

Among the most popular foreign stock exchanges of Ukrainian companies, Warsaw Stock Exchange is on the second place. The Warsaw SE starts to work on 16 April 1991 and is fast growing. In total for the period 2005 – 2011 eleven Ukrainian companies have made IPOs on Warsaw SE. The first one was Astarta Holding with \$30mn for 18.8% in 2006 and the dynamics of company numbers was increasing.

Warsaw Stock Exchange is the most optimal possibility for middle-size companies where they can raise capital and receive useful European experience for further share placement. Another advantage is that Warsaw SE is regulated by EU laws and when the company is already listed on WSE, it can have second listing on any other stock exchange in the EU that increase the number of potential

investors and the chance to receive the most favorable price for their shares. On the other hand, if the company is listed on the London Stock Exchange (AIM), she can not be listed in other countries. The listing process is approximately 9 months and much lower costs as on LSE, from 5.47% to 10,05% [11].

The main reasons that make it impossible for many companies to raise capital on foreign markets are [7]:

- due to high costs only big companies can make IPO;

- not transparent company's structure. The investors want to understand the management structure and how the control is made over financial cash flows of the company;

- not transparent accounting reports. Most companies have two parallel accounting balance sheets: in one they show lower numbers with the purpose not to pay much tax, another one - for them, to know the current situation. That's why, a big part of Ukrainian economy is «hidden». If the company wants to raise money on foreign stock exchanges, they must show their accounting reports made according to International Accounting Standards and over the last two-three years. Not all of them are ready to show the real numbers and in such a way to pay the right taxes.

In Fig. 3 is shown which industry raised the capital with IPO. We can see that agroindustry raised about \$1.5bn capital over the period 2005 - 2011 years and was on the first place. The highest peaks were in 2007-08 and 2010 years (Fig. 4).

