



# Market Failure Analysis

IPO's in selected African Stock Exchanges

Gerald Gondo, January 2021

RISCURA

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## Francophone Africa

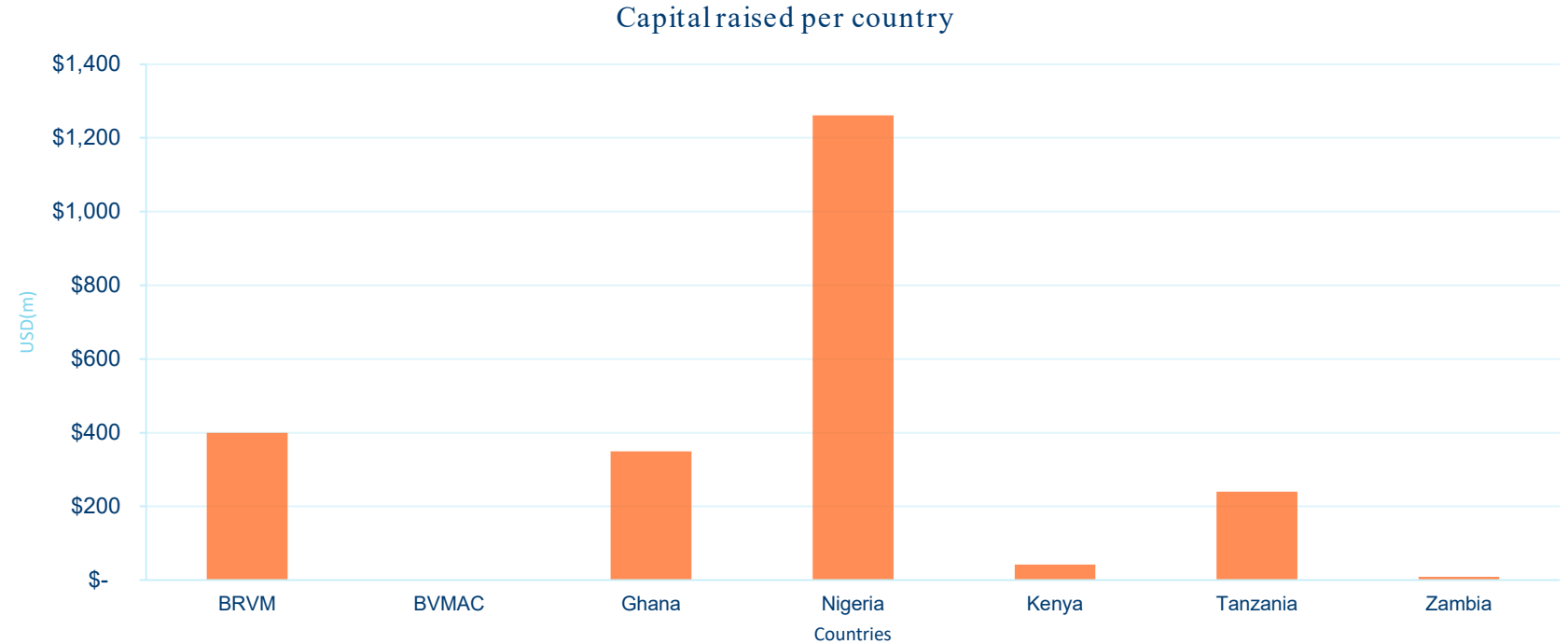
- Francophone Africa Insights
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# Countries covered



<b>East and Southern Africa</b>	<ul style="list-style-type: none"> <li>• Kenya</li> <li>• Tanzania</li> <li>• Zambia</li> </ul>	
<b>West Africa</b>	<ul style="list-style-type: none"> <li>• Nigeria</li> <li>• Ghana</li> </ul>	
<b>Francophone Africa</b>	<b>BVMAC</b>	<b>BRVM</b>
	<ul style="list-style-type: none"> <li>• Cameroon</li> <li>• Congo</li> <li>• Gabon</li> <li>• Equatorial Guinea</li> <li>• Central African Republic</li> <li>• Chad</li> </ul>	<ul style="list-style-type: none"> <li>• Benin</li> <li>• Burkina Faso</li> <li>• Côte d'Ivoire</li> <li>• Guinea-Bissau</li> <li>• Mali</li> <li>• Niger</li> <li>• Senegal</li> <li>• Togo</li> </ul>

