

COURSE CODE:(*FINC 406*)

COURSE TITLE: (*Financial Markets*)

SESSION#: (8) – **TITLE:** (**EQUITY MARKETS**)

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UNIVERSITY OF GHANA

College of Education

School of Continuing and Distance Education

2017/2018 – 2018/2019 ACADEMIC YEAR

Course Information

Provide the following information:

Course Code:

FINC 406

Course Title:

Financial Markets

Course Credit

3 Credit(s)

**Session Number &
Session Title:**

8 – EQUITY MARKETS

Semester/Year:

2nd Semester - 2017/18Year

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Session Overview

- The session describes equity/stocks/shares as a key long term financial instruments. The various forms of market through which shares are issued and traded are also discussed with emphasis on the first time issuance procedures. The session concludes with various pricing methodologies for shares, and the trends in the global integration of equity markets.

Session Learning Outcomes

At the end of the session, the student will

1. Explain what shares are and identify the types of shares
2. Explain the share issuance procedures
3. Explain the primary and secondary markets for shares.
4. Explain and apply the methods of valuing and pricing shares
5. Discuss the globalization of the stock markets Private and public equity markets
6. Appreciate Investor monitoring and market for corporate control

EQUITY MARKETS



Background on Common Stock

- Common stock - certificate representing equity or partial ownership in a corporation

Issued in primary market by corporations that



Stock is then traded in the secondary market, creating liquidity for investors and company evaluation for managers



Background on Common Stock

Ownership and Voting Rights

- Owners of common stock vote on:
 - Election of board of directors
 - Authorization to issue new shares
 - Amendments to corporate charter
 - Other major events
- Many investors assign their vote to management via a proxy



Background on Preferred Stock

- Represents equity or ownership interest, but usually no voting rights
- Trade voting rights for stated fixed annual dividend
- Dividend paid before common shareholders if dividends are declared by board of directors
- Dividend may be omitted
 - Cumulative provision
 - If common dividend paid, preferred dividend fixed
 - Preferred stock is a less desirable source of financing than bonds (not a tax-deductible expense)



Private Placement of Stock

- An “enabling institution” traditionally an investment bank, raises funds for a private or public entity seeking these funds.
- The institution arranges for one or more large institutional, or wholesale, investors to buy all the shares.



Public Placement of Stock

- Stock offerings are classified as Initial public offerings (IPOs) or Secondary offering.
- Initial public offerings
 - First-time offering of shares to the public
 - Two types of underwriting:
 - “Bought deal”/ “fully underwritten deal” – underwriter buys all shares at a discount.
 - “Best efforts” – promises to use its facilities and goodwill to distribute shares at best price for a commission.



Public Placement of Stock

- Firm must provide information to public
 - Registration statement to SEC
 - Prospectus
 - Firm is assisted by an investment banker
- Performance of IPOs
 - Price generally rises on first day
 - Refer to the Reader for African Experience - Osei, K. A., et al (2014), *Recent Developments in Finance: A Reader*, Vol 2, Woeli Publishing. Accra
 - Longer-term performance of IPOs is poor (prices decline over time)
- Secondary stock offerings
 - New stock issued by firm that already has shares outstanding
 - Hire securities firm to sell its shares.
 - Monitor the market prices to anticipate the price at which to sell new shares.



Stock Secondary Markets

Stock Exchanges

- Stock Exchanges facilitate the trading of existing stocks in the secondary market.
- Brokerage firms serve as financial intermediaries between buyers and sellers of stock in the secondary market.
- Brokers receive orders and pass on to the exchange.



Stock Secondary Markets

Organized Exchanges

- Execute secondary market transactions
- Examples: GSE, NYSE, AMEX, Midwest, Pacific
- NYSE is largest, controlling 80 percent of value of all organized exchanges
 - Must own a seat on exchange in order to trade
 - Trading resembles an auction



Stock Secondary Markets

Over-the-Counter Market

- No trading floor or specific location
- Buy and sell orders are completed through a telecommunications network
- Nasdaq
 - Many stocks in the OTC are served by the National Association of Securities Dealers Automated Quotations, which is an electronic quotation system
 - Firms must meet specific requirement on minimum capital, assets and number of shareholders
 - Thousands of small firms, plus high-tech giants
- Pink sheets
 - Tiny firms that do not meet requirements for NASDAQ



Stock Secondary Markets

- Trend: Consolidation of stock exchanges
- Market microstructure
 - Specialists – take positions in specific stocks and stand ready to buy or sell these stocks through TC network
 - Floor brokers – execute transactions for their clients
 - Market-makers – like specialists, but operate in Nasdaq
 - Types of orders
 - Market order – to execute transaction at the best possible price.
 - Limit order – a limit is placed on the price at which a stock can be purchased or sold.
 - Stop order – specifies that the order is not executed until the market moves to a designated price (market order)



Stock Secondary Markets

– Changes in technology

- Online trading
- Real-time quotes
- Company information
- Electronic Communications Networks (ECNs)

– Margin requirements

- Specify amount of borrowed versus amount in cash
- Intended to ensure that investor's can cover their position if the value of their investment declines over time.



