



# Upping the pace

**Africa's frontier stock markets may be lucrative, but they can be tough to work with. Simon Griffiths tracks down the path to investment success**

**T**HERE IS more energy in African markets today than in years," says Stephen Cashin, President of the Pan-African Capital Group, a financial services company focused on private equity and capital markets. Sturdy reasons underlie this energetic embrace of equity trading. "Markets grow because people and businesses need and want them," he says. "Not because politicians say they should happen."

Investors, whether foreign, domestic or those wily enough to spot the support sectors benefiting from booming markets, should look to African stock markets as the frontier for burgeoning fortunes. All

they need to know is how to make the most of the opportunities.

Last year, five African countries ranked among the ten best-performing markets in the world: Egypt, Ghana, Malawi, Uganda and Zambia (see table, page 24). The S&P 500 index trails in at

## A prudent investor looks at the trees, not the forest

53rd out of 60 world indices. The Ghana Stock Exchange (GSE) All Share index last year returned 91.2 per cent in US dollar terms. This after returning

143.7 per cent in 2003 and 33.3 per cent in 2002. Africa as a whole averaged a 44.3 per cent return last year (excluding Zimbabwe), comfortably beating the 34 per cent gain on other emerging markets.

African stock market success is set to continue. Several fundamental reasons underlie this expansion. "Africa's rapidly expanding middle class has an increasing disposable income, which means there is more to spend on commodities and services," explains one successful fund manager. "It's a profitable place to do business."

Most African stock markets start from a low base. Frank Dewotor, analyst at

From past to future: Kenya's old-style open outcry trading floor (left); South Africa's modern electronic stock exchange in Johannesburg (this page)



# of stock markets

Ghana's Databank investment bank, says that shares in Ghana were undervalued at

## Five of the world's best-performing stock markets in 2004 were in Africa

the outset. Before 2001, listed company valuations were cheap, with average price/earnings ratios of about seven (see box, page 22). This was due to high nominal earnings growth, high inflation and weak local participation in the market. But with inflation falling and the cedi stabilising, returns from bonds and currency investments have tumbled – pushing investors into the stock market in search of yield.

Andrew Onitire, head of sales and trading at Afrinvest, an Africa-focused

investment bank, highlights other explanations for sky-rocketing markets. In Nigeria, changes in the law regulating pension funds have enabled pension fund managers to invest in the stock market, rather than restricting themselves solely to government bonds, thereby creating new demand.

Banks have also lent to brokers – effectively punting on the stock market – creating “false” liquidity and driving up prices. Elsewhere, markets tend to be small and the dominant listings are the subsidiaries of international firms – Brooke Bond Kenya (88 per cent owned by Unilever), or Unilever Ghana (67 per cent owned by Unilever).

Such companies tend to have small free floats, again creating supply shortages. With relatively few investment opportunities, good companies are bought up quickly.

Too often the pessimism associated with unrest, such as the recent flare-up in Ivory Coast – location of the world's first regional stock exchange – is unfounded as far as investment opportunities are concerned. Investors should be careful not to conflate the problems experienced by one African country with the continent at large. While there are a number of similarities among African stock markets, including small size, liquidity and domination by local investors, there is little correlation between their returns, and no particular reason for those returns to be correlated. While Africa's markets are on average up, Zimbabwe, for example, was down 59.3 per cent in dollar terms at the end of last year.

Investors need to recognise Africa's heterogeneity and know where to look for the best opportunities. Thomas Mims, founder and CEO of Emerging Africa, a

company that provides information and analysis on individual publicly-traded African businesses, has a motto others might be wise to take on board: "A prudent investor learns to look at the trees, not the forest."

### Support-service boom

It is not only the chance to make a quick buck buying undiscovered, high-performing listed companies that is attracting investors' attention. The growth in stock-market activity provides many other investment opportunities. In

information – as JSE Sets will do – improves efficiency and leads to stronger trade. The more transparent and liquid the market, the more investors are willing to participate."