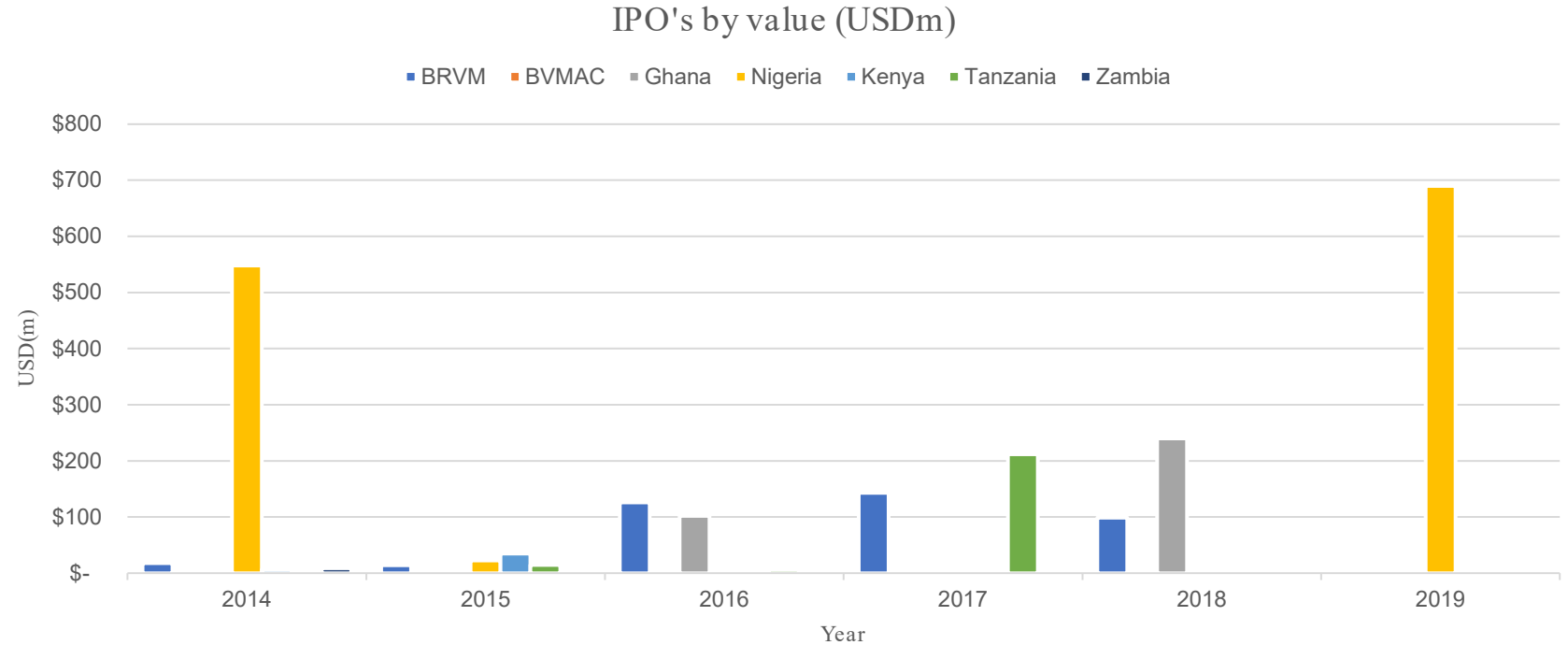
# Africa Survey IPO Experience 2014 - 2019



## US\$2,3billion raised over five years

- Nigeria – US\$1,3billion (proportionately high exposure to communication services– Airtel Africa)
- BRVM – US\$0,4billion (majority financial services listings, regulatory pressure)
- Ghana– US\$0.4billion (proportionately high exposure to communication services– MTN Ghana)

# Africa Survey IPO Experience 2014 - 2019

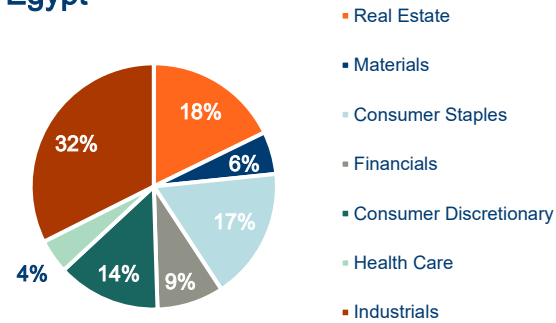


## US\$2.3billion raised over five years

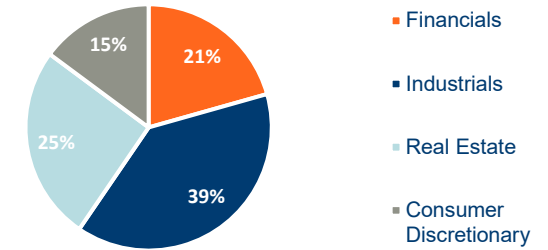
- Nigeria – US\$1.3billion (57%)
- BRVM – US\$0.4billion
- Ghana – US\$0.4billion

