

THE FIRST IPO AND SPO IN UZBEKISTAN – AS A MECHANISM FOR ATTRACTING CAPITAL AND REDUCING THE STATE SHARE

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Abstract

In the history of independent Uzbekistan, JSC “Quartz” introduced the IPO practice for the first time, and JSC “Kokand Mechanical Plant” introduced the SPO practice for the first time. The article analyzes the real situation with the financing of joint stock companies through IPO and the sale of state shares through SPO using the example of JSC “Quartz” and JSC “Kokand Mechanical Plant”. Achievements and problems encountered are listed. As a result of the research carried out in the article, conclusions were formulated and suggestions were made.

Keywords: IPO, SPO, joint stock company, corporation, equity financing, issue of shares, share capital, stock market liquidity, stock quote, private investors, state share.

Introduction

Joint stock companies use IPO financing if they want or need additional large financing from new shareholders. Generally, corporations issue stock to the general public to attract additional new capital to the business. In this case, the source of financing is the funds of the general public of shareholders. The practice of financing joint stock companies through initial public offerings is becoming increasingly widespread throughout the world. This method of financing is called IPO for short. The concept of IPO is an abbreviation of the English words “Initial Public Offering”.

In this case, additional shares are reissued to raise additional funds for the corporation. According to the definition given in the legislation of our republic: “An initial public offering (IPO) is the placement by a joint-stock company (the initiator of the IPO) of shares on the stock exchange to an unlimited number of investors.”[1].

There is also the practice of selling shares on the basis of SPO (secondary public offering). “Secondary public offering (SPO) is the sale of shares by a shareholder (the initiator of the SPO) to an unlimited number of investors on the stock exchange” [1]. An SPO, unlike an IPO, does not affect the size of the authorized capital of a joint stock company. However, the implementation of such a sale ensures the free circulation of the company's shares on the capital market, the publicity of the company, and in the case of the sale of the state share, the contribution of private investors will increase due to a decrease in this share.

On a global scale, the mechanism of financing joint stock companies through corporate securities, in particular shares, is being widely studied. These include many academic studies focusing on raising capital for corporations through equity issues, especially large-scale investments through IPOs. However, aspects aimed at attracting large investments in corporations through IPOs, calculated on the basis of equity financing mechanisms and reducing the state's share, have not found their

scientific solution. In addition, there is not enough research by local economists on the sale of state shares through SPO.

Literature Review

IPO is considered by many economists as a modern mechanism for financing joint stock companies. Some economists also highlight the negative aspects of IPOs.

For example, according to local economist I.L. Butikov, who conducted an in-depth study of the development of the stock market: "Issuing shares and conducting an advertising campaign increases the company's recognition not only among professional investors, but also among the majority of the population. For most companies, the implementation of IPO projects is aimed not only at attracting financial resources, but also primarily for the purpose of publicity. This, in turn, will help to attract much larger financial resources in the future"[2].

According to S.E. Elmirzaev, a local economist conducting research on the development of corporate finance: "Placing shares by public subscription makes it possible to attract a large amount of capital, although it requires relatively high costs and a lot of time" [3].

Foreign economists N.R. Dilesha and A.L. Pierre conducted research on the topic "The Impact of Macroeconomic Factors on IPOs" [4].

According to A.A. Abgaryan, who conducted a study of the development of the equity capital market in Russia in modern conditions, "IPO increases the company's transparency for investors and investment attractiveness. In addition, it will be possible to use a source of long-term financing, the liquidity of securities placed on the stock market will increase, and an alternative source of financing will be formed"[5].

According to L.A. Borlakova, a foreign economist who conducted a study of the impact of IPOs on the competitiveness of Russian companies: "However, conducting an IPO before it is ready, or an incorrect decision by management will lead to the failure of the IPO. Even "mature" companies ready for an IPO must take into account the cyclical development of the economy. IPOs during recessions and depressions tend to fail. At the top of the business cycle, IPOs are effectively conducted. Small and medium-sized businesses are not recommended to conduct an IPO. This is explained, firstly, by their organizational and legal form, and secondly, by high transaction costs"[6].

