



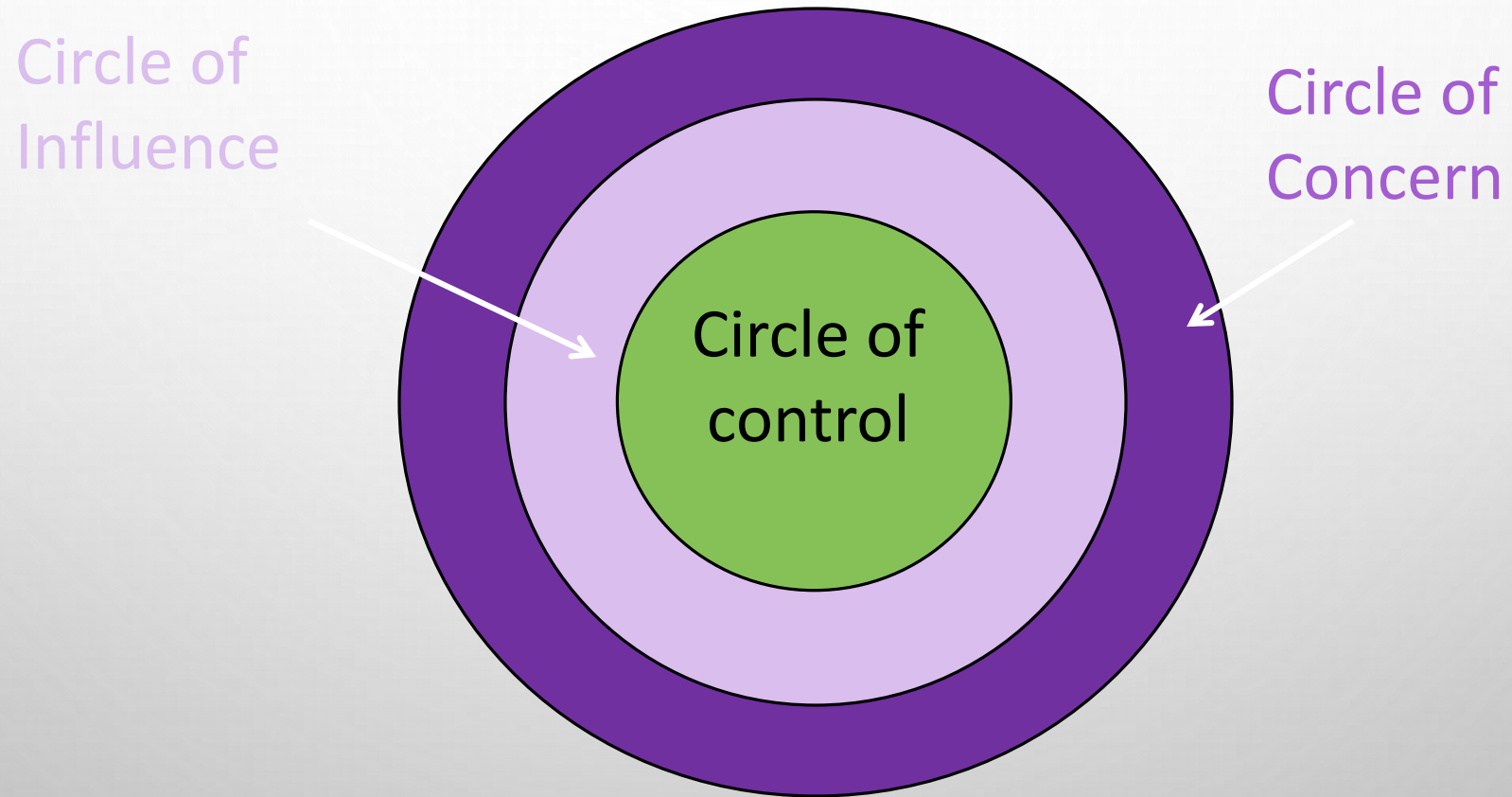
# ZIMBABWE STOCK EXCHANGE

THE POWER TO MAKE POSITIVE CHANGE

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30 OCTOBER, 2014

# CONTROL, INFLUENCE AND CONCERN



# CIRCLE OF CONCERN

- AREAS OF INTEREST
- AREAS WHERE WE HAVE NO CONTROL
- EXAMPLES BEING:
  - THE STATE OF THE ECONOMY,
  - WHO IS GOING TO BE THE NEXT VICE PRESIDENT?
  - POLITICAL RISK AND THE CONSEQUENT RISK PREMIUM REQUIRED