# IPO's - North Africa and South Africa by sector (2014 – 2019)

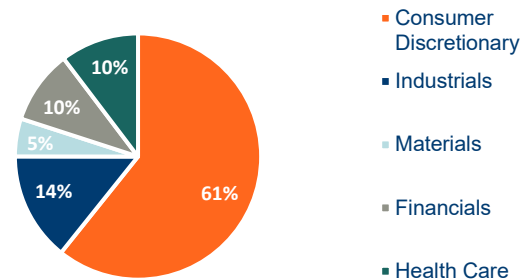
Egypt



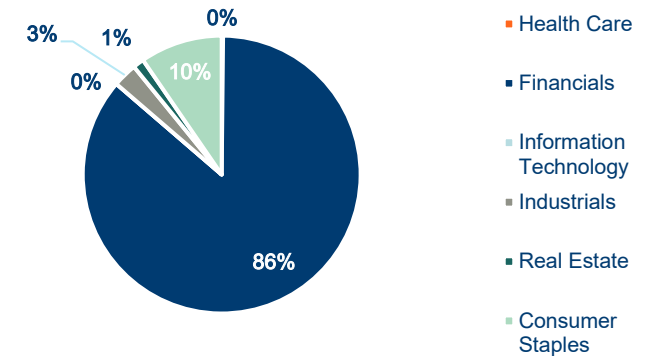
Morocco



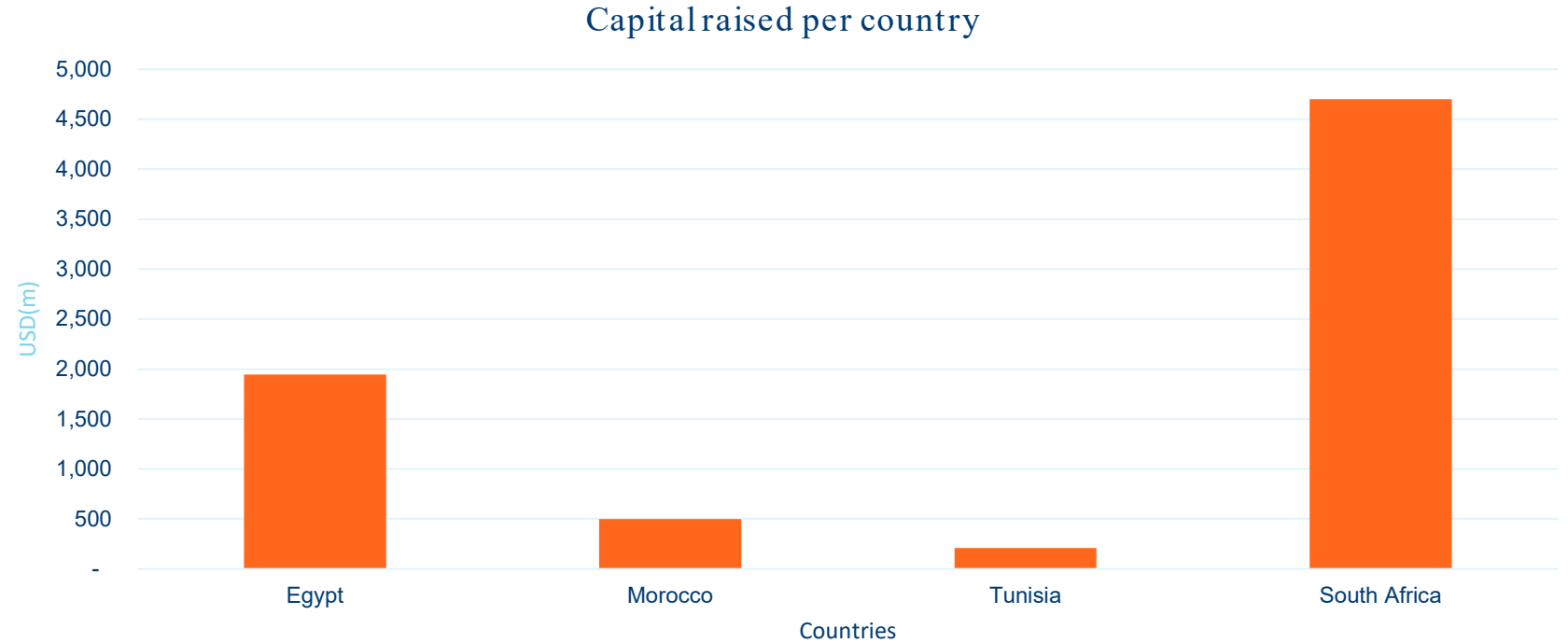
Tunisia



South Africa



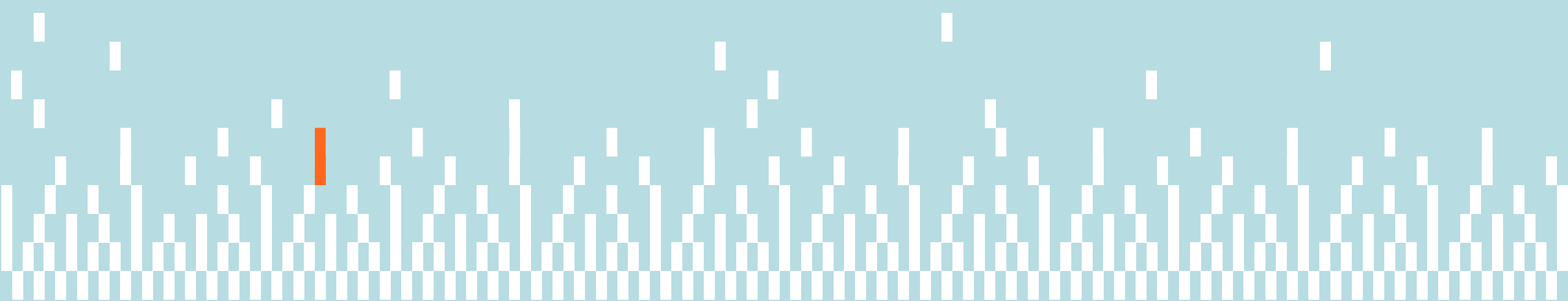
# Africa Survey IPO Experience 2014 - 2019



## US\$7.4billion raised over five years

- South Africa – US\$4.7billion (proportionately high exposure to financial services– Quilter PLC)
- Egypt – US\$1.9billion (diversified listings across real estate, consumer staples, consumer discretionary, industrials)

