

# FINANCING DISPARITY BETWEEN OWNERS OF SMALL CAPS VS LARGE CAPS 2.0

## BACKDROPS AND OUR OBSERVATIONS:

- We published “FINANCING DISPARITY BETWEEN OWNERS OF SMALL CAPS VS LARGE CAPS” [Vol 07] in May 2021 which summarized how small cap companies in Asia struggled to access capital during the 2020.
- While the total capital raised through new IPOs in Asia increased by 16% YoY in 2021, this decreased by 46.5% YoY for Asia small cap companies.
- While the total capital raised through IPO and ADDL increased more than three times YoY in 2021 in Asia, this merely increased by 60% for Asia small cap companies. Small cap companies were still underperforming in raising capital, which may be due to the rise in number of defaulted bonds.
- The trend changed in 2022 with the capital raising market share rebounding for Asia small cap companies. This may be due to the share price outperformance of Asia small cap companies in 2021.

## KEY TAKEAWAYS:

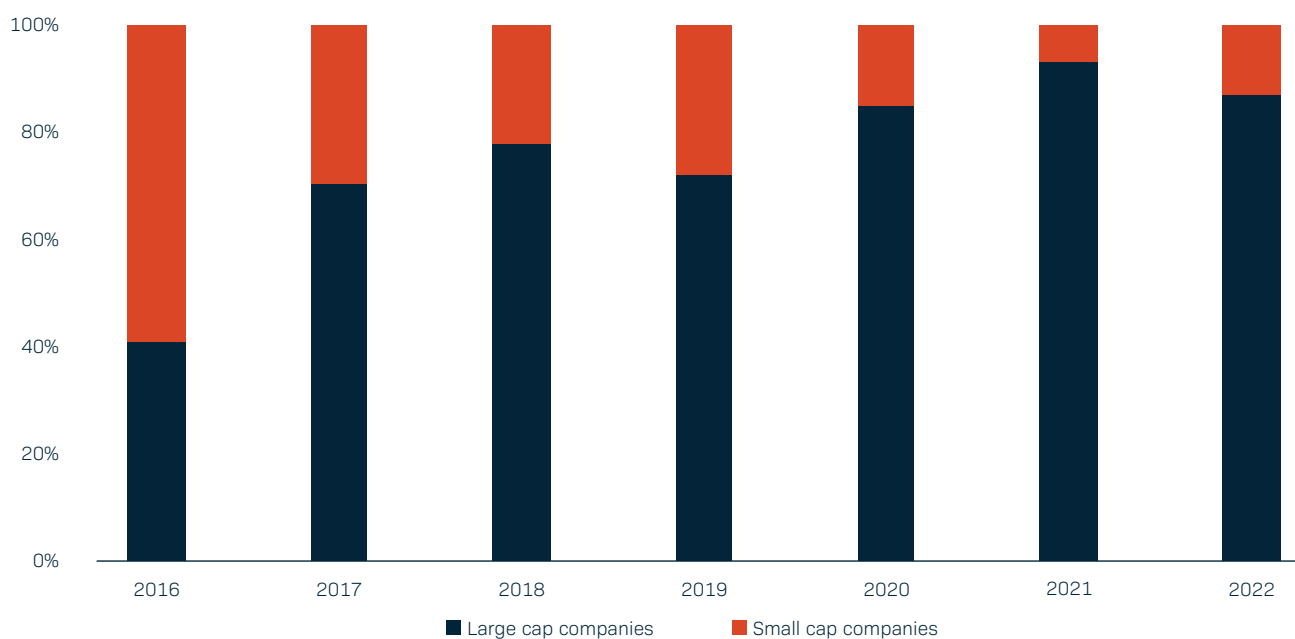
- As the economy rebounded in 2021, small cap companies in Asia, which were more volatile, outperformed large companies in Asia. Despite this, we still see traditional lenders limiting credit to small cap companies.
- While small cap companies may not qualify for margin lending from traditional lenders, they may qualify for a loan from EquitiesFirst given our lower minimum market cap and liquidity requirements. EquitiesFirst is able to provide competitive financing which is both nonrecourse and non-purpose.
- Although small caps companies regained credibility, traditional lenders still limit their access to loans. EquitiesFirst can assist the substantial shareholders of these firms access financing through share-backed lending. Given the non-purpose feature of the loan, the substantial shareholder has the flexibility to lend the capital back to the company.