AT THE ZSE WE RECOGNISE THAT WE HAVE NO DIRECT INFLUENCE OR CONTROL

WE THEREFORE WE WILL NOT SPEND TIME ON THIS OTHER THAN TO RECOGNISE THAT WE NEED TO WORK WITHIN THIS ENVIRONMENT

# CIRCLE OF INFLUENCE

- AREAS WHERE ONE CAN DO SOMETHING ABOUT
- AREAS WHERE WE HAVE SOME LEVEL OF INFLUENCE
- EXAMPLES BEING:
  - POLICY CHANGES IN THE CAPITAL MARKETS,
  - POLICY CHANGES IN GOVERNMENT
  - POLICY CHANGES BY VARIOUS REGULATORS
    - PUBLIC ACCOUNTANTS AND AUDITORS BOARD (PAAB)
    - RESERVE BANK OF ZIMBABWE (RBZ)
    - INSURANCE AND PENSIONS COMMISSION (IPEC)
    - SECURITIES AND EXCHANGE COMMISSION

# CIRCLE OF CONTROL

- AREAS WHERE WE HAVE CONTROL
- EXAMPLES BEING:
  - PROJECTS BEING UNDERTAKEN BY THE ZSE
    - AUTOMATION
    - INTRODUCTION OF DEBT INSTRUMENTS
    - INTRODUCTION OF SECOND TIER MARKET (ZEEM)
    - DEMUTUALISATION
  - RULES AND REGULATIONS
    - LISTINGS REQUIREMENTS
    - MEMBERS' RULES
- PROACTIVE PEOPLE FOCUS ON ISSUES IN THEIR CIRCLE OF INFLUENCE AND WORK TO EXPAND THAT CIRCLE

# PERFORMANCE OF THE ZSE

1. THE USE OF THE AMERICAN DOLLAR ON THE BOURSE BROUGHT STABILITY
2. RECAPITALISATION IN SOME LISTED COMPANIES TOOK PLACE BETWEEN 2009 AND 2013 AND RAISED \$250.552 MILLION.
3. THE IMPLEMENTATION OF THE INDIGENISATION AND EMPOWERMENT LAW SENT MIXED FEELINGS
4. THE LIQUIDITY CHALLENGES AND THE GENERAL PERFORMANCE OF THE ECONOMY REVERSED SOME GAINS MADE IN 2009 TO 2012.
5. GLOBAL ISSUES: EG PERFORMANCE OF COMMODITIES
6. THE LACK OF DEVELOPMENT OF THE ZIMBABWE STOCK EXCHANGE:
  - LACK OF AUTOMATION
  - LACK OF NEW PRODUCTS