Also, "Initial public offerings on international stock markets are subject to a certain level of competition. Because an IPO provides the company with additional investments and increases the investment attractiveness and international reputation of the company. All this makes it possible to effectively achieve business goals, solve social problems, and fulfill their obligations to the state. On the other hand, the very entry into international stock markets serves as a factor in the further development of the company"[6].

We believe that through an IPO, a broader group of investors will have access to up-to-date information about the corporation, resulting in an increase in the corporation's sources of financing and a reduction in the cost of debt capital. One of the benefits of an IPO is that it provides a large amount of equity capital to the corporation, as well as covering government issues and administrative expenses. Also, with a decrease in the state's share through an SPO, the possibility of attracting private investors to the joint-stock company is created[7].

Analysis and Results

In order to ensure the implementation of the decree of the President of the Republic of Uzbekistan dated January 17, 2017 “On measures to accelerate the sale of state property for economic purposes and further simplify its procedures” in order to introduce and attract a wide segment of the population to the stock market, a corresponding resolution was adopted by the Cabinet of Ministers of the Republic of Uzbekistan dated May 10, 2017 No. 268 “On organizing a public offering of shares on the Stock Exchange.” This decision also determined the list of joint stock companies whose shares will be placed for initial (IPO) and secondary (SPO) public offerings (see Table 1).

Table 1 List of joint stock companies whose shares are sold through primary (IPO) and secondary (SPO) public offerings of shares*[1].

№	Name of joint stock company	Initiator of a public offering of shares	Organizer of the public offering of shares	Implementation form
1.	JSC “Quartz”	JSC “Quartz”	National Bank of Foreign Economic Activity	IPO
2.	JSC "Kokand Mechanical Plant"	JSC "Uzneftegazmash"	National Bank of Foreign Economic Activity	SPO

*10 percent of the authorized capital

According to the above decision, one of the companies whose shares are planned to be placed through an IPO is JSC “Quartz”. JSC “Quartz” was founded in 1975, located in the Fergana region, the main activity is the production of glass products (glass containers, construction and automobile windows, refractory bricks). JSC “Quartz” provides 60% of the demand of the consumer market of the republic for building glass, 95% for glass jars and 50% for glass bottles.

Table 2 presents the characteristics and financial results of the IPO of shares of JSC “Quartz”.

Table 2 Features and financial results of the IPO of shares of JSC “Quartz” [8].

№	Peculiarities	Indicators
1.	Subscription start date	05.12.2017 г.
2.	Subscription end date	03.04.2018 г.
3.	Type of currency	UZS
4.	Prepayment	100%
5.	Number of shares issued for sale, pieces.	4 574 934
6.	Share of shares issued for sale to the total number of shares of the joint-stock company	10%
7.	Number of shares purchased, pieces.	2 475 269
8.	Of these, the share of shares sold	54,1%
9.	Income from the sale of shares, thousand soums	7 523 818
10.	Total costs for conducting an IPO, thousand soums	278 904
11.	Profit from sale, thousand soums	7 244 914

From the data in Table 2 it is clear that from December 5, 2017, JSC “Quartz” offered its shares in the Tashkent Stock Exchange through an IPO. The number of shares issued for sale is 4,574,934, stipulating that one person can purchase a maximum of 0.05% of the total number of shares issued, or 2,287 shares. Subscriptions were accepted in the range from 3,000 soums to 9,100 soums per share. The closing date for stock subscription is April 3, 2018, with 100% prepayment of shares required at the time of order. The shares were sold at the prices offered in the buyer's application, with priority given to the highest offered price.

Since this IPO was held for the first time in our country, it had a number of unique features. If applications to purchase shares were accepted within 4 months (from December 5, 2017 to April 3, 2018), then only 14% of shares offered for sale were accepted within 3.5 months. Over the last 2 weeks, another 40% of orders have arrived. That is, the number of applications to purchase shares has increased mainly over the past 2 weeks. Auction sales were held on April 4, 2018. As a result, more than 7 billion soums were raised. However, the shares offered for sale were not fully placed, but 54 percent were placed.

According to the Law of the Republic of Uzbekistan dated May 6, 2014 “On the protection of joint-stock companies and the rights of shareholders” No.-370, the placement of this number of shares is considered completed. Because in Article 33 of this law “In the case of placement of shares and other issue-grade securities on the stock market and the organized over-the-counter market, their issue is considered to have taken place if the volume of placement is recognized as at least thirty percent of the total number of shares and other issue-grade securities of this issue.”

