



INITIAL PUBLIC OFFERINGS, LISTING AND THEIR BENEFITS

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INTRODUCTION:

Initial Public Offering (IPO) which is also known as the Primary Market is one of the basic components of a capital market. IPOs on one hand provide opportunities to the investors to invest their surplus funds in securities offered by corporates to the public and on the other hand enable the corporates to meet their financial needs through the capital market. Through IPOs, the corporates can raise money from a wider group of investors through the securities market in the form of equity, quasi equity or debt. This booklet may be helpful to understand the purpose of listing, its benefits and incentives for listing.

WHAT IS IPO:

Initial Public Offering or IPO is the first time sale of securities by a company to the public. It is one of the modes of fund raising by the corporates to meet their financial needs.

WHY AN IPO:

The most common reason for a company to initiate an IPO is to raise additional capital. Other reasons may include monetization of the investments of early private investors, and to make the company publicly traded enterprise. Funds can be raised through IPOs through issuance of various types of securities like Ordinary Shares, Preference Shares, TFCs, PTCs, Sukuk, etc.

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. The securities may be of any public limited company, corporation or Government.

WHY LISTING:

Securities issued to the public are listed on the securities exchange to provide the holders exit route.

PURPOSE OF LISTING:

The primary purpose of listing of a company on a securities exchange is to raise funds for meeting financial needs, however, listing may be done for other reasons like realization of the investment by the existing shareholders and raising profile of the company etc.

For all the glamour associated with going public, the fact remains that the decision to do so should be based on hard business realities. As an owner or major shareholder, you must weigh the advantages and disadvantages of going public in light of the plans and goals you have set for your company.

The decision to list your company needs to be made once you have realistically assessed your company, its management, resources, stage of development, long term strategy, goals and future prospects. You would also need to consider the timing of a listing in terms of market conditions and where your business is at that point in time.

Listing is accompanied by benefits as well as responsibilities and public scrutiny. There are many specific requirements that you need to comply with as a listed entity. It would be a good idea to familiarize yourself with these requirements to assess whether your company will be able to fully comply.

BENEFITS OF LISTING:

Listing of securities has diverse benefits. Some of such benefits are given as under:

(1) For the Issuing Company:

(i) Additional avenue for fund raising:

Listed companies have the incentive to tap capital market as an additional avenue for fund raising through IPOs, secondary offerings and right issues for financing Green Field Projects/new projects, BMR, extensions and expansions. It is often cheaper to raise equity capital rather than to rely on debt finance, to fund the expansion of a company's business. It is

easier for a listed company to raise equity from the capital market any time.

(ii) Improvement in the company's credentials:

- (a) Listing raises company's public profile with customers, suppliers, investors and the media. As a result more business opportunities become available.
- (b) A listed company is included in the stock exchange's Index Series, thus creating additional exposure for the company both locally and internationally and, therefore, may be covered by the analyst in their reports.
- (c) A listed company may also be considered for awards like stock exchange top 25 companies award that bring credibility and investors' confidence in the company.
- (d) Listed companies are benefitted of the general perception that after listing financial and business strength of the companies is improved.
- (e) A listed company can use its shares to fund acquisitions through mergers as shareholders of the merged entity might be more interested in listed shares.
- (f) Global recognition of the issuing company.

(iii) Value Addition:

Listing creates value and liquidity for shareholders, because listed shares are independently assessed and valued. Listing boosts liquidity and help in broadening the shareholders base. Shareholders of listed companies can realize their investment easily.

(iv) Liquidity:

Shares of listed companies can be sold easily at a fair price through secondary offering by the company or by the sponsors/promoters through divestment.

- (v) Employees Stock Options:
Listing helps in offering of Employees Stock Option Schemes to retain hardworking professionals and gain their loyalties.
- (vi) Business Partners:
Listing helps in attracting institutional and professional investors as business partners.

(2) For Economy of the country:

- (i) Increase in revenue in the form of income tax paid by the capital market institutions like the securities exchange, depository company, clearing company and securities brokers.
- (ii) Capital Gain Tax (CGT) paid by the investors on gain on sale of shares and other securities.
- (iii) Listing provides investment opportunities to the investors and so savings of individuals are mobilized.
- (iv) Decreases dependence on the banking sector and so resources of the banking sector can be utilized for the development of the under-developed sectors of the economy.
- (v) Increases employment opportunities.

(3) For Capital Market:

- (i) Market capitalization increases.
- (ii) Investor base increases.
- (iii) Inflow of foreign portfolio investment increases.
- (iv) Revenue of the securities exchange, related capital market institutions and intermediaries increases.

- (v) Recognition of the local securities exchange globally due to increase in listed companies, market capitalization and investor base.
- (vi) Increased disclosure/reporting requirements enhance transparency and enable the investors to make informed decisions.
- (vii) Attract international investors who can easily trade in listed shares without any restrictions which help image building of the country's capital market in the eyes of foreign investors.