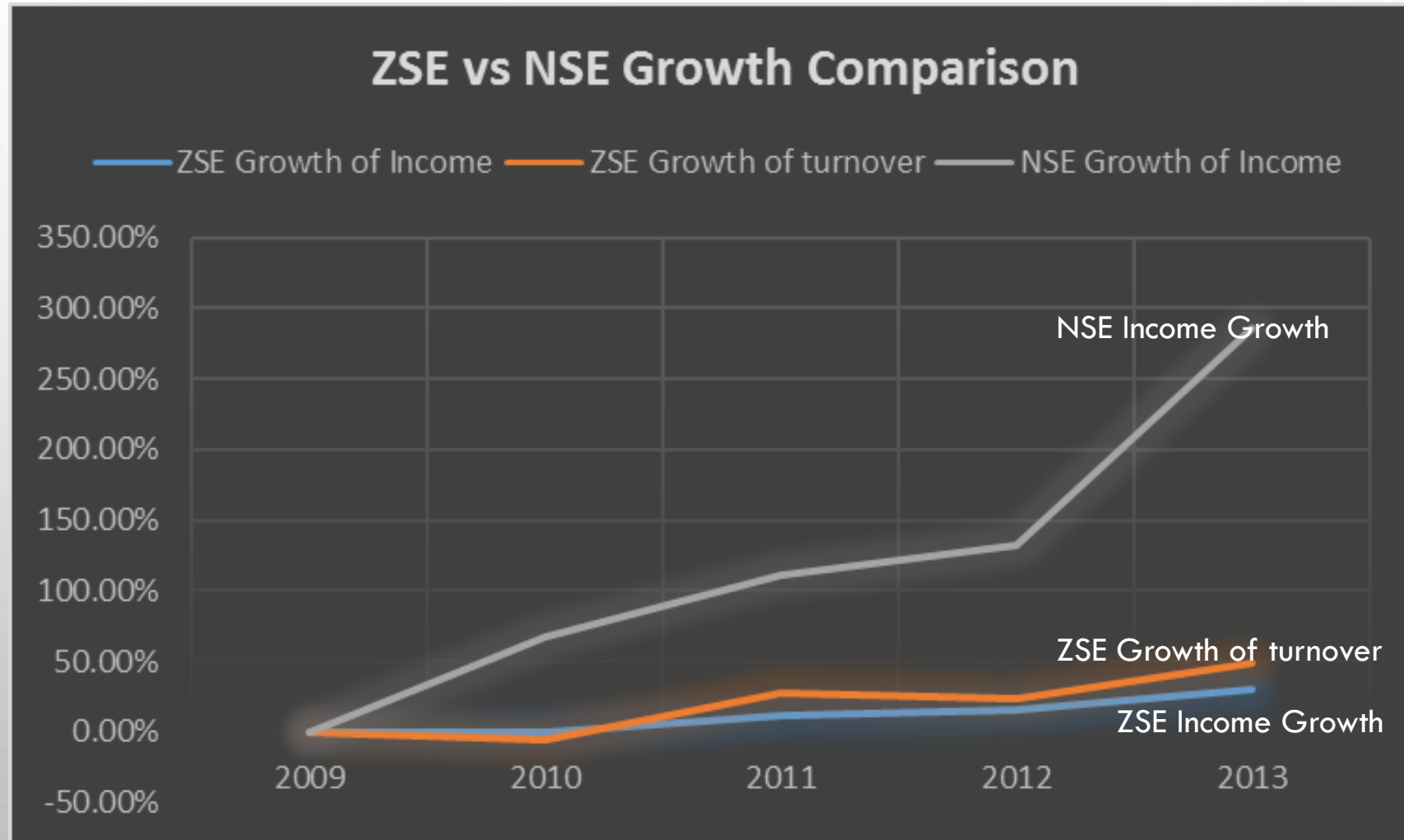
# PERFORMANCE

- **RANKING OF THE ZSE IN AFRICA ON THE FOLLOWING ATTRIBUTES:**

- NUMBER OF LISTINGS 7
- TURNOVER 9
- MARKET CAPITALIZATION 15

THE NUMBER OF EXCHANGES INCLUDED IS 20  
STATISTICS AS AT 31 DECEMBER, 2013

# PERFORMANCE OF THE ZSE







# TOPICAL CHALLENGES

THE ZSE AS AN INSTRUMENT OF VALUATION OF COMPANIES

DELISTINGS: REASONS AND IMPACT

LIQUIDITY CHALLENGES



# VALUATION OF COMPANIES

## **ISSUE OF VALUATION IS A CHALLENGE AND A POSSIBLE IMPEDIMENT TO CAPITAL RAISING**

- NET ASSET VALUES ARE HIGHER THAN MARKET PRICES
- IMPLIES THE MARKET HAS VALUED THE ASSETS AND EARNINGS CAPABILITY LOWER THAN NET ASSETS VALUE
- THIS ATTRACTS INVESTORS WITH A HIGHER RISK APPETITE
- PROVIDES AN OPPORTUNITY FOR PRIVATE EQUITY PLAYERS TO ENCOURAGE DELISTINGS FOR THEIR BENEFIT
- IT DAMPENS THE COMPANY'S ABILITY TO RAISE FUNDS THROUGH RIGHTS ISSUES

