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What is voluntary delisting?

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Delisting may be voluntary or involuntary. Voluntary delisting is what happens when a company chooses to leave the exchange of its own accord. Involuntary delisting happens when a firm ceases operation, goes bankrupt or fails to meet listing requirements.

WHY IS IT IMPORTANT?

In a voluntary delisting, retail investors may be disadvantaged in terms of the price they get.

On the back of a string of delistings from the Singapore Exchange (SGX), some changes were made to the listing rules last July to better protect the interests of minority shareholders.

The approval threshold for a voluntary delisting remains the same. It must be approved by non-conflicted shareholders holding 75 per cent of the total number of shares, present and voting at the general meeting.

The exit offer must be not just reasonable but also deemed fair in the opinion of the appointed independent financial adviser.

In addition, the offeror and parties acting in concert cannot vote on the delisting resolution.

From 2016 to last year, there were 94 delistings versus 62 initial public offerings on the SGX.

More than half of the delistings were due to mergers and acquisitions. Super Group falls into this category, as it was acquired by a Dutch company, Jacobs Douwe Egberts. Another example is BreadTalk, recently acquired by BTG Holding.

A similar trend has been observed in the United States market, where the number of listed companies has shrunk by almost half from 1996 to 2018.

Some companies choose to delist for strategic reasons. A recent example is Mary Chia, which delisted to focus on businesses apart from beauty, slimming and spa services.

What is troubling is when companies voluntarily delist because the perceived costs of staying listed outweigh the benefits.

Some local companies have delisted from the SGX to relist elsewhere, citing higher valuation, better liquidity, broader investor base, easier access to Chinese capital and less stringent reporting.

However, it is not clear that these companies are indeed better off.

For example, Luye Pharma, which delisted from the SGX in 2012 when its price-to-earnings (PE) ratio was 19 and relisted on the Stock Exchange of Hong Kong, has a PE ratio of 11.5 this month. Food company Want Want's PE ratio was 21 when it left the SGX in 2007, but its current PE ratio on the Stock Exchange of Hong Kong is 17.8.

To improve the competitiveness and attractiveness of SGX, several measures have been introduced. These include a dual-class share structure, daily leveraged certificates, tie-ups with Nasdaq and the Tel Aviv Stock Exchange, doing away with the minimum trading price rule, and removal of mandatory quarterly reporting.

It remains to be seen if these measures can help SGX overcome the competition from regional exchanges.

IF YOU WANT TO USE THE TERM, JUST SAY:

"Voluntary delisting can happen for reasons ranging from a change in the business model to low trading volume, depressed valuation and the high compliance cost of staying listed. Rules have been put in place to protect minority shareholders in the event of a voluntary delisting."

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