Catalist activity could rise with interest in new economy: sponsors

Optimism comes even as regulators - and public - set higher expectations, while some sponsors have turned their focus elsewhere

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While SGX RegCo has taken steps to provide more guidance to issuers and sponsors, corporate governance advocate Mak Yuen Teen warns of bigger problems, in particular, a risk of the Catalist board becoming a "graveyard for dying companies''. BT FILE PHOTO

Singapore

GROWTH in the digital and new economy sectors could lead to greater interest - and more listings - on Singapore's Catalist platform, industry watchers said.

Several Catalist sponsors told The Business Times that in spite of heightened regulatory scrutiny, they expect to take on more work to bring high-quality growth companies to the Singapore Exchange's (SGX) junior board this year.

Jerry Chua, chief executive of Evolve Capital Advisory, has noted the Catalist market's rising appeal among growth-oriented enterprises in the "digital, new economy and adjacent verticals", particularly those with a sound strategy to execute their business plan.

David Yeong, a Catalist sponsorship partner at SAC Capital, said the firm is "doing more" to support local small and medium-sized enterprises (SMEs) and Catalist issuers to raise funds and conduct merger and acquisitions both locally and overseas.

"(This) helps job creation and the vibrancy of the Singapore financial market," said Yeong. "In our view, having a Catalist board is beneficial to local SMEs as it caters to the needs of fast-growing enterprises and it is considered to be a trusted and regulated platform for investments in the Asia-Pacific region. "

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SAC Capital has been appointed as financial adviser to Singapore-based ride-hailing company Ryde, which is hoping to list on Catalist this year.

Their optimism comes even as regulators - and the public - are setting higher expectations for Catalist companies and their sponsors.

Mark Liew, chief executive of PrimePartners Corporate Finance, said things have become more challenging for sponsors and companies over the years amid changing regulatory requirements. Standards of regulators are also higher, for instance in terms of reporting or disclosure requirements.

Some sponsors have turned their focus elsewhere. In June last year, CIMB Singapore announced its intention to cease acting as a Catalist sponsor so it can focus on clients listed on the SGX mainboard.

The Catalist board has also been criticised by local corporate governance watchdog Mak Yuen Teen, a professor of accounting at the National University of Singapore's NUS Business School. Among other things, Prof Mak has noted underwhelming share price and financial performances among Catalist-listed companies.

He has also highlighted conflicts of interests between sponsors and their Catalist charges. These include fees from other work done by sponsors or affiliates for the companies that they sponsor, or other types of work conflict relating to their roles - for instance, the concurrent provision of corporate secretarial or investor relations services alongside the sponsor role.

Sponsors polled by BT said they are taking more care in discharging their responsibilities.

Wong Bee Eng, chief executive of Provenance Capital, said the company does not have a "long list" of companies that it sponsors.

Instead, Provenance Capital only selects companies with which it has had prior dealings, or whose directors they know.

"The onboarding is not dependent on whether the client is a profitable company," said Wong. "It's about the company's mentality, and the directors' attitudes towards compliance and disclosures.

"Being a continuing sponsor is not a one-off project like an FA (financial advisory) company, or IFA (independent financial adviser); it's ongoing and continuous throughout the whole year."

Wong added that sponsors today are "closer" to companies and take on the role of supervising them and reviewing certain documents.

Catalist-listed companies are generally small in size, he said, and only have access to "skeleton resources". This is where sponsors like Provenance Capital have to step in to review disclosures or corporate announcements, in order to produce information that is useful to investors.

Evolve's Chua, meanwhile, said the scope of due diligence and research varies before the firm decides to onboard a company.

Detailed company information is looked at, including the general business model, operations, shareholder, key management and corporate structure. Historical and projected financials are also important to "get a nuanced view of key drivers of the business from a financial perspective", he said.

"We will conduct separate due diligence and independent research on the company, stakeholders and its specific industry based on information in the public domain and what's available through our network," he said, adding that Evolve Capital Advisory also aims to overlay its findings with initial preliminary feedback from potential investors.

"As participants and players in the Catalist ecosystem, we will want the Catalist platform to be a successful one so that it can continue to perform the objective of facilitating growth enterprises to tap the public markets for expansion and growth," said Chua.

As to criticism of Catalist performance, SAC Capital's Yeong said that while troubles and controversies are "inherent in any industry", the Singapore Exchange Regulation (SGX RegCo) has taken steps to provide more guidance to issuers and sponsors through regulatory columns and closed-door sponsor dialogues.

He added that sponsors are now encouraged to quickly note market directives and notices from regulators, and initiatives from SGX regulators to engage issuers directly. "On our wishlist, we would like to see more incentives being considered by SGX RegCo for fast-track companies."

Corporate governance advocate Mak, however, warns of bigger problems. In his view, there are "no easy fixes" for the Catalist board's "inherent structural issues". He is actively pushing for a review of the Catalist board to ensure that it delivers sound investment opportunities for investors.

In particular, he warns that there is a risk of the Catalist board becoming a "graveyard for dying companies".

The phenomenon of struggling mainboard-listed companies transferring to the Catalist board could undermine the objective of the Catalist market: to list firms that are new, small or not yet profitable, but could eventually move to the SGX mainboard.

The quality of sponsors is also a key point for investors and regulators to watch, he added.

"There are too many sponsors for too few Catalist companies, (and) there is a big expectations gap between what they are supposed to do and what they actually do," said Mak.

Although Catalist companies now account for 32.24 per cent of all listings, up from just 17.91 per cent in December 2012, Mak cautions that this is not necessarily a good thing.

"This may give us a misconception that the Catalist board is a success but it is not. The due diligence for mainboard listings is already in question, but for Catalist companies, it is even worse as SGX relies almost totally on the full sponsor (which will also be the initial continuing sponsor) in the listing process," he said.

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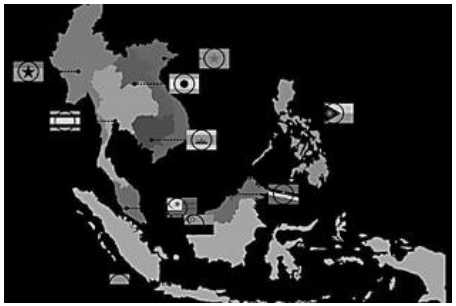

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