

# IPOs - Conditional Trading vs Ordinary Shares

June 2014

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## Next up: TSB & Zoopla

After a successful debut by **over-50s insurer** and holiday provider **Saga (SAGA)**, next up are **TSB** and **Zoopla** which means **more potential billion pound IPOs** just around the corner (**before end June**) as companies make the most of **strong equity markets**.

With **strong appetite** for new equity listings in London investors don't have long to wait for another big IPO, joining the ranks of **SAGA** at £2.1bn and last October's highly successful £3.3bn public offering of **Royal Mail (RMG)**. It is expected that **TSB** be valued between £1.1-1.5bn (discount, below book value of assets) making it a significant transaction for Lloyds Banking Group (LLOY) which is selling a 25% stake, and **Zoopla** around £1bn.

Importantly, **retail investors** could again be at the heart of the offerings given the success of the SAGA and RMG offers and the government (significant shareholder of LLOY) potentially making the TSB transaction **retail investor-friendly** given its recent LLOY stake sales favouring institutions.

**Outside of participation in the official IPO** (buying shares from the company at the official offer price) which is often difficult and reserved for institutions, we discuss the **alternatives** available to the public;

## Grey market

A grey market is a **Spreadbet** on the **market capitalisation** (no. of shares x price) of a company on the **close of its shares' first day of trading**. Pricing is unofficial and allows **speculation** on the success of a company's IPO debut and an 'idea' of **demand** for the shares being listed.

Ahead of an IPO (sometimes well in advance) traders bet **long or short** whether the shares **close higher or lower** than the **official IPO price**. The price rises/falls according to the volume and size of bets placed. The grey market closes on and **bets are settled at the end of the first day** of trading.

## Conditional Trading

Conditional trading takes place for a **few days** between the official IPO and full LSE listing. Shares can be bought during this period and, despite common misconception, **held indefinitely** thanks to **trading moving seamlessly** from conditional **to full trading**. Shares are bought and sold in the normal manner but trading tends to be limited to big investors (i.e. pension funds, hedge funds).

Because it involves underlying shares, however, **CFD traders benefit from being able to take part** needing a deposit of only 5-25% of the trade value whilst benefiting from any **potential gains (or losses) being magnified** via the leverage involved.

Note that should the IPO be **cancelled** during 'conditional trading' (if the share price fell significantly, LSE refuses) any trades placed during the period would be **null and void** (profits, losses, trading costs) and reversed from clients' accounts. The chance is, however, unlikely these days with **most IPOs fully underwritten** by investment banks who take on the risk.

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## Recent UK IPOs and Conditional Trading activity

Stock	Ticker	IPO Price (p)	Conditional	Opening	Conditional trading			Full Trading
			Trading	price (p)	Highs (p)	Lows (p)	Range	
Saga	SAGA	185	23-May-14	185	TBC	TBC	TBC	29-May-14
Just Retirement	JRG	225	12-Nov-13	225	228.7	185	19.4%	15-Nov-13
Poundland	PLND	300	12-Mar-14	355	401.25	344	16.1%	17-Mar-14
AO World	AO.	285	26-Feb-14	400.75	412.25	350	15.5%	3-Mar-14
Just Eat	JE.	260	3-Apr-04	283.21	297.96	260	13.4%	8-Apr-14
Royal Mail	RMG	330	11-Oct-13	450	490	431	13.1%	16-Oct-13
Pets at Home	PAH	245	12-Mar-14	245	256.25	225.25	12.7%	17-Mar-14
Merlin Entertainments	MERL	315	8-Nov-13	325	355	320	10.8%	13-Nov-13
Polypipe	POLY	245	11-Apr-14	245	270.5	245	10.4%	16-Apr-14
Foxtons	FOXT	230	20-Sep-13	274.5	286	259.5	9.7%	25-Sep-13
Crest Nicholson	CRST	220	13-Feb-13	253	266	242	9.5%	18-Feb-13
Card Factory	CARD	225	15-May-14	220	220	200	9.1%	20-May-14
Partnership Assurance	PA.	385	7-Jun-13	450.5	480	440	8.9%	12-Jun-13
Direct Line	DLG	175	11-Oct-12	181	190	175	8.3%	17-Oct-12
Brit	BRIT	240	28-Mar-14	240	244.75	225	8.2%	2-Apr-14
McColl's Retail	MCLS	191	25-Feb-14	185	191	178	7.0%	28-Feb-14
Infinis Energy	INFI	260	15-Nov-13	260	276.7	260	6.4%	20-Nov-13
Riverstone Energy	REL	1000	24-Oct-13	1000	1000	940	6.0%	29-Oct-13
Countrywide	CWD	350	20-Mar-13	385	403.7	380.7	6.0%	25-Mar-13
Esure	ESUR	290	22-Mar-13	315	315	298.3	5.3%	27-Mar-13
Exova	EXO	220	11-Apr-14	220	222.75	216	3.1%	16-Apr-14

Source: Companies news, Regulatory announcements, AlphaTerminal, Internet

Above is a list of the **UK's biggest recent IPOs** and how they fared when shares were first traded as well as their trading ranges during the **conditional trading** period. In most cases there is an **average range of 9%** which, when CFDs are used, can still offer significant trading opportunities compared to physical shares thanks to the leverage involved and the average 5% gain from open to high is not to be sneezed at.

