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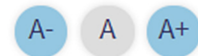
Markets

# Staying private vs going public: What are their downsides?

**Goola Warden** Published on Fri, May 07, 2021 / 7:00 AM GMT+8 / Updated 1 days ago



Staying private means flexibility for companies to restructure while going public unlocks value for shareholders. But what the downsides of each plan?

Private markets — as the name suggests — provide privacy for companies wishing to grow or restructure away from the prying eyes of investors, without having to provide all the details that corporate governance and regulations require that they disclose.

Still, some private companies restructure in the full glare of the public. Take Cityneon Holdings, the provider of immersive exhibitions, for example. Though privatised in 2018 at $318 million in a buyout by its executive chairman and CEO Ron Tan and Hong Kong businessman Johnson Ko, the company now has a business model which puts it squarely in the public spotlight.

Cityneon is opening a Jurassic World in Dallas to much fanfare. Elsewhere, its exhibition on Avatar — the world's highest-grossing movie — has opened in Chengdu, China. "We just opened to an amazing crowd on May 1 for the Labour Day holidays," Tan says.



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For Avatar, Cityneon has four immersive exhibitions in China. By the end of this year, that number will rise to six.

And, as evident by crowds at the music festival in Wuhan and elsewhere on May 1, China appears to have the Covid-19 pandemic under control and life is getting back to normal. Hence, Cityneon has reignited its ambitious growth plans.

Growth requires investment and, as a private company, Cityneon appears to have had no problems accessing capital. As far back as May 2019, Cityneon welcomed Citic Capital as a new shareholder with a 10% stake. Other institutional shareholders of the company included EDBI, the Singapore government-linked global investor, and Pavilion Capital, the Singapore-based investment institution which focuses on private equity investments, that made strategic investments in August and October 2019 respectively.

Initially, Cityneon provided immersive exhibitions for top-grossing movies such as The Avengers, Jurassic World, The Hunger Games and Transformers. The intellectual property (IP) rights for Avatar was just signed last year with 20th Century Studios. Tan has two requirements for his movie IPs — that they gross at least US$1 billion ($1.3 billion) in box office takings and that they have sequels or prequels. Avatar's sequel is scheduled for release in 2022.

Cityneon has since expanded its IPs to historical artefacts. The company plans to stage international exhibitions on the treasures of ancient civilisations. It is starting in the US with Machu Picchu from Peru in Boca Raton, Florida, and Ramses The Great and the Gold of the Pharaohs in Houston, Texas. These two experiences will start welcoming visitors in October and November respectively.

To fund its expansion, Cityneon raised a further $235 million from EDBI, Pavilion Capital, Seatown Holdings and Doha Venture Capital in April. The family offices of GK Goh Holdings and Allan Wang also invested in the company, as did the Singapore-based family office of Ren Yuanlin, the largest shareholder of Yangzijiang Shipbuilding.

What was it that attracted these investors to Cityneon? "EDBI saw in Cityneon a potential global champion with Singapore at the core of its long-term growth strategy and invested in 2019. Our investment in the current round is a testament to Cityneon's commitment to further develop local creative design and animatronics engineering capabilities while expanding their IP offerings to entrench their global leading position in immersive experiential entertainment," says Chu Swee Yeok, CEO & president of EDBI.

"We have been actively supporting the team as they built proprietary IPs and established a new creative centre in Singapore, helmed by their chief creative officer, to advance their vision," Chu adds. She is referring to Welby Altidor, Cityneon's chief creative officer (CCO) who previously was in a same role at Cirque Du Soleil.


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## The advantage of going private

According to Cityneon CEO Tan, going private meant a lot more flexibility. "Privatising gives management flexibility. When we were listed, there were so many stakeholders with different interests. After taking it private, management and key shareholders have the flexibility to grow the company. Today, we are way larger and delivered on everything we said we were going to deliver," Tan explains to The Edge Singapore in a recent interview.

After its latest round of fundraising which was completed in April, Cityneon is likely to have a capital base of $1.1 billion. "We took it private at around $300 million," Tan recalls. "More importantly, we have a group of shareholders of various interests, including institutional shareholders. Citic has been with me for years, along with EDBI and Mr Ko. Most importantly, Pavilion Capital is increasing its stake together with Seatown." Seatown is a unit of Singapore state investor Temasek. "We've also attracted new funds such as Evolve Capital Management. We have had a good mix of shareholders and we raised more than $200 million and are getting ready for our possible future listing," adds Tan without giving a timetable.

Cityneon's investors reckon the IPO could be as soon as early 2022. According to information on the company ahead of its April fundraising, Cityneon reported gross profits of US$48 million in 2020 with China contributing to a majority of the profits. This year, the US is likely to catch up, particularly in the second half with four openings in the US, including original artefacts. The forecast gross profit for 2021 is US$123 million. That would prepare the company for an IPO in 2022. Cityneon ties up with partners so that its own execution risk is minimised. Its revenue streams are licensing fees and royalties from partners, and a share of ticket and merchandise sales.

