



The Canadian IPO Market Looks Dead: What's Going On?

Description

A recent **PriceWaterhouseCoopers LLP** (PWC) survey of Canadian equity markets found that over the past three months there was only one new IPO of \$690,000. The first three quarters of 2016 were the worst on record with less than \$2 million in new issues for the year.

Some major executives are cautious about Canada's future. David McKay, the CEO of **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), believes it could take 15 years for Canada to "reinvent itself" after its manufacturing and service sectors began to shrink following the 2009 financial crash.

Is the Canadian IPO market dead?

The market may just be sleeping

"The factors weighing on the IPO market are well known: global economic uncertainty, persistent weak performance in China, negative interest rates and a troubling outlook for European banks are daily news," the PWC report said.

Uncertainties regarding the Brexit and the U.S. presidential election were also cited as headwinds. For example, mortgage finance company MCAP Corp. had planned a \$275 million share sale in June but backed out, citing market volatility from the U.K.'s Brexit vote.

But conditions may be on the mend. Rising commodity prices have strengthened the appeal of oil, gas, and mining companies. There are also some consumer companies looking to IPO soon.

"Canadian mining companies are quietly making a comeback," the PWC report notes, "with some of their share prices up substantially since January. Mining companies in production or in late-stage development have seen the benefit, with improved access to capital via secondary markets. That buoyancy hasn't reached the junior miners yet, but it's a hopeful sign."

Investors are also expecting a \$400 million IPO from apparel merchandiser Aritzia. Launched in Vancouver in 1984, the company sells clothes and accessories aimed at 15-to-30-year-old female shoppers. It has more than 70 retail locations across North America, including in New York, Toronto,

Montreal, Boston, Chicago, and San Francisco.

Canada Goose is also readying a likely \$2 billion IPO. According to *The Wall Street Journal*, “The Canadian company is interviewing potential underwriters for an offering.” The company has achieved double-digit sales growth since 2014, primarily driven by burgeoning international demand.

The worst is over

Overall, the Canadian IPO market remains sleepy, but likely not for long. The main drivers among Canada's past IPOs—the mining sector, income trusts, and acquisition companies—are slowly recovering from massive down cycles in their respective industries.

With the worst over, expect Canada's IPO market to turn a corner. With upcoming listings from Aritzia and Canada Goose, not to mention follow-on offerings from cash-needy commodity companies, 2017 will likely look much better than this year.

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