The nominal price of shares of JSC “Quartz” is 1,715 soums. According to the Tashkent Stock Exchange, after the IPO, the share price of this joint stock company steadily increased by 123% from April 2018 to the end of December 2018.

From the analysis we can conclude that JSC “Quartz” was the first in our republic to place its shares in the form of an IPO. As a result, the company received an additional 7523.81 million soums of working capital, 3305 new shareholders appeared due to the reduction of the state share. Also, the placement of shares of JSC “Quartz” through an IPO served as an important factor in intensifying trading on the secondary stock market and increasing the number of transactions. This process, in turn, led to increased liquidity in the stock market.

In general, the first step into this market was made with the placement of shares of JSC “Quartz” using the IPO method, and its positive result will support the decision to use this experience in the privatization of other joint-stock companies. We also hope that this situation will serve as a springboard for the integration of our country's stock market into the foreign investment market.

One of the enterprises whose shares will be sold under the SPO by the specified decision is JSC “Kokand Mechanical Plant” (JSC “KMP”). JSC “KMP” was founded in 1933 and is one of the enterprises in the oil and gas industry. The plant mainly produces various types of metal structures, non-standard equipment, pressure vessels for the oil and gas and other industries.

The sale of shares of JSC “KMP” on the basis of an SPO, which was carried out for the first time in our country, was successfully completed. During the SPO, 2.23 million shares were put up for sale. The shares were offered to the general public in the price range from 1,000 to 4,000 soums. Applications from participants in the share sale process were accepted until December 24, 2018.

Figure 1 shows the change in the composition of shareholders of JSC “KMP” shares before and after the SPO.

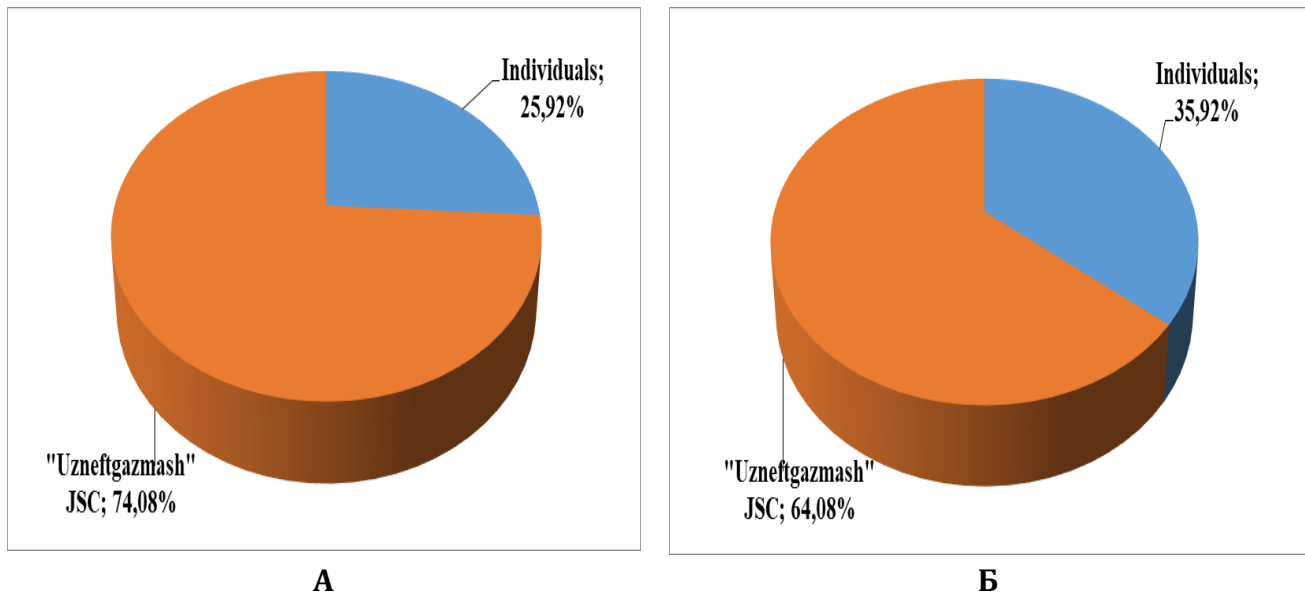


Figure 1. Shareholder structure of JSC “Kokand Mechanical Plant” before SPO (A) and after SPO (B) [9].

