



**ALTERNATIVE SOURCE OF FINANCING
THROUGH THE MALAWI STOCK EXCHANGE**

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BY

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1.0 INTRODUCTION

- Banking sector has traditionally played a major financing role, however due to capital adequacy requirements and maturity mismatches may constrain them in infrastructure lending.
- Capital Markets compliment banking financing by providing alternative intermediation mechanism between investors and project developers. There is documented evidence that sustainable economic growth is possible only if countries are endowed with well-functioning capital markets which can channel scarce financial resources from surplus economic units to deficit economic units.
- The paper therefore focuses on how to tap on the Exchange as alternative source of finance.

Paper Layout

1. Defining the Stock Exchange
2. Functions of the Stock Exchange
3. The listing platforms on the MSE
4. The investment products offered on the MSE
5. The benefits of listing
6. The listings requirements
7. Opportunities.
8. Challenges.



1.0 DEFINING CAPITAL MARKETS

Primary market

- Where companies can raise long term capital
- Where new issue of capital market instruments is issued to the investing community.

Secondary market

- Where investor's trade in previously issued securities
- Where investors can buy and sell investment assets such as shares or bonds



2.1 FUNCTIONS OF THE MSE

The MSE offers a platform for raising capital through issuance of securities

REGULATORY ROLE

REGULATION:

1. Ensuring listed companies comply with listing rules
2. Regulation of members/Brokers

FAIR TRADING & INVESTOR CONFIDENCE:

1. Operating a fair and efficient market
2. Promoting investor protection and investor confidence.



DEVELOPMENTAL ROLE

MARKET ACTIVITY:

1. Platforms for raising long term capital:
 - Equity - Main Board & Alternative Capital Market
 - Debt – Government bonds & Corporate bonds
2. A centre for trading of securities - market where investors can buy and sell securities such as shares and bonds.

MARKET DEVELOPMENT:

1. Financial literacy & awareness
2. Information dissemination
3. Enhancing visibility of listed companies

2.2 FUNCTIONS OF THE STOCK EXCHANGE

Providing a market

- Providing a link between financial raisers and financial suppliers (investors)
- Providing market place for buyers and sellers of investment assets