Stock Secondary Markets

- Purchasing stock on margin
 - Borrow a portion of the funds from broker
 - Usually margin limit is 50%
 - Margin is the amount of equity an investor provides
 - Magnifies returns (both good and bad)
- Short sales
 - Borrow stock and sell
 - Repay stock loan, hopefully at a lower price
 - Investor able to have potential profit from decline in stock price



The Ghana Stock Exchange

- Public company limited by guarantee
- The exchange aims to convert into a public limited liability company (demutualization).
- Licensed Dealing Members (LDMs) act through Authorized Dealing Officers (ADOs)
- Located on the Firth Floor of the Cedi House
- Trading is usually off the floor of the exchange
- Traders meet on designated dates on the floor of the exchange



Regulation of Trading on Ghana Stock Exchange

- n The GSE is a self-regulatory body.
- n Allowed under the SIL (amended) to make rules for its members and its operations
- n Subject to the approval of SEC
- n The GSE Rules Book contains all rules, some include;
 - nGSE Listing, 1990 (LI 1509)
 - nGSE Membership Regulation, 1991 (LI 1510),
 - nContinuous Trading Rules
 - nSecurities Clearing and Settlement House Rules,
 - n Rules on Takeovers etc.



GSE Online

- Stock Prices
 - <http://www.gse.com.gh/index1.php?linkid=5&sublinkid=12>
- Market cap, no. of shares, dividend yield, PE ratio
 - <http://www.gse.com.gh/index1.php?linkid=46>
- Information on the GSE Indexs
 - <http://www.gse.com.gh/index1.php?linkid=23&adate=04%2F01%2F2011&archiveid=453&page=1>



Stock Quotation

- Stock Quotation
 - 52-week price range (high/low and YTD% change)
 - Stock symbol
 - Dividend annualized and dividend yield
 - Price-earnings ratio
 - Volume in round lots
 - Previous day's price close and net daily change



Stock Indexes

- Dow Jones Industrial Average
 - Price-weighted average
 - 30 large U.S. firms
- Standard and Poor's (S&P) 500
 - Value-weighted
 - 500 large U.S. firms
- New York Stock Exchange Indexes
- Other Stock Indexes
 - Amex, NASDAQ



Stock Indexes in Ghana

- The key market indices in Ghana include:
 - GSE All-Share Index
 - Databank Stock Index
 - Databank Stock Average
 - Gold Coast Liquidity Index
 - Gold Dollar Index
 - Gold Coast Brewery Index
 - Gold Coast Finance Index



Stock Indexes

- Investing in stock indexes
 - Indexing – a strategy where portfolio managers invest a portion of their funds in a set of stocks whose performance should mirror a specific stock index.
 - Has become very popular
 - Lower transactions costs
 - Studies find that actively-managed funds do not outperform stock indexes
- Examples of publicly traded stock indexes
 - SPDRs (Standard & Poor's Depository Receipt)
 - Diamonds



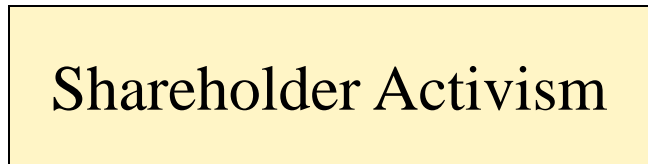
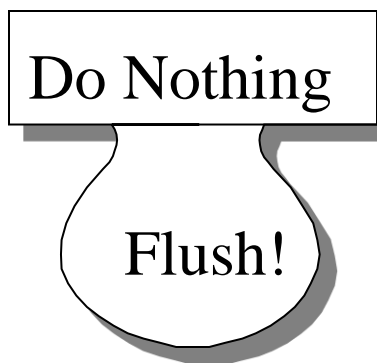
Investor Trading Decisions

- Stock value = proportional value of total company
- Investor return = dividend yield + capital gain/loss
- New information translated into trading decisions impacting supply/demand for shares
- New equilibrium price established until new information appears



