



Nigeria's IPO Lull:

When Do the Clouds Finally Gather?



BACKGROUND:

"IPO activity in the year remained mute ..." so said Mr. Oscar Onyema, CEO of Nigeria's premier and biggest bourse, the Nigerian Stock Exchange ("NSE"), while giving his review of the 2017 calendar year and outlook for 2018.¹ There has been a steady decline of initial public offerings ("IPOs") in Nigeria since the 2007-2008 global financial meltdown. The period 2009 till date has witnessed a lamentable dearth of IPOs. In this paper, I examine the IPO process in Nigeria, highlight the factors which may militate against company listings and proffer policy recommendations to improve and engender IPOs in Nigeria.

IPOS: WHAT DO THEY SIGNIFY FOR AN ECONOMY?

An IPO happens when either the equities or debts of a company are offered to the public for the first time. IPOs are a veritable source of affordable capital for companies who opt to be publicly-listed and an opportunity for investors to participate in the value of the company vide their activities on a regulated exchange.

The functions of a regulated exchange, such as the NSE, are similar to those of other principal actors in the financial system, namely: providing capital and efficiently allocating this capital into productive investments; utilizing domestic savings; improving information; effectively monitoring mechanisms of good corporate governance practices; providing risk-reduction mechanisms; and facilitating the exchange of financial instruments that represent the ownership of capital.²

The prevalence of IPOs may be an indication of economic prosperity³ as they arguably signify the presence of investible or spare funds in the economy. Conversely, during a recession the number of IPOs are typically low due to the paucity of investible funds. A resurgence in IPO numbers is often an indication of economic recovery as it may signify growing assurance in market metrics leading to several investors wanting to take up available corporate offers.

¹ Available at: http://www.nse.com.ng/NSEPresentation/2017%20Annual%20Review%20and%202018%20Outlook_Final.pdf (last visited on January 18, 2018).

² Subrahmanyam, A & Titman, S 1999, 'The Going-Public Decision and the Development of Financial Markets', *The Journal of Finance*, vol. 54, no. 3, pp. 1045-82.

³ Demircig-Kunt, A & Levine, R 1996a, 'Stock Market Development and Financial

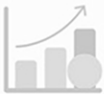
Intermediaries: Stylized Facts', *The World Bank Economic Review*, vol. 10, no. 2, pp. 291-321. Available at https://www.murdoch.edu.au/School-of-Business-and-Governance/_document/Australian-Conference-of-Economists/Equity-markets-and-economic-development.pdf (last visited on January 18, 2018).

IPOS IN NIGERIA: THE LAW AND FACTS:

Seeing the desirability of IPOs, it will be apt to consider processes that can be put in place Nigeria to stimulate such transactions, considering the country's recent transition from a period of recession. We undertake a brief expose of IPO listing process on Africa's second largest bourse by market capitalisation, the NSE.

In the true of fashion of other modern bourses, the NSE gives companies from diverse sectors and different sizes the opportunity to raise long-term capital from the public. Its IPO process is one of such opportunity. IPOs on the NSE may be on any of its Premium Board, Main Board or the Alternative Securities Market (ASeM). The Premium Board is for the elite group of issuers that meet the NSE's most stringent corporate governance and listing standards. The Premium Board showcases companies who are industry leaders in their sectors, giving them access to a global pool of investors who are focused on companies managed in conformity to the highest standards in their target markets. Notably, admittance to the Main Board's Standards A, B or C is also based on profitability or market capitalization.

ASeM provides a platform for small and mid-sized fast growth companies to raise long term capital at relatively lower cost and flexible listing rules and requirements. There are no limits to the amount of capital a company can raise on ASeM, as long as it is in line with other regulatory requirements, such as those of the Corporate Affairs Commission (CAC) and the Securities and Exchange Commission (SEC). According to the NSE, the regulatory and governance pillars of ASeM are designed to facilitate the growth and institutionalization of companies listed on it.



