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Cambodia Eyes End to IPO Drought With Garment-Maker Listing

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After a nearly two-year listings drought, Cambodia's fledging stock market is set for a mini-revival as it prepares for what would be only its second-ever initial public offering.

A Taiwanese-owned garment manufacturer is planning an up to $28 million flotation on the Cambodia Securities Exchange, tentatively set for April, and received regulatory approval last week to start testing investor appetite. Industry executives and analysts say the IPO, if successful, could pave the way for a few more listings on the Cambodian bourse this year.

Grand Twins International (Cambodia) PLC, whose primary customer is German sportswear firm Adidas AG, plans to offer 8 million new shares to institutional and public investors for between $1.85 and $3.50 apiece, according to a preliminary prospectus reviewed by The Wall Street Journal. The new shares would comprise 20% of the company, which made $54.9 million in revenue in 2012 mainly by exporting to apparel retailers in Europe and the U.S.

The listing was primarily meant to "create a public market for our stock and thereby enable future access to the public equity markets," Grand Twins said in the prospectus. It would use the IPO proceeds to add two new production lines, grow its head count to 6,000 from about 5,600 currently, fund its working capital needs and repay bank loans.

Grand Twins is finalizing its listing schedule and plans to woo institutional buyers to take up the majority of its offering, said Stephen Hsu, chief executive of Phnom Penh Securities, the sole underwriter for the IPO.

"The Grand Twins IPO is a critical deal, as the stock market's performance will correlate highly with its success or failure," Mr. Hsu said. If the listing goes well, "we expect the market to have about three to five stocks by the end of this year," including at least one other garment manufacturer, he added.

Cambodia's stock market has foundered since CSX CSX -0.23% hosted its first-ever listing in April 2012, the $20 million flotation of state-owned Phnom Penh Water Supply Authority. Two other state-owned enterprises—a telecommunications firm and a port operator—were slated to list by the end of 2012, but those plans have been shelved.
Other IPO candidates have either struggled to meet regulatory requirements or decided to hold off until the market gains depth and liquidity, industry executives and analysts say. Grand

Twins, for instance, had mulled listing since as early as 2012, but delayed its plans over compliance issues and concerns about market liquidity, according to Mr. Hsu.

"The listing costs are high and trading liquidity is uncertain," said Douglas Clayton, chief executive of Leopard Capital, a private-equity firm that invests in frontier markets. "Business owners worry that once a company lists, its strategies and profit margins become transparent to competitors."

"Serious incentives, such as larger tax breaks, are needed to entice companies to list," Mr. Clayton said.

Securities regulators and bourse officials acknowledged difficulties in attracting new listings, but say Cambodia needs time to develop its capital markets. "Cambodian businesses don't have a culture of transparency and disclosure, and many businesses are taking a wait-and-see approach to listing," said Chhun Sambath, director of securities issuance at the Securities and Exchange Commission of Cambodia.

Even so, CSX does have a modest IPO pipeline, according to Chief Executive Hong Sok Hour. He expects another two or three private companies to list this year, though no state-backed IPOs are likely.

Such listings, if they materialize, would provide a much-needed fillip to CSX, which has suffered declining investor interest and trading volumes since its much-feted trading debut.

The share price of Phnom Penh Water Supply Authority, which jumped 63% in its first week of trading and peaked at 10,300 Cambodian riel (about $2.58) on strong volume, has given up all its gains. The stock has also gone untraded for six sessions out of the first 16 trading days of 2014, and has lost 6.7% of its value so far this year, amid political unrest and a government crackdown on protests. It closed Monday 2% lower at 5,000 riel—well below its 6,300 riel IPO price.

A successful listing by Grand Twins might lift sentiment, but analysts say the company could also face a tough time courting investors amid ongoing labor unrest in Cambodia. Tens of thousands of garment workers went on strike last month to press for higher salaries, and unions have threatened fresh protests unless labor officials raise the industry minimum wage to $160 a month—$60 more than the government's latest offer.

Grand Twins, in its prospectus, has acknowledged risks from industrial unrest and the global apparel industry's highly competitive nature, among others.

"Sectors reliant on government policies like garment manufacturing or mining concessions are vulnerable to political uncertainty," Mr. Clayton said. "It would be helpful for [CSX] to attract listings from other sectors such as banks, beverages, and building materials."