## Factors affecting private, public status

As a larger company with storied shareholders, the relisted stock of Cityneon would likely be very liquid and attract a larger investor base. Eng-Kwok Seat Moey, group head of capital markets at DBS Bank, says, "We see four key drivers driving listing interest. Firstly, to tap capital markets to fund future growth opportunities. Secondly, to increase the company's profile and visibility, enhancing its ability to attract a larger pool of talents. Thirdly, to leverage the listed vehicle status to generate opportunities and stronger negotiating power for strategic objectives such as mergers and acquisitions. And lastly, as an exit strategy by founding individuals to cash in on successful companies that they helped to start up and unlock value for their shareholders."

Eng-Kwok expects the reopening of the global economy to be a tailwind for equity markets. "With many global economies starting to show signs of recovery from the pandemic and as vaccination programmes help to re-open borders, we believe equities will continue to benefit from the positive economic momentum."



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But why do companies privatise and then relist? "Change is the only constant and there is no one-size-fits-all strategy for businesses, listed or unlisted. Much depends on the prevailing market sentiment and investor appetite," EngKowk observes. "For instance, macroeconomic factors and geopolitical tensions may result in low trading liquidity and valuations in companies deemed to have greater negative exposure to the headwinds. This could result in such companies opting to delist as the costs of staying listed outweigh the benefits. But when the economic cycle picks up and interest in the sector returns, there could be revived interest to relist to tap capital markets to fuel new growth opportunities," she elaborates.

### Buyouts and relistings

Brian Schmid, global head of product management and applied research at Burgiss, a provider of tools and data for private capital investors, points out that private equity is inclusive of both buyout and venture capital. A buyout is where a public company is taken private to make improvements and then relaunched or relisted as a public company.

Examples of buyouts on the Singapore bourse include Aztech Global and Econ Healthcare which were privatised and then successfully relisted. Aztech relisted on March 12, four years after the company was privatised. There is one big difference between the two companies. Aztech was privatised at $21.42 million and its market cap at IPO was $990.4 million.

Meanwhile, Econ Healthcare, which was previously listed on Catalist, was privatised in 2012 after it had changed its name to China Healthcare. The owners, which included its executive chairman Ong Chu Poh, paid minority shareholders 28 cents per share, valuing the company at $80 million. Unlike Aztech though, Econ Healthcare's market capitalisation at IPO with 257 million shares in issue is just $72 million.

Elsewhere, Soilbuild Group was privatised in 2010 for $418 million. Since then, parts were listed in the form of Soilbuild Construction and Soilbuild Business Space REIT (SB REIT). The latter raised $457 million in an IPO in 2014. Most recently SB REIT was jointly acquired in a buyout by the family of Lim Chap Huat and Blackstone Group.

Luxury massage chair maker Osim was also privatised through a buyout in 2016 and attempted to relist in Hong Kong, albeit unsuccessfully. Tat Hong Holdings privatised in 2018 and listed its Chinese business — Tat Hong Equipment Services — in Hong Kong in January.

Most recently, it appears that Gultech, which was privatised in 2013, could make a reappearance in one of the Chinese bourses. On May 3, Tuan Sing Holdings announced it had sold a 13% stake in indirectly-held associate Gultech (Jiangsu) Electronics for RMB435 million ($89.5 million). The buyers are two China-based asset managers: Yonghua Capital and Wens Capital. Their respective parent entities are the Yongjin Group and Wens Foodstuffs Group.


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On top of this transaction, Tuan Sing is weighing a potential IPO of Gultech in China. This entity is held by Tuan Sing via a 44.5%-owned associate. At the transacted price, Gultech, which makes printed circuit boards, is valued at RMB3.35 billion. "The transaction is in line with our plans to strengthen the balance sheet and sharpen our focus on our core property business in the region," says Tuan Sing CEO William Liem.

"Beyond our common ownership in Gultech, we will continue to explore opportunities for potential collaborations to broaden and deepen our presence in China as we leverage on the funds' extensive institutional knowledge and local network in China."

## Aiming high

According to wire services such as Bloomberg and Reuters, ARA Asset Management, which privatised in 2016 with a buyout offer from Warburg Pincus and AVIC Trust, is looking to relist. Warburg Pincus holds a 48.7% stake in ARA and analysts expect to see the timetable for an IPO next year when Warburg Pincus holding period hits the five-year mark. Private equity holders usually attempt an exit at the five-year mark.

Last May during the depths of the Covid crisis, AVIC Trust sold its stake, and the other shareholders of ARA such as Straits Trading, Warburg Pincus, CK Asset Holdings and founder John Lim had to step in to acquire that stake.

"The liquidity burden that being private puts on the asset owner can be pretty tricky. The asset owner can be in a position where all of a sudden they are asked to come up with a lot of capital quickly, especially in the market downturn, this can happen," observes Peter Shepherd, head of fixed income multi-asset class and private asset research at MSCI, during a recent discussion on private equity.

