

ABC may reduce its offering price amid investor jitters

The Agricultural Bank of China (ABC), the last of the big four State lenders to list, may be forced to lower the price of its massive initial public offering (IPO) after recent market volatility rattled investor confidence, analysts said.

The lender is aiming for a price-to-book (P/B) ratio, a widely watched measure of bank valuations, of around 2, which analysts said was "a bit overpriced" given the current poor market conditions.

"The shares may face the risk of falling below the IPO price if the lender goes with the planned P/B ratio because we expect that market sentiment will remain relatively weak in the months ahead," said Chen Xi, an analyst at First Capital Securities.

Chen said that a reasonable P/B ratio for ABC's listing should be between 1.5 and 1.8.

ABC is planning to issue about 50 billion new shares through the dual listing in Shanghai and Hong Kong in July with an issue price of around 3 yuan per share, sources close to the matter said earlier.

That will put the total value of the lender's IPO at some \$22 billion, which is expected to be the world's largest IPO.

Analysts said the lender's mega IPO is likely to burden the stock market, which has already been depressed by investor concerns over further credit tightening and uncertain economic prospects.

The benchmark Shanghai Composite Index has tumbled 20 percent this year due to harsh government measures to rein in soaring property prices.

"If the market expects worse to come, bank shares would face the risk of further declines although their prices are close to historic lows," said Liu Jun, an analyst at Changjiang Securities.

ABC has accelerated its listing process, aiming to float its shares ahead of other major lenders who have also jumped on the fund raising bandwagon.

Industrial and Commercial Bank of China, the world's largest bank by market value, plans to raise up to \$3.7 billion through a convertible bond issue while medium-size lender China Everbright Bank has revived its long-delayed IPO in Shanghai to raise up to \$2.2 billion.

China Minsheng Banking Corp also plans to raise capital this year by selling subordinated bonds in order to maintain a stable lending pace, Reuters on Thursday quoted the bank's President Hong Qi as saying.

Analysts said that ABC's listing will be a major test of the regulator's commitment to a market-driven system for new share sales.

Chinese media reported earlier that the securities regulator may suspend or slow the pace of IPOs on the main board in order to give leeway to ABC's listing.

The regulator denied the report, saying that China hasn't stopped IPO approvals and these are proceeding "as normal and in an orderly manner".

Meanwhile, Central Huijin, the domestic arm of China's sovereign wealth fund, is understood to have increased its holdings in the country's top three lenders in order to boost weak market sentiment.

"The market should be left to decide the value of ABC's shares," said financial commentator Pi Haizhou.

"Administrative intervention such as delaying other IPO approvals to help ABC's listing is against the principle of a market-oriented pricing system," said Pi.

Source: China Daily

(Editor: 黄硕)