While neither party is prepared to divulge the commercial details of the deal, both sides seem happy. LSE is keen to do similar deals. "We're always open to considering opportunities for similar projects with other exchanges around the world," says LSE. "However, no other African exchanges have indicated an interest to date. The Sets platform is

technology to exchanges in Hong Kong and Italy) and the Deutsche Börse (which actively markets its trading technology to other exchanges), should be rueing a missed opportunity.

Elsewhere, Modern Africa Fund Managers, a US-based private equity investor in Africa with a US \$110 million fund, has seen opportunities in companies servicing Africa's growing investment information needs. Its holdings include Databank and Liquid Africa, a pan-African internet based trading platform.

camerapix/Duncan Willetts



Big city, light traffic: on a single day in Dar es Salaam, Tanzania, the stock exchange saw 18 trades and 23,905 shares change hands, worth less than \$30,000 in total

2002, the London Stock Exchange (LSE) struck a five-year deal to supply the Johannesburg Securities Exchange (JSE) with a new trading system, JSE Sets.

The scheme enables South African market participants to access the new trading system via a dedicated communications link between Johannesburg and London. This removes the legal, regulatory and cost issues that would have been involved with a cross-border corporate transaction.

"Everything we do is aimed at increasing liquidity and providing transparent price information," says Leanne Parsons, JSE Director of Strategy. "Providing more in-depth price

suitable for exchanges with large trading volumes. This, in addition to our history of links with the Johannesburg Stock Exchange, meant that Sets was a particularly appropriate solution."

Geoff Rothschild, the JSE's director of corporate marketing and communications, says the JSE "looked at

### The market needs to stabilise if a crash is to be avoided. The easy money has been made

systems around the world before opting for LSE's technology because of its suitability and the business arrangement between the exchanges". The JSE Sets platform enables the creation of trading segments, enabling it to work on Project Thusanang (Sotho word for working together) with other exchanges in the region (see interview, page 27).

LSE's competitors, such as Euronext (the second-largest European exchange), OMHEX (which owns the Swedish stock exchange and provides

### Forever blowing bubbles?

As well as generating healthy profits, booming equity prices stir anxieties. Rapidly increasing asset prices are often linked with speculative bubbles, as with the dotcom boom. Upbeat outlooks should be tempered with realism.

"The market needs to stabilise if a crash is to be avoided," says Databank's Dewotor, talking about the extended bull market in Ghana. "Valuations are now reaching 22 times earnings." Not yet out of control, but the double and triple digit returns of the last three years means the market is approaching levels where alarm bells should start ringing.

John Niepold, who runs the specialist emerging markets Frontier Africa portfolio for Emerging Markets LLC, with \$257.5m of assets under management in Africa, agrees. "The easy money has been made," he says. "Expectations for future growth must be dampened. But while the rises of the last few years cannot continue, prospects for long-term investors remain good. Some African share valuations are undoubtedly high, but these aren't internet stocks and it is still possible to find price earnings ratios of less than 10."

### Jargon buster

The price/earnings ratio is one of a number of measures used by analysts when looking at company performance. It is calculated by dividing the market price of an ordinary share by the earnings (profit after tax) per share. The higher the number, the better the perceived prospects for the company. The average for the FTSE 100 is currently in the mid-teens.

Several companies are trading at price earnings ratios of less than 10 on the Lusaka stock exchange, as can be seen from their daily stock news reports available through their website (see table, page 25).

## Working at the frontier

Largely ignored outside Africa, and widely misunderstood, most sub-Saharan African markets are classified as “frontier”; characterised by small size, low liquidity and dominated by local investors. Consequently, African markets (bar South Africa) are usually excluded from global emerging markets funds.

This provides an opportunity for diligent individual investors and specialists who are prepared to do their homework and understand what they are investing in. These markets are often either among the best or worst performing markets globally.