Investor Monitoring of Firms in the Stock Market

- Shareholder vrs managers (agency problems)
- Institutional and individual investors
- Shareholder activism
 - An investor who is dissatisfied with the way managers are running a firm has three choices:



Investor Monitoring of Firms in the Stock Market

- Types of shareholder activism
 - Communication with the firm
 - Effort to place pressure on management
 - Institutional investors
 - e.g. request a seat on BOD
 - Proxy contest
 - In an attempt to change composition of BOD
 - Is a more formal effort than communication
 - Shareholder lawsuits



Corporate Monitoring of Firms in the Stock Market

- Market for corporate control
 - Stock price declines due to poor management
 - Subject to possible takeover
- Barriers to market for corporate control
 - Shark Repellent - Amendments to a company charter made to forestall takeover attempts.
 - Poison Pills – special rights awarded to shareholders or specific managers upon specified events
 - Golden Parachutes – specifies compensation to managers in the event that they lose their jobs or there is a change in the control of the firm.
 - White Knight - friendly potential acquirer sought by a target company threatened by an unwelcome suitor.



Corporate Monitoring of Their Own Stock in the Stock Market

- Stock repurchases
 - Dividend alternative or undervalued stock
 - Excessive cash relative to +NPV investments
- Leveraged buyouts (LBO)
 - If managers believe the stock price undervalued, they may buy the outstanding shares with borrowed funds
- Stock offerings
 - Signals overvalued shares



Pricing Efficiency of the Stock Market

- Weak form efficiency – the price of the security reflects the past price and trading history of the security.
- Semi-strong form efficiency – means the price of the security fully reflects all public information.
- Strong form efficiency – price of the security reflects all information whether it is publicly available or known to only insiders such as the firm's managers or directors.



The Ghana Alternative Exchange (GAX)

- The issuer shall be a public limited liability company incorporated under the Companies Act, 1963 (Act 179).
- Companies considering listing on the GAX must have minimum capital of GH¢250,000 (US\$146,600), lower than the GH¢1million required for the main market.
- They must also have a minimum of 20 shareholders, compared with 100 for the main bourse.
- The reporting requirements are lower. Companies on the main exchange have to present their financial reports quarterly. This has been reduced to twice a year for those on the GAX.
- The public float of the company must constitute a minimum of 25% of the total number of issued shares



The Ghana Alternative Exchange (GAX)

- The company should have operated for at least one year, and have published or filed accounts for at least one financial year. A start-up may be listed if it submits a 3 year business plan that clearly demonstrates the viability of the applicant. In terms of profitability, the company need not have recorded historic profits but must have the potential to make profit at least after its third year of listing.
- On the main exchange, the company should have published accounts for at least three full years and must have positive pre-tax profits when taken in aggregate over the three years.
- At least 50% of the Board of an applicant should be composed of non-executive directors and at least 1 or approximately 25% of the total should be independent.
- Though listing and application fees are waived, a GAX listed company must pay an annual fee of GHS 2000.



Incentives Provided by Stock Exchange for the GAX

- Companies listed on the GAX will be able to access the SME Listing Support Fund -- which will be used to assist companies meet their listing expenses. The fund has been set up with an initial GHS 1million contribution from the African Development Bank, the GSE and the Venture Capital Trust Fund.
- Also due to the requirement that issues be underwritten by a Sponsor there is no probability of an initial public offering (IPO) failure.



Methods of Listing Securities on the GAX

- Introduction
 - An introduction is suitable where a company does not need to raise capital and has the minimum number of shareholders.
- Public offer
 - An offer to the public may be an offer for subscription or an offer for sale.
 - In an offer for subscription, members of the public are invited to subscribe for un-issued shares and the proceeds accrue to the company.
 - In an offer for sale, existing shareholders invite subscribers to purchase their shares and therefore the proceeds accrue to the sellers.
 - Public offers require the publication of a prospectus, which must be approved by the Securities and Exchange Commission and registered with the Registrar of Companies.



Methods of Listing Securities on the GAX

- Private placement
 - A private placement is an offer of shares to selected parties where shares are “placed” or offered to subscribers by the company as the result of private negotiations.



