

INVESTORS' PERCEPTION INITIAL PUBLIC OFFERING IN RWANDA

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ABSTRACT

Initial Public Offering is the most phenomenal event for an organization. For any company, "being public" is just as important as "going public." IPOs are normally issued by small and new companies who are in need of capital to expand their business, but sometimes large companies also issue them for public trading. Going public is a very big decision for any company. It permanently changes the way company does business. A public company has more sources of capital than a private company. But going public or offering an IPO is a very tedious and time-consuming process for any company.

1.0 INTRODUCTION

According to Mahesh Nayak, (2015) he stated that, whenever a firm needs money, the first thing it does is, it goes to the bank. However, sometimes banks may not be in a position to provide huge sums of money for a long time. In such a scenario the best way to raise money is through offering shares. It is the first sale of stock or securities by a company to the public.

Dimbrowski & Brooks (2016) asserted that sourcing money through IPO is a very tedious process. It requires a huge analysis and implementation of numerous. Commercial laws applicable to public offerings e.g. Companies Act, Income Tax Act Securities Contract Act Guidelines on "Disclosure and Investor Protection".

Therefore, to understand this complex subject, this study is conducted. IPOs can be a risky investment. For any individual investor, it is difficult to predict, how the stocks will perform, on their initial days of trading and in the near future as there is little or no historical data available to analyze the company or firm.

1.1. Research Objectives

The aim of this paper is to empirically investigate the perception of Rwandan investors toward IPO.

1.2 Specific Objective

- To find out the level of awareness about IPO in the investors.

- To find out investors' confidence level and their preferences while investing money (whether investors feel that they can make money in the stock market?).
- To analyze the investor's feelings on IPOs, if it is riskier than other investments options

1.3 Research Questions

- Is there enough awareness among middle-income group people regarding IPO?
- Does the recent scam in IPO affect the investors' confidence in RSE and IPO?
- Do retail investors feel IPOs are riskier than other investment options

2.0 LITERATURE REVIEW

IPO or Initial Public Offer is a way for a company to raise money from investors for its future projects and get listed to Stock Exchange. Or an Initial Public Offer (IPO) is the selling of securities to the public in the primary stock market.

2.1 Definition of IPO

The securities that the companies issue for the first time to the public either after incorporation or on conversion from private to a public company is called "INITIAL PUBLIC OFFERING" or 'IPO'. A company raising money through IPO is also called a 'Company Going Public.'

2.2 Reasons for Going Public

- To raise funds for financing capital expenditure needs like expansion diversification etc.
- To finance increased working capital requirement
- As an exit route for existing investors
- For debt financing.

2.3 Advantages of Going Public

- Stock Holders diversification: As a company grows and becomes more valuable, its founders often have most of its wealth tied up in the company. By selling some of their stock in a public offering, the founders can diversify their holdings and thereby reduce somewhat the risk of their personal portfolios.
- Easier to raise new capital: If a privately held company wants to raise capital through a sale of new stock, it must either go to its existing shareholders or shop around for other investors. This can often be a difficult and sometimes impossible process. By going public it becomes easier to find new investors for the business.
- Enhances liquidity: The stock of a closely held firm is not liquid. If one of the holders wants to sell some of his shares, it is hard to find potential buyers-especially if the sum involved is large. Even if a buyer is located there is no established price at which to complete the transaction. These problems are easily overcome in a publicly owned company

- Establishes value for the firm: This can be very useful in attracting key employees with stock options because the underlying stock has a market value and a market for them to be traded that allows for liquidity for them.
- Image: The reputation and visibility of the company increase. It helps to increase company and personal prestige.
- Other Advantages: Like additional incentives for employees in the form of the companies' stocks. This also helps to attract potential employees. It commands a better valuation of the company. Better situated for making acquisitions.

2.4 Disadvantages of Going Public

- Cost of Reporting: A publicly owned company must file quarterly reports with the Securities and exchange board of India. These reports can be costly, especially for small firms.
- Disclosure: Management may not like the idea of reporting operating data, because such data will then be available to competitors.
- Self dealings: The owner's managers of closely held companies have many opportunities for self-transactions, although legal they may not want to disclose to the public.
- Inactive market low price: If a firm is very small and its shares are not traded frequently, then its stock will not really be liquid and the market price may not be truly representative of the stock's value.
- Control: Owning less than 50% of the shares could lead to a loss of control in the management.
- Other disadvantages: The profit earned by the company should be shared with its investors in the form of dividends. It is a costly affair around 15-20% of the amount realized is spent on raising the same and also substantial amount of time and effort has to be invested in going public.