EquitiesFirst analysed the financing activities of small caps and large caps companies in May 2021 and concluded that the small caps companies face more difficulty in raising money, which may be due to higher risk with lower returns, lack of market communication, and increasing bond default risks.

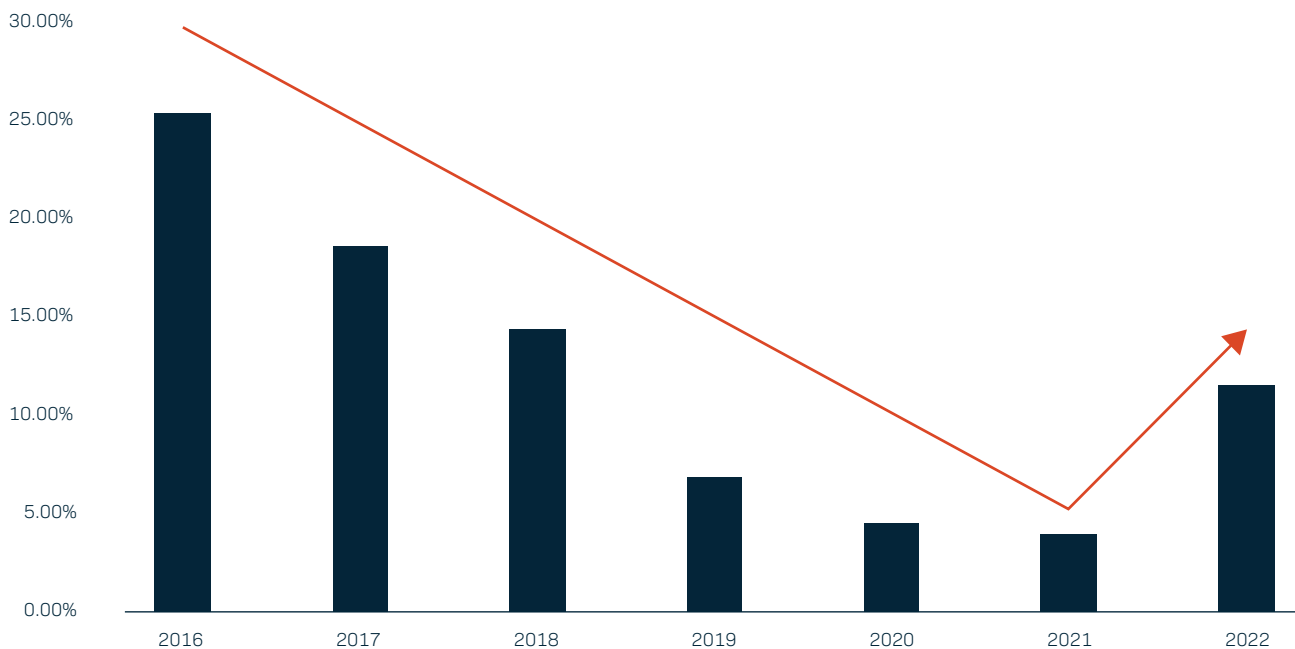
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### MARKET SHARE BREAKDOWN OF NEW INITIAL PUBLIC OFFERINGS (BY CAPITAL RAISED)