Precisely because stock markets are too small to support local emerging fund management industries and several African economies are in good shape, long-term prospects remain good. But small capitalisation and lack of depth result in slow trading. A stock might look nicely valued, but if you can't trade it, it does you little good.

When it comes to exiting markets, it can be difficult to execute large trades. Trading volumes can be light – on a trading day last October, the Dar es Salaam

Stock Exchange saw only 18 deals and 23,905 shares change hands for a combined value of less than \$30,000 (see table, bottom, page 24), compared with the billions of shares which trade daily in New York and London. This means single, high-volume trades can cause large price swings, especially on the exchanges with few listings and limited trading hours, such as Tanzania and Uganda. Other markets are deeper and liquidity is improving, especially since local pension funds and fund managers have started

## Investing in African markets is not easy - no stockbrokers cover the entire continent

coming into the market over the last few years. IBTC, a Nigerian investment bank, regularly executes large trades on the Nigerian Stock Exchange for both individual and institutional investors.

As John Niepold points out, African markets seldom move in tandem with those outside the continent, which benefits portfolio diversification. Adding a volatile asset to a portfolio in fact decreases portfolio volatility, so long as the new asset is not correlated with the old.

There's no doubt that good money can be made by investors who can spot the winners. The next problem is working out how to go about it. You can invest in

stock market funds; buy individual stocks on your chosen markets through local brokers; or buy Depositary Receipts in New York or London.

## Retail fund managers

There are few, if any, specialist pan-Africa funds open to retail investors. Most of these funds are now solely available to institutional investors or high net-worth individuals. As stock markets have grown, a number of locally-managed investment funds have been created: Databank's EPACK Investment Fund in Ghana, the IBTC Nigerian Equity Fund and many others, especially in South Africa.

Typically, these funds are aimed at domestic investors and principally invest in their own markets, but both EPACK and IBTC's fund are open to foreigners. EPACK charges an annual management fee of two per cent and foreign investors have to cover currency exchange costs (returns are in cedis). IBTC charges 1.25 per cent per annum and this is reflected in the bid/offer spread of the units. Foreigners wanting to invest need to make payments via IBTC's foreign bank account.

The advantage of investing in such a fund is that someone else does the due diligence on the underlying investments and a single investment gives exposure to many different companies. Downsides include fund management fees, lack of control of investments and the risk that

## EXPERT INSIGHT

### As stock markets emerge from the shadows, Thomas Mims illuminates a canny investor's dream



Over-achieving yet undervalued publicly-traded companies of Africa are waiting to be discovered by global investors. Africa receives five per cent of foreign portfolio investment into developing countries. This in light of the fact that, of the world's top ten performing stock markets, five of them are in Africa.

African stocks also exhibit potential for fantastic growth in equities value. Research shows that economies fare best where capital is inexpensive, plentiful and fairly allocated. The 'democratisation of capital' is a powerful force that feeds upon itself as healthier economies attract more capital by which to grow healthier.

Analysis of valuation measures of African markets relative to the rest of the world illustrates the room for growth. For instance, the average P/E (price earnings) ratio for African stocks is less than 25% of the historical P/E ratio for the S&P 500. The low African ratio results from generally poor levels of information and data from the African capital markets, and false

impressions concerning the potential for profit existing in African equities. An adjustment up to only 50% of the S&P P/E ratio would imply 200% growth in African stock values.

A fraction of the size, with half the population and raw materials and natural resources of Africa, the US has a stock market capitalisation 50 times greater than that of Africa. Several global companies have a market capitalisation worth more than the total market capitalisation of all the stocks traded in Africa. The value of US stocks represents 200% or more of its GNP while African stock value is only 90% of GNP. Were African stocks to 're-price' to the US level of GNP to market capitalisation, the ratio would imply an increase in value of over 150%.