2.5 Opportunities to Investors and Company

According to Ritter, R Jay & Welch, Ivo (2013). He asserted that, from an investor's point of view, IPO gives a chance to buy shares of a company, directly from the company at the price of their choice (In book build IPO). Many times there is a big difference between the price at which companies decide for their shares and the price at which investors are willing to buy shares and that gives a good listing gain for shares allocated to the investor in IPO.

From a company perspective, IPO helps them to identify their real value which is decided by millions of investors once their shares are listed on stock exchanges. IPOs also provide funds for their future growth or for paying their previous borrowing.

2.6 What is the primary & Secondary market?

Ritter in his article, Initial public offerings. Contemporary finance digest stipulated that the Primary market is the market where shares are offered to investors by the issuer company to raise their capital. The secondary market is the market where stocks are traded after they are initially offered to the investor in the primary market (IPO etc.) and get listed on the stock

exchange. The secondary market comprises equity markets and debt markets. The secondary market is a platform to trade listed equities, while the Primary market is the way for companies to enter into the secondary market.

2.7 Who decides the Price Band?

Company with help of lead managers (merchant bankers or syndicate members) decides the price or price band of an IPO. Capital Market Authority (CMA) or Stock Exchanges do not play any role in fixing the price of a public issue. CMA just validates the content of the IPO prospectus.

Companies and lead managers do lots of market research and roadshows before they decide on the appropriate price for the IPO. Companies carry a high risk of IPO failure if they ask for a higher premium. Many a time investors do not like the company or the issue price and don't apply for it, resulting in unsubscribing or undersubscribed issues. In this case, companies either revise the issue price or suspend the IPO.

Morris, S. (2014) in his article “IPOs: More Misses Than Hits”, published in Nairobi Kenya. Street Investment pointed out that, the age-old philosophy of understanding the company and sticking to the basics should be given due respect. Let the buyer be made aware that the investor has to put a price tag on his hard-earned money. There is a dire need for investor education and awareness and the connections should be on a stable income than becoming rich overnight.

The first-ever IPO in Rwanda happened in 2011 when the government of Rwanda decided to sell its 30% stake in Brasserie et Limonaderie du Rwanda (BRALIRWA), among which 25% were sold to the public and 5% sold to Heineken International. The IPO was oversubscribed at the level of 274% in all investor pools. In the same year, the government decided to sell its 20% stake in the Bank of Kigali (BK) to the public, and the bank simultaneously raised new capital which was equivalent to 25% of the company's capital. In 2013 the Government issued a sovereign bond worth USD 400 million. A strong vote of confidence for Rwanda's economy and the country has led to the massive oversubscription of the sovereign bond at 650% (CMA Report 2014)

In May 2014, the International Finance Corporation (IFC) issued a 5 year Bond worth Frw 15 billion. This bond nicknamed “Umuganda” was the first placement by a non-resident issuer in Rwanda's domestic capital market. The bond was the second corporate bond on the market after the one issued in 2008 by BCR currently known as I&M Bank. It was issued following the IFC program which was established to support capital market development in the region. Orders were received from different public and private institutions including pension funds, insurance companies, banks, and other financial institutions and it has been oversubscribed 2.19 times. The bond was priced with a yield of 12.25% percent per annum. (CMA Report 2015)

Ainabor, A.E., I.M. Shuaib and A.K. Kediri (2016). in their article, ‘Primary Concerns’, published in the Business World, they pointed out that, IPOs have grown in size and entered their own brave new world. Hence this to our country means that raising money in Rwanda's booming economy cannot be a one-time affair; if a company does not maintain a good

relationship with investors and rewards them well it may not be able to go back to them when it wants to raise money later. This has happened mainly due to the greed of promoters, who want to price their issue invariably at a much higher price. In such cases, merchant bankers' role also comes under the scanner as they usually don't give proper advice to the promoters in the wake of losing the business.

