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Emerging Stocks Lose 20% as Mobius Sees IPO Backfire (Update1)  
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(Adds today's trading for MSCI index in sixth paragraph.)

By Michael Tsang

Jan. 5 (Bloomberg) -- Emerging markets are attracting more money from initial public offerings than industrialized nations for the first time ever, a warning sign to Mark Mobius that the record rally in the shares may turn into a 20 percent decline.

Faster economic growth may help China, India and Brazil produce the biggest increases in IPOs and almost double sales to \$200 billion worldwide, according to Matthew Johnson, the New York-based head of the global-equities syndicate at Barclays Plc. Poland alone may offer more than \$10 billion of state-owned companies, according to estimates by UniCredit SpA.

Companies in the MSCI Emerging Markets Index trade at the highest levels relative to earnings since 2000 after the gauge surged 75 percent and IPOs in developing economies raised \$77 billion. The 2009 sales exceeded industrialized nations by 160 percent, the first time developed countries attracted less money, annual Bloomberg data starting in 2000 show.

"When you look at the size of some of these IPOs, they're pretty massive," Mobius, 73, who oversees \$34 billion of developing-nation assets at Templeton Asset Management Ltd., said in a telephone interview from Tokyo. "At the right price, the IPOs will be absorbed, but you're going to have some hiccups. It's too much supply coming out."

Investors snapped up new shares in developing nations as China led the recovery from the first global recession since World War II. The MSCI Emerging Markets Index of 22 countries rebounded from its worst annual performance to post the biggest gain since data began in 1988. The MSCI World Index of stocks in 23 industrialized economies climbed 27 percent in 2009.

#### Stocks Gain

The gauge for emerging-market equities advanced 1 percent to 1,014.4 at 7:57 a.m. in London, heading for the highest close since Aug. 1, 2008.

Metallurgical Corp. of China, the Beijing-based company that helped build the Bird's Nest Olympic stadium, sold \$5.1 billion in Shanghai and Hong Kong in September. Banco Santander (Brasil) SA, the Sao Paulo unit of Santander, Spain-based Banco Santander SA, held Brazil's biggest initial offering ever in October. The bank raised a total of \$8 billion as underwriters exercised an option to buy more securities in November.

The average developing-nation offering beat the MSCI Emerging Markets Index by 39 percentage points in 2009, data compiled by Bloomberg show.

Shanghai Stock Exchange IPOs may more than double to 380 billion yuan (\$56 billion) this year and rise 96 percent to HK\$370 billion (\$48 billion) in Hong Kong, based on a Dec. 21 report from Ernst & Young LLP and data compiled by Bloomberg.

#### China's Sales

The combined value of China's sales would be more than twice the \$40 billion to \$50 billion in the U.S. forecast by London-based Barclays last month.

Agricultural Bank of China in Beijing may raise 200 billion yuan this year, Li Fuan, head of the China Banking Regulatory Commission's banking innovation department, said last month, the Securities Times in Shenzhen reported.

United Co. Rusal, the world's largest aluminum maker, will sell a 10.6 percent stake for as much as HK\$20.1 billion, a statement filed with the Hong Kong Stock Exchange said last week. The company controlled by billionaire Oleg Deripaska would be the first Russian stock sale in Hong Kong. Paulson & Co., the New York-based hedge fund run by John Paulson, and NR Investments Ltd., the firm of Nathaniel Rothschild, will buy shares, the prospectus showed.

#### Rusal, Alcoa

The HK\$9.10-to-HK\$12.50 IPO price range would give Moscow-based Rusal a so-called enterprise value, or the sum of its stock and debt minus cash, of 10.6 times to 13.3 times its 2010 forecast earnings before interest, taxes, depreciation and amortization, said two people familiar with the information. New York-based Alcoa Inc., the biggest U.S. aluminum company, has an enterprise value-to-estimated 2010 Ebitda ratio of 9.25, according to data compiled by Bloomberg.

India may raise 256 billion rupees (\$5.5 billion) selling stakes in 10 state-run companies to reduce its holdings to 90 percent, according to London-based Standard Chartered Plc. The offerings may include stock in New Delhi-based MMTC Ltd., the state-owned trading company; Hyderabad-based NMDC Ltd., the nation's largest iron-ore producer, and Neyveli Lignite Corp., a power producer in Chennai.

Poland may raise a record 30 billion zloty (\$10.6 billion) from stakes of state-owned companies, estimates by the local unit of Milan-based UniCredit show. The government picked Credit Suisse Group AG of Zurich and New York-based Morgan Stanley to manage the international portion of its IPO of Warsaw-based PZU SA, the nation's biggest insurer, the Treasury Ministry said last week.

#### Stock Valuation

Investors are paying the most for profits in developing nations since April 2000, with the 767 companies in the MSCI Emerging Markets Index valued at an average 24.2 times earnings, data compiled by Bloomberg show.

"There are some clouds on the horizon," said Marc Faber, 63, who publishes the "Gloom Boom & Doom" newsletter. "For sure, the supply of equities will go up because the valuations are up," he said in a phone interview from Da Nang, Vietnam.

Emerging-market companies are the best stocks for this year because earnings will increase faster than in industrialized countries,

said Jeffrey Palma, the head of global-equity strategy for Zurich-based UBS AG.

China's gross domestic product will expand 9.4 percent in 2010 and Brazil's will rise 4.75 percent, economists' estimates compiled by Bloomberg show. That compares with 2.6 percent in the U.S., 1.2 percent for the U.K. and 1.35 percent in Japan.

Profits in the MSCI emerging index may climb to \$74.92 per share from \$41.83, according to data compiled by Bloomberg, reducing the price-earnings ratio to 13.4.

#### First-Day Trading

"Emerging markets are really the only place to be," Palma, based in Stamford, Connecticut, said in a Bloomberg Television interview last week. "The developed markets are really going to lag from a growth and an earnings standpoint."

Some of last quarter's sales suggest investors don't expect outsized gains. China CNR Corp. had the mainland's smallest first-day trading gain of 2009 last week, as the Beijing-based maker of rail and subway cars rose 2.3 percent on Dec. 29.

Shanghai-traded stock of China Metallurgical closed at 5.22 yuan on Dec. 23, 3.7 percent below its IPO price. Its Hong Kong shares have fallen 29 percent since the initial sale.

"There's a lot more of supply coming from emerging markets," said John Praveen, the Newark, New Jersey-based chief investment strategist at Prudential International Investments Advisers LLC, a unit of Prudential Financial Inc., which oversaw \$641 billion on Sept. 30. "That's probably going to have a bit of a negative impact upon prices."

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