Trainline

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Is London's fickle funding appetite part of Lasker's 'disastrous' cycle?

So far 2019 has seen barely a squeak from the new listings market but, as Serco Group PLC (LON:SRP) and Marks and Spencer Group PLC (LON:MKS) have shown this week, London's secondary market remains in rude health.

In fact, with less than £700mln raised from initial public offers across the first four months of the year, according to the London Stock Exchange's data, down from £1bn and £1.5bn at this stage in the past two years, this is the quietest start since 2012 and the second slowest since the end of the financial crisis.

So, what's behind this disparity, what does it suggest about the market and chances for upcoming issues — and does it spell good news or bad?

Risk appetite
"The dearth of new arrivals is mainly because risk appetite was so subdued after last year's fourth quarter sell-off," says Russ Mould, investment director at AJ Bell.

He suggests a further crimping of the IPO market could be related to the high-profile flotations such as Aston Martin Lagonda Global (LON:AML) and Funding Circle Holdings PLC (LON:FCH), which have both lost more than 40% since listing.

But in that same period, London's secondary market has continued to thrive, with £7.5bn raised in so far in 2019, this is the third year in a row where there has been at least £7bn raised in the first four months of the year.

For the whole of 2018, the secondary market contributed £18.1bn to the coffers of existing London-listed companies compared and £6.7bn from IPOs, following a 2017 that saw £17.5bn raised in the secondary and £9.7bn in the primary.

Share Information

Code:	TLN
Listing:	PRIVATE-UK
Sector:	**Transportation**
Website:	**www.thetrainline.com**

Company Synopsis:
thetrainline. com is the leading online provider of rail tickets for travel in the UK by value of tickets sold, with a mission to help rail passengers save money, time and hassle. Customers booking in advance with thetrainline. com can save an average of 43% with Advance fares versus booking on the day of travel (limited availability & routes). Since it was established in 1997, thetrainline.

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That's what markets are for
"Financial markets are there to connect companies with investors, enabling the former to access appropriately priced risk capital so they can invest and grow and the latter to hopefully make a good, risk-adjusted return over the long term," says Mould.

"It is therefore a healthy sign when companies are able to float and raise primary money or when they are already listed and able to tap existing and new shareholders to secondary money, to help them realise them realise their ambitions."

The largest secondary deal so far in is AstraZeneca PLC's (LON:AZN) £2.7bn issue, while Segro PLC (LON:SGRO) and Tritax Big Box REIT PLC (LON:BBOX) drummed up £450mln and £250mln respectively.

Since April, Sirius Minerals PLC (LON:SXX) got away its US$400mln placing and open offer and this week M&S confirmed its £600mln raising and Serco is own for £130mln.

"This suggests that investors are prepared to back companies that they know and trust, where they feel the strategic argument for the fundraising is strong and the valuation sensible," says Mould.

Demand drivers
Richard Hunter, head of markets at Interactive Investor, agrees that it suggests investors are still happy to fund growth by acquisition if the opportunity looks right, eg the sizeable move to online retailing by M&S.

He said there number of things which might play into the hands of companies looking to raise funds from issuing equity.

"There is still much cash on the side lines - the current run has been called 'a hated bull market' many times over the last decade, prompting some investors to stay out."

Hunter added that the bond market uncertainty is "making life difficult" for some people to invest in fixed income. "For example, will the next move for US interest rates be up or down? The picture is unclear."

Equities are still the asset class of choice compared to cash returns, he says, wondering if talk of high corporate debt could be making the banks more cautious in lending.

What's that coming over the horizon?
Forthcoming IPOs, such as that from Trainline, will be an interesting test of the market's appetite.

But while a good flow of new deals is a healthy sign, a deluge throws up warnings signs to those who have been watching the market for many years, especially when it comes to IPOs.

"A primary market that is too exuberant can mean standards slip and lower quality deals get done as investors become over-excited," says Mould.

"The result is that cash is drained away into new deals and as those lower-quality companies fail to deliver sentiment is knocked, liquidity drained from markets and money ultimately wasted. That is how bear markets can begin."

He reminds us of the sage words of Bernard Lasker, then chairman of the New York Stock Exchange in 1970.

"I can feel it coming," said Lasker. "A whole new round of disastrous speculation, with all the familiar stages in order: blue-chip boom, then a fad for secondary issues, then an over-the-counter play, then a garbage market in new issues and finally the inevitable crash. I don't know when it will come but I can feel it coming and damn it, I don't know what to do about it."

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