Africa trades five billion shares per year (excluding South Africa), while Nasdaq can trade five billion shares in one day. To improve the prospects for growth and maturation of the African capital markets there is a need for: lower costs of transacting; more liquidity and depth; presentation of good transparency; less fragmentation of markets; improved access to information and data; greater involvement of financial intermediaries to create more products, such as ADR/GDRs and in privatisation; open and closed end funds; unit trusts.

Thomas Mims is founder and CEO of Emerging Africa

## African stock market data (provided by Databank), end of year 2004

Country	Listings	Market cap (US\$ bn)	Index level	2004 Return (Local)	2004 Return (US\$)	World ranking	2003 US\$ Return	Exchange rate	Exchange rate 31/12/2003	Change
Botswana	25	40.60	2888.7	15.5%	21.1%	33	20.86%	4.26	4.46	4.6%
Egypt (Economist)	793	35.98	23553.1	105.2%	103.5%	2	60.10%	6.23	6.18	-0.8%
Egypt (CMA)	793	35.98	1221.2	52.4%	50.4%	13		6.23		
Ghana	29	10.79	7966.49	91.2%	86.5%	3	143.70%	9029.73	8805.35	-2.5%
Ivory Coast	38	0.51	87.3	18.9%	15.7%	44	27.67%	542.20	527.60	-2.8%
Kenya	48	3.97	2956	8.0%	7.5%	55	111.79%	76.87	76.55	-0.4%
Malawi	9	6.67	424	84.7%	82.9%	4	-17.77%	105.80	104.80	-1.0%
Mauritius	40	2.35	710.8	29.3%	18.2%	39	54.53%	28.44	26.00	-9.4%
Morocco	52	24.78	4521	14.6%	22.4%	31	44.46%	8.28	8.84	6.4%
Namibia	29	0.40	66.5	14.3%	33.3%	18	59.72%	5.76	6.72	14.3%
Nigeria	202	14.87	23292.6	15.7%	22.4%	32	59.12%	129.50	137.00	5.5%
South Africa	425	450.00	12656.9	22.6%	45.0%	15	42.44%	5.68	6.72	15.4%
Swaziland	6	0.22	157.2	1.4%	18.6%	38	21.40%	5.68	6.65	14.6%
Tanzania	7	0.75	153.3	0.9%	2.6%	57		1062.00		
Tunisia	na	na	1331.8	6.5%	20.1%	34	11.85%	1.22	1.37	11.3%
Uganda	7	1.06	401.7	45.8%	60.9%	9	140.09%	1755.00	1937.00	9.4%
Zambia	16	0.20	765.7	85.1%	77.1%	7	37.69%	4702.00	4500.00	-4.5%
Zimbabwe	82	1.00	1097492.5	173.3%	-59.3%	60	-73.46%	5497.00	818.50	-571.6%
UK	2837	2871.2	4,814.30	7.6%	15.9%	43	25.24%	0.52	0.56	7.5%
S&P 500	2800*	12600*	1211.92	9.4%	9.4%	53	26.11%	1.00	1.00	

\* Approximate figures for the New York Stock Exchange

Listings

Number of companies listed on the exchange

Total market capitalisation (i.e share price x number of shares) for all companies listed on the exchange

The level of the benchmark index used by the exchange

The return on investments in local currency for the past year based on the benchmark index

As above but for US\$ investors

World ranking

Ranking based on US\$ returns for 60 stock market indices

2003 US\$ returns on the benchmark index

The local currency exchange rate with the US\$

Change in the exchange rate since last year

Source: Databank Group, Ghanaian investment bank and research firm

## Trading day example - Tanzania 12 Oct 04\*

Company	Previous closing price	Opening price	Closing price	High	Low	Turnover	Number of deals	Outstanding shares bids	Outstanding shares offered	Number of shares traded	Market cap (billions)
TOL Ltd	330	None	None	None	None	None	None	None	6,500	None	11
Tanzania Breweries Ltd	1,440	1,460	1,480	1,480	1,460	20,047,200	4	219,983	None	13,640	436
Tanzania Tea Packers Ltd	440	440	440	440	440	22,000	1	None	250	50	7
Tanzania Cigarette Company	1,700	1,700	1,700	1,700	1,700	3,536,000	3	None	14,861	2,080	170
Tanga Cement Company	960	960	960	960	960	631,680	2	26,170	None	658	61
Dar es Salaam Airport Handling	580	570	570	570	570	4,261,890	8	None	40,137	7,477	21
KA	215	None	None	None	None	None	None	5,882	None	None	99

