

KaPower Insights #2

The African Venture Impact Investment Cooperative

Executive words

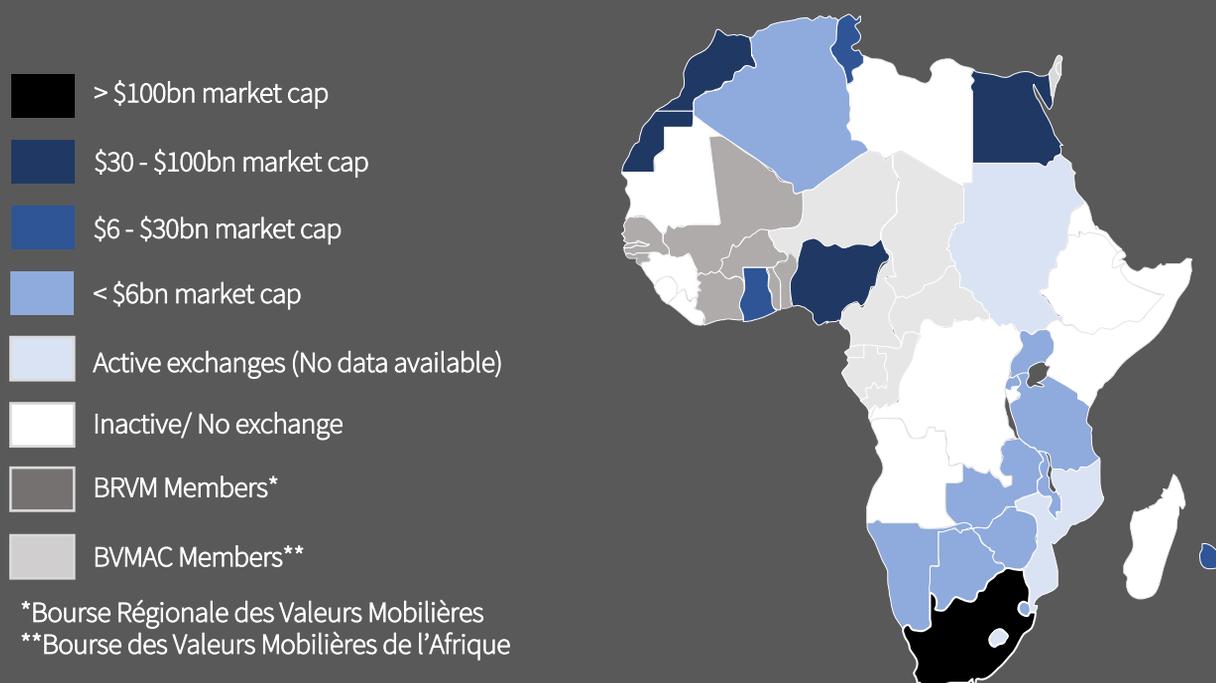
Well-functioning Stock Exchanges enable economic growth and development by facilitating the mobilization of financial resources by bringing together those who need capital to grow, with those who have resources to invest. The number of countries having one has dramatically grown over the last 40 years, from 50 in 1975 to more than 160 in 2015. Some countries have managed to establish very powerful and liquid markets turning them into undeniable tools to **attract foreign investments**, promote their companies' **competitiveness**, and generate a real store of value. The market capitalization of stock exchanges can represent most of the nation's nominal GDP for instance 97% in the UK, 148% in USA and 87% in France. In times of crisis, stock markets are vital instruments to maintain the economies afloat – one of the recent examples being the implementation of a quantitative easing program by the Fed or the European Central Bank.

In **Africa, we count 29 exchanges for 38 nations'** capital markets which all share some characteristics:

- Market capitalization predominantly made by a handful of companies.
- Lack of international brokers coverage and **currency exchange constraints** leading to limited foreign direct investments
- Limited number of IPOs per year.
- Lack of retail investor which negatively impacts liquidity.

Except in South Africa where Johannesburg Stock Exchange's market capitalization represented 260.2% of its Nominal GDP in Dec 2018 and unlike several OECD countries, most of the African stock markets represents only a modest portion of their country's GDP: 9% for instance in Nigeria and 11% in Egypt. Although there are some challenges, stock markets provide **better investment horizons**, clearer buying/selling terms, **greater transparency** and improved **investor protections** in countries where they operate. It has been proven that countries with one tend to have a more exponential growth than countries without. In order to unlock the continent's full potential, we can therefore raise the question of how African stock markets should develop their own model fueled by the financial power of retail local and international investors?