# East and Southern Africa Review





# East Africa Insights

## Governance and Private Equity

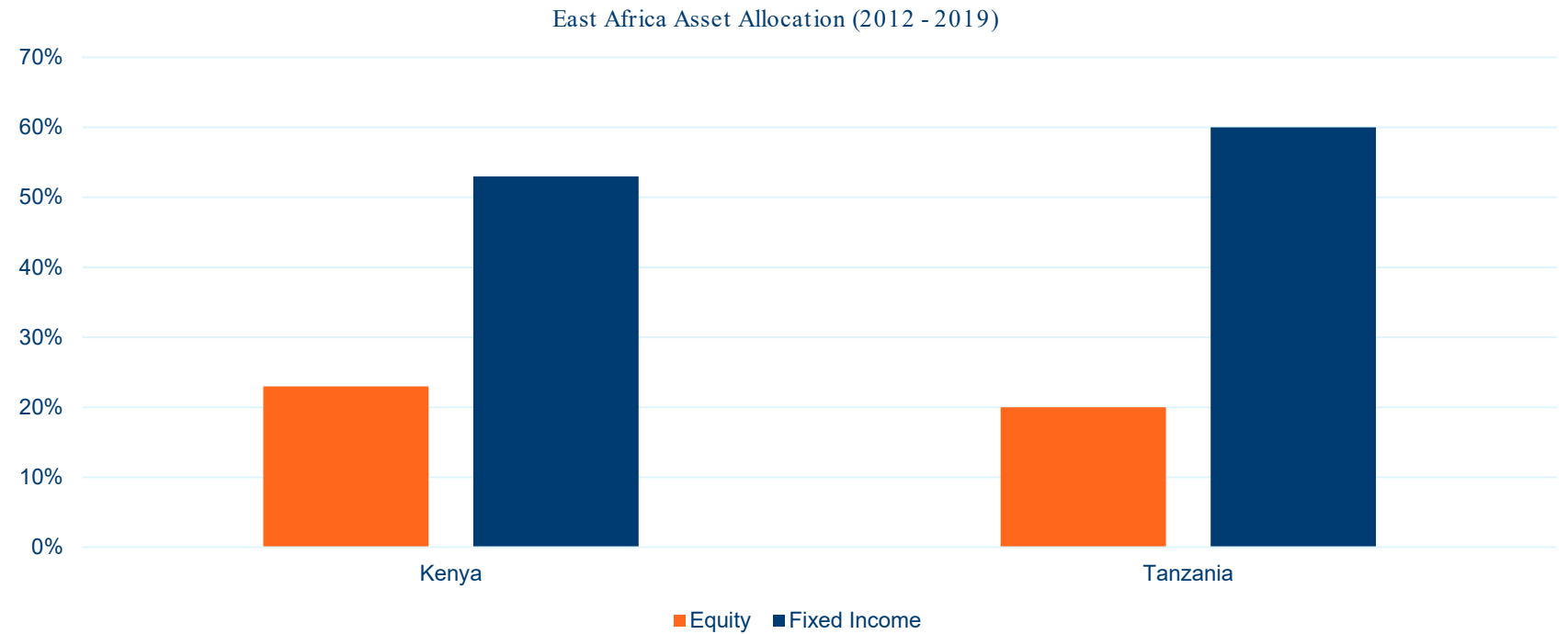
1. Decision-making moved away from the family-dinner table
2. Succession
3. Private Equity (minority vs. control)

Bank Funding

Family-owned business (FOB's)  
and control

# East Africa Insights

## Institutional Investor Asset Allocation



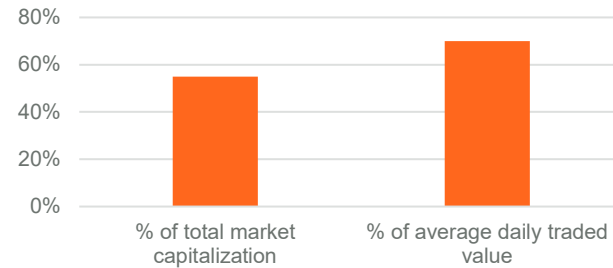
- Preference yield and certainty

# East Africa Insights

## Market composition and structure



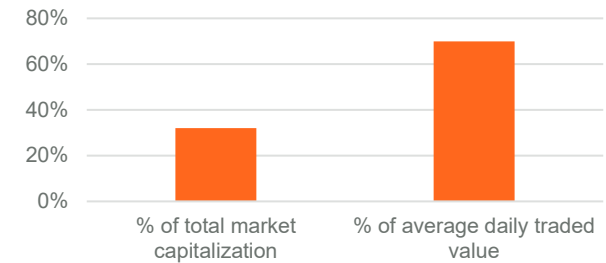
Kenya (Safaricom)



## Market composition and structure



Tanzania (TBL)



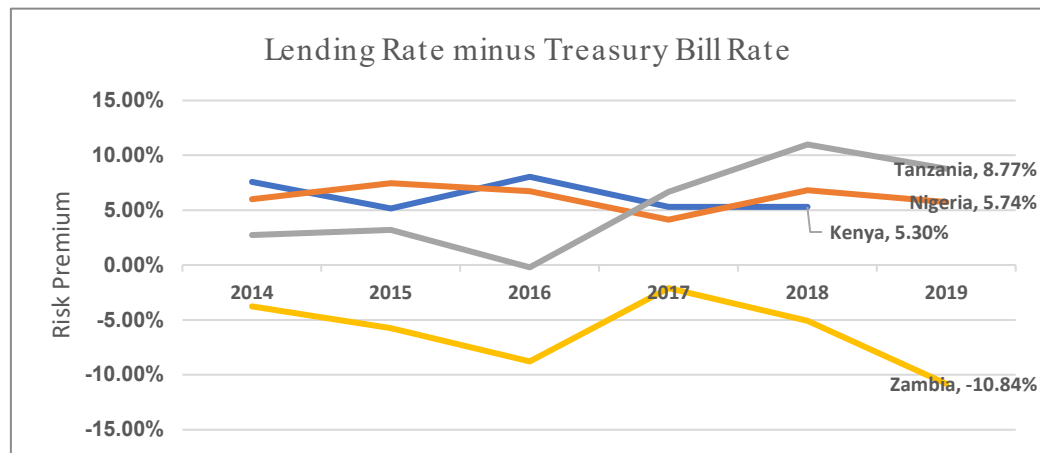
# East Africa Insights – Recommendations and Solutions

