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Shanda IPO Goes From Hot to Not

By LYNN COWAN

A steady positive buzz helped Shanda GamesLtd.'s IPO to price well and sell more shares than expected, but that didn't soften the blow when it landed flat on its face Friday.

The Beijing-based online computer game company, the largest U.S.-listed initial public offering in more than a year, opened at its IPO price of \$12.50 a share on the Nasdaq and lost gravity from there, trading recently at \$11.90, down 5%.



Bloomberg News

Shanda Games sold more shares than expected in its IPO. Above, customers at an Internet cafe play online games in Beijing.

A total of 83.5 million shares were sold, 20.5 million more than originally planned, at the high end of its expected price range. By raising \$1.04 billion, Shanda can lay claim to the title of biggest U.S.-listed IPO so far in 2009; it's the largest since April 2008, when American Water WorksCo. raised \$1.36 billion.

The reception to Shanda Games was in sharp contrast to that experienced Thursday by an unprofitable electric car battery maker, A123 SystemsInc., which rose 50% on its debut. Shanda, with both rising revenue and profits, didn't fare nearly as well.

Shanda Games' poor performance came as a surprise to many market observers, who had expected the deal to do well; a similar IPO from Chinese game maker Changyou.comLtd. was well-received in April, and that stock is the best-performing IPO since inception this year, currently trading up 126% from its IPO price.

After Shanda Games' nine-day global road show, the deal was said to be 10 times oversubscribed, with high demand from long-term institutional investors such as mutual funds. Early trading chatter on Friday before Shanda Games' stock opened was positive, but investors began to flee when it broke through its IPO price within the first few minutes.

"Institutions routinely sell their shares when a deal breaks the offering price, but when a supposed hot deal breaks down, it is exacerbated" and panic sets in, says Scott Sweet, managing director of research firm IPOBoutique.com. "I was absolutely shocked, and haven't seen a supposed hot deal with so much media coverage and allure trade so badly since AgriaCorp. bombed," he added, referring to a Chinese agricultural supplier that dropped 27% on its debut in November 2007.

The company's revenue and profits have been growing swiftly; in the first six months of the year, its net revenue rose 43% to \$322 million, and net income increased 75% to \$98 million, compared to the same period in 2008.

Only 15% of Shanda Games' stock was sold by the company itself; the remainder came from parent Shanda Entertainment Interactive Ltd (SNDA).

Shanda Games' IPO was managed by Goldman Sachs Group Inc. and J.P. Morgan Chase & Co.

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