So even if you can't get on board at the official IPO price in order to benefit from the 'pop' on day 1 (like Boohoo's 54.0%, AO World's 40.6%, Royal Mail's 36.4%, Foxtons 19.3% or Poundland's 18.3%; average 9.4%) there are still **options available** to you in terms of trading during the conditional period and before the seamless move into full trading.

Furthermore, following the IPO and before conditional trading begins, **Accendo can help mitigate some of the risk involved by giving you an idea of an IPOs success** together with indications as to where the shares will open - above or below the IPO price - helping you to decide whether you still want to participate or not.

For some **post IPO options**, see over

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## Post-IPO Options - how can Accendo help?

1. If you are **disappointed with your IPO allocation** (not enough, like RMG's £750 or Saga's £740) and still see potential for the price to rise, you could **Buy shares**. To save on costs and capital outlay **CFDs** are an alternative trading option with no stamp duty and typically only a 5-10% deposit required.

Do you see **growth** warranting a long position? Or do you simply see enough **demand from investors who missed out** on the IPO pushing the price higher? Will its inclusion in a major index (e.g. **FTSE100/250**) be a driver? Could any implied **dividend yield** attract and can growth lead to improved cash conversion and pay-out?

2. If you **missed out** on a **quick IPO profit** and believe the **hype** surrounding the IPO is **too much** and the shares are **overvalued fundamentally**, following the IPO you could use CFDs to **short-sell shares** allowing you to profit from a decline in share price in a cost effective manner.

Some tech names like **King Digital Entertainment** (KING US) have had a rough start to IPO life. **Others including AO World** (AO/), **boohoo.com** (BOO) and **Pets at Home** (PETS) started well but have faltered amid the tech sell-off. **Poundland** (PLND) has done OK. **Facebook** (FB) and **LinkedIn** (LNKD) are good examples of bad starts then recovery. **Foxtons** (FOXT), **Royal Mail** (RMG) and **Merlin Entertainments** (MER) have done rather well. How will **the next** fare?

## Recent listings – Plenty of volatility

**2014:** **Saga** (SAGA; 23 May) opened right at its IPO price. **Card Factory** (CARD; 14 May) shares opened 2% below their IPO price, and now sit 10% lower. **Polypipe** (PLP; 11 Apr) saw its shares rise 6% from its official IPO price, valuing it at £500m. **JustEast** (JE.; 2 Apr) the biggest UK listing this year opened 9.5% above its IPO price to give it a record 2014 official London listing valuation of £1.5bn.

**Pets at Home** (PETS; 12 Mar) began trading around its official IPO price, valuing it at £1.2bn while **Poundland** (PLND; 12 Mar) **jumped 23%** from its IPO price to be valued at £750m. **Boohoo.com** (BOO; 13 Mar) saw an **impressive 60% jump** on its first day trading to value it at £560m while it was a similar story for **AO World** (AO; 25 Feb) which saw its shares **pop 45%** making it worth £1.6bn.

**2013:** **Royal Mail's** (RMG; 13 Oct) **£3.3bn IPO** saw such retail demand (10x what was offered) that shares **opened 36% higher** on day one and went on to with further 40% gains by early 2014 on continued interest from those who missed out still seeing upside. **Foxtons** (FOXT; 20 Sept) shares **started trading 16% above** their IPO price in response to a resurgent UK property market. **Merlin Entertainments** (MER; 7 Nov) **rose 9.5%** on its £3.5bn debut.

In the US, hotel operator **Hilton Worldwide** (HLT; 12 Dec) made a big splash with a return to market valued at \$20bn. Shares **opened 6.5% higher** than the IPO price and have been stable since. Social network name **Twitter** (TWTR; 7 Nov) **opened 73% higher** on its first day in the US, securing a \$30bn valuation. After a breather the shares even had a second wind. They have been hindered by weakness since but approaching historic lows they are attracting renewed interest.

