

MARKET LISTING UNDER THE 'PRIDE OF THE PROVINCES'



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Why have local corporations become so interested in listing on the Thai stock market in recent years? The "Pride of the Provinces" programme is one of many reasons even though listing on the Stock Exchange of Thailand (SET) or the Market for Alternative Investment (MAI) under the programme project requires significant effort.

The first phase of the project, launched last year, has been very successful, with 104 companies from 34 provinces participating. Promotion of the second phase is now under way by several agencies, among them the Securities and Exchange Commission (SEC), the Interior Ministry, the National Science and Technology Development Agency, the SET, the Federation of Thai Industries, the Thai Chamber of Commerce, the Investment Banking Club and SEC-authorised auditors.

The goal of the programme is to encourage high-potential businesses, mainly upcountry, to learn more about

the requirements for listing so that owners and management have sufficient time to prepare to adopt best practices in three key areas — governance, risk and control — and be ready to attract potential investors.

There are minimum requirements for the "Pride of the Provinces" project. Companies must have had their core business in provinces other than Bangkok for at least two years. Their paid-up registered capital and shareholders' equity should be at least 20 million baht, or they should have profit or positive retained earnings in the latest financial statements.

In addition to fulfilling the regulatory requirements for listing, owners and management personnel need to build the confidence of potential investors in their financial statements and operations in general. They have to show how well the company's business model, strategy, objectives, risks, performance and reward are governed, now and in the future.

Generally, it takes at least a year for a company to complete the preparations to list its shares successfully on the SET or MAI. The process is as follows:

- ◆ Restructure the company in terms of shareholding as well as the role and responsibility of management to match with best business practices including the restructuring of the financial model/structure;

- ◆ Engage an independent board of directors and audit committee, ensuring the members have professional knowledge of the capital market, not only in Thailand but also in terms of international criteria;

- ◆ Prepare a business plan for making use of the funds expected to be raised in an initial public offering (IPO). The key success factor is how to make the plan more attractive and feasible in the eyes of potential investors;

- ◆ Convert the legal structure from a "simple limited company" to a "well-established public company";

- ◆ Improve the company's internal controls and accounting systems to meet the relevant standards of best practice by using the same rules that are understandable to the international market and well accepted in Thailand;

- ◆ Engage an SEC-authorised financial adviser who understands the business and an SEC-authorised auditor — such as PwC, for instance;

- ◆ Submit all documents to be reviewed and endorsed by the authorised financial adviser;

- ◆ File with the SEC and SET;

- ◆ Distribute shares to investors;

- ◆ List on the SET or MAI.

In our experience, the company often benefits more if the financial adviser works more closely with an independent

auditor in the early stages to combine their expertise and help speed up the IPO preparation process. Both can ensure the pieces of the puzzle fit together perfectly.

Two areas of concern for most companies are internal control and accounting matters. Since most Thai companies are family-owned, these two areas are generally not monitored well and do not follow best practices. It is understandable that most family business owners would prefer to have all controls monitored closely by family members rather than leaving them with outsiders.

To list on the SET or MAI, companies need to ensure they have established good governance, risk management and compliance in all areas according to the acceptable standards of relevant regulators. The company should have its own effective and efficient internal processes of checks and balances at all times. The audit trail, which is not just for statutory audit purposes, should be maintained in day-to-day operations.

Internal controls should comply with regulations announced by the SEC. The company must have a written internal control policy and processes that are in line with the requirements of the Committee of Sponsoring Organisations. It may have to consider hiring a professional to help develop or improve its internal processes. The audit committee has to be engaged in order to independently evaluate the internal controls and maintain good governance.

In the area of accounting, three perspectives cause most companies concern:

- ◆ The numbers in the financial statements do not represent real business transactions;
- ◆ It takes time for the company to close its books, so meeting quarterly deadlines for submitting financial statements will be challenging. This is because many companies are accustomed to annual closing in order to satisfy regulators such as the Commerce Ministry or Revenue Department;
- ◆ Migrating financial reporting from the basis of family ownership to that of a

publicly accountable entity will be very challenging due to significant changes in the accounting platform under full Thai Financial Reporting Standards (TFRS).

Top management has to reconsider the effect of adjusting financial statements in order to comply with TFRS and tax regulations. For instance, those assets that have not been booked have to be revalued and recorded clearly in the statements. Transactions between related parties have to be reviewed and recorded or disclosed completely and correctly in the general ledger.

Real business transactions including sales and expenses should be recorded complete and intact. The accounting policy has to be adjusted in order to comply with all applicable standards. Net revenue in the financial statements before adjustment might be totally different from the unadjusted one.

In addition, the process of closing accounts should be revised since the company has to submit its quarterly financial statements to the SET within 45 days from the quarter's end and year-end statements within 90 days from the period's end.

The application of TFRS could be an issue. For instance, the application of complicated standards such as those related to business combination may be a concern for management. These are just a few examples of the challenges management has to face to respond to the needs of potential investors in the capital market.

Though it takes time and effort, a company will definitely gain huge benefits from being listed on the SET and MAI. It can access various sources of funds, either locally or internationally, to expand its own business. The cost of funds may well be lower than the cost of borrowing from financial institutions.

Also, the company may be able to forge business alliances. The owner can get access to better professional managers who can help operate the business professionally while reducing fears of untoward incidents that might keep them awake at night. The succession of the

company's management can also be much more easily developed. However, the owners may have to weigh their loss of control or privacy after listing.

It is management's choice to balance the pros and cons of a decision to pursue an IPO. However, the critical success factor for an IPO is the decision to pick the right financial adviser and independent auditor to work hand in hand with the owners and management from the outset.

From our perspective as professionals with the experience of supporting companies to list in Thailand and elsewhere, or cross-border listings, it must be very interesting and challenging, as many have been lining up to list on the Thai capital market in recent years.

Does it interest you too? Should you require more in-depth information, you can contact the authors below.

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