"When there is a market downturn, the general partner (GP) sees market opportunities. In the middle of a crisis when liquidity is sort of at a premium, a whole lot of capital is usually required. And the asset owner has to come up with that liquidity over a very short horizon. That kind of risk is front and centre for a lot of private capital investors. And that liquidity risk is probably more important than other [risks]," he elaborates.

According to the 1HFY2020 financial results presentation of Straits Trading, it acquired a 1.1% additional stake in ARA for $30.3 million from AVIC Trust. This values ARA at $2.75 billion. DBS Group Research has been more bullish. In a detailed Straits Trading report in February, it had assigned a valuation of $5 billion to ARA based on a 5% enterprise value (EV) to effective AUM valuation of $104 billion. EV is calculated as the market capitalisation plus debt, minority interest and preferred shares, minus total cash and cash equivalents.


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For asset management companies, EV to AUM valuations of 1%–2% is often applied. As with each business, the revenue is a function of price and quantity where the price is the fee charged for the services to clients and the quantity of AUM. The value comes from the profit that is generated on the revenues. According to a Deloitte report in November 2020, asset management companies with low profitability should have an AUM multiple on the low end of the range while asset management companies with sustainable higher-than-normal margins typically should result in higher EV to AUM multiples and hence higher valuations.

At its privatisation offer, ARA was valued at $1.8 billion in early 2017, compared to $2.75 billion in May 2020. According to the scheme document, ARA's valuation at privatisation was at a PE ratio of 20.5 times, EV/ Ebitda of 17.5 times, and its EV was trading at 5% of its AUM. The offer price of $1.78 was also at a hefty premium to ARA's then NAV of 56 cents.

As at end-June 2020, ARA's shareholders' funds amounted to $1.85 billion excluding minority interests, but including $950 million of perpetual securities, similar to its privatisation value in 2017. Of the $950 million perpetuals, the call date for a $300 million tranche is in 2022.

ARA is an asset manager which gets its revenue from fee income from the management of its funds and REITs. On April 30, ARA announced it had entered into a sale and purchase agreement for 50% of Dasin Retail Trust's manager and 5% of the REIT itself. Since being privatised in 2017, ARA has acquired stakes in Kenedix, a Japan-based asset manager; Cromwell Property Group, an Australian-based asset manager; and Logos, an Australian and Singapore-based asset manager that develops logistics assets in Asia that are held through its funds. Logos is a sponsor of ARA Logos Logistics Trust. In December 2019, ARA and Venn Partners formed a JV to capitalise on real estate credit in Europe.

### Valuing REIMs

The valuation of an unlisted real estate investment manager (REIM) is likely to appear very stable but that could be deceptive, observers say.

"Private asset valuations tend to be quite smooth. They are subjective and they get revalued when a GP changes their books. A lot of investors had thought that because valuations look smooth and uncorrelated that they're low risk. The underlying value is exposed to the same economy like everything else. So if the economy tanks, it does not matter if it's private equity or public equity, public real estate or private real estate, the assets are exposed to the same economy and a lot of the same systemic factors driving everything," Shepherd explains.

Although ARA's earnings are seen to be very stable, they fluctuate with the economy. Its 1HFY2020 ended June 30, 2020 earnings declined to $62.5 million from $147.3 million in 1HFY2019. It is likely, though, that in FY2021, ARA's earnings are likely to rebound to FY2019 levels of $152.6 million for the full year.


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Analysts have said that ARA — when it files for IPO — should be compared to companies such as Lendlease Group, Charter Hall Group and Goodman Group. Based on Bloomberg data, Lendlease, Charter Hall and Goodman are trading at PE ratios of 18 times, 30 times and 20 times; and EV/Ebitda ratios of 12 times, 42 times and 47 times respectively. Analysts have also said that ARA should not be compared to CapitaLand Investment Managers (CLIM) as the latter is likely to hold on to a lot more assets, including incubating a pipeline for its REITs.

In addition, CLIM will wholly own its fund managers, REIT managers, property managers, and significant stakes in its funds and REITs. In short, CLIM is likely to have a lot more skin in the game than ARA.

It is easier to value Cityneon as it is using venture capital. These investors now own significant stakes in the company, taking its valuation to $1.1 billion of equity. In contrast, ARA's balance sheet comprises mostly perpetual securities followed by retained earnings.

At any rate, the exit strategy for both is likely to be through an IPO although Cityneon's shareholders appear to be satisfied with keeping it as an unlisted company for the time being.

"Under Ron's leadership, Cityneon has successfully transformed itself to become a global immersive experiential entertainment company. We are impressed with the capability of the multicultural management team in creating and delivering experiential exhibitions, based on blockbuster movies and artefacts IP, in global cities," says Goh Yew Lin, managing director of GK Goh.

Meanwhile, Tan is looking for new "verticals". "We are exploring the e-gaming sector. What you watch in your movies, you translate to live experiences and e-gaming is a major vertical," he says. Cityneon is also planning a Skyswings experience in Singapore and its shareholders are happy to go along for the ride.

"We look forward to joining existing and new shareholders in supporting Cityneon's next phase of growth," Goh says — he would know a thing or two about valuations in the private and public markets

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