Overview of African stock exchanges at 31 December 2019



Source: World Federation of Exchanges, Bloomberg, stock exchanges

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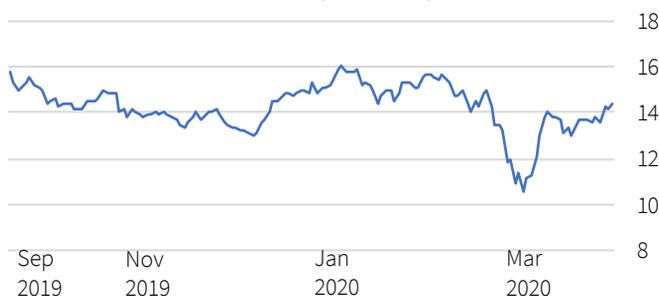
Performance of the 3 main stock exchanges in Africa

	JSE		EGX		NSE	
	2019	Change YOY	2019	Change YOY	2019	Change YOY
Market Capitalization (\$ bn)	1 001,6	5%	44,9	-6%	71,6	15%
Number of trades	76 554 772	9%	4 970 000	-20%	ND	
Trade Value (\$ million)	270	-7%	25 906	14%	2 642	-20%
Equity capital raised (\$ million)	1 883	-36%	709	-17%	288	-56%
Main indices	FTSE/JSE All Share		EGX30		NSE All Share	
	FTSE/JSE Top 40		EGX70 EWI		NSE30	

JSE

Johannesburg Stock Exchange, also known as JSE Limited, is the **largest stock exchange in Africa** and, based on the World Federation of Exchange statistics, is ranked 20th worldwide at the end of January 2020, with 354 listed companies. Primary listed on Euronext Amsterdam and headquartered in

Prosus N.V. (PROSY) in US\$



the Netherlands, **Prosus N.V.**, with a market capitalization of \$116 billion, has become the **largest company** by market cap on the JSE, since its listing in September 2019. The international internet assets of **Naspers**, is a global consumer internet group operating across a variety of platforms and geographies, and is one of the largest technology investors in the world. Its core sectors are online classifieds, food delivery, payments and fintech.



Founded in 1883, the **Egyptian Exchange (EGX)**, is the **oldest stock exchange in Africa**, with 223 currently listed companies. Listed since February 1995, **CIB, Commercial International Bank**, is the largest listed company on EGX by market cap, evaluated at

\$ 5.7 billion. 2019 was a good year for CIB that recorded a **revenue and profit growth** of respectively 13% and 23.2% YoY. This private sector bank offers a range of financial products and services to enterprises, institutions, and retail customers and operates across Egypt and the UK but as yet to recover from the COVID.

CIB (CIBEY) in US\$



The **Nigerian Stock Exchange (NSE)**, formerly known as Lagos Stock Exchange, is powering the growth of one of the largest African economy and counts 160 listed companies but is underdeveloped compared

