

II International Scientific Conference GCPMED 2019
"Global Challenges and Prospects of the Modern Economic Development"

**FEATURES OF CARRYING OUT IPO OF THE COMPANY IN
RUSSIA**

O. Yu. Ermolovskaya (a), T. A. Shcherbina (b)*

*Corresponding author

(a) Financial University under the Government of the Russian Federation, 125993, 49 Leningradsky Prospekt, GSP-3, Moscow, Russia, ermoy@mail.ru;

(b) Financial University under the Government of the Russian Federation, 125993, 49 Leningradsky Prospekt, GSP-3, Moscow, Russia, gero-tamara@yandex.ru

Abstract

The development of Russian stock market largely depends on the volume of the initial public offering (IPO) of companies that will conduct it on the Russian stock market. The initial public offering means for companies an additional source of financing. As a result, the company gets the opportunity to raise funds at a lower price by sharing risks among a larger number of shareholders. IPO improves the structure of the balance sheet, allows the company to attract significant additional debt financing, conduct additional emissions in the future, which can be used for investing in fixed and working capital. The authors consider specific features of IPO in Russia and the readiness of Russian companies to IPO. IPO is the most attractive source of financing due to the fact that the raised funds are the company's own capital and there is no need to return the raised funds to investors. A distinctive feature of the Russian market has always been a high share of participation of the public sector in the economy. On the one hand, this is assessed as a negative factor, primarily because of the low efficiency of the public administration of commercial structures. However, investors evaluate companies with the state participation as more reliable, since the state can apply various methods of supporting such enterprises, from the introduction of a preferential tax regime and to direct injections into its capital. The authors discuss the process of IPO preparing and conducting; identify advantages and disadvantages of this financing type.

2357-1330 © 2020 Published by European Publisher.

Keywords: IPO, capitalization, stock market, company value, stocks, exchanges.



1. Introduction

Public fundraising is, first of all, selling the future of the company as it is seen by its current owners. For the placement to be successful, it is necessary to clearly formulate and communicate to the market participants your goals and strategy. Companies often strive to achieve the tactical goals that, in their opinion, the market expects of them. However, it is more important to formulate the right development strategy and use IPO as a stage of its implementation. In this case, investors will believe in the success of the company, and new prospects will be opened before the company itself.

2. Problem Statement

The problem statement involves considering the process of preparing and conducting an initial public offering of shares through the stock market, identifying the advantages and disadvantages of this type of funding, comparing IPOs with alternative sources of raising capital, and determining the goals and objectives of an IPO.

It should be noted that the preparation and conduct of an IPO for companies with state participation can bring the greatest effect of increasing productivity and transparency, as any company preparing its shares for placement on the stock exchange undergoes a detailed Due Diligence, significantly increases the transparency of business processes, carries out restructuring and optimization of production, and becomes as open as possible to the community and investors.

In 2019, a number of interesting IPOs of Russian companies can go through the stock market after domestic corporations did not conduct initial public offerings of their shares in 2018. This was mainly due to the announcement and introduction of new anti-Russian sanctions by Western countries. Although the sanction risk remains, the attractiveness of emerging markets for investors this year has increased due to a slowdown in the economic growth of developed countries and, as a consequence, a pause in raising interest rates. Thus, in 2019, several IPOs of large Russian companies in the domestic market and abroad can occur.

This year, the market can see up to 20 placements of securities, of which at least half will be primary. This could be the biggest result since 2011. However, the total amount of attracted funds is likely to be close to the value of 2017 due to the composition of companies offering their shares. According to various estimates, the volume of possible attracted investments varies in the range of \$ 3-6 billion. More likely, in our opinion, will be an option in the lower half of the range.

3. Research Questions

The objectives of this study include:

- Study of the main trends in the primary public offering market, both Russian and international;
- Identification and study of key features of the development of the Russian IPO market;
- Analysis of the future development of the IPO market in the future;

In addition, they consider pricing during the IPO, the methodology for evaluating and choosing the exchange during the placement, and also analyze the state of the IPO market for 2017-2018.

It should be noted that the initial IPO does not apply to the sale of shares itself, because their issuer could sell earlier and as part of closed offers when attracting new investors, namely, the primary way the issuing

company entered the public market, and therefore the company has certain responsibilities to investors, and first of all on disclosure and transparency of information. The concept of "public offering" means the distribution of shares among a large number of institutional and private investors on the stock exchange.