From the data in Figure 1 it is clear that before the SPO, 74.08% of the shares of JSC “KMP” belonged to JSC “Uzneftgazmash”, and 25.92% belonged to individuals. In turn, JSC “Uzneftgazmash” belongs to the national holding company Uzbekneftegaz. The main purpose of the sale of shares of JSC “KMP” through an SPO was to reduce the share of state or economic management, as well as to increase the share of private investors among shareholders

The set goal was achieved, and the composition of the shareholders of JSC “KMP” changed after the SPO. That is, as a result of the secondary SPO of shares of JSC “KMP”, 10 percent of the shares owned by JSC “Uzneftgazmash” were sold. As a result, the share of JSC “Uzneftgazmash” decreased to 64.08%, and the share of individuals, on the contrary, increased to 35.92%.

According to information posted on the official website of the Tashkent Stock Exchange, 2,843 applications were received to purchase a total of 2,821,065 shares of JSC “KMP” using the SPO method. These figures, in turn, indicate that demand for the shares offered for sale amounted to more than 126 percent and that the sale of securities in a new way was successful [11].

In order to protect the rights of investors, the “Regulations on the implementation of the initial (IPO) and secondary (SPO) offering of shares on the Stock Exchange” stipulates that investor funds for unsatisfied applications or part of them must be returned to investors within 15 days from the date of registration of transactions[11].

Conclusions and offers

As a result of the research conducted in the article, we made the following conclusions:

- it is considered possible not only to attract large investments in corporations through an IPO, but also to reduce the state’s share;

- SPO, unlike IPO, does not affect the size of the authorized capital of the joint-stock company, such a sale ensures free circulation of the company's shares on the capital market, publicity of the company, and an increase in the contribution of private investors by reducing the state's share;
 - secondary public offering (SPO) also serves to prepare companies for an IPO;
 - the first step into this market was made with the first placement of shares of JSC "Quartz" using the IPO method and the first sale of shares of JSC "KMP" in the form of SPO, although some shortcomings were made. the process completed successfully;
 - if we say that the first IPO was successful, there were no problems, we would be mistaken. The main problem in this regard is that the shares issued for the IPO are not fully distributed. That is, only 54% of the shares were placed;
 - one of the reasons why the shares of JSC "Quartz", which were supposed to be placed in the form of an IPO, were not placed in full, is that the Road Show was not held at the level of demand. That is, the population was not informed about this IPO in time, marketing methods were not used to interest them in buying shares;
 - other reasons for the incomplete placement of shares of JSC "Quartz", which must be placed in the form of an IPO, are the lack of public confidence in the securities and the limitation of the total number of acquired shares per shareholder to no more than 0.05 % of the output volume.
- Also, as a result of the research carried out in the article and the conclusions drawn on its basis, we make the following proposals:
- in our opinion, it is necessary to weaken the restriction according to which the total amount of shares purchased by one shareholder should not exceed 0.05% of the issue volume. That is, the total amount of shares purchased by one shareholder during subsequent IPOs and SPOs should be set at 1% of the issue volume. Consideration of this proposal will facilitate the full placement of subsequent IPO shares;
 - the management of these joint stock companies must take all measures to ensure that share prices do not fall on the stock exchange, in particular, they must regularly use modern methods of corporate governance;
 - dramatically increase the financial literacy of the population, especially the level of literacy in the stock market, for this it is necessary to host special programs and broadcast regular interesting programs on television;
 - as a priority direction for financing a JSC with a share of government or economic management bodies (blocks of shares) in the authorized capital, as a result of placing a share of government or economic management bodies (blocks of shares) through an initial public offering (IPO), will allow effectively organizing the financing of the JSC through shares, as well as obtain additional funds for the joint-stock company and attract private investors;
 - as a result of the sale of the state block of shares in a joint-stock company with a share of state or economic management bodies (block of shares) in the authorized capital, through a secondary public offering SPO, will provide an opportunity to reduce the share of state ownership in the economy and develop the country's financial market.

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