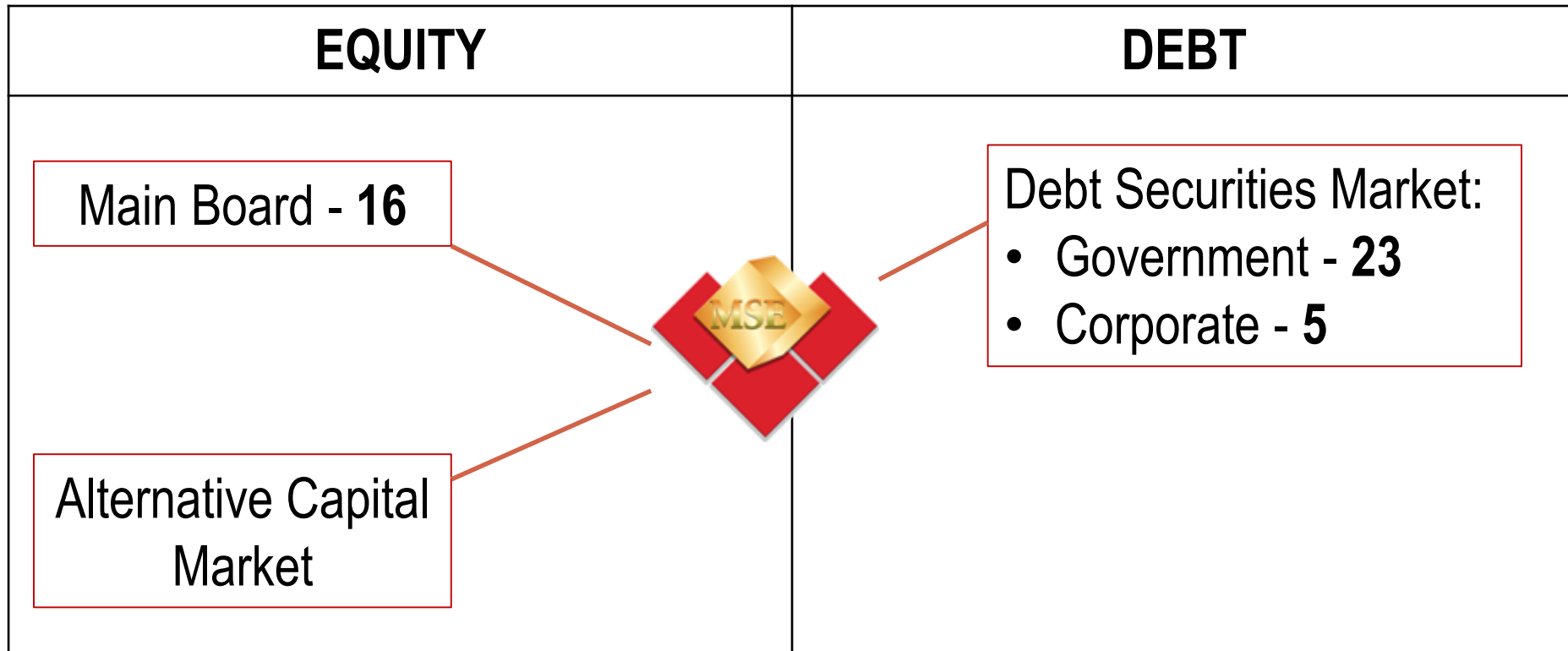
Regulation

- Ensuring that listed companies comply with L/Requirements
- Supervising the conduct of member firms
- Supervising trading activities

Information dissemination

- Providing information services such as share price information
- Providing announcements made by listed companies

3.0 THE MSE LISTING PLATFORMS



The MSE has platforms to cater for various capital needs to provide inclusive access to capital for businesses.

3.1. INVESTMENT PRODUCTS

The Malawi Stock Exchange currently trades the following securities:

- Shares (16)
- Government & Corporate Bonds (28)

Future products:

- Exchange Traded Funds (ETFs)
- Real Estate Investment Trusts (REITs)



4.0 BENEFITS OF LISTING

- 4.1 Access to large pools of funds
- 4.2 Efficient way to raise capital
- 4.3 Wealth distribution
- 4.4 Wealth creation - realization of investment value by shareholders
- 4.5 Improve gearing and balance sheet ratios
- 4.6 Enhance visibility and company profile both locally and internationally
- 4.7 Increase liquidity to shareholders
- 4.8 Market determined company valuation



4.1 a LARGE POOL OF FUNDS

Company	Year of Listing	Shares Offered	Shares Applied	Sub. Times
NICO	11-Nov-96	15,000,000	21,054,500	1.40
ILLOVO	10-Nov-97	28,000,000	60,522,200	2.16
STANDARD	29-Jun-98	24,000,000	40,890,300	1.70
PIM	10-Aug-98	14,055,200	44,987,500	3.20
PCL	09-Sep-98	5,505,313	8,251,090	1.50
NBM	21-Aug-00	31,500,000	106,211,600	3.37
SUNBIRD	21-Aug-02	39,237,400	27,485,700	0.70
FMB	19-Jun-06	225,000,000	448,454,900	1.99
NBS	25-Jun-07	141,333,000	1,252,125,700	8.86
MPICO	12-Nov-07	384,922,944	2,042,054,000	5.31
BRITAM	29-Sep-08	77,500,000	221,400,000	2.86
TNM	03-Nov-08	1,290,450,000	3,935,200,000	3.05
ICON	21-Jan-19	1,680,000,000	1,680,056,186	1.00
AIRTEL	24-Feb-20	2,200,000,000	2,203,396,704	1.002
FDHB	03-Aug-20	1,069,206,250	1,413,207,144	1.32

4.1 b LARGE POOL OF FUNDS

Company	Year of Listing	Shares Offered	Shares Applied	Amount
NICO	11-Nov-96	15,000,000	21,054,500	29,410,000
ILLOVO	10-Nov-97	28,000,000	60,522,200	63,000,000
STANDARD	29-Jun-98	24,000,000	40,890,300	78,000,000
PIM	10-Aug-98	14,055,200	44,987,500	16,866,240
PCL	09-Sep-98	5,505,313	8,251,090	74,839,226
NBM	21-Aug-00	31,500,000	106,211,600	126,000,000
SUNBIRD	21-Aug-02	39,237,400	27,485,700	72,589,190
FMB	19-Jun-06	225,000,000	448,454,900	562,500,000
NBS	25-Jun-07	141,333,000	1,252,125,700	367,465,800
MPICO	12-Nov-07	384,922,944	2,042,054,000	866,076,624
BRITAM	29-Sep-08	77,500,000	221,400,000	178,250,000
TNM	03-Nov-08	1,290,450,000	3,935,200,000	2,580,900,000
ICON	21-Jan-19	1,680,000,000	1,680,056,186	14,700,000,000
AIRTEL	24-Feb-20	2,200,000,000	2,203,396,704	27,961,104,174
FDHB	03-Aug-20	1,069,206,250	1,413,207,144	14,132,071,440

4.1 c LARGE POOL OF FUNDS CONTINUED...