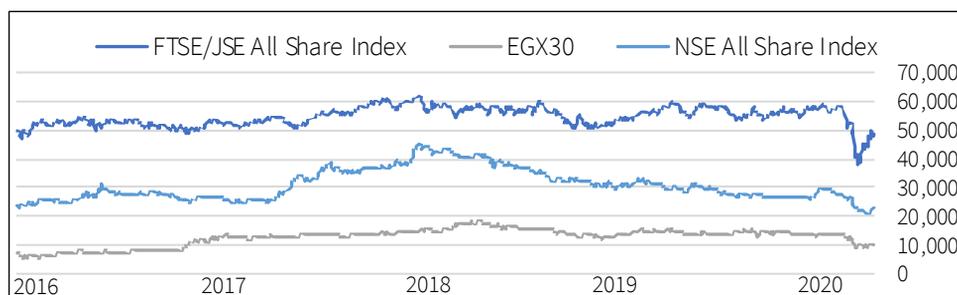
Dangote Cement (DANGCEM) in ₦



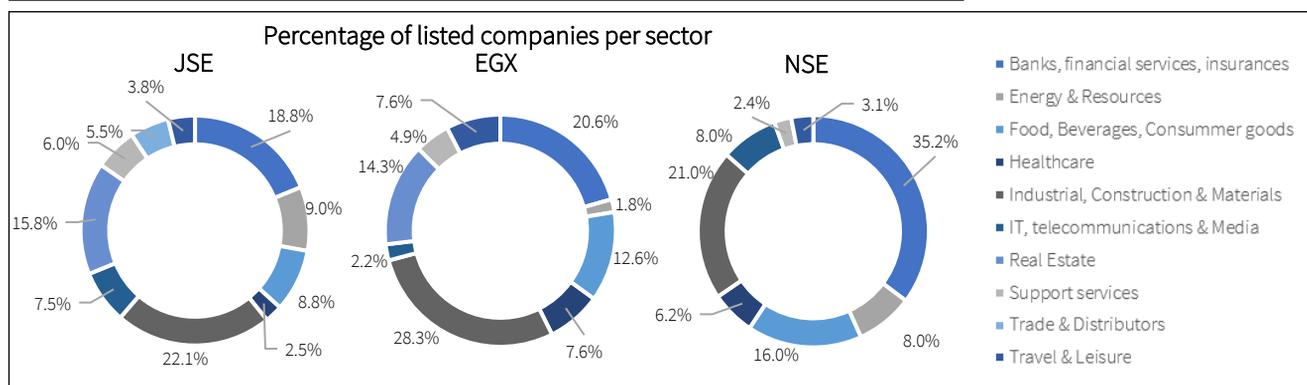
to the size of the market of the Nigerian market. Listed on the NSE since November 1992, **Dangote Cement (DANGCEM)**, whose share price went up by 15% amid Covid-19 crisis, is the largest listed company by market capitalization, currently US\$ 6.1 billion (₦ 2.3 trillion). The company manufactures, prepares, imports and distributes cement and related product in Nigeria and 9 other African countries.

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South-African, Egyptian & Nigerian Indices fluctuation from 01 January 2016 to 20 April 2020



■ The way forward & alternative listing for African Equities

To access greater financing, some companies have alternatively chosen to be listed in OECD countries. In the past this was mainly undertaken by Oil & Gas companies. However, other type of companies and industries have more recently followed similar strategies: Reservoir Capital Corp. (REO.CN) on the Canadian Securities Exchange for the power sector or Jumia (JMIA) which became the first African unicorn listed on the New-York Stock Exchange in April 2019.

The African Development Bank (AAA) has raised an exceptional \$3 billion in a three-year bond to help alleviate the economic and social impact of the Covid-19, with bids exceeding \$4.6 billion. It became the largest dollar denominated Social Bond ever launched in international capital markets to date. **Corporate green bonds**, where the proceeds are used to finance eligible projects aimed at reducing companies' environmental footprint, are also gaining investor interest. Like in Nigeria where Access Bank issued the first certified corporate green bond, raising NGN15 billion (\$41 million), while North-South Power Company listed a NGN8.5 billion (\$23.6 million) green infrastructure bond on the NSE.

We believe there could be 3 main areas of focus which could allow African Stock Markets to reach their full potential:

- **Focus on SME companies** with bond listings: According to the World Bank, SMEs provide at least 45% of the jobs and 33% of the GDP in emerging economies alone but they face significant constraints, including lack of access to funding.
- **Greater integration** with global online brokers by **facilitating forex transactions** for international investors and increasing partnerships with other African stock exchanges to facilitate dual listing.
- Promotion of policies and standards to ensure transparent, well-regulated markets with **greater digitalization** and automatization of the exchanges.

We can also notice the emergence of new types of exchanges more digitalized and focusing on start-ups and technology where private companies can build data-driven pre-money valuation and issue electronic share certificates and convertible instruments. This new exchanges such as Raise in Kenya aimed to ease the fundraising process and a **create secondary market** for all African SMEs.

■ Further Insights



["Should Low-Income Countries Impose the Same Social Distancing Guidelines as Europe and North America to Halt the Spread of COVID-19?"](#)



[How Jumia, the "Africa's Amazon", went through a very difficult year after its billion-dollar IPO on the New York Stock Exchange \(NYSE\)](#)