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# Initial Public Offering (IPO)

## A Concise Guide for Investors

### 2017



Jama Punji is an Investor Education Initiative of  
Securities and Exchange Commission of Pakistan



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## 1. Introduction

Initial public offering (IPO), is one of the basic components of a capital market. It enables a company to establish a trading market for its shares as shares sold through Public Offerings are listed at the Securities Exchange for trading and quotation of their prices. IPOs not only enable companies to raise funds from the capital market for meeting their financial needs, but also provide the public opportunity to own and participate in the growth of a formerly private company.

Investment in IPOs by its nature can be risky and speculative. It is advisable for the investors to do their own research by studying the prospectus and understanding the risks involved before investing their money.

This Guide provides the investors with information they should consider when investing in the shares or any other security of a public limited company through an IPO.

## 2. What is an IPO?

IPO is the first time sale of securities by a company to the public. It is one of the modes of fundraising from the capital markets. IPOs, also known as the Primary Market bring together companies that need funds and investors who have surplus funds for investment.

Through IPOs, the corporates can offer different securities in the form of equity, quasi equity or debt. The most common securities issued in our market are ordinary shares. IPOs are made through a prospectus issued, published and circulated with the approval of Securities and Exchange Commission of Pakistan (SECP) under the Securities Act, 2015 (the Act). In addition to ordinary shares, other securities such as preference shares, Sukuk, PTCs, and TFCs etc. can also be issued through IPOs.

Normally, IPOs include only new shares that the Issuer sells in order to raise capital. However, in some cases shares held by existing shareholders are sold through IPOs. The proceeds from the sales by selling shareholders do not go to the Issuer, but instead go to the selling shareholders. Selling shareholders may include sponsors/promoters and other early investors seeking liquidity of their investment.

## 3. Why an IPO?

The most common reason for a company to initiate an IPO is to raise additional capital and to establish a trading market for its shares. Other reasons may include monetization of the investments of early private investors. The funds raised may be used for meeting financial needs of the company such as financing new projects/ventures, expansion of existing business, and repayment of expensive loans etc.

## 4. Who can invest in an IPO?

Any person who has valid CNIC, bank account with any commercial bank, CDS account

[Investor Account with CDC or Sub-Account with any of the CDS Participants (i.e. licensed securities brokerage companies or commercial banks)], email address and mobile phone number can invest in an IPO. **One applicant can make only one application.** Application may be made for the minimum number of shares (normally 500 shares) mentioned in the prospectus or in multiples thereof. False and fictitious applications are not allowed.

## 5. How do I find out about new IPOs?

For each IPO a prospectus is separately issued, circulated and published in the newspapers at least 7 days before commencement of the public subscription. In addition, the Issuer i.e. the company that offers shares for sale to the public also publishes advertisement in the newspapers. Prospectus is also made available on the websites of the Pakistan Stock Exchange (PSX), the Consultant to the Issue, the Issuer and the Central Depository Company of Pakistan Limited (CDC) being the Centralized e-IPO System (CES) provider. List of all the upcoming IPOs is also provided on the PSX website. If you plan to invest in IPOs, you must regularly visit the PSX website <https://www.psx.com.pk/>, the CDC's website at link [www.cdceipo.com](http://www.cdceipo.com) and also read the business sections of newspapers. If you are registered with CES or accountholder of a bank providing e-IPO facility, you may get SMS for new IPOs.

## 6. What is e-IPO?

e-IPO is submission of application for subscription of securities electronically through internet, Automated Teller Machines (ATMs) and mobile phones. In order to facilitate the public during IPOs, SECP has introduced the concept of e-IPO. The following two systems are available for e-IPOs:

### (i) Centralized e-IPO System (CES)

CES has been developed by CDC in collaboration with 1-Link (G) Limited. CES is integrated with almost all the commercial banks. CES is provided by CDC in all IPOs since May 2017. For making application through CES, investors have to be registered with CES which is available 24/7. No fee is charged for registration. Registration is one time i.e. once you are registered then no registration is needed for subsequent IPOs, however, application will be submitted separately for each IPO.

### (ii) e-IPO facilities by Bankers to the Issue

Currently United Bank Limited, Summit Bank Limited and Bank Alfalah Limited are providing e-IPO facilities to their account holders. The account holders of above mentioned banks can use internet banking to submit their e-IPO applications.



## 7. Benefits of e-IPO

e-IPO has the following benefits:

- (i) It enables the investors to make application for subscription of shares through internet without going to the bank and waiting in long queues.
- (ii) It is efficient and simultaneously facilitative for both the Issuer and the investors.
- (iii) It is available for use 24 hours during the subscription period.
- (iv) If you are registered with CES or account holder of a bank providing e-IPO facility, you may get SMS for new IPOs.
- (v) By applying through CES, you can also trace your application status.

