



How to Bet on Canada's Rebounding IPO Market

Description

Every year, nearly 100 private companies list their shares on a public market in Canada. These initial public offerings (IPOs) create a liquidity event for long-term shareholders and company founders while allowing retail investors a chance to share in the future growth of the enterprise.

Canada's stable economy and proximity to America make it a prime destination for listings. Hundreds of companies, bond issuers, exchange-traded funds (ETFs), and real estate investment trusts (REITs) have raised billions of dollars on Canada's various public markets in recent years.

According to PriceWaterhouseCoopers (PwC), 54 companies listed their stocks on Canada's four markets over the course of 2018, raising \$2.2 billion altogether. In 2017, that figure was much higher, with companies raising \$5.1 billion in aggregate from 37 IPOs.

A combination of market volatility and interest rate hikes last year made investors anxious and had a cooling effect on the country's IPO market. However, the first quarter of 2019 has been relatively stable, and experts are now prepared for a swift rebound.

Eight issues raised a total of \$327 million over the first quarter of this year. The largest IPO was that of payment processor **Lightspeed POS**, which raised \$240 million through a listing in March and has already delivered a 115% return since then.

Plenty of other tech companies, cannabis producers, and mining firms are eagerly waiting for similar liquidity events in the near future. With the market soaring and global trade tensions already priced in, there's a convenient window for private investors to finally unlock the value of their holdings.

A rebound in the IPO market will ultimately benefit the owner and manager of Canada's major stock exchanges: **TMX Group** ([TSX:X](#)). TMX owns the Toronto Stock Exchange, TSX Venture Exchange, TSX Alpha Exchange, and Montréal Exchange.

The business of managing the country's stock exchanges is a rare example of a pure monopoly. Every new issuer needs to pay not just for the listing but also for ongoing services. This makes the TMX group a perfect proxy for the vitality of the Canadian capital markets.

A healthy economy with a booming stock market encourages more entrepreneurs to launch businesses and more private investors to deploy capital with the expectation of an eventual exit.

TMX's bottom line represents a steady chunk of this growing number of valuable listings every year. In 2018, capital formation contributed one-fifth of the company's gross revenue. The segment's operating margin is a healthy 56%.

However, TMX's fortune isn't completely dependent on Canada's IPO market. The company has three other business segments, ranging from data services to derivative trading, which diversify the company's income streams. Nearly a third (33%) of the company's revenue in 2018 was generated outside Canada. The group is also preparing to launch a [cryptocurrency exchange](#) in the near future.

Bottom line

The TMX Group's monopoly on the stock exchanges makes it a perfect proxy for Canada's mature financial system and the country's entrepreneurial spirit. Investors looking for exposure to the growing number of issues and the growing value of listings should consider adding this lucrative stock to their portfolios.

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