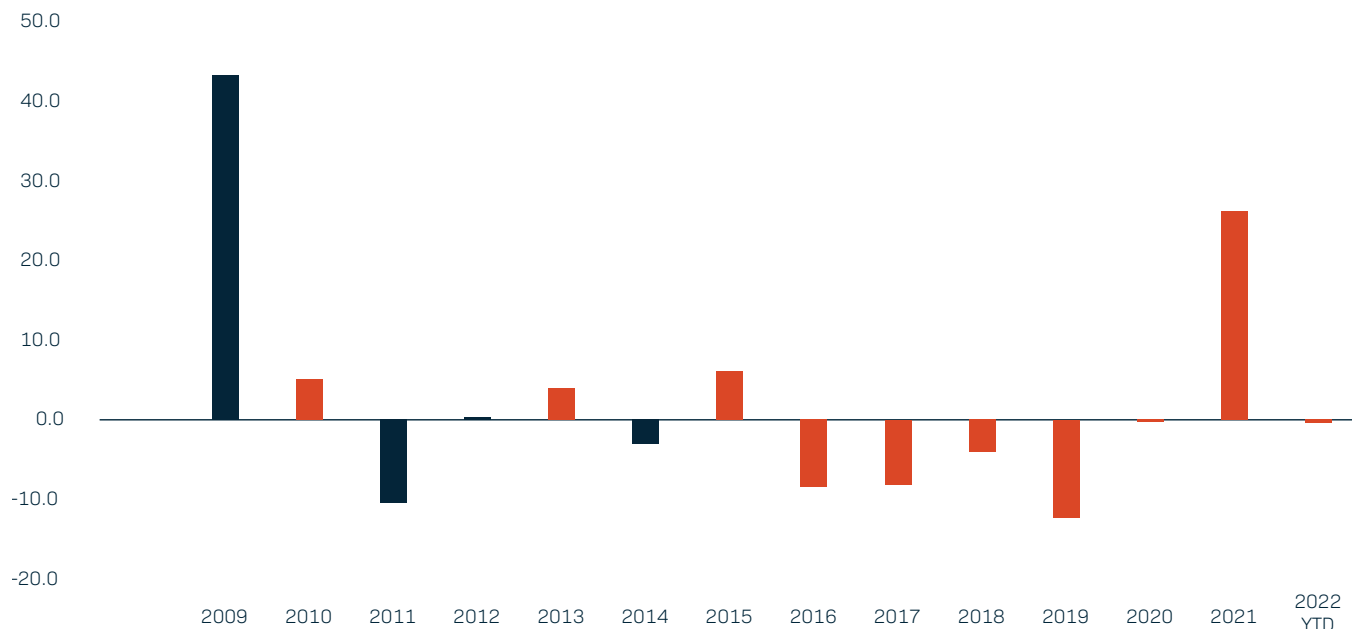
### MARKET SHARE OF SMALL CAP COMPANIES IN ADDITIONAL SHARE OFFERINGS (BY CAPITAL RAISED)



However, after a year, we observed that the market shares of small cap companies in both IPO and ADDL have rebounded in the first five months of 2022.

This may be due to the outperformance of small cap companies over big cap companies in 2021. Investors may consider buying in more small cap companies to chase the momentum while companies try to issue more shares at higher prices to raise more capital.

## SHARE PRICE OUTPERFORMANCE/UNDERPERFORMANCE OF ASIA EX JAPAN SMALL CAPS VS LARGE CAPS



The bonds defaulted by small cap companies during the last two years rose from 6 to 14. This is because of rising economic uncertainty, political uncertainty, and the difficulty in refinancing. The coupon rates for these defaulted bonds ranged from 6% to 15% and the total defaulted amount doubled from US\$ 1.1 bn to more than US\$ 2.2 bn. This further deteriorated the financing credibility of small cap companies when borrowing from traditional lenders.