Bakare, A.S. (2015).in his article “Primary Issues” mentions that the primary market has been always been a great area of interest for retail investors. But over the last few years, the quality of IPOs and their issue prices have been a matter of concern. Due to this investors are losing faith in the IPO system and this is a very dangerous sign for the country. For any new investor to enter the market, the primary market is the first step. If that first experience of investment is not a happy one, it is unlikely that investors would continue investing in the market.

3.0 RESEARCH METHODOLOGY OF STUDY

This paper is based on primary as well as secondary data. The study aims at finding out the attitude of the investors towards IPO in Rwanda. Questionnaires were used to collect the primary data. The secondary data were also collected from various journals, libraries, and books.

3.1 Sampling procedure

By adopting convenience sampling in the city of Kigali few private companies, mainly in the three districts of Nyarugenge, Kicukiro, and Gasabo, approximately 100 respondents were selected for this study. The essential data were collected with the help of questionnaires. The sample was selected of them who are the traders, brokers, and individual investors. It was collected by filling up the questionnaire prepared. The data has been analyzed by using a Statistical tool so as to generate useful tables and figures for interpretation of findings.

3.2 Sample size

The sample size in this article is limited to 103 people only. Out of which only 95 people had invested in IPO. Other 8 people had not invested in IPO.

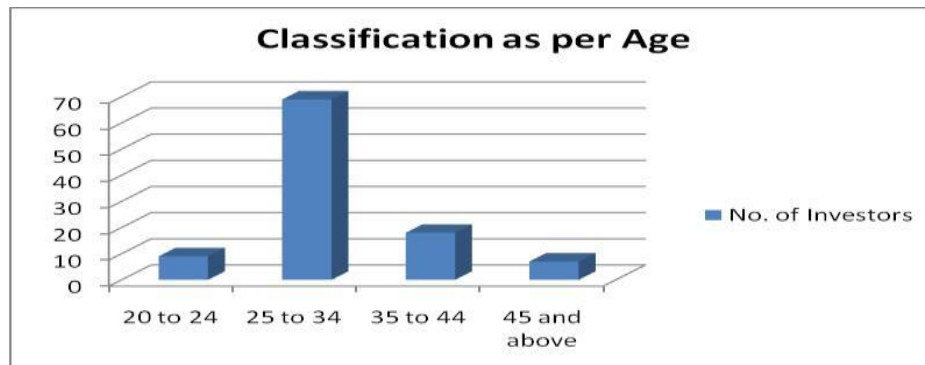
4.0 INTERPRETATION AND ANALYSIS OF FINDINGS

This section provides results obtained from the survey, which have been examined and evaluated through data analysis techniques. The section also evaluates the perception of Rwandan Investor's perception of the IPO.

4.1 Profile of Sample

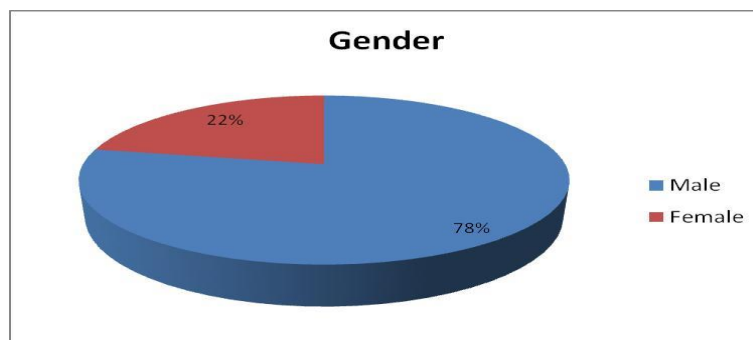
This chapter provides the profile of the sample like age, gender, Income, etc. The sample was selected of them who are the traders, brokers, and individual investors. The sample size of our project is limited to 103 people only.

Figure 1: Classification as per Age



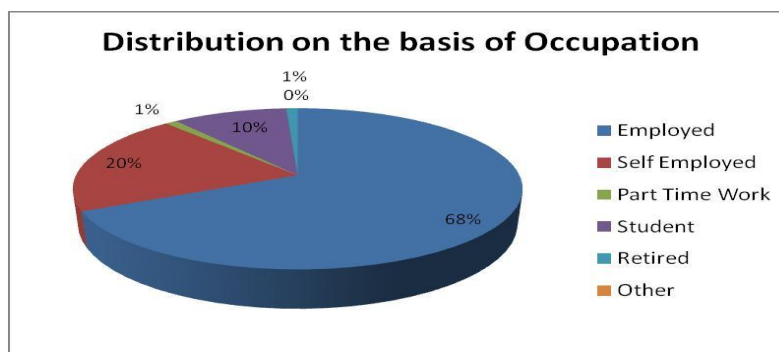
Most of the respondents belong to the age group of 25-34, followed by 35-44, and 20-24 and 45 - Above. This shows that Age group of 25 to 34 are highly invest in capital market and IPO.