\* From Stock exchange website (All prices in Tanzanian shillings)

Exchange rate 1US\$ = 1079.1 Tshs (12/10/04)

## African stock market profiles

Country	Index	Base date	Base	Website	Clearing and settlement	Settlement cycle	Foreign participation	Exchange controls	Trading system	Trading days	Trading times	Central depository
Algeria	LA All Share	Dec-01	100	<a href="http://www.cosob.com.dz">www.cosob.com.dz</a>	Electronic	T+4	No restrictions	None	Automated	Mon	09.30 - 11.10	No
Botswana	BSE Domestic	Jun-89	100	<a href="http://www.bse.co.bw">www.bse.co.bw</a>	Manual	T+5	No restrictions in shares (1)	None	Call over with presiding officer	Mon - Fri	09.00 - 09.30 15.00 - 15.30	No
Egypt (2)	CMA General	Jan-92	100	<a href="http://www.egyptbse.com">www.egyptbse.com</a>	Manual	T+4	No restrictions	None	Computerised	Sun - Thu	11.30 - 15.30	Yes
Ghana	GSE All Share	Nov-90	100	<a href="http://www.gsedata.com">www.gsedata.com</a>	Manual	T+5	74% cap on foreign ownership	None	Call over with presiding officer	Mon, Wed, Fri	10.00 - 12.00	No
Ivory Coast	BRVM 10	Sep-98	100	<a href="http://www.brvm.org">www.brvm.org</a>	Manual	T+5	No restrictions	None	Computerised	Mon, Wed, Fri	08.30 - 12.30	No
Kenya	NSE 20 Share	Jan-66	100	<a href="http://www.nse.co.ke">www.nse.co.ke</a>	Manual	T+5	80% cap on foreign ownership	None	Floor based open outcry	Mon - Fri	10.00 - 12.00	No
Malawi	MSE Domestic Share	Nov-96	100	<a href="http://www.mse.co.mw">www.mse.co.mw</a>	Transaction by transaction Automated delivery vs. payment	T+7	49% cap on foreign ownership	None	Call over, floor based	Mon - Fri	09.00 - 12.00	No
Mauritius	SEMDEX	Jul-89	100	<a href="http://www.semindex.com">www.semindex.com</a>	Manual	Rolling T+3	No restrictions	None	Screen based, automated	Mon - Fri	09.30 - 11.30	Yes
Morocco	Morocco All Share	Dec-91	1000	<a href="http://www.casablanca-bourse.com">www.casablanca-bourse.com</a>	Manual	T+3	No restrictions	None	Automated	Mon - Fri	08.30 - 12.30	Yes
Mozambique	Composite											
Namibia	NSX Local Companies	Jun-95	100	<a href="http://www.mnsc.com.na">www.mnsc.com.na</a>	Manual	Rolling T+5	No restrictions (3)	None	Automated	Mon - Fri	09.00 - 17.00	No
Nigeria	NSE All Share	Jan-84	100	<a href="http://www.nigerianstockexchange.com">www.nigerianstockexchange.com</a>	Delivery vs payment	T+3	No restrictions	None	Screen based automate auction	Mon - Fri	11.00 - 13.00	Yes
South Africa	All Share			<a href="http://www.jse.co.za">www.jse.co.za</a>	Electronic	Rolling T+5	No restrictions	None	Electronic (JET) (4)	Mon - Fri	09.30 - 16.00	Yes
Swaziland	SSX All Share	Jul-90	100	<a href="http://www.ssx.org.sz">www.ssx.org.sz</a>	Transaction by transaction Electronic, transaction by transaction	T+5	No restrictions	Prior permission needed from central bank	Call over, floor based	Mon - Fri	10.00 - 12.00	No
Tanzania	LA All Share	Dec-01	100	<a href="http://www.darstockexchange.com">www.darstockexchange.com</a>	Electronic, transaction by transaction	T+5	Restricted	None	Open outcry auction	Tue, Wed, Thu	10.00 - 10.30	Yes
Tunisia	TUNINDEX	Dec-97	1000	<a href="http://www.bvmt.com.tn">www.bvmt.com.tn</a>	Automated	T+5	49.9% cap on ownership	Responsibility of central bank	Electronic	Mon - Fri	10.30 - 12.30	Yes
Uganda	LA All Share	Dec-01	100	<a href="http://www.uganda-capitalmarkets.co.ug">www.uganda-capitalmarkets.co.ug</a>	Transaction by transaction	T+5	No restrictions	None	Call over, floor based	Tue, Thu	10.00 - 12.00	No
Zambia	LUSE All Share	Jan-97	100	<a href="http://www.luse.co.zm">www.luse.co.zm</a>	Automated	T+3	No restrictions	None	Single price auction, order matching	Mon - Fri	10.00 - 11.00 12.00 - 13.00	Yes
Zimbabwe	ZSE Industrial	Dec-66	100	<a href="http://www.zse.co.zw">www.zse.co.zw</a>	Transaction by transaction	T+7	40% cap on ownership (5)	None	Call over, floor based	Mon - Fri	09.00 - 09.30 11.45 - 12.15	No