## Market Development Recommendations

- The NSE should seriously consider offering its architecture to facilitate private capital transactions. If PE firms new this was a possible option, it would meet the rising pressure that PE firms themselves are facing of evidencing exit. If private market partial exits are achieved, then this would be an active and complimentary exit route .
- Further, the conversation of IPO's needs to be a lot more realistic. The reality at present is that exiting on to the NSE or any other East African stock exchange is simply switching illiquidity from one part of the capital market to another. IPO's introduce illiquidity with the added cost of on-going listing fees and requirements – this is not a compelling value proposition .
- Removal of listing fees for PE firms to avoid having them incur the same cost twice . (e.g. legal fees incurred when putting the private equity transaction together and further legal and other fees when now contemplating listing.) In a trade sale, the second set of legal fees are largely for the buyer, not the seller.
- The NSE could look to initiate a Kenya or East Africa version of the “Companies to Inspire” – (<https://www.lseg.com/resources/companies-inspire-africa>) as a platform to show case emerging SME's, in a manner that highlights their entrepreneurial activity and profile. For potential issuers, such a platform can serve to prepare the firm and founders in transforming the company to being more public. Similarly, for market intermediaries, the platform can serve as a medium to engage a robust pipeline of growth companies that are ideally placed to access affordable long-term financing.

# Southern Africa Insights

## Crowding Out



Government of Zambia	Yield (ZMK) p.a
364-day T bill	19.69%
15Y Bond	33%

**Table A22. Low-Income Developing Countries: General Government Net Debt, 2011–25**  
(Percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Zambia	16.4	20.1	25.2	31.8	56.1	51.3	55.8	66.5	76.5	99.7	99.0	97.3	94.9	91.8	87.9

- **Regulatory overlap**
  - Stakeholder perception of the SEC and LuSE performing similar monitoring and market conduct roles. Particularly at enforcement, market participant pays fee twice (to each regulator) for the same transgression.
- **Cost of listing**
  - Overlap also has created the perception of high regulatory driven listing costs and ongoing costs of remaining public.
- **Absence of underwriters**
  - Effectively two credible institutions with capacity to underwrite (NAPSA and AfLife)
  - Market negative perception created where one institution chooses to participate and their other elects not to participate
    - **Strong disincentive for to invest in any other asset class given high treasury and bond yields**

Source: <https://www.boz.zm/> (accessed 21/10/2020)

# Southern Africa Insights

## Demutualization of the LuSE

### Unique Equity Market Structure

- Corporatize and incentivize – “remove the old boys club perception”
- The LuSE was formed as a government initiative, not due to being market-driven

### Greater awareness and training of use and function of the capital markets

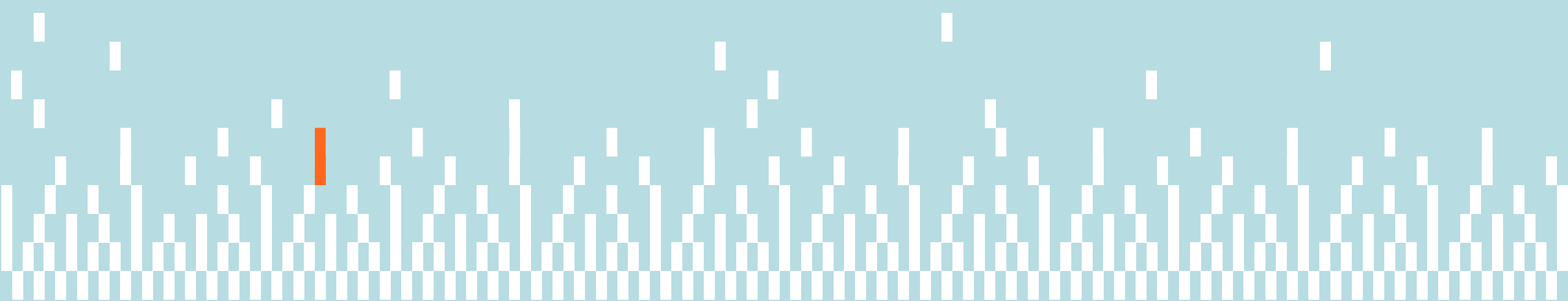
- Capital market participants alluded to the fact that several CFOs in Zambia had limited-to-poor understanding of the function and/or role of equity markets (professionally) and limited exposure (personally).

# Southern Africa - Recommendations and Solutions

## Market Development Recommendations

- Focus on larger corporate listings (e.g. IDC Zambia should have listed Indo Zambia Bank (which is managed by private sector management) rather than ZAFFICO. That would have given confidence and one would have seen much stronger off take from private investors.
- If the Government of Zambia are listing companies, they should become significant minorities to boost the implementation of effective (non-political) governance structures. For the recent case of ZAFICCO private investors had limited confidence in buying the stock as the government retains a controlling stake.
- Integrate LuSE to international trading platforms.
- Numerous areas of overlap between LuSE and SEC which are exacerbating meaningful market development.