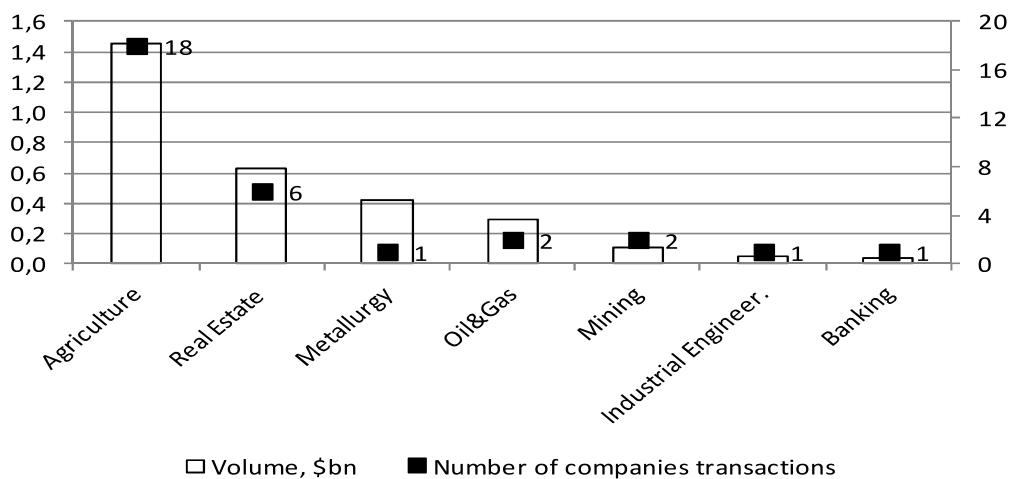


Figure 3. IPO's industries analysis by capital raised, \$mn

Source: calculations based on [1; 9, p.113-114], companies web pages

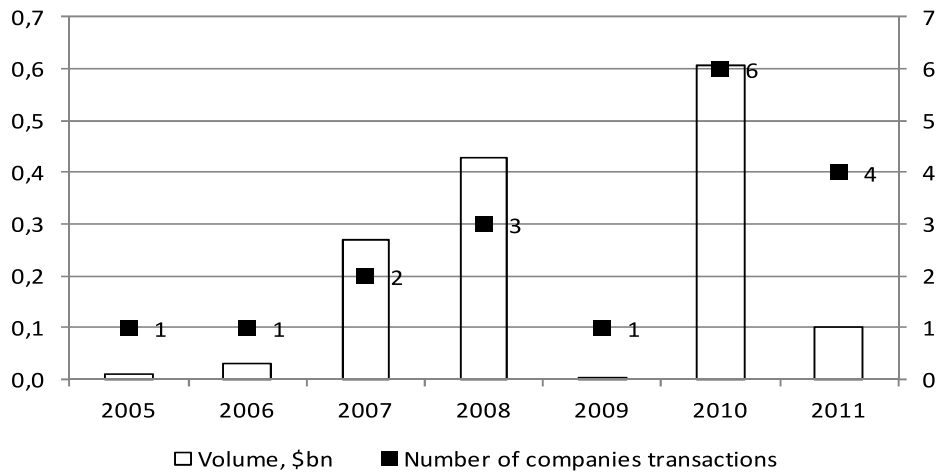


Figure 4. Agroindustry IPO volume, \$bn

Source: calculations based on [1; 9, p.113-114], companies web pages

Real Estate industry is on the second place with \$0.63bn (Fig. 3). The IPOs from this industry were mostly represented in 2007 when it reached \$0.49bn. The reason for this is that there was a boom in real estate industry. The prices for real estate rose dramatically and IPO was a very good possibility to raise capital for further development.

Agro and food companies are very popular among foreign investors, especially in this period of world food crisis and increase of food products prices. One of the reasons is that agro companies even more produce maize and rape which is now used in big volume for biofuel. Also, an increase of food production consume because of income growth in such quick-developed countries as Russia, China, India, Brazil [2].

Fertile black soil, favorable climate and demand on the world food market are good advantages of Ukrainian companies on the world IPO market. It is also worth to mention that Ukraine has a lot of potential to broaden farming land and in such a way increase the harvest volume.

The rape profitability is 200% and the price doesn't fall lower than \$400-500 for tone. The main consumers are the EU counties. A much cheaper price in comparison with others, especially EU countries, is the main advantage of Ukraine [3].

Another big advantage for agro companies is that they rent the farm land and pay on average lower than in EU [4]. IPO and private placement are the major sources for Ukrainian agro companies to finance their business development. Ukrainian bank loans for domestic agro companies are very expensive, almost to 24% annually in UAH. And the banks usually give only small sums. The reason for this is that as collateral agro companies can give

only cheap assets – equipment, factories. As mentioned above, they are not allowed to buy the land and they should rent it, that's why, they can not put land as collateral [2].

Different theories try to explain the reasons why the companies go public. According to market-timing theories, the companies go public at a certain, most favorable, moment of time. A lot of these theories look at increases in valuation of comparable firms as reflecting improved growth opportunities. However, favorable investor sentiment can have also a big influence on the valuation of firms. When investors are overoptimistic, firms answer with increased number of equity issue in this «window of opportunity».

Ritter (1984) examined in his paper the 6-year period 1977-82 to look for the explanations of the «window of opportunity» hypothesis. This period included the hot issue market of 1980 during which the average initial return was 48.4% in comparison to 16.3% during the rest of 1977-82.

Ritter also found that during the 1977-82 periods there was a big difference in the behavior of monthly average initial returns on natural and non-natural resource issues. The autocorrelation of monthly average initial returns for non-natural resource issues was low, so there was no evidence that a hot issue market took place. There was also the positive relation between risk and average initial return and it was stationary. High-risk offerings showed not only higher initial returns but also a big variability of initial returns.

With natural resource issues there was also a positive relation between risk and average initial returns but it was highly nonstationary. An explanation for hot issue market of natural resource issues is that underwriters took advantage of start-up natural resource firms during the oil and gas boom that took place in 1980. That is to say, they used this «window of opportunity», favorable situation to natural resource firms on the financial markets. Such situations last not very long, that's why the firms try to react very quickly [8].