Figure 2: Gender classification of respondents



From the total respondents’ 78% were males and 22% were females. We can see that the number of males is more compared to that of the number of females. This clearly talks about the interests of the female population in investments.

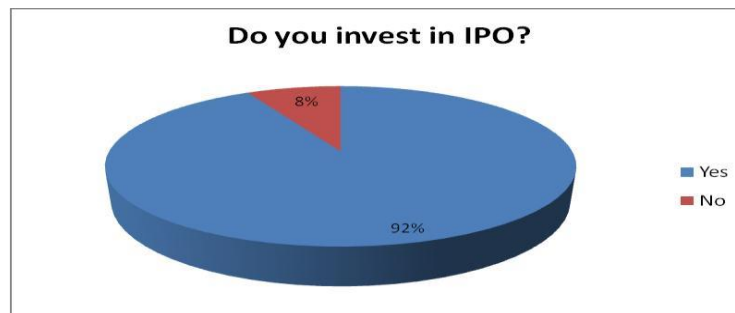
Figure 3: Distribution on the basis of Occupation



The above mainly talks about the various occupational details of various respondents who participated in the survey. We can see that the maximum number of respondents were Employed followed by Self-employed, students and Part-time workers, and Retired persons. This clearly shows us that the maximum number of people who are interested in investment activities are employed persons; they have the panache for investment activities. They are

nearly 68% of the sample. The interesting factor is that the employed persons are very much interested in investment activities which is a very good sign of economic development.

Figure 4: No. of Investors who invest in IPO



This chart mainly talks about the respondents' interest in investing in Initial Public Offers. Out of 103 people surveyed it is seen that 92% the people are investing in IPOs whereas just 8% of the people are not investing in IPO. This shows that IPO is considered a good option for investment by most of the respondents.

Figure 5: Reasons in Percentage

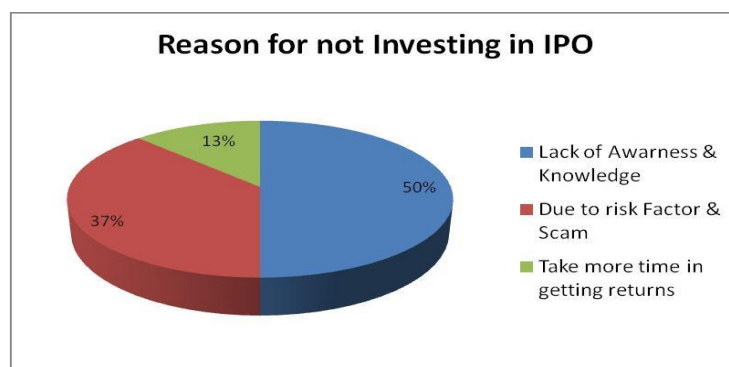


Figure 6 clearly shows that 50% of people who don't invest in IPOs are due to a lack of awareness and knowledge. And the second most important reason is a risk factor and recent scams which are associated with IPO. Also delay in getting returns is also one of the factors.

Figure 6: Association of Investors with the share market



Figure 6 mainly talks about the association of people with the capital market in terms of the time period. It is found that most of the investors are trading in the primary and the secondary market for the last 2 years and not more. Their number stands to be at 48% followed by 40% of people who are trading in these markets for more than 2 years but less than 5 years and there are just 12% of the people who are dealing in these markets for 5 to 10 years.