# West Africa Review

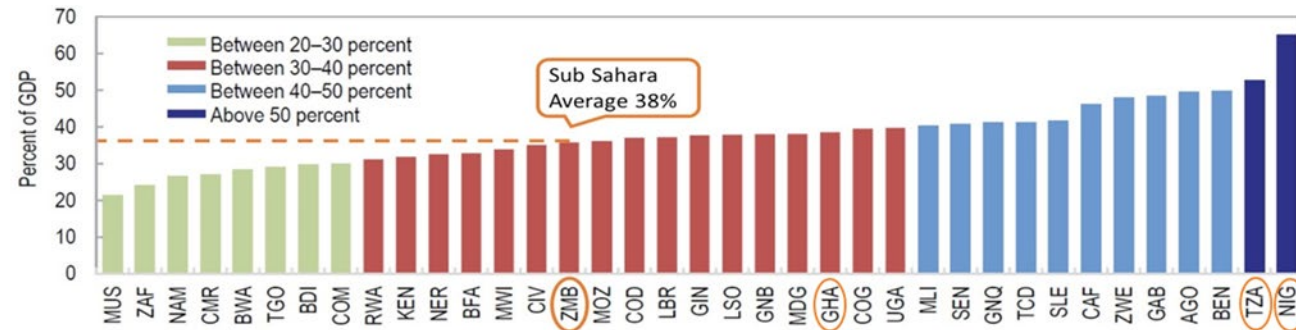




# West Africa Insights

## Culture

- Informalization can become institutionalized= “the norm”
- Formalization (listing) = “out-of-the-norm”.

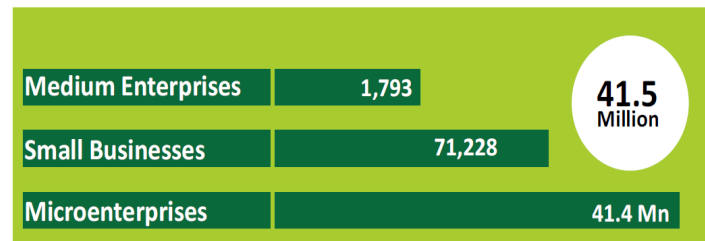


Source: IMF staff calculations.  
 Note: Excludes Cabo Verde, Eritrea, Ethiopia, The Gambia, São Tomé and Príncipe, Seychelles, and South Sudan due to lack of an informality

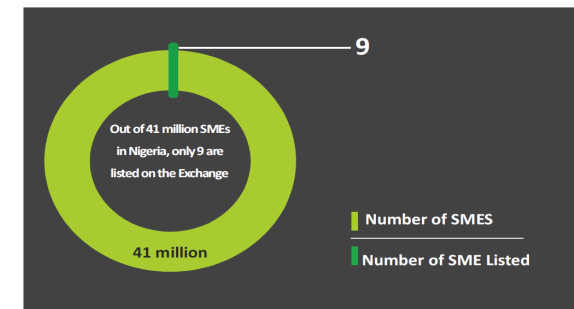
## Stratifying the SME Market Segment

### Size of the SME in Nigeria:

In Nigeria, there are a total of 37,067,416 million Micro, Small and Medium Enterprises making up the growth sector