Company	Offer Type	Shares Offered	Amount (MK)
NBS	Rights Issue	2,182,930,017	11,800,000,000.00
MPICO	Rights Issue	1,149,023,730	9,000,000,000.00
PCL	Rights Issue	10,021,318	2,094,455,462.00
FMB	New Subscription	225,000,000	562,000,000.00
NBS	New Subscription	93,333,000	242,665,800.00
ILLOVO	Rights Issue	39,635,800	188,270,050.00
DEBT INSTRUMENTS			
MALAWI GOVT.	T/NOTES		904,184,279.000.00
MyBUCKS	Corporate Bonds		12,400,767,576.00

4.2 EFFICIENT WAY OF RAISING CAPITAL

- Low cost of raising funds

Company	Year	Listing Cost Ratio (%)	Bank Lending Rate (%)
NICO	1996	15.33	38.00
ILLOVO	1997	14.01	25.00
STANDARD	1998	5.38	35.00
PCL	1998	19.68	35.00
NBM	2000	9.68	55.00
SUNBIRD	2002	18.97	50.00
FMB	2006	6.24	27.00
MPICO	2016	2.48	34.00
NBS	2017	6.00	34.00
ICON	2019	6.42	23.00
AIRTEL	2020	3.38	13.40
FDHB	2020	5.78	13.40

4.3 WEALTH DISTRIBUTION

Company	Shareholders Before Listing	Shareholders After Listing
NICO	3	1,830
ILLOVO	3	2,205
STANDARD	4	1,724
PCL	2	1,520
NBM	4	4,640
SUNBIRD	3	638
FMB	4	1,773
MPICO	2	5,107
NBS	3	6,102
ICON	16	1,035
AIRTEL	2	8,068
FDHB	3	2,849