Some Companies Listed on the GAX

Number	Name of Company	Date of Listing	Issued Shares (Millions)	Amount Raised (Millions)
1	Samba Foods	May-15	5.9754353	4.30232616
2	Intravenous Infusion Ltd	Dec-15	226.621246	20.39592583
3	Meridian Marshalls Holding Company	Jul-15	96.084166	10.56925826
4	Hords Ltd	Aug-15	114.947561	11.4947561



Bonds listed on the GAX

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GHANA HOME LOANS

Value GH cmillion Coupon % Maturity

GHL100-5Y21 GHCGHLO43023	1,322	9.00	24/08/2021
GHL200-5Y21 GHCGHLO43031	9,229	9.00	24/08/2021
TOTAL	10,551		

PBC LTD

Value GH cmillion Coupon % Maturity

PBC1-1Y17 GHCPBC043508	63,123	26.00	04/11/2017
PBC2-1Y17 GHCPBC043656	91,290	26.00	30/11/2017
TOTAL	154,413		

NOTES

- Currently, there are two different platforms used for the trading of fixed income securities; the Bloomberg E-bond Trading Platform and CSD Platform
- Bloomberg E-Bond is an electronic bond trading platform developed by Bloomberg LP
- CSD stands for Central Securities Depository.
- The description for an instrument includes the coupon and the maturity date where for GHGB [23 08/21/17](#), 23 is the coupon and 08/21/17 is the maturity date.
- Closing Price is the final price at which a bill is traded on a given trading day.
- Government Bonds comprise 3yr, 5yr and 7yr issues.
- Government Notes comprise 1yr and 2yr issues.
- Volume is in Ghana Cedis.
- Volume traded on CSD represents settled trades which includes trades done on the Bloomberg Platform as well as the CSD Platform.

For enquiries, contact: Head of Ghana Fixed Income Market
Ghana Stock Exchange
5th & 6th Floors Cedi House, Liberia Road, Accra
Tel: [0302 669908](tel:0302669908)/669914/669935

Bonds Listed on the GAX

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Corporate Bonds Issued IZWE LOANS LTD

ISIN	Bond Description	Value - GH cmillion	Coupon %	Maturity
ILLA6-3Y17	GH0000001167	14.5750		29/10/2017
ILLA7-2Y17	GHCILLO38856	10.0000	28.91	31/03/2017
ILLA8-3Y18	GHCILLO38864	10.0000	27.00	31/03/2018
ILLA9-5Y20	GHCILLO40589	7.0000	22.47	27/08/2020
ILLA10-3Y18	GHCILLO40936	8.3148	29.68	29/10/2018
TOTAL		49.8898		

AFB (GHANA) PLC

ISIN	Bond Description	Value - GH cmillion	Coupon %	Maturity
GHCACFB040132	10.0000	26.50	16/07/2018	
GHCACFB040116	10.0000	182-day	16/07/2018	
GHCACFB040124	10.0000	182-day	18/07/2018	
GHCACFB040298	2.1110	26.28	02/07/2017	
GHCACFB040314	2.3000	31.34	01/09/2017	
GHCACFB040322	1.4844	31.40	29/09/2017	
GHCACFB040355	4.2500	31.32	20/03/2017	
GHCACFB044484	8.9400	21.34	03/03/2017	
TOTAL		49.0866		

EDENDALE PROPERTIES PLC

ISIN	Bond Description	Value - GH cmillion	Coupon %	Maturity
EPL1-3Y18	GHCEPL041116	9.1747	28.48	20/11/2018
EPL2-3Y18	GHCEPL041199	7.6000	27.00	07/12/2018
EPL3-3Y19	GHCEPL042340	8.5000	27.63	06/05/2019
EPL4-2Y18	GHCEPL043785	0.8770	27.00	22/12/2018
TOTAL		26.1517		

BAYPORT FINANCIAL SERVICES

ISIN	Bond Description	Value - GH cmillion	Coupon %	Maturity
BFS1-3Y18	GHCBFBS041403	69.2747	28.00	23/12/2018
BFS2-3Y18	GHCBFBS041411	9.2723	28.35	23/12/2018
BFS3-3Y19	GHCBFBS042306	12.5392	27.00	06/05/2019
BFS4-3Y19	GHCBFBS042322	11.2142	28.13	06/05/2019
BFS5-5Y21	GHCBFBS042314	26.3738	28.00	06/05/2021
TOTAL		128.6742		

Globalization of Stock Markets

- Stock markets are becoming globalized
 - Firms in need of funds can tap foreign markets
 - Investors can purchase foreign stocks
- Barriers to international stock trading have decreased
 - Reduction in transaction costs
 - Reduction in information costs
 - Reduction in exchange rate risk
- Foreign stock offerings in the United States
- International placement process
- Global stock exchange characteristics
- Emerging stock markets



Globalization of Stock Markets

- Methods used to invest in foreign shares
 - Direct purchases
 - American Depository Receipts (ADRs)
 - International mutual funds
 - World equity benchmark shares (WEBS)



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