The requirements for listing on the NSE's Main Board and ASeM⁵ are similar to the extent that they both require that the listing company must:

Be a public limited liability company (PLC) without any restriction on the transference of its shares;

In the case of an IPO, ensure that its promoters and directors will hold a minimum of fifty per-cent (50%) of its shares for a period of twelve (12) months from the date of listing and they will not directly or indirectly sell or offer to sell such securities during the 12 months;

Undertake to promptly pay annual listing fees;

Ensure that the listed securities are fully paid-up at the time of allotment or registration in compliance with applicable SEC rules;

Comply with SEC's Code of Corporate Governance for Public Companies in Nigeria to the extent reasonable, to enhance corporate discipline, transparency and accountability within the tenets of its operations.

⁵pages 176 – 200 of the NSE Rulebook
⁶Chapter 13 of the NSE Rulebook

The differences appear under the following heads, among others:

S/N	Head of Requirement	Main Board	ASeM
1	Documented operating track record	3 years ⁶	2 years
2	Pre-tax profit	Cumulative minimum of N300million in last 3 years; minimum N100million in the last 2 of the years.	A comprehensive plan of the company's business prospects covering a period of not less than two(2) years
3	Minimum Shareholders' Equity at time of Listing	N3billion	Not Required
4	Application Fee	0.3% of company's proposed market capitalization.	N100,000 fixed flat rate.
5	Annual Listing Fees	Graduated based on market capitalization to a maximum of N4.2million or its equivalent. ⁷	Fixed flat rates as prescribed by the NSE, currently NGN200,000.
6	Free Float (Shares available to the Public)	20% held by not less than 300 shareholders.	15% held by not less than 51 shareholders.
7	Others		Must have a DA who will be responsible for listing and post-listing requirements.

Companies seeking admission to the Premium Board are required to satisfy one set of listing standards (i.e. Standards A, B or C of the NSE Main Board), as well as comply with the following:

The company must meet the minimum market capitalization requirement of NGN200 billion on the date the NSE receives the application or at the time of listing.


The company must be evaluated under the NSE's Corporate Governance Rating System (CGRS) and achieve a minimum rating score of 70%.

The company must satisfy either:

- a. a minimum free float requirement of 20% of its issued share capital; or
- b. the value of its free float shares is equal to or above NGN40 billion on the date the Exchange receives its application to list.

⁶Mineral (i.e. Mining, Oil & Gas) companies are exempted from the 3 years track record requirement, they are however required to produce a Competent Persons Report (CPR) describing the nature and extent of their rights of exploration, geographical characteristics of reserves, estimates of volume (must be in proven commercial quantities), expected extraction volume together with assumptions on forecast revenues and operating costs.

⁷See Capitalization per Market Capitalisation Metrics table / schedule (MARKET CAPITALISATION METRICS).



It is significant that the NSE, through its Council, retains the right to (a) approve the listing of an applicant that does not meet all its requirements, or (b) refuse the listing of an applicant that complies with its listings requirements, on the ground that, in the NSE's opinion, the grant or refusal of the listing is in the interest of the investing public. Council may also grant a deferral or exemption from meeting the minimum public float requirement to companies with market capitalization at IPO exceeding N500 billion (circa US\$1.6billion).

Nigeria's Investment and Securities Act 2007⁸ requires that all securities of a PLC shall be registered with SEC prior to an IPO. Failure to do so constitutes an offence and any person who issues, transfers, sells, or offers for subscription or sale to the public, such securities will be liable on conviction to a fine of N1,000,000 (One Million Naira) or to 3 years imprisonment or to both. ⁹Every invitation to the public must be issued with a prospectus which shall be in the form and content as prescribed in Part I of the Third Schedule of the ISA;¹⁰with the prospectus to first be registered with and approved by SEC. ¹¹

|| WHAT SOUNDBITES?