## LIST OF BONDS ISSUED BY SMALL CAP COMPANIES WHICH HAVE DEFAULTED IN THE LAST 5 YEARS

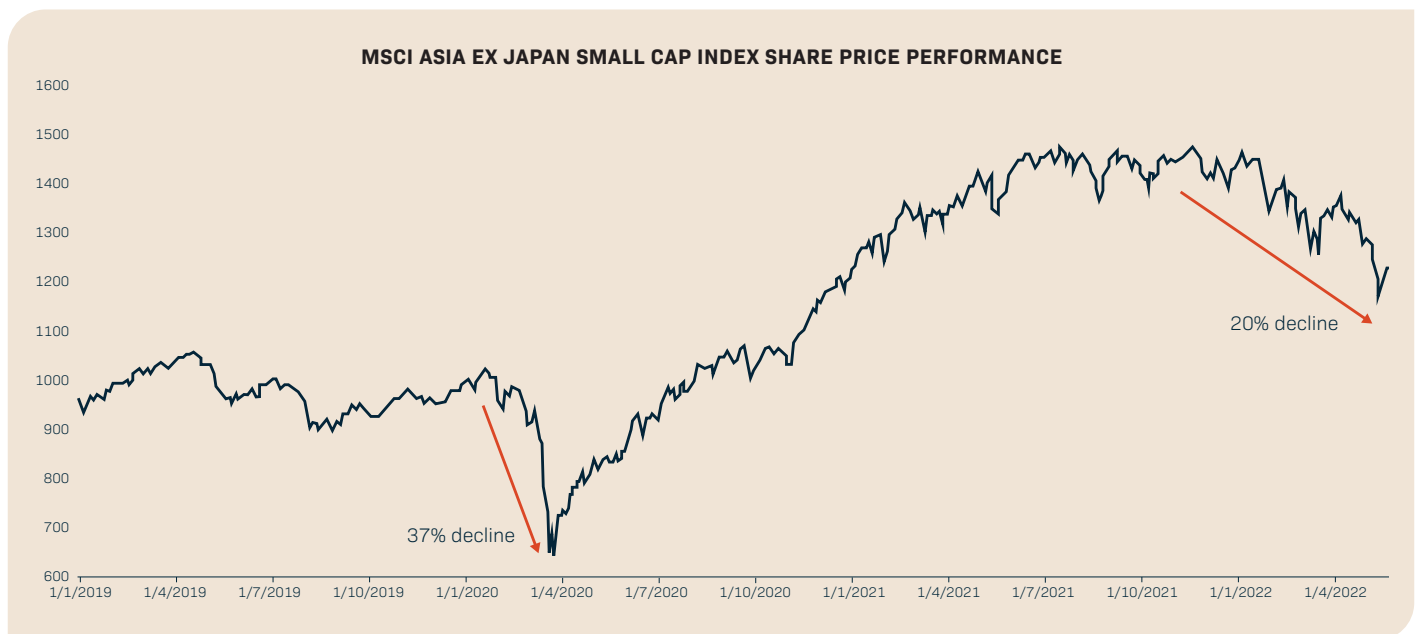
#	Issuer Name	Ticker	Default Date	Cpn	Outstanding Amount (USD)
1	DaFa Properties Group Ltd	DAFAPG	1/3/2022	12.38	359,000,000
2	DaFa Properties Group Ltd	DAFAPG	18/1/2022	9.95	40,360,000
3	Modern Land China Co Ltd	MOLAND	25/10/2021	12.85	250,002,000
4	Cheergain Group Ltd	CHINPR	15/10/2021	15.00	226,000,000
5	Century Sunshine Group Holdings Ltd	CENSUN	3/7/2020	7.00	53,757,672
6	Glory Land Co Ltd	GUOPRO	27/2/2022	13.50	4,900,000
7	Sunshine 100 China Holdings Ltd	SUNCHN	5/12/2021	10.50	170,000,000
8	Sunshine 100 China Holdings Ltd	SUNCHN	11/8/2021	6.50	45,400,000
9	China Oceanwide Holdings Ltd	CHOCHD	26/1/2022	6.00	9,850,257
10	Carnival Group International Holdings Ltd	CARINT	22/3/2021	10.00	180,000,000
11	Asia Capital Group PCL	ACAPTB	18/6/2020	6.50	68,381
12	Hilong Holding Ltd	HILOHO	22/6/2020	7.25	165,114,000
13	Hilong Holding Ltd	HILOHO	16/10/2020	8.25	200,000,000
14	GCL New Energy Holdings Ltd	GCLNE	30/1/2021	7.10	500,000,000

While small cap companies may not qualify for margin lending from private banks, they may qualify for a loan from EquitiesFirst despite lower market cap and liquidity. We can transact with substantial shareholders of small market cap companies, while still providing competitive commercial terms. Because EquitiesFirst financing is non-purpose, the shareholder is free to use this facility as a source of working capital or as a refinancing facility for their operating company. This can be a vital solution for the financing shortfall in the small cap space. Furthermore, the EquitiesFirst model is inherently medium term and more accommodating to share price volatility.