Figure 7: Factors that influence investor’s perception

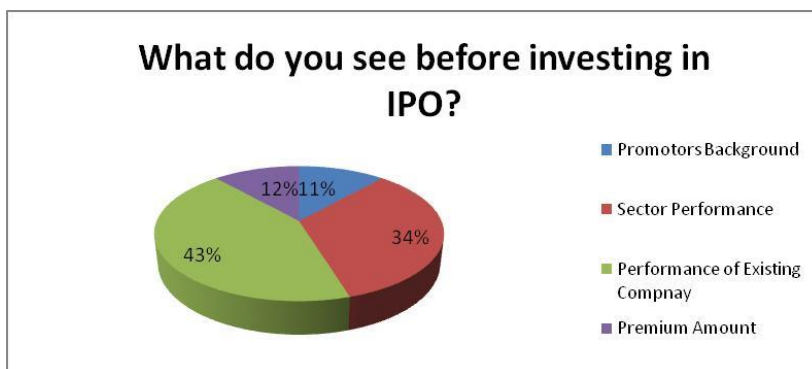


Figure 7 talks mainly about the various factors that should be considered before investing in an IPO. Out of the total samples taken, 43% of the people believe that one should consider the performance of an existing company whereas 34% believe that sector performance needs to be considered compared to others, 12% believe that Premium Amount should be considered compared to others and the rest 11% feel that the promoters are the most important factor for taking a decision in the investment of IPO.

Figure 8: Source of Information for Investors

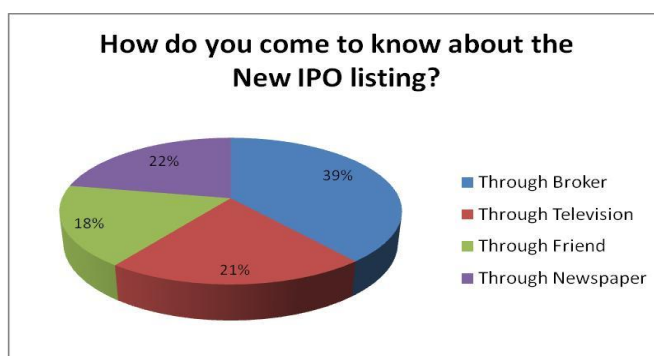


Figure 8 mainly talks about the source of information for IPO investors. It is clearly seen that the Brokers stands first as the main source of information that is 39% of sample size followed by the Newspapers (that is 22% of sample) through Televisions (that is 20% of sample) and Friend’s advice (that is 18% of sample). The point to be noted is that people do prefer friend’s advice before investing in IPO. The main source of information regarding an IPO comes mainly from the Brokers advice and the Newspapers rather than the other forms of media.

Figure 9: Purpose of Investment

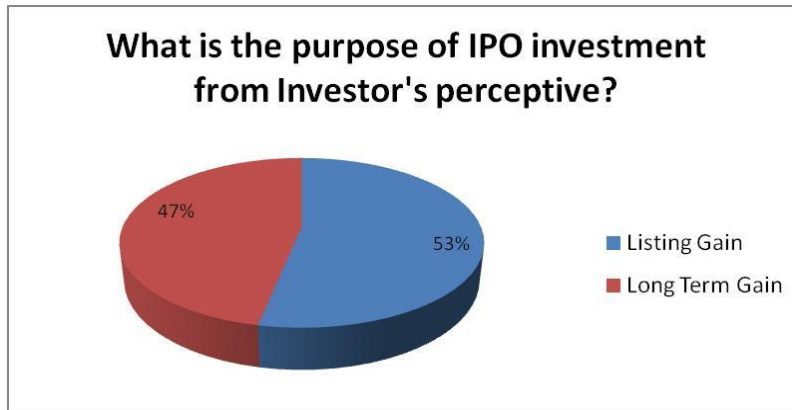


Figure 9 talks about the respondents investing in an IPO for the purpose of obtaining the listing gains that is 53% and the long term gains that is 47%. This clearly shows us that more number of people invest in IPO to earn profit at the time of listing and they are not the long term investors.