# VALUATION OF COMPANIES (CONTINUED)

## WHAT IS THE ZSE DOING ABOUT IT?

THE ISSUE LIES RIGHT AT THE EDGE OF THE CIRCLE OF INFLUENCE BORDERING ON CIRCLE OF CONCERN

- THE ZSE RECOGNISES THAT THE PROFESSION IS A SOURCE OF EXPERTISE ON VALUATIONS
- THERE IS NEED TO DETERMINE THE TRUE VALUE OF ASSETS
  - INVESTORS BELIEVE THAT THE IMPAIRMENT OF ASSETS IS NOT BEING CORRECTLY ACCOUNTED FOR
    - HENCE BELIEVE THAT MARKET CAPITALISATION IS THE TRUE REFLECTION OF VALUE OF ASSETS
  - ZSE IMPLORES THE PROFESSION TO TAKE PARTICULAR ATTENTION TO ASSET VALUATION
- TO SOME LEVEL THE CORRECT VALUATION OF ASSETS MAY BRING MARKET VALUATION CLOSER TO BOOK VALUES

# VALUATION OF COMPANIES (CONTINUED)

- **ISSUES OF CONCERN:**
  - INCREASE OF LIABILITIES AND PROVISIONS FROM NON REMITTANCE OF STATUTORY PAYMENTS
  - CONTINGENT LIABILITIES
  - NON PERFORMING LOANS
- ZSE ENCOURAGES THE PROFESSION TO INSIST ON DISCLOSURES BY THE COMPANY

# DELISTINGS FROM THE ZSE

**SINCE THE BEGINNING OF 2013 LISTINGS HAVE DECREASED FROM 79 TO 65 COUNTERS DUE TO THE FOLLOWING REASONS:**

- COMPANIES HAVE FAILED TO MEET CONTINUING OBLIGATIONS
- COMPANIES VOLUNTARILY DELIST TO SEEK CAPITAL FROM PRIVATE EQUITY
- DELISTINGS AS A RESULT OF TAKEOVERS/MERGERS
- COMPANIES THAT HAVE BEEN PLACED ON JUDICIAL MANAGEMENT
- REMOVAL OF COMPANIES WHICH HAD BEEN INACTIVE FOR A LONG TIME

IT IS OBVIOUS THAT SOME OF THE REASONS ARE IN THE CIRCLE OF CONCERN OTHERS IN THE CIRCLE OF INFLUENCE

# INCREASING LISTINGS (CONTINUED)

## **CHANGE OF STRATEGY:**

- ESTABLISHED A NEW BUSINESS DEVELOPMENT DEPARTMENT
- RECRUIT SKILLED MANPOWER, HAVE RECRUITED :
  - BUSINESS DEVELOPMENT EXECUTIVE
  - PRODUCT DEVELOPMENT MANAGER
- APPROACHING POTENTIAL ISSUERS
  - CREATING A PIPE LINE OF LISTINGS TO LIST IN 2 TO 5 YEARS
  - TWO WILL DO SO TO COMPLY WITH INDIGENISATION LAWS
  - TWO WILL DO SO TO MEET EXCHANGE CONTROL REQUIREMENTS