4. Purpose of the Study

The purpose of the article is to analyze the effectiveness of Russian companies entering the public market. When analyzing the IPO market in Russia, the task is to identify the factors affecting the successful preparation and initial public offering of the issuer of domestic companies. Studying the experience of Russian companies in raising capital for their projects allows us to identify the characteristics of the IPO market in Russia.

5. Research Methods

The methodological basis of the scientific article was the work of modern domestic and foreign scientists, which are devoted to fundamental research in the field of initial public offering, the choice of stock exchange, assessing the prospects of this type of financing in world and domestic practice. The problems of the company entering the IPO are considered in the works: Bakulina and Charaeva, (2019), Marushkina, (2016), Kozina and Sverchkova, (2019), Mikhailov, Iskandarov, and Gorodnov, (2019), Rubtsov and Annenskaya, (2018) etc. In the process of work, general scientific research methods were used - abstract-logical, system and factor analysis, comparative analysis method, grouping method, analytical, index method, graphical method, and others.

6. Findings

Interesting are plans to enter the IPO Sovcombank and GEFCO. We will analyze the conditions for launching IPO in Sovcombank and GEFCO in 2019. Sovcombank is a Russian commercial bank, founded in 1990. The controlling organization is the Dutch company SovCo Capital Partners N.V., which owns 91.7% of the bank. According to the results of 2018, the bank is among the 15 largest banks in the country in terms of assets, as well as in the top 5 private banks for the same indicator. In 2018, representatives of the bank announced their intention to raise at least \$ 300 million, that is, about 20% of the capital, after conducting an IPO in the II-III quarter of 2019 (Kozina & Sverchkova, 2019).

The bank is actively increasing assets and equity. From 2013 to 2017, the value of assets grew 4.5 times, and the bank's equity capital increased 5.7 times. The dynamics are associated both with the bank's own successful operating activities, and with successful mergers and acquisitions. The bank also demonstrates a steady positive trend in net interest and commission income. The average annual growth rate of interest income amounted to 35.4%, commission – 24.6. In the second half of 2018, Sovcombank completed the process of joining RosEvoBank to its structure, as well as the integration of the acquired SKIB bank. According to a statement by S&P Global, the bank maintains a high level of capitalization, and thanks to the successful completion of transactions, M&A becomes systemically significant for the country's banking system in accordance with regulatory criteria (Mikhailov, Iskandarov, & Gorodnov, 2019).

The main features of IPO companies in Russia are:

- the lack of favorable conditions for the initial placement of securities, due to external economic pressure on the stock market;
- inertia of investors as a result of temporary losses;
- requirements for the company's capital, as a result of which small and medium-sized companies cannot participate in IPOs;
- conflict of interests of owners due to a possible redistribution of blocks of shares;
- the publicity of the company obliges to be accountable to investors according to the results of the plan and other indicators (Marushkina, 2016).

In 2018, not a single Russian company entered an IPO. In 2019, the financial and economic indicators of some companies allow for an initial public offering. One such promising company is the GEFCO Group. The company was founded in 1949, and in 2003 entered the Russian market. GEFCO shareholders are PSA Group and Russian Railways, which own 25% and 75% of the share capital, respectively. On December 20, 2018, GEFCO submitted registration documents to the Euronext Committee, which is the first step before an IPO. According to the company, the initial public offering will take place in 2019. The Government of the Russian Federation actively advocates for the placement, influencing Russian Railways. An IPO will enable GEFCO to expand its growth opportunities and increase its leadership in the automotive and general logistics sectors.

GEFCO Group works according to a “light”, “flexible” business model, owning only strategic assets (automobile connections, railway cars, IT infrastructure), if they provide a competitive advantage. Every day, GEFCO serves 10-12 thousand trucks, but owns only 850 of them; of 310 objects, only 14% is owned by the company. Such a business model provides high profitability and stable cash flow. In 2017, ROIC (return on invested capital) GEFCO reached 31% - the industry maximum. And the efficiency of using fixed assets in terms of capital intensity became the second in the industry with a result of 12% (Bakulina & Charaeva, 2019). Over the next 3-4 years, GEFCO expects a stable revenue growth of 5-7% per year and an increase in operating profit margin from 3.5% to 5.5%. At the end of 2018, it is expected that the company will pay shareholders 50 million euros in dividends. GEFCO management plans to bring the level of payments to 50-75% of net profit by 2019-2021. The most likely in 2019 is the listing of the developer GC Airplane on the stock exchange. Airplane Group of Companies is one of the largest developers in the Moscow and St. Petersburg agglomerations. The company was founded in 2012. Sole owner is Airplane Development Pte. Ltd., registered in Singapore. The cost of the business before the IPO is estimated at 82 billion rubles. An additional issue is planned for the placement of shares on the stock exchange; the share of free-float will be about 45.5% of the renewed share capital of the company. According to Bloomberg estimates, “Airplane” may raise about \$ 250-300 million for IPO. JP Morgan and VTB Capital will act as investment agents and consultants.