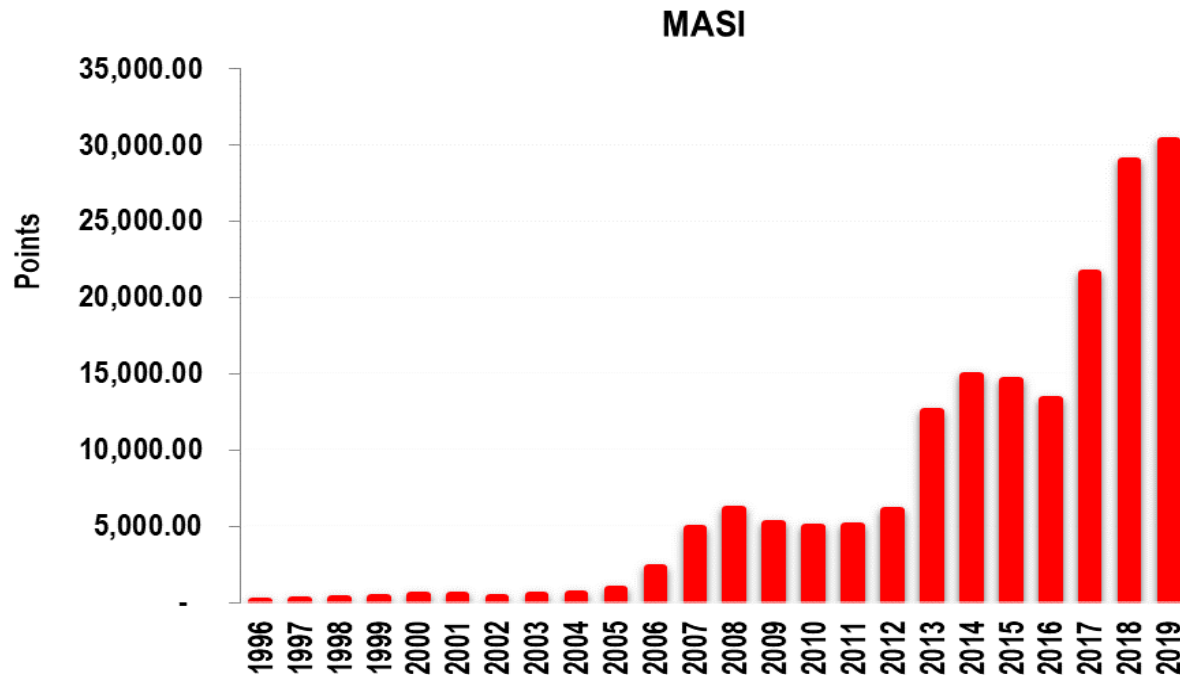
4.4 VALUE CREATION

- Long term investors have realised value from their investments

Company	Year of Listing	Listing Price	9 Nov 2020	Growth (Times)
NICO	11-Nov-96	0.20	52.00	260.00
ILLOVO	10-Nov-97	2.25	80.50	35.78
BHL	25-Mar-97	0.84	12.94	15.40
STANDARD	29-Jun-98	3.25	850.78	261.78
PCL	09-Sep-98	14.89	1,343.99	90.26
NBM	21-Aug-00	4.00	617.70	154.43
SUNBIRD	21-Aug-02	1.85	105.00	56.76
FMB	19-Jun-06	2.50	22.01	8.80
NBS	25-Jun-07	2.60	21.00	8.08
MPICO	12-Nov-07	2.25	23.93	10.64
TNM	03-Nov-08	2.00	19.50	9.75
ICON	21-Jan-19	8.75	12.30	1.41
AIRTEL	24-Feb-20	12.69	28.00	2.21
FDHB	03-Aug-20	10.00	12.00	1.20

4.4 VALUE CREATION CONTINUED...

- The MSE has yielded a return of an average of 33.20% per year since inception. (Highest growth in 2006 – 154%)



5.0 HOW TO SOURCE FINANCE THROUGH THE STOCK EXCHANGE & ATTENDANT REQUIREMENTS.

‘Securities should be brought to the market in a way that is appropriate and which will facilitate an open and efficient market for securities trading’



MAINBOARD	ALTERNATIVE CAPITAL MARKET	DEBT MARKET
1. The company must be duly incorporated.	1. The company must be duly incorporated.	1. The company must be duly incorporated.
2. The company must be a public company in accordance with the Companies Act, 2013.	2. The company must be a public company in accordance with the Companies Act, 2013.	2. The company must be in compliance with the laws of the country in which they were incorporated.
3. The company's securities must be fully paid up and freely transferable.	3. The company's securities must be fully paid up and freely transferable.	3. Authorised to issue debt securities according to the requirements in the Memorandum and Articles of Association.
4. The company must have a minimum subscribed capital of at least MK500 million.	4. The company must have a minimum subscribed capital of at least MK250 million to MK500 million.	4. The company must obtain all necessary statutory and other consents for the issuance e.g. consent from the Board of Directors, Reserve Bank of Malawi (where required).

MAINBOARD	ALTERNATIVE CAPITAL MARKET	DEBT MARKET
5. At least 25% of the issued capital for which a listing is being sought must be offered to the public.	5. At least 20% of the issued capital for which a listing is being sought must be offered to the public.	
6. The company must have not less than 30,000,000 equity shares in issue.	6. The company must have not less than 10,000,000 equity shares in issue.	
7. The number of public shareholders of listed securities shall at least be 300 for equity shares; 25 for preference shares and 10 for debentures.	7. The number of public shareholders of listed securities shall at least be 100 for equity shares; 25 for preference shares and 10 for debentures.	A minimum of 10 bondholders or subscribers must be achieved.
8. The company must have a satisfactory profit history for the preceding three years.	8. The company must submit a satisfactory analysis of future earnings indicating credible returns on capital for 5 years.	
9. The company's securities must be fully underwritten.	9. The company's securities must be fully underwritten.	The Securities must be guaranteed
10. The Memorandum and Articles of Association of the company must comply with the requirements of the Malawi Stock Exchange Listings Requirements and the Companies Act	10. The Memorandum and Articles of Association of the company must comply with the requirements of the Malawi Stock Exchange Listings requirements and the Companies Act	

6.0 OPPORTUNITIES

1. Well functioning Automated Trading System (ATS) – has given confidence of the market.
2. Growth in Pension Fund Assets – Currently in Excess of MK1.2 Tn. (**2019 grown by MK112.8 Bn.**) In search of investment assets.
3. Growing middle income class in search of investment opportunities and demand for urban accommodation.
4. Increase in institutions of higher learning providing investor education in need of accommodation
5. Government demand for debt for implementation of infrastructure projects especially in the energy sector.
6. Growth in demand for funds in the real estate sector
7. High commercial bank lending rates



7.0 CHALLENGES

1. Fear of the unknown on the loss of ownership/control of the company once becomes public company
2. Lack of corporate governance structures in emerging private companies,
3. Lack of national policies that force international companies to list
4. Uncertainty of the macroeconomic conditions
5. Lack of tax incentives to entice companies to list
6. Limited knowledge and reluctance from Issuers on alternative sources of capital especially SMEs. Fear of loosing control on family owned businesses.
7. Limited number of listed securities – Only 16 Equity listings



CHALLENGES CONTINUED...

5. Absence of a strong domestic investor base - few risk takers
6. Limited local investment and advisory skills and technical information
7. Incomplete Central Securities Depository in terms of functionalities.



THANK YOU!



MALAWI STOCK EXCHANGE