(1) Non-residents cannot buy government debt

(2) Egypt has two exchanges, in Alexandria since 1888 and Cairo since 1903

(3) Central bank approval needed to buy a bank

(4) Has technical alliance with London Stock Exchange

(5) Disinvestment proceeds will be freely remitted, with the proviso that the shares were originally purchased with foreign currency on the ZSE.

Index

Name of the benchmark index

Date when benchmark was created

Original base level of the benchmark index

Type of clearing and settlement system used

The number of days after a trade that the transaction is settled.

Whether the exchange uses a CSD to hold share certificates

the market your fund has invested in crashes. And while the investor avoids the need to investigate each company, it is still necessary to check the credentials and the capabilities of the fund manager.

A fund usually works by selling units and using the money raised to invest in a portfolio of shares. The value of the unit reflects the performance of the underlying shares and the units are often traded on an exchange themselves.

## Day traders for Africa?

The internet assisted the rise of “day traders” – individuals who buy and sell shares rapidly and close all positions at the end of each day. While liquidity and short trading hours probably prevent day trading for most of Africa, the internet has facilitated investing in individual stocks across the continent. It is now possible to track down and communicate with stockbrokers in Africa.

Even so, Cyrille Nkontchou of Liquid Africa admits that investing “is not easy”. Firstly, there are no stockbrokers covering the entire continent – the

## Investing on one's own requires more time and higher fees than most are willing to commit

largest cover only two or three countries. Secondly, each market trades in its national currency so there are currency issues and exchange costs. Thirdly, there is limited information. Traditional sources, such as Bloomberg and Reuters, typically cover less than 50 per cent of the markets.

“To invest in Africa on one's own initiative will require more time and higher transaction fees than most investors are willing to commit,” says Mims.

In some cases, ownership caps restrict total share holdings by foreigners, which can wither the chances for foreign investment. As noted in the table on page 25, Ghana has a 74 per cent cap and Kenya an 80 per cent cap. Dar es Salaam is effectively closed to further foreign investment as caps have already been reached.

