Stapled securities may become next market darling

By LESLIE YEE

AFTER structured warrants and real estate investment trusts, Singapore investors are now getting their first taste of an initial public offering (IPO) of stapled securities — from Singapore Power's SP AusNet.

More offerings of stapled securities in Singapore could follow over time as investor understanding of the product increases, said an academic well versed in the topic of stapled securities.

According to Sundaram Janakiramanan, practice associate professor of finance, Singapore Management University, stapled securities are an established product in overseas markets and they offer investors exposure to a diversified portfolio of operations. He added that the diversification can reduce risk to investors.

Being a ground-breaking IPO in the Singapore market, the performance of SP AusNet could determine future appetite among investors for stapled securities, added Prof Janakiramanan.

With stapled securities, an investor owns two or more securities which are generally related and bound together through one vehicle.

For example, stapled securities could comprise one trust unit and one share in the funds management company, which cannot be traded separately. The trust holds the portfolio of assets while the related company carries out funds management and pursues development opportunities.

A stapling deed governs the relationship between the trust and the company. Typically, there can be a stapling of any further security to the stapled securities.

In the case of SP AusNet, the stapled securities consist of units in two companies, one owning distribution assets and one owning transmission assets, and one trust, which provides financing to the two companies.

According to SP AusNet, its stapled security has two key benefits. Holders can receive cash distribution in excess of SP AusNet’s accounting profits and SP AusNet has greater flexibility to undertake future acquisitions as an acquired company can either function as a subsidiary of the stapled group or be included as an additional member of the stapled group.