(4) For the Shareholders:

- (i) Value creation.
- (ii) Liquidity

(5) For Investors:

- (i) Additional investment opportunities
- (ii) Ease of entry & exit

(6) For Government:

A source of revenue generation through privatization of State Owned Enterprises.

ELIGIBILITY FOR LISTING:

- (i) Any public limited company or body corporate may apply for listing on the securities exchange in Pakistan provided its post issue paid up capital is not less than two hundred million rupees.
- (ii) A foreign company having place of business in Pakistan can also apply for listing on a securities exchange in Pakistan.

ALLOCATION OF CAPITAL IN EQUITY ISSUES:

- (i) In case post issue paid-up capital of the issuing company is up to Rs.500 million, at least 25% of such capital shall be offered to the public.
- (ii) In case post issue paid up capital of the issuing company is beyond Rs.500 million, public offer shall be at least 12.5% of the post issue paid-up capital which shall be enhanced to 25% within four years of listing.
- (iii) Upto 5% of the issue size can be allocated to employees of the issuing company.
- (iv) Upto 20% of the issue size can be allocated to overseas Pakistanis.

PUBLICATION OF PROSPECTUS:

- (i) IPOs are made through prospectus
- (ii) Prospectus is issued, circulated and published after approval of SECP under Section 87 and 88 of the Securities Act, 2015.
- (iii) Prospectus is required to be published at least in one Urdu and one English daily Newspaper both in English and Urdu languages.
- (iv) Law allows publication of the prospectus in abridged form. This helps to curtail publication cost.

METHODS OF OFFERING OF SHARES THROUGH IPO:

(i) Fixed Price Method

- (i) Offer price is set by the issuer.
- (ii) Price may be at par or at premium to face value set on the basis of issuer own valuation based on the company's financials

and/or the prevalent market demand and/or the due diligence conducted by the underwriters or Pre-IPO investors.

- (iii) Issue is underwritten through independent institutions which provide comfort to the prospective investors as for as the offer price is concerned.
- (iv) Justification/basis for the offer price is disclosed in the prospectus where the issuer gives detail about the qualitative and quantitative factors.
- (v) Investors subscribe for the shares at the price already decided by the issuer.

(ii) Book Building Method

- (i) Mechanism of price determination is based on Dutch auction method.
- (ii) Floor Price is decided in consultation with the Consultant to the Issue and is disclosed in the Prospectus.
- (iii) Indication of interest for investment in the shares offered, is collected from Institutional Investors (IIs) and High Net-Worth Individual Investors (HNWIIs) through making of bids during the bidding period.
- (iv) A Bidding Book is built and displayed online, in descending order on the basis of bids received from IIs and HNWIIs which gives a picture of demand for the shares at different price levels.
- (v) Strike Price is determined at the end of the bidding period on the basis of bids received.
- (vi) Shares are allocated to HNWIIs and IIs at the Strike Price determined through the Book Building process.

- (vii) The Offer of shares to retail investor can be made at or below the strike price.

INCENTIVES BY THE GOVERNMENT:

The Government of Pakistan, under the Income Tax Ordinance, 2001, has provided certain incentives to the newly listed companies and the companies that undertake projects through equity financing. These incentives include the following:

- (i) 20% tax credit on tax payable by a newly listed company for two years i.e. the year of listing and the following year. [Sec 65C].
- (ii) Tax credit, for five years, in line with the investment through equity on tax payable by an industrial undertaking set up with at least 70% equity. Provided such industrial undertaking is setup during the period from July 01, 2011 to June 30, 2019. [Sec 65D].
- (iii) Tax credit on investment for expansion of the plant and machinery already installed or undertaking a new project provided such industrial undertaking is established before July 1, 2011 and the plant and machinery is installed during the period from July 1, 2011 to June 30, 2019. [Sec 65E]
- (iv) 10% tax credit of the amount invested in purchase of plant and machinery for the purposes of extension, expansion, balancing, modernization and replacement of plant and machinery already installed provided such installation is undertaken during the period from July 01, 2010 to June 30, 2019. [Sec 65B].

For detail Sections 65C, 65D, 65E and 65B of the Income Tax Ordinance, 2001 may be consulted. To be benefitted of these incentives, the companies may raise equity through the capital market for financing equity portion of their projects.

DISCLAIMER

This booklet has been prepared with the intention to create awareness about the benefits and procedure of the Initial Public Offerings (IPOs) for the corporates. The booklet does not describe about the regulatory framework and compliance. The contents of the booklet are circumstantial and may vary under different situations. The information contained herein is subject to change without prior notice. The Securities and Exchange Commission of Pakistan gives no guarantee and assumes no liability for any errors or omissions of the information contained in this booklet. No one can use the information for any claim, demand or cause action.

If the reader is in a doubt while dealing with any specific issue, it is recommended to refer to part VIII of the Securities Act, 2015, section 120 of the Companies Ordinance, 1984 and allied laws and consult professionals of the relevant field for seeking advice.

In case of any query, please contact us at the below address or e-mail us at amir.khan@secp.gov.pk



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