## 8. How can I invest in an IPO?

You have to submit application for subscription of shares through any of the following means:

- (i) **Electronically through CES:** For making application through CES, investors must register with CES, You may register with CES if you have a valid Computerized National Identity Card (CNIC), bank account with any of the commercial banks, email address and mobile phone number. For registration and e-application through CES, you may access CES via link [www.cdceipo.com](http://www.cdceipo.com); or
- (ii) **Electronically through e-IPO facility of your bank:** E-application can be accessed through weblink disclosed in the prospectus. Currently, United Bank Limited (UBL), Summit Bank Limited (SMBL) and Bank Alfalah Limited (BAFL) are providing e-IPO facilities to their accountholders. UBL account holders can use UBL Net Banking to submit their application via link <http://www.ubldirect.com/corporate/ebank>. SMBL account holders can use SMBL Net Banking to submit their application via link <http://ib.summitbank.com.pk>. BAFL account holders can use BAFL Net Banking to submit their application via link <https://ib.bankalfalah.com.pk>; or
- (iii) **Manually on prescribed form through your bank:** The form can be obtained from the bankers to the Issue and the securities brokerage companies. The form can also be downloaded from the website of PSX, the Consultant to the Issue and the Issuer.

**Note: Please note that online applications through CES and e-IPO facilities of UBL, SMBL and BAFL can be submitted 24 hours a day during the subscription period.**

## 9. Where can I get information about the issuer?

To make an informed investment decision, it is critical that you learn about the Issuer by reading the prospectus thoroughly and understanding the information provided therein. If

possible, verification of the information, reports, claims etc. disclosed, stated and made in the prospectus through independent sources is also recommended.

## 10. When is the prospectus published?

For each IPO a prospectus is issued, circulated and published at least 7 days before commencement of the subscription. Prospectus is required to be published in at least one Urdu language and one English language daily newspapers. Law allows publication of the prospectus in abridged form.

## 11. What are the key aspects that must be understood and considered before making an investment decision?

It is critical to read and understand the prospectus and consider the following aspects that are provided in detail in each prospectus:

- (i) Company / group profile, history and its management;
- (ii) Nature of the business, business model/strategy of the company;
- (iii) Principal products or services and their markets; significant suppliers and customers on whom the issuer's business depends, its competitive landscape and strategy to manage the risk of competition;
- (iv) Financial and operating position of the Issuer and comparison thereof with financials of the peers;
- (v) Capitalization of reserves during recent years;
- (vi) Purpose of the Issue;
- (vii) Uses of the IPO proceeds/public money;
- (viii) Issuer's history with respect to payment of cash dividend and its policy for future dividends. Restrictions, negative covenants, if any, etc. with respect to payment of dividend;
- (ix) Offer price and rationale disclosed for charging premium, if any, to the face value;
- (x) Auditor's certificate on balance sheet and income statements, issued and paid up capital, and explanatory notes thereto;
- (xi) Breakup value and earning per share;
- (xii) Past regulatory and financial defaults by the issuer, its associates, sponsors, substantial shareholders and group companies;
- (xiii) Overdue loans of the Issuer, its associates, sponsors, substantial shareholders and group companies;
- (xiv) Outstanding legal proceedings; and
- (xv) Risk factors including those specific to the issue, Issuer, capital market, industry and the economy.

## 12. Whom should I consult for queries relating to a specific IPO?

Names, phone numbers and email addresses of the contact persons of the Issuer and the Consultants to the Issue are provided on cover page of the respective prospectus. The investors may consult any of the contact persons for their queries.

## 13. Can I get my shares in physical form?

No, under Section 72 of the Companies Act, 2017, companies are required to issue shares in the book-entry form only. Investors who have CDS accounts must provide in the application, complete number of their CDS accounts. Investors who do not have CDS accounts may visit [www.cdcpakistan.com](http://www.cdcpakistan.com) for information and details. For further guidance and queries regarding CES and opening of CDS account, investors may contact CDC at: 0800–23275 (CDCPL) and e-mail: [info@cdcpak.com](mailto:info@cdcpak.com)

## 14. Why CDS Account is necessary?

- (i) Currently, shares held in physical form are not tradable. Investors who hold shares in physical form and intend to sell them must open a CDS account.
- (ii) Shares held by them will be credited to their CDS account. CDS account opening form can be downloaded from the website of CDC. CDS account can also be opened through various banks; details are available on CDC's website [www.cdcpakistan.com](http://www.cdcpakistan.com).
- (iii) Holding shares and other securities in book entry form is safer as compared to holding them in physical form.

## 15. How to receive subscribed shares?

After closing of the subscription period, all the e-applications submitted through CES and e-IPO facilities of the Bankers to the Issue and the applications submitted manually through the Bankers to the Issue are forwarded to the Balloter to the Issue for compilation, balloting, if required, and scrutiny.

Subscription money of all the unsuccessful/unaccepted applications is refunded to the applicants through credit back to their respective bank accounts. Shares are issued against all the successful applications through credit in the CDS account of applicants within 10 days of the closing of the public subscription period. The successful applicants who have CDS accounts will receive SMS upon credit of shares in their respective CDS accounts.