Stockbrokers can be found through the exchanges (see table, page 25) and can open accounts for foreign investors. “An overseas investor opens a dollar account with a broker such as ourselves,

which can be done electronically, and the account is maintained in dollars,” says Charles Mate, who runs Zambia Stock Brokers. “When investors wish to buy shares, they send their instructions and the broker places the order. If the order is met, settlement takes place three days later and the account is billed at the prevailing exchange rate.”

The stock exchange charges 0.25 per cent of the transaction value and the broker's fee is around one per cent, including foreign exchange costs, but Mate emphasises the broker's fee is negotiable.

The Lusaka stock exchange operates a dematerialised trading system and a Central Share Depository (CSD), so there are no share certificates.

This can be a worry for foreign investors who like the comfort of a piece of paper. This concern is addressed by having Barclays Bank operate as a sub-custodian within the CSD. Foreign investors' share positions are held under the name of Barclays Bank, which monitors the trades.

## Sale in New York and London

Depository Receipts are certificates held in the bank of one country, representing a specific number of shares issued in another country. They allow people to invest in companies listed in foreign countries.

They come in several forms, including American Depository Receipts (ADRs) and Global Depository Receipts (GDRs). ADRs are traded on American stock exchanges as if they were American stock, and pay dividends in dollars. Investors can instruct their local brokers to buy ADRs in the same way as shares in an American company.

According to Mims, there are currently about 110 ADRs and GDRs of African stocks and the majority (about 70) of these are for South African companies. Another 20 are Egyptian and the rest are scattered across the continent. In total they represent less than five per cent of listed stocks comprising only a limited investment opportunity.

Mims hopes to establish a fund for African ADRs and hence provide an incentive for more companies to issue them in future.

In his view, there are at least another 100 African companies that could issue ADRs over the next two years. If a company believes it is undervalued on its domestic market, the attraction of offering shares to a wider audience is

obvious. How many companies actually pursue this route is unknown.

## Staying in the know

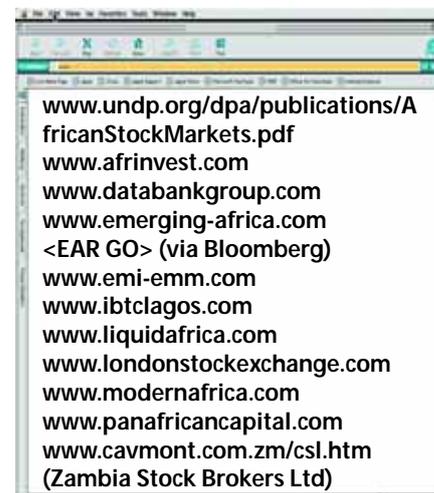
The difficulty of uncovering information is what makes investing in African equities potentially so profitable. The existence of undervalued shares indicates market inefficiencies, meaning the prices of shares are failing to reflect all the information. It has no relation to the efficiency of an exchange in executing transactions – in which some African exchanges are world class (see table, page 25, for exchanges with electronic settlement and computerised trading systems).

A good example is Sonatel, the Senegalese telephone operator. While Senegal is a stable, democratic country, it has no stock exchange. Sonatel is therefore listed on the West African Bourse in Abidjan. Conflict in Ivory Coast means the index is languishing, depressing Sonatel's share price for reasons that do not impact its performance in any way.

Information is key, but you have to work hard. Cyrille Nkontchou says it's a case of going “market by market” to dig out what you need. John Niepold agrees that “Information doesn't come to you – you need to go out and get it.”

Africa investor magazine is at the ready. Our tables, which are sourced from Databank, Liquid Africa and the UNDP African Stock Markets Handbook, provide a detailed and accessible reference to key facts on African stock markets.

They includes details on foreign investor restrictions, trading hours and settlement systems as well historic returns and recent market data, unavailable in such a concise format elsewhere. 