Figure 10: Gained from IPO

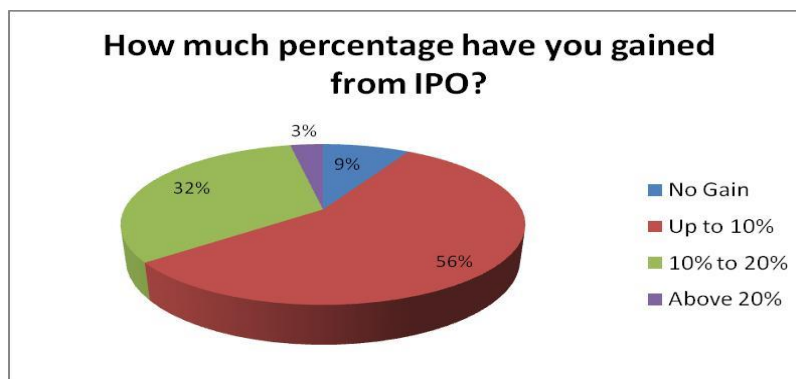


Figure 10 mainly talks about the returns that the investors have received by investing in an IPO. We can see that most of the investors have received Up to 10% of returns which is 56% of the sample size. And there are also people who received 10 % to 20% returns that are 32% of the sample size and very few people received above 20% returns and that are 3% of the sample as well. As the figure shows there few people haven't got the returns on their investment which is 9% of the sample size. Hence we can say that IPO would be a good option for investment which gives you around 10% to 20% returns on your investment.

Figure 11: Investors perception of Procedure of IPO

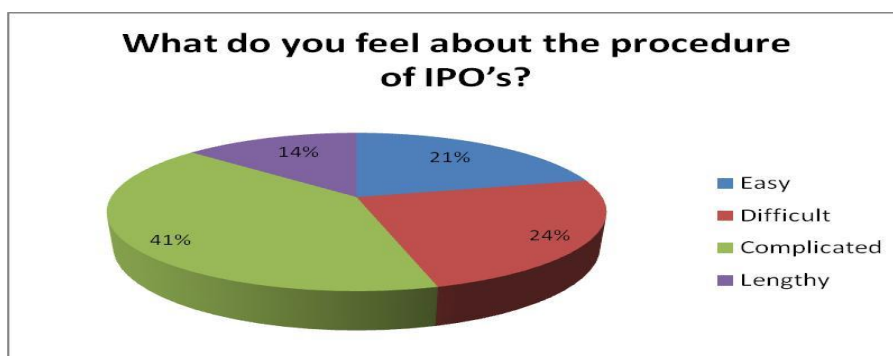


Figure 11 mainly talks about the problems faced by the investors after applying for IPOs. We can see that 36% of the respondents have faced a problem with Delay in crediting allotted shares whereas 23% of the people have a problem with Refund and 22% faced a problem with No clarity in allotment whereas 19% of respondents do not get any problem after applying for IPOs.

5.0 CONCLUSION

In nutshell, therefore, the survey would like to conclude that IPO is no riskier investment as CMA is playing a very important role in regulating the risk and financial aspects of the investors. As per our finding IPOs give returns up to 10% to 20% to 88 of total investors hence, IPO can be considered a good option for investment. Therefore, we reject the null hypothesis 1 and conclude that IPO is not a risky investment with the help of careful research and study, and with the help of broker advice, the individual investor can predict what the stock or shares will do on its initial day of trading up to some extent.

Also, this project report has proven that a large no of investors has shown confidence in IPO and prefer to invest in IPO and according to the IPO is one of the good options for Investment. Therefore, we reject our second null hypothesis and conclude that despite too much price volatility, price manipulation and corporate fraud investors still have confidence in these investment tools.

6.0 RECOMMENDATION

The research clearly indicates that there is still a need for improvement in the primary market in terms of awareness and procedure. A detail recommendation can be given specific head, Recommendation to Company, around 39% of people came to know about IPO through their brokers and hence Company should maintain a good relationship with brokers and also create faith in them about their organization. Factors like Goodwill of the Company, Market share of the Company, Broker's advice, and comment in media are highly considered before investing in IPO hence companies should focus on these factors more. Also, they have to use media as an important tool to create a good image in the mind of investors since it is one of the highly considered factors.

Recommendation to Government, we would like to give a recommendation to Government and CMA in order to attract more investors to the capital market:

As per our finding around 9% of total investors end up losing the money invested due to a lack of understanding and awareness. Hence we would like to recommend that the "Investor Awareness Program" should be conducted which can help such investors to make their investments on the safer side and have maximum returns at the lowest possible risk. As per our finding around 79% of the total investors find the IPO procedure more difficult, lengthy, and complicated hence CMA should take necessary action to make it more investors friendly and also provide guidance to the new investors while applying for an IPO. Investors have also faced a lot of problems like refund problems, delay in crediting allotted shares, and no clarity of shares. CMA takes strict actions in order to solve the problems of Investors.

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