As of February 2019, the current construction volume of Airplane Group of Companies is 1.3 million square meters. m, thanks to which the company takes the 6th place in the rating of developers of Russia, according to the Unified Register of Developers of the Russian Federation. Since the beginning of 2017, the Group of Companies has risen in the ranking by 9 positions. The volume of current construction at the CDS Group and GC YugStroyInvest slightly exceeds the figure of GC Airplane. Thanks to this, the

company has a chance, with a further increase in the number of projects, to enter the TOP-5 developers in terms of construction volume, which will become the company's reputation advantage.

At the end of 2018, the company commissioned 218.6 thousand square meters of housing. The decrease in the indicator relative to the results of 2017 was caused by the composition of the Airplane Group's portfolio of projects: the developer is engaged in exclusively large-scale projects of a low price segment in the outskirts of Moscow and St. Petersburg, which allows for relatively rapid increase in the volume of current construction, but increases the fluctuation of the indicator (Rubtsov & Annenskaya, 2018). The company's revenue has shown stable positive dynamics over the past years. At the end of 2017, revenue grew by 47% to 41.9 billion rubles, and net profit - by 61.9% to 3.4 billion rubles. In 2018, growth is expected to continue, which is partially confirmed by the results of interim reporting: over the past years, the overwhelming majority of the financial result was in the second half of the year, which, while maintaining the dynamics, will ensure the growth of indicators in 2018 relative to 2017.

The reason for the volatility of the company's net profit indicator is that the company has a conservative financing policy in the implementation of projects. An IPO is a logical continuation of a conservative financial policy that increases the financial stability of a company compared to its competitors.

7. Conclusion

Based on the results of the study, the following conclusions can be drawn.

Firstly, Russian experience also shows that objectively assessing the success of an IPO is possible only in conjunction with the further long-term dynamics of the company's quotes. Russian companies primarily attract investors by their growth opportunities, and when forecasts are not justified, investors are disappointed and will continue to make discounts when assessing the value of companies, bearing in mind the possibility of mismatching real results.

Secondly, whatever the opinions regarding the success of this or that placement, all issuing companies agree on one thing - after the IPO, this work has only just begun. A company that has received public status needs to interact with investors, regularly publish reports, maintain a corporate website, disclose and correctly present significant facts about the life of the company.

Thus, in the current year, the activity of Russian companies in the initial public offering of shares may be restored. There is a high probability of listing companies such as SIBUR Holding, Samolet Group of Companies on the stock exchange. These companies demonstrate positive dynamics of financial results, and also have drivers for continued growth in the long term, which will contribute to the formation of high demand for stocks of companies.

References

- Bakulina, A. A., & Charaeva, M. V. (2019). Modeling the financial performance of public-private partnership corporations using foreign experience. *Economic Sciences*, 6(175), 137-147. <https://doi.org/10.14451/1.175137> [in Rus.].
- Kozina, E. V., & Sverchkova, A. S. (2019). The role of the stock market in financing the Russian economy. *Economic Sciences*, 7(176), 46-51. <https://doi.org/10.1115111.116.16> [in Rus.].

- Marushkina, V. A. (2016). Problems and prospects of the initial public offering in Russia. *Scientific Perspective, 11*(81), 27-29. [in Rus.].
- Mikhailov, A. M., Iskandarov, T. S., & Gorodnov, V. A. (2019). The role of the stock market in financing the Russian economy. *Economic Sciences, 4* (173), 22-27. <https://doi.org/10.1141/017022> [in Rus.].
- Rubtsov, B. B., & Annenskaya, N. E. (2018). Factor analysis of the Russian stock market. *Journal of Reviews on Global Economics, 7*, 417-425.