# Floating southern hope

Lusaka's stock exchange measures up to international standards, but companies remain reticent to list. Simon Griffiths asks Brian Tembo why

African stock markets are small by world standards and Lusaka Stock Exchange (LuSE) in Zambia is no exception, with only 13 listed companies. On the other hand, it is completely open to foreign investors. A young exchange, it adopted modern technology from the start, with T+3 settlement (settlement takes place three days after the trade).

**Q How easily can a company list in Zambia?**

**A** It is relatively easy to raise funds on LuSE. Being a modern unified market, a firm has two options or a combination of both: raise funds through equity by listing or issue a debt instrument on the LuSE bond market. The broad usage of the term "listing" refers mainly to equity: bonds are also listed but on the bond market.

**Q Can you explain the difference between quoted and listed?**

**A** The LuSE equity market has two tiers; listed and quoted. The listing procedure involves satisfying the Companies Act provision for a public limited company (Plc), which is attainment of a shareholding number of at least 50. After conversion to a Plc, a company applies to the Securities and Exchange Commission (Sec) to register its securities. Once this approval is granted, the equity is quoted on the LuSE. The company can issue and trade these securities to raise capital.

To be listed, firms have to satisfy LuSE Listing Rules (available for \$100) which are harmonised with SADC stock markets. Listing rules require 300 shareholders at a

minimum, profitability history of at least three years and at least one million shares in issue.

The quoted tier helps a company attain some of these requirements. For instance, Zamefa through its IPO was aiming at increasing its shareholder threshold to the 300-mark for listing and managed to do so when the IPO received more than 1,000 applications.

**Q What is the benefit to a company of listing?**

**A** Listing tends to be expensive because of continuing obligations, such as reporting requirements and sending annual reports to members. Certain incentives have been put in place to help mitigate this cost. In Zambia corporation tax is reduced by three per cent and a further five per cent if the offer results in at least 33 per cent share uptake by locals. This incentive, as of last budget, is accessible once and for one year only.

Moreover, trading in listed stock does not attract the three per cent property transfer tax whereas quoted stock does. A listed company is on the official board of LuSE and hence companies should strive to list.

**Q If it is so easy to list, why are so few companies listed?**

**A** LuSE is a modest 10 years old and, given Zambia's history (the economy was only liberalised in 1991), there is an inevitable lack of investor awareness and lack of an investment and stock exchange culture. This translates into reduced trading activity and wariness by companies to list.

It is a worldwide fact that stock exchange funds tend to be cheaper than borrowing from your local bank or international bank or lending institution. However, because of the culture block, businesses find it more convenient to utilise traditional, though more costly, means of raising funds.



**Q How easy is it for foreigners to invest in the exchange?**



**A** We have no limits on foreign participation, there are no foreign exchange controls and no capital gains taxes. The only restriction is when there is a privatisation IPO where foreign investors are not allowed to participate until the company is listed. We are developing a programme to get citizens outside Zambia to invest back home too.

Domestic investment is encouraged, but there are several problems that impede it. One is the lack of institutional investment guidelines. These were drafted and submitted in 1999 but the government has not enacted them. The guidelines would compel institutional investors to invest a set minimum in the capital market, to provide market liquidity.



**Q What is your view on regional stock exchanges?**



**A** We have reached phase two of the link into the JSE Securities Exchange under Project Thusanang. By 2006 there should be a real-time network of SADC stock exchanges accessible via a desktop screen. This will make our markets visible and attract investment. While we have fully automated settlement and T+3 rolling settlement, we could benefit from JSE technologies.

LuSE has world-class structures but we need more on the trading side of things. Currently we look at volumes manually. It would not be feasible to invest in automated systems with the current activity, although there will be a need for this in future.

Regionalisation would definitely be good for Zambian companies, which are attracting a lot of attention. The problem is that there is simply not enough supply. In some cases companies that may want to list are not sure whether there is enough liquidity for their offer.



Brian Tembo is spokesman for the Lusaka Stock Exchange