

Barry Whiteside: Recent developments in the Fijian stock market

Keynote address by Mr Barry Whiteside, Governor of the Reserve Bank of Fiji, at the South Pacific Stock Exchange Listing Forum, Suva, 22 September 2016.

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Salutations

Dr Nur Bano Ali, Chair of the Board of Directors of the South Pacific Stock Exchange

Latileta Qoro, Chief Executive Officer

Distinguished Forum Participants

Ladies and Gentlemen

Bula vinaka and good morning to you all! It is certainly a pleasure to be with you for the opening of today's Listing Forum.

Introductory remarks

It was just a year ago that the Reserve Bank first partnered with the South Pacific Stock Exchange in establishing this Forum, which now complements other awareness programs as part of our overall Capital Markets Development initiatives. Thank you, Lati, and your team, for continuing this program.

The need to *raise awareness* on the benefits of listing is still significant and all businesses in Fiji that require finance should know that the stock market is definitely another avenue of raising further capital towards your growth plans.

At the outset, I would like to acknowledge the participants for taking time out to attend this Forum. The theme of today's forum, "**Going Public – Unlocking the Value of Your Company**" – is an apt message that will resonate throughout today's sessions.

A key objective of this Forum is to encourage dialogue and familiarity between companies potentially looking to list, the key decision makers, and the regulators. After today, we hope you will be better informed on how to prepare your company to take the final step to what is usually referred to as "going public" or "listing".

Recent developments in the stock market

Ladies and gentlemen, the Fijian capital market has made progress in its development over the last two decades, but I have got to say that it has not all been smooth sailing. At times we have struggled to meet the proposed targets, especially to grow the number of listed companies. However, with the introduction of the first Capital Markets Development Authority Act in 1996, the market has continued to evolve. That legislation enabled both the legal and institutional infrastructure of our capital markets to be established. Market players such as investment advisors, the stock exchange and stock brokers began to be formally instituted. The framework on oversight and protection for investors is also now well in place.

Looking at a few key indicators, the number of listed companies has grown from 9 to 18, with 19 securities in total, since the mid-1990s. The value of the stock, or market capitalisation, grew over this same period from \$140 million to just under \$1.27 billion. In addition, on a positive note we see interest and an influx of new investors on the stock market.

However, whilst progress has been made in the industry, we are of the view that there is still much more capacity for growth. The market is well below potential and it is very pleasing to see that work is underway to address this. The Capital Markets Development Taskforce, which I chair, was set up to coordinate the development and address challenges in the Fiji

capital market. One of the key areas in our 2025 Masterplan is the continued development of the stock market.

Ladies and gentlemen, it is my view that the potential impact that stock markets can have on economic development remains largely untapped in Fiji. Today's Forum is about how we can grow and make our stock market a more active part of our financial system as well as, of course, discussing how it can help raise the capital finance that you need to grow your own companies.

Listing is a critical component to that overall goal. This morning we will hear from some of the companies on our Exchange and the reasons behind their motivation to list. This will set the background for an engaging day of fruitful discussions. I urge you to fully participate as this is your chance to get first-hand knowledge and experiences from some of our key market players. Please ask questions when you get the opportunity.

You will also learn how brokers and capital market advisors can play key roles in helping provide information and guidance to enable potential listing companies to smoothly transition from a private to a listed company.

As regulators, we can also assist by reviewing our own processes and removing unnecessary hindrances or barriers when it comes to listing.

Benefits of listing on SPSE

Ladies and gentlemen, the benefits of listing on the South Pacific Stock Exchange have been complemented over the years with a number of Government incentives offered to listed companies. We are indeed grateful for the Government's commitment to help grow and support the overall vision of having a reputable, sound, and vibrant capital market in Fiji.

Some incentives currently in place include: a corporate tax rate of just 10 percent; tax exemption on dividends received by shareholders; no capital gains tax; and a 150 percent tax deduction for all listing-related costs.

Over the years we have known a number of companies in Fiji, while showing some initial interest in listing, have, in the end, been reluctant to do so. It was thought that possible reasons for this reluctance can be attributed, among other things, to: lack of awareness or incomplete information; too much work involved in meeting the requirements; the fear of loss of control of their company; and necessary disclosure requirements.

So the key question is why should a company list?

Listing is the building block to key potential advantages, such as ***elevating the market value of your company or business*** through increased transparency, strengthened corporate discipline, corporate governance and compliance to the rules and regulations. Experience shows that companies become more efficient through greater public scrutiny and it actually benefits the business in the long term.

An obvious advantage is ***access to Capital and the ability to raise long term finance*** which ensures more capital to be used for expansion, as opposed to a debt financing situation that a company would normally find itself in.

Apart from the ***preferential tax benefits for listed companies*** I highlighted earlier, there is also an ***increasing pool of investors*** in Fiji who are not just looking to put their money into banks (where, incidentally, deposit rates remain relatively low) but also as Fiji grows its status as a regional hub, this pool will likely include more and more foreign investors.

One additional advantage is related to ***prestige and branding*** for the listed company. Clearly companies on the stock exchange gain a higher profile and they should capitalise on this.

Coupled with these advantages to listing, there are extensive literature and empirical studies that illustrate a positive correlation between financial intermediation in the stock markets and increased GDP. When there is a liquid stock market, it promotes investments and allows investors to acquire and sell shares with ease and in a cost effective manner. In the long run, and in the process of generating more activity, this leads to increased savings and investments, laying the foundations for economic growth and development.

Ladies and gentlemen, at this point I would also like to highlight that there is a systematic process to listing, and acquainting yourselves with that process is critical to ensuring a successful listing.

Due diligence is one of the most critical steps in the journey towards listing. Getting that first step right would set the foundation to going public. A decision to list should be taken only after a careful assessment of your company's future plans and the needs and interests of the shareholders. Leadership plays an integral role in listing a company and taking the company to a whole new level.

While all these benefits may appear to be theoretical, let me share with you a local success story that demonstrates how these benefits pan out for a successfully managed listed company.

In 2001, when RB Patel Ltd listed on the South Pacific Stock Exchange, it had a market value of \$31.5 million. At the close of trading at the end of 2006, this had grown to \$51 million. By the end of June 2016, the company's market value was nearly \$93 million.

Similarly, the successful listing of the Vision Investments Limited on the 29th February this year is testimony to the benefits of going public. On the date of listing, the founding shareholders of the company divested **over 29.3 million shares** for a total consideration of \$46.3 million. The shares were bought by both institutional and retail investors. In just 7 months the price of Vision's shares has gone from \$1.70 to \$2.01. Overall, the value of the company has gone from \$176.4 million on the date of listing to \$208.6 million today.

Family run local companies who wish to leave behind a legacy after years of hard work and sacrifice now find that the stock market can provide this. It enables continuity and succession planning for the company.

These are only two examples of successful listings on the South Pacific Stock Exchange that have maximised shareholder value. I am sure you will hear other stories of growth and success during the course of today.

Concluding remarks

Ladies and gentlemen, the stock exchange is an excellent platform for savers looking for investments and companies who need more finance to further expand. Currently, the ability of the stock market to maximise shareholders' value is neither truly appreciated nor actively pursued in Fiji. However, with time and more fora like this to raise awareness on the benefits of listing, we expect both potential investors and listed companies to converge on the stock market in search of growth. We will continue the collaborative effort with all stakeholders to reach this full potential.

Finally, I thank Dr. Ali and Lati for their kind invitation to address you today and wish you well in your deliberations.

Vinaka.