As mentioned above, during the period 2005-2011 the most capital was raised by agriculture industry. The highest peaks when agriculture companies made IPOs were the years 2007-2008 and 2010.

In the Fig. 5 is shown the S&P GSCI Agricultural Index that is widely recognized as leading measure of general commodity price movements in the world economy. It includes wheat (19.9%), Kansas wheat (5.0%), corn (30.5%), soybeans (15.6%), cotton (7.9%), sugar (13.3%), coffee (6.3%),

cocoa (1.4%). It is calculated on a world production weighted basis that is determined by the average quantity of production over the last five years of available data [10].

S&P GSCI Agricultural Index shows a rapid increase from middle 2007 with the best performance in 2008. Subprime mortgage crisis in the USA that starts in summer 2007 could be a possible explanation for such development of stock returns. The investors start rapidly to invest in the commodities and with high demand - the prices increased.

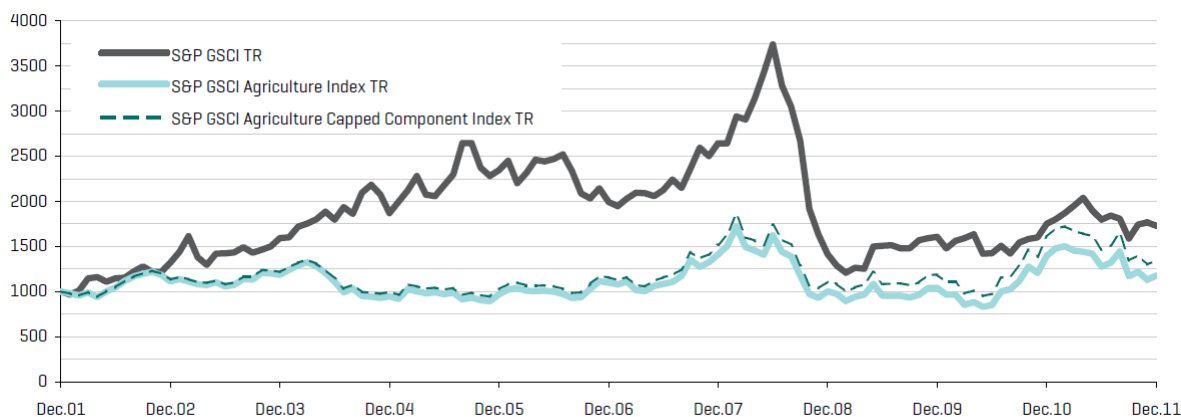


Figure 5. S&P GSCI Agriculture Index Performance (Source: [10])

When we compare the timing when Ukrainian agro companies went public and the performance of the market based on S&P GSCI Agricultural Index, we can see that these companies made IPOs when on the market was in the most favorable situation – end of 2007 – 2008. Another big wave of Ukrainian agro companies IPOs was observed end of 2010. The S&P GSCI Agricultural Index shows the next rapid increase in end 2010 after the peak in 2008.

According to «window of opportunity» hypothesis, when the investors are overoptimistic and give higher prices for the issued equity - the firms make usage of it by going public. But in the reality these firms are not so good, they just take advantage of this favorable investor sentiment. To make the conclusion whether agriculture IPOs can be explained by «window of opportunity» hypothesis, we made the analysis of balance sheets of these companies in the following next years after the equity issue.

If we will have bad performance of agriculture companies, the requirements for «window of opportunity» hypothesis will be met. But, on the contrary, these companies showed a very positive performance after the IPO.

Conclusions. In total over the period 2005-2011 years Ukrainian companies raised almost twice as much with IPOs as with private placements. They mostly placed their securities on London Stock Exchange and Warsaw

Stock Exchange. Agro industry raised about \$1.5bn capital and was on the first place with the highest peaks in 2007-08 and 2010 years. S&P GSCI Agricultural Index had its best performance in 2008 showing the favorable market situation. Despite high level of capital raised at that moment by agro companies, «window of opportunity» hypothesis was not confirmed as after IPO these companies showed very positive performance. Further research could be done in improving of institutional – organization mechanism of conducting IPO on the Ukrainian stock market.

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