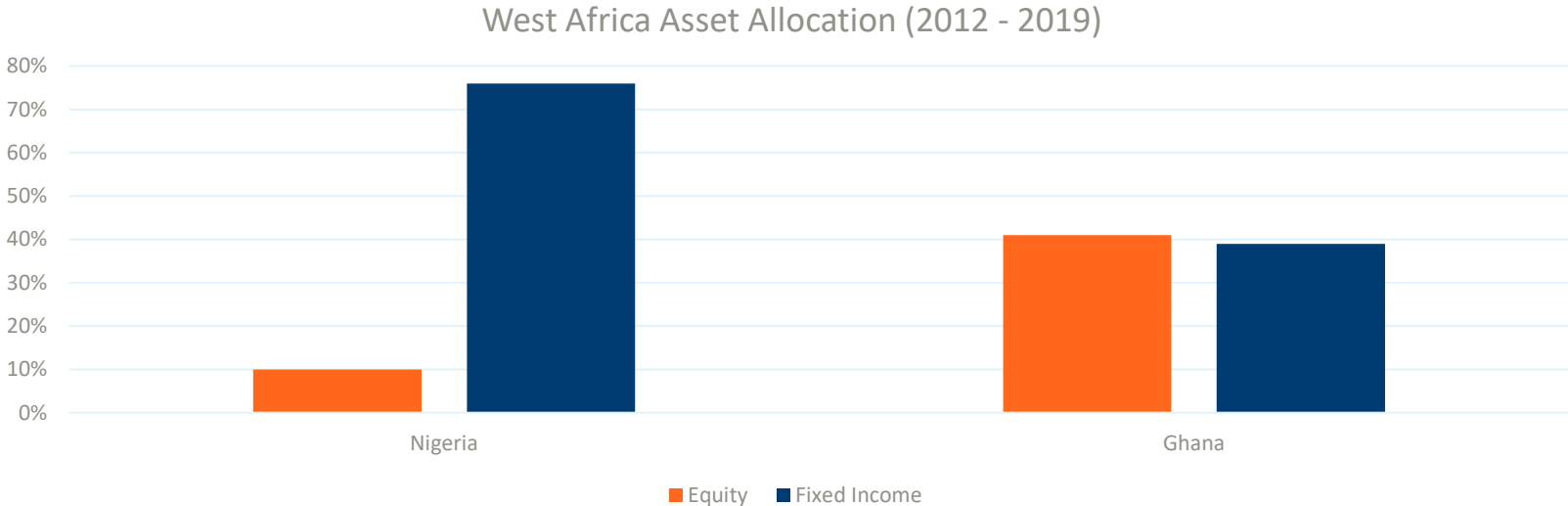


### Opportunity landscape in the Nigerian SME space:



# West Africa Insights

## INSTITUTIONAL INVESTOR ASSET ALLOCATION



## Legal and Regulatory - Ghana

- Regularize the law to apply to all and remove market confusion:
- Current laws in Ghana do not allow private pension funds to invest in IPOs but only in publicly listed entities that have paid dividends in at least one of the last three years.

*“This was however waived, via the intervention of the Ministry of Finance, in the case of MTN Ghana to allow in the pension space to invest in that IPO given that MTN is highly profitable and dividend paying. Following market participants expect that the regulators will ease some restrictions around participation in IPOs.”*

## Absence of underwriters

- Effectively one institution with the capacity and mandate allowance to underwrite (SSNIT- Ghana)
  - Market perceives there being high political influence which often manifests in noncommercial discussions pertaining to valuation, pricing and cost for underwriting.
- In Nigeria, PFA’s need to be recognized as representative of diversified investors as opposed to being a single investor.

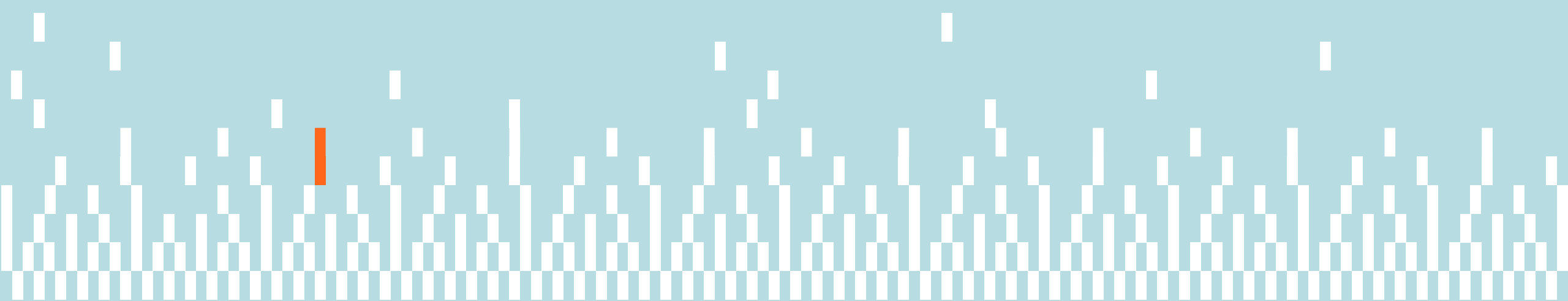
*“A minimum of fifty-one (51) shareholders or such number as The Exchange deems appropriate in the circumstances”*

# West Africa - Recommendations and Solutions

## Market Development Recommendations

- The problems of Non-Performing Loans (NPL) in both Nigeria and Ghana are recurrent. The Central Bank is placing incorrect incentives for banks increasing their capital to absorb increased capital charges for these provisions, all this has done has increased the market concentration of the NSE and GSE to financial services.
- An alternate mechanism is for the Central Banks, working alongside the NGSE and GSE, compelling these banks to persuade the firms that do breach NPL covenants to look to the NGSE to raise capital.
- Specific to Ghana, to provide impetus to the market, a fund to anchor IPO's is necessary.
  - This can easily be done, simply by providing the existing Venture Capital Trust a new mandate but even it (VCT) struggles in securing funding from the fiscus.
  - **If this is achieved, there are various scenarios that can be explored:**
  - Anchor 1/3 of the issue, why must it be underwritten 100%?
  - This therefore frees up funds to underwrite at least two more opportunities
  - Address the cost issue: have a cost sharing technical assistance facility.
- Ghana would do well to replicate the listing rule differentiation applied by Nigeria with regards to further differentiating companies that are seeking/suitable to list on the GAX.

# Francophone Africa



# Francophone Africa Insights

## Culture

- Foremost concern related to public scrutiny and required levels of disclosures of being a public company a concept most entrepreneurs and stakeholders that interacted with entrepreneurs, confirmed is a strong anxiety for most FOB's.
- The level of disclosure and financial reporting for most companies (listed and unlisted) companies in Francophone Africa remains a critical challenge. Linked to culture, there is a strong aversion to divulging meaningful operational or financial information to the investing public.
- Culture: IPO's are still deemed to be very AngloSaxon and not very French driven.
- Local (indigenous) companies are still young and not ready for an IPO. They need a certain level of maturity in terms of internal development. Only few of them are ready for an IPO.

## Limited coverage

- Resultantly, there is limited coverage and offered by stockbrokers
- Difficulty faced by stockbrokers in retaining high quality research analysts

## Tax

- There should be a common tax structure across all the countries (BRVM), as some have more incentives than others.

## Bank funding

- Strong preference: Asset = Debt funding = interest rate = finite start/end
- Time = limited negotiation = clear covenants

## Regulation and History

- Most listings have resulted from formally French-owned (majority) companies, being compelled to use listing to increase the shareholding of these companies amongst locals. Without this "suasion" it highly unlikely that the number of listings would have occurred.