**Note: Past IPO performance is no guarantee of future performance** and both pre and post **IPO trading could differ wildly** to that of recent market admissions. The recent sell-off in many tech names and fresh IPOs is a case in point, with many shares trading below their first day trading price, even if still above their official IPO price thanks to strong debuts.

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## Pricing

**IPO pricing** tends to start in a range which is revised up/down depending on demand from institutions and then narrowed towards an upper/lower range as time goes on. Along with the number of shares offered for sale, this provides an approximate indication of market value for the company.

**Retail investors** often have access to a portion of shares but often not quite as much as they might like, with the majority tending to go to **long-term institutions** such as pension funds, insurers and hedge funds which can guarantee more stability. **Royal Mail** (RMG) and Saga (SAGA) were exceptions with small investors favoured and **TSB** could follow suit, but there is no guarantee.

Part of the service at **Accendo Markets** is to deliver breaking news on any dates which are released as well as any changes to pricing associated with these **IPOs**. We are also here to make sure you are aware of the other ways you can take part in IPOs without having to buy physical shares.

## IPO Timetable

Shares listing in the UK traditionally start **trading conditionally** from **Fri** through to **Tues** after which they gain full market listing and trade **unconditionally** from **Wed**s. The raft of recent, often last-minute IPOs, however, have taught us that this traditional schedule is now very much subject to change. **Stocks listing on AIM** do not have conditional trading.

## IPO Parameters

**IPO shares** tend to require **CFD margins of just 10-20%**. **Short positions** are not possible during conditional trading on account of shares being **unborrowable** but usually become shortable when trading goes **unconditional**. **Guaranteed stops** are usually unavailable until trading goes unconditional.

## IPO Risks

As always IPOs come with risks such as **deteriorating economic conditions** which could impact business levels with a knock on to both financial (revenues, profits) and share price performance. **Extreme events** as well as **failure to execute strategy** successfully may also reduce growth potential.

## Want to know more?

**Big IPOs tend to be heavily traded** by investors & traders, making them important from both a market point of view as well as potentially representing a **cornerstone** of many a portfolio. If you want to trade or invest in **upcoming UK IPOs**, Accendo Markets is here to help **keep you in the loop**.

If something major is announced **when will you find out?** That day? The next? The **benefits** of working with **Accendo Markets** is getting a call from your trader in-time and on-time, not just sometime.

We're here to make sure you are in a position to **participate** in the **UK's biggest IPOs** in the most cost effective manner, this sitting alongside our **award-winning** trading and research service focused on the markets and which set us apart from the **competition**.

To find out what makes **Accendo Markets** stand out from the rest.....

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## The Accendo approach – what's different?

At **Accendo Markets** we don't tell you what to do. It's your call whether you buy or sell. Our aim is to provide the **help** you need, highlighting opportunities which may be profitable to you the trader and assist you in making **trading decisions** which can benefit from the use of **leveraged instruments**.

Our approach focuses on **3 elements** below;

- **Education - not obligation**
- **Observations - not recommendations**
- **Assistance - not persistence**

Our unique and **award-winning service** provides you with the help and tools you need to make appropriate trading decisions in the financial markets, both to grow and **protect your capital**.

## CFDs – A simple way to increase IPO profit potential

While **traditional shares** require the full amount be paid up front (e.g. 5,000 shares at 200p, would require the full £10,000 outlay), an **identical trade** using CFDs involves an **initial outlay** of just £500-£2,500 (CFDs typically require 5-25% deposits depending on liquidity). The outlay is lower but the **risk and reward are the same** as if £10,000 of shares were held.

The **CFD trader** benefits/suffers to the same extent as the shareholder but has the advantage of **not having to part with the full amount** at the outset. He also saves on **stamp duty** as there is no physical share purchase. Best of all, the CFD trader can take a **positive or negative view** (short-selling available when full trading begins after an IPO; not available during conditional trading).

Should you not be interested in the leverage advantage of CFDs but do wish to purchase **traditional shares**, you can always **treat CFDs like shares** and reduce costs by avoiding stamp duty). Simply deposit the full value of the share position you would like to take (i.e. £10,000) and take an equivalent CFD position (note overnight financing costs on full exposure still apply).

Think the shares will **rise**? Take a **long position** by buying the CFDs. Think the shares will **fall**? Take a **short position** by selling the CFDs (only after IPO). For a more detailed rundown of CFDs, their mechanics, associated costs and some trading scenarios [click here](#).

Beware that the combination of CFD **leverage** and bigger share-price movements (**volatility**) can result in bigger than expected losses, which can even exceed your original deposit.

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**For any questions on how to trade IPOs via CFDs or shares,  
including ways in which your risk can be managed,  
call us to discuss on 0203 051 7461**  
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