At +US\$63billion total market capitalisation as at December 31, 2017, the NSE is arguably the 2nd largest stock exchange in Africa, market capitalisation wise. In terms of listing, it is at a distant 3rd. At 58 years of age, it is a toddler compared with the Johannesburg's Stock Exchange's 131 years or the New York Stock Exchange's 201 years. The Amsterdam Bourse is the oldest surviving stock exchange at 416 years. Our point? The NSE still has a long way to go. Be that as it may, it is currently punching above its weight category with its current management and leadership. The clarity of focus and sheer determination exhibited by the NSE's current leadership is a clear indication of what it aims for: a place among the best. Initiatives are in no short supply as it explores other classes of securities, technologies and organisations. From its recent interactions with derivatives, exploration of the block chain technology and Mr. Onyema's resolve to continue to engage government on the privatization and listing of state owned enterprises, the NSE's work, and hopefully great success, is cut out for it.

⁸Currently compiled as Cap. 124, Laws of the Federation of Nigeria 2004 (as updated December 31 2013) ("ISA")

⁹See Section 54 of the ISA. The Commission is empowered to levy an additional penalty of N5,000 for every day in which the violation continues.

¹⁰See Sections 71 to 74, of the ISA

¹¹See Rules 279 to 280 of the SEC Rules.



The NSE should however not forget its winning formulae in a hurry - equities. Equities currently account for about 60% of the NSE's total market capitalization. The history of the NSE shows that equities are favourites with IPOs – the Rules as well as the Nigerian capital market environment are equities-centric as the debts and alternative investment markets continue the chase.

The fast growth companies for whom ASeM was created to accommodate are abundant within the equities' financing sphere. The jury remains out on whether activities recorded in the ASeM Board have met the expectations of its creators. Approved by SEC in 2010 and launched by the NSE in 2013, ASeM clocks 5 this year with only 10 companies¹² listed thereon. For ASeM to attain the purpose for which it was formed, the NSE is obligated to do more to list more fast growth companies or companies with potential for fast growth on ASeM. ASeM has not received the kind of publicity required to elicit participation in it. The leadership of some qualified SMEs in Nigeria may probably have never heard of ASeM. The NSE would have to increase its budget on the development of business within the alternative securities market endeavour. More has to be done on the part of the NSE in identifying well-run companies with potential for fast growth and invite them to ASeM, with the NSE's pool of investors waiting to take their positions. The NSE's role of intermediating cannot be over-emphasised. Of course, the returns are unlikely to be in the short-term, but the medium and long term should hold much promise for the growth of Nigeria's small and medium scale businesses, at the least.

The promise of long-term and cheaper capital to nurse the ambitions of Nigeria's growing entrepreneurial class, is good incentive that should be explored and clothed with the ASeM offering. The volatility that some technical and financial (equity or debt) partners, especially the foreign ones, mete on Nigeria's burgeoning businesses has seen the death of many good businesses and their models in recent times. The NSE can provide some good stability with these companies launching and raising sustainable capital on ASeM.

¹²See <http://www.nse.com.ng/issuers-section/listed-securities/company-details?isin=NGCAPOIL0007> (last visited January 19, 2018) (last visited January 19, 2018)



The Council should be seen to, when it is deserving, exercise its powers to approve the listing of companies who ordinarily do not meet current listing requirements, but are able to demonstrate other important qualities, the more critical in our view, being the potential for fast growth premised upon a sound business model and great leadership/management. New rules which allow the admission of the best of the available will have to be set on the premises of sound and pragmatic business logic rather than utopian aspirations. The success story of the London Stock Exchange's AIM can be replicated and or dwarfed by the NSE, if only we dare. But why shouldn't we, when there is not too much to lose with the current drought of IPOs? Should we dare, try and stay with it, we would see the gathering of the clouds that heralds the much-coveted rain.

For further information on the foregoing, please contact:
Ifureuwem Udofa (ifureuwem.udofa@ao2law.com) or
Bidemi Olumide (bidemi.olumide@ao2law.com) with the subject:
"Nigeria's IPO Lull: When do the Clouds finally Gather?"

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