## MARGIN CALL ADVANTAGE

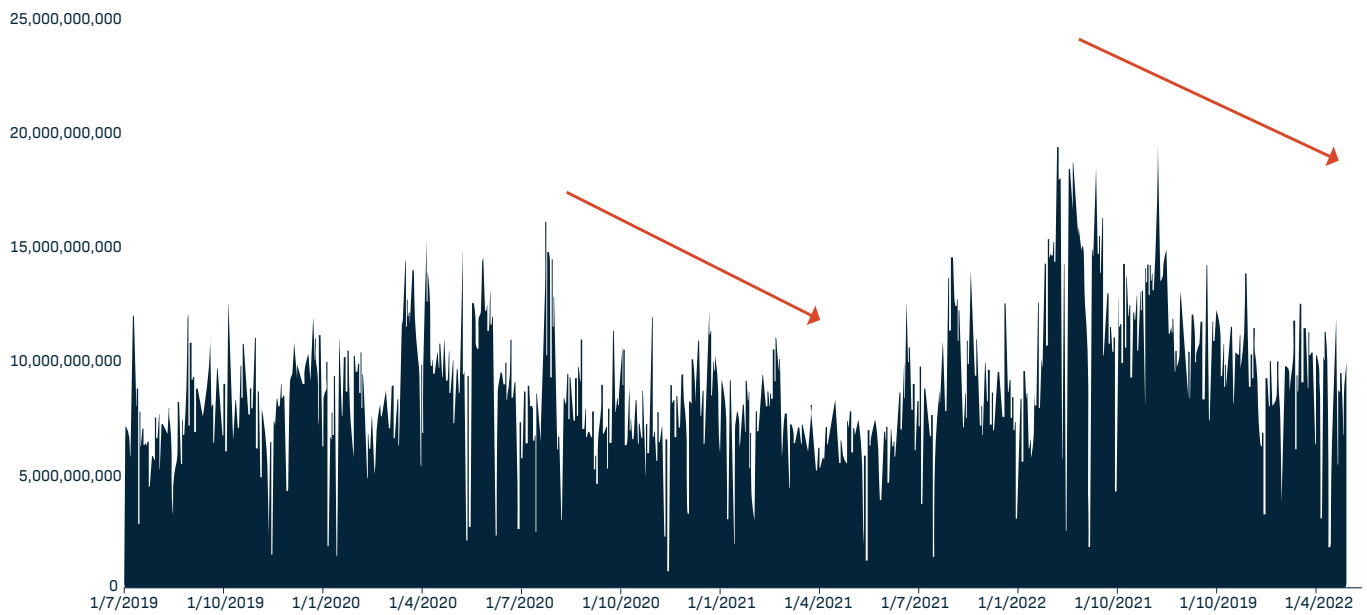
In early 2020, when the market was factoring-in the impact of COVID-19, the MSCI Asia ex Japan Small Cap Index dropped by 37%. Also, earlier this year, the market underwent correction and the MSCI Asia ex Japan Small Cap Index dropped by 20%. Shares pledged to a traditional bank would have been subject to margin calls in both these cases.

EquitiesFirst's margin call threshold is calculated as 80% of the loan LTV. In other words, assuming an LTV of 65%, the margin call threshold would not be breached until there is a decline of more than 48%. Even when the market correction in 2020 happened, it wouldn't have triggered a margin call for small caps, on average.



There are also times in which the trading volume of small cap companies have declined, especially when investor sentiment is cautious or uncertain. Asia small caps have been subject to such liquidity fluctuations (proxy from MSCI Index) in 2019, early 2020, early 2021 and early 2022. A decline in trading volume is a common margin call trigger for typical share-backed lending by banks. These lenders have the right to adjust their margin call thresholds and requirements at will and take into account volume, volatility, and portfolio composition as well as price. In comparison, EquitiesFirst has fixed and transparent margin call terms that only track the change in market price.

**VOLUME OF ASIA EX JAPAN SMALL CAP INDEX**



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