# INCREASING LISTINGS (CONTINUED)

- **DEVELOPMENT OF NEW PRODUCTS**
  - POTENTIAL ISSUERS HAVE OTHER NEEDS NOT MET BY CURRENT PRODUCT RANGE E.G. BONDS
  - INVESTORS SEARCHING FOR DIFFERENT ASSET CLASSES TO DIVERSIFY RISK
- **AGGRESSIVE ENGAGEMENT WITH POLICY MAKERS**
  - PROVIDING INPUT TO THE NATIONAL BUDGET ON BEHALF OF CAPITAL MARKET PLAYERS
  - SEEKING TAX INCENTIVES
  - SEEKING LEGISLATIVE CHANGES FOR REAL ESTATE INVESTMENT TRUSTS
  - LISTING OF COMMUNITY SHARE OWNERSHIP SCHEMES
  - LOWERING OF TRANSACTION COSTS
  - INCREASE EXCHANGE CONTROL LIMITS IN LISTED COMPANIES ( FROM 40% TO 49%)
  - COMMENCED DISCUSSIONS WITH THE MINISTRY OF YOUTH, ECONOMIC EMPOWERMENT AND INDIGENISATION
    - COMPLIANCE THROUGH LISTING
- **WORKING WITH MARKET PARTICIPANTS:** IDENTIFICATION OF POTENTIAL ISSUERS THROUGH ADVISORS

# INCREASING LISTINGS (CONTINUED)

- **IMPACT OF INCREASING LISTINGS**

- USHERS NEW BUSINESS OPPORTUNITIES FOR ACCOUNTANTS AND AUDITORS
- IMPROVE THE QUALITY OF EARNINGS OF THE ZSE
- PROVIDE CHOICE TO BOTH THE ISSUERS AND INVESTORS
- PROVIDES EMPLOYMENT OPPORTUNITIES



# INCREASING LIQUIDITY

- **FOR THE BOND MARKET TO BE VIABLE:**
  - MARKET MUST BE LIQUID
  - MUST HAVE PLAYERS WITH DIFFERENT PERSPECTIVES
  - HAVE MINIMAL TRANSACTION COSTS.
- **TO INCREASE LIQUIDITY ZSE LOBBIED THE RBZ TO:**
  - LIFT THE LIMIT OF FOREIGN PARTICIPATION IN THE PRIMARY MARKET
  - REMOVE RESTRICTIONS ON FOREIGNERS TRADING IN SECONDARY MARKET
  - THIS WAS DONE THROUGH THE MONETARY POLICY STATEMENT IN AUGUST, 2014

# INCREASING LIQUIDITY (CONTINUED)

- INCREASE LIQUIDITY THROUGH FOREIGN UNDERWRITERS
  - WOULD LIKE TO ENGAGE RBZ ON ISSUES RELATING TO FOREIGN UNDERWRITERS BASING ON THE MONETARY POLICY
  - LOCAL UNDERWRITERS LIMITED DUE TO LIQUIDITY CONSTRAINTS

# CORPORATE GOVERNANCE ISSUES

- **CREATING AN EXCHANGE WHICH:**
  - HAS AN EXCELLENT REGULATORY FRAMEWORK
  - ENCOURAGES FULL DISCLOSURE
  - ACTS FAIRLY, TIMELY AND DECISIVE (BOTH TO ISSUERS AND ZSE MEMBERS)
- **COMPOSITION OF BOARDS**
  - EXECUTIVE CHAIRMAN AND RATIOS OF EXECUTIVE TO NON-EXECUTIVE DIRECTORS
- **SEEKING TO ENCOURAGE SUSTAINABILITY REPORTING**
- **STANDARDS ON LONG ASSOCIATIONS (EXPOSURE DRAFT) (IESBA)**
  - INCREASE IN “COOL OFF” PERIODS FOR KEY AUDIT PARTNERS
  - CONTINUOUS RELOOK AT FEASIBILITY OF CHANGE OVER OF AUDITORS EVERY FIVE YEARS

# ISSUES UNDER ZSE CONTROL

- PROJECTS
  - AUTOMATION
  - LISTINGS REQUIREMENTS
  - ZIMBABWE EMERGING ENTERPRISE MARKET
  - BOND MARKET
  - DEMUTUALISATION

# TRADING VIDEO



**I THANK YOU**