## 16. How to sell shares subscribed in IPO?

After credit, the shares are formally listed on PSX and trading is commenced. Share price is

quoted on PSX on daily basis. Shares are traded on KATS (Karachi Automated Trading System). Shareholders can sell the shares through stock brokerage companies.

## 17. What is listing?

Listing means registration of a company or a security on a securities exchange for trading and display of its name and quotation of the market price of the security on the official list of the securities exchange. Listing provides the security holders an exit route.

## 18. How can I get return / profit on my investment in IPOs?

In case of investment in shares, capital appreciation (the stock price rising in value) and dividends are the two ways you can earn a return as a shareholder. Profits can be distributed in the form of cash dividends or may be retained for use in the business.

The payment of cash dividend is made through direct credit to the shareholders' bank accounts.

In case of Sukuk and corporate bonds (TFC etc.), investors are paid profit on periodical basis and their principal amount is redeemed as per the schedule disclosed in the prospectus. The payment of profit is made through direct credit to the Sukukholders /bondholders' bank accounts.

## 19. Methods of offering shares through IPO

### (a) Fixed Price Method

The issuer sets offer price. Price may be at par or at premium to face value based on the Consultant to Issue's valuation, the prevalent market demand and/or the due diligence conducted by the underwriters or Pre-IPO investors. Issue is underwritten through independent institutions that provide comfort to the prospective investors as far as the offer price is concerned. Justification/basis for the offer price is disclosed in the prospectus together with details of the qualitative and quantitative factors. Investors subscribe for shares at price already decided by Issuer.

### (b) Book Building Method

Mechanism of price determination is based on the Dutch auction method. Floor Price is decided by the issuer /offeror in consultation with the Consultant to the Issue and is disclosed in the Prospectus.

Indication of interest for investment in the shares offered is collected from institutional investors (IIs) and high net-worth individual investors (HNWIs) through making of bids during the bidding period. A Bidding Book is built and displayed online on the website of PSX in descending order based on bids received from IIs and HNWIs to give a picture of demand for the shares at different price levels. Strike Price is determined at the end of the bidding period based on bids received. Shares are provisionally allotted to the successful bidders at the Strike Price determined through the Book Building process. The Offer of shares to retail investors can be made at or below the strike price.

## 20. Dividend Mandate / e-Dividend

The Shares Subscription Form includes a column for dividend mandate. Filling of this column is mandatory. Purpose of this column is to obtain bank account detail of the investor so that cash dividend, if announced by the Issuer, is directly credited into the shareholder's account. This is an efficient and hassle free mode for payment of cash dividend. The IPO investors, therefore, must provide complete detail required in this column to enable payment of cash dividend directly into their specified bank account. The benefits of crediting dividends directly into shareholder's bank account are as follows:

- (i) It is hassle-free. Shareholders do not need to visit their banks for depositing the Dividend Warrants.
- (ii) It is efficient as it leads to prompt credit in the bank account of the investor through e-banking.
- (iii) It eliminates fraudulent encashment of Dividend Warrants.
- (iv) It eliminates delays/loss of Dividend Warrants in postal service.

## 21. Security

For the purpose of this Guide, security means ordinary shares, preference shares, Sukuk, Participation Term Certificates (PTCs), Certificate of Mushariaka (COM), Term Finance Certificates (TFCs), Commercial Papers (CPs) etc. For detail, please refer to the Securities Act, 2015.

## 22. Prospectus

For the purpose of this Guide, prospectus is a legal document prepared by the Issuer for offering its securities for sale to the public. The prospectus contains material information, reports, statements and disclosures about:

- (i) Offerprice, issue size, allocation to various categories of investors, offering method, subscription period, procedure of making application for subscription, minimum subscription size, procedure for payment of the subscription money, basis of allotment, application form and instructions, utilization of the IPO proceeds etc.; and
- (ii) Details of the issuer's business, sponsors, management, financial and operating position, dividend policy, future prospects, risk factors, subsidiaries and associated companies, legal proceedings etc.

### 23. Public Subscription Period

During this period, investors can make application for subscription of securities. Normally public subscription period comprises of two working days for IPOs of ordinary shares, whereas in case of Sukuk it may be stretched to months.

### 24. Underwriting

Underwriting is an arrangement through an underwriting agreement in writing between the Issuer and the underwriter. The underwriter agrees to purchase the unsubscribed shares, if any, at the offer price. Underwriting provides comfort to the investors that the offer price is fair and to the Issuer that the required funds will be raised even if the issue is not fully subscribed by the public.

### 25. Trading price

Trading price may have some relation with the offer price of the shares; however, the trading price of the shares shortly after the IPO can be above or below the offer price. Generally, the shares traded on the first day of formal listing are the shares that were sold in the IPO. Substantial supply of shares in the market may drag the trading price downward. On the other hand, very limited supply, particularly in the case of shares in high demand may drive the trading price higher.



## Jama Punji is an Investor Education Initiative of Securities and Exchange Commission of Pakistan

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