EQUITY MARKET

Continued consistency

When the JSE all share index and the prices of many large stocks are close to record highs, as they've been in recent months, it's reassuring for investors. A different question is how well the JSE is performing as a market for raising equity capital or for rewarding key managers and directors.

All of these are related. Raising capital tends to be more difficult in bear markets, when companies are stressed or when market volatility is high because of rising risks in the world economy. When investors are cautious, they tend to prefer companies they consider to be less risky and more defensive, which usually means the large, liquid stocks that produce reliable earnings.

Many of the smaller companies, and those in cyclical sectors, get neglected. Their shares are relatively illiquid, with little trading activity. These companies may find it difficult to raise capital by issuing shares, and incentive schemes for managers are often unrewarding.

A decade ago, the market was shrinking fast. Scores of companies were delisted in the downturn that followed the bull market and listings boom of the late 1990s. The number of companies listed on the JSE declined from the record 669 in 1999 to 388 by the end of 2005. In 2003, the year the last bull market started, new equity capital raised from acquisitions, rights and other issues totalled only R22,66bn, down from the previous year's R101,14bn.

Edwin Hertzog
Refunding would assist expansion

Hetty Zantman

Since 2008, the year the equities bull market ended and the financial crisis gained momentum, the JSE has been relatively stable based on overall figures for listings and capital raisings (see table), though the numbers are slipping. By the end of September, the market listed 401 companies, down from 425 at the end of 2008. Almost a fifth, or 63, of the 401 companies are listed in the AltX market, where trading liquidity is low.

Last year listed companies raised equity capital of R87,55bn on the local market, compared with R76,69bn in 2008 and R124,85bn in 2007. The total capital raising for the first nine months of this year was R53,86bn, also slightly down on the R66,04bn for the same period last year, but the figures exclude rights issues held more recently such as Mediclinic's R5bn issue and Capitec's R2,25bn offer.

Mediclinic's successful equity raising in the local market was an important element in its refinancing of its large debt exposure in Switzerland. The refinancing arrangements include new Swiss debt funding of SwFr2,1bn (R17,85bn), new SA debt of R4,2bn, a local R5bn rights offer, and a R2bn issue of preference shares.

Chairman Edwin Hertzog said the refunding would assist the group to continue its international and local expansion. The share traded at a record high this week.

Delistings continue to outnumber new listings, but the companies joining the market in present conditions tend to be of higher quality than many that listed four or five years ago. Half of this year's eight new listings at the end of September are in the property sector and own solid assets.

Delta Property Fund, which lists this week, is a black-managed and mainly black-owned property loan stock company. It said that after the listing, which was planned to raise equity capital of up to R980m, it would own a property portfolio valued at R2,1bn and consisting of 20 mainly AAA- to B-grade office buildings (see page 21).

Even in volatile global conditions, companies are continuing to list and raise equity capital, though private placings are an easier and a more reliable method than public offers.

Capital raising can be plain sailing for large or fast-growing and highly rated companies, but remains much tougher or even impossible for small companies with illiquid shares.

That serves as a disincentive for small business that may consider listing and encourages some to delist, if they can.

Andrew McNulty

STILL WORKING

Company listings	2008	2009	2010	2011	2012*
Currently listed	425	410	407	406	401
New listings	23	10	14	16	9
Delistings	20	25	17	17	13
Equity capital raised (Rbn)	**2008**	**2009**	**2010**	**2011**	**2012***
Acquisition of assets	11,69	55,85	10,53	43,60	11,16
Rights issues	21,24	14,26	20,18	10,53	4,31
Share incentives	9,49	9,02	6,83	6,98	6,16
Waiver of pre-emptive rights	34,27	27,86	43,31	26,44	32,24
Total	**76,69**	**106,98**	**80,86**	**87,55**	**53,86**
Overall JSE liquidity (%)	82,9	52,3	47,8	50,3	47,4

* to September 2012

SOURCE: JSE