# Francophone Africa Insights

## Crowding Out

- CEMAC institutional investors prefer to subscribe to treasury instruments because of the implicit capital guarantee and high yield offered. Such instruments do not require lengthy analysis.

## Tax

- Specific to the CEMAC/BVMAC area– major disincentive:

### Corporate

Capital gains tax and Dividend tax = 33%

### Individual

Taxed on shares 12.50%

Interest on government bonds = no tax

Result – no incentive for corporates or individuals to invest in  
or issue shares

# Francophone Africa - Recommendations and Solutions

## Market Development Recommendations

- Support to the ELITE BRVM Lounge program is a regional variation of the ELITE Program developed by the London Stock Exchange. At the local level, the main objective of this program is to prepare SMEs (capacity building) for access to long-term financing on the capital market, through their introduction into the Third Compartment of the BRVM.
  - Financial and operational reporting support to all companies within the program, to ready them for the level of required disclosure and quality of financial reporting required when listed.
  - Research analyst fund to enhance brokerage coverage and quality of ongoing research on companies.
- BVMAC needs to increase market contact with regional and international investors to change/demonstrate how the following perceptions and views have been addressed:
  - Before merger regulator was CMF based and Cameroon. Responsible for financial markets in Cameroon.
  - COSUMAF, Central Africa regulator, responsible for Central Africa except Cameroon.
  - They have merged but haven't merged local regulation = this is the main challenge.
  - More transparency from companies, as well as visibility to foreign investors. An example would be to report financials in both English and French.



# IPO Market Failure Insights

“African stock exchanges are not institutional islands. They require an economic, political, regulatory and even social environment conducive to their growth.”

# Disclaimer

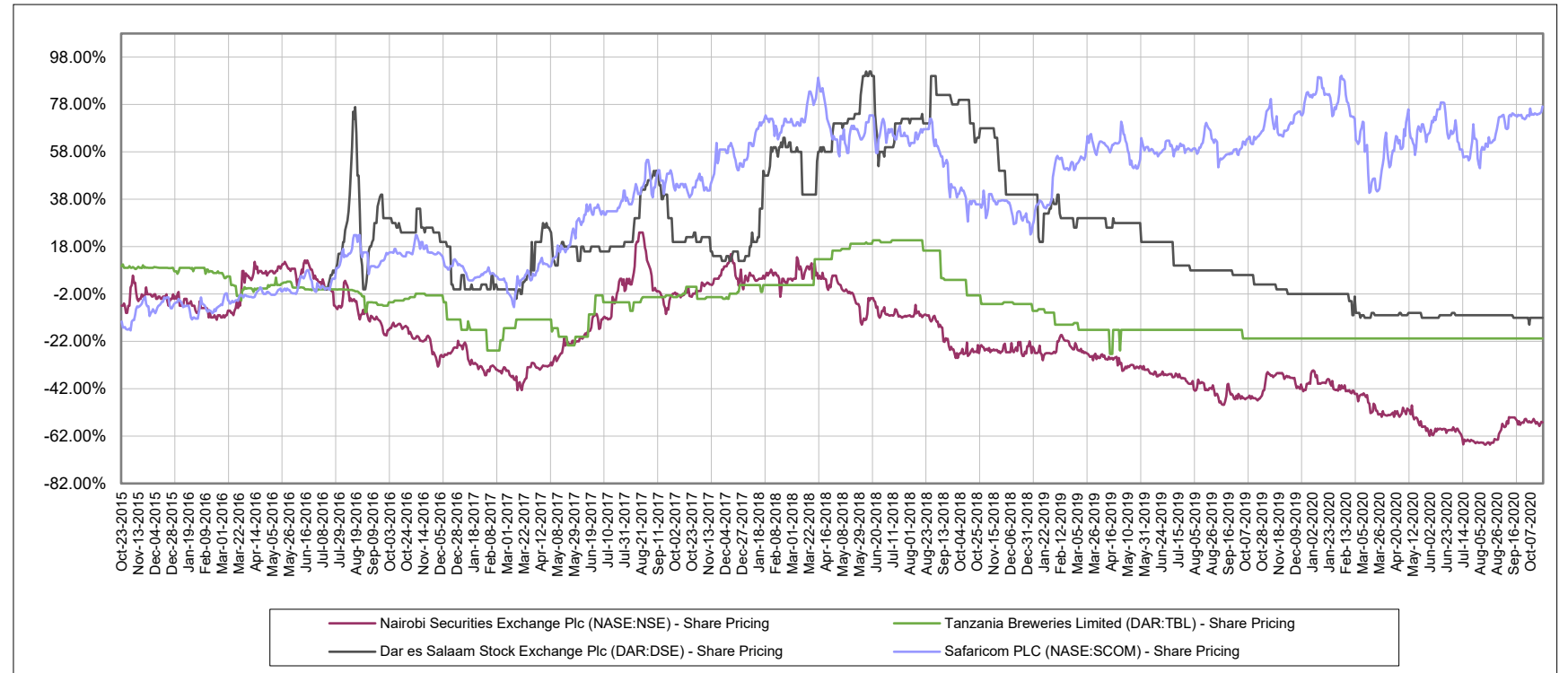
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Nairobi Securities Exchange	DSE	Tanzania Breweries	Safaricom
56%	12%	21%	77%