

Capital market needs better listings

SARWAR A CHOWDHURY

The capital market is in good shape now that our twin bourses have been demutualised with the view to ensure transparency, efficiency and accountability in the stock market, i.e. the ownership of stock exchanges has been separated from the management. But we still have a long way to go, especially since the market is facing a dearth of quality issues. For example, only nine equity companies floated primary shares to raise working capital through the stock market last year. The number or the amount of raised fund is not the issue here; the issue is the quality of the securities. If you analyse the soundness of the companies, you will only find a few that are fundamentally strong. Hence, the pricing of new securities in the secondary market is not particularly attractive for investors.

If investors do not get their expected return from an initial public offering (IPO), it erodes their confidence, more so when the market is experiencing a downward trend, which was seen throughout last year. Though there was no severe fluctuation in the price indices in 2015, the stock market witnessed a disappointing year, despite stepping into it with high hopes from two consecutive years of positive returns following the crash of 2010-11.

In reality, the year did not yield much. Instead, it resulted in around a 5% loss for investors, who in contrast, could have made around a 19% return on investment in 2013 and 2014. Other indicators too spelled trouble. More importantly, investors were losing faith in the market.

Between January 1 and December 31, DSEX, the benchmark index of the Dhaka Stock Exchange, fell by 6.31%, ending the year at 4,629.64 points. Market capitalisation stood at BDT

319,975 crore, a 2.85% decline from the previous year. The daily turnover, another important gauge, stood at an average of BDT 423 crore, a 16.4% decline from the year before.

Coming back to IPO issue. We need a listing of good securities that will be

fundamentally strong rather than just average. A fundamentally strong company is one that has little debt, a lot of cash, and the ability to do business in the worst of times. So the listing will not only be a way to enhance market depth, but to also increase the investor confi-

dence, thereby restoring vitality to the market.

But the biggest and most successful entrepreneurs often do not want to come to the capital market. There are a few reasons behind this. Firstly, private company owners, especially first genera-

tion entrepreneurs, do not want to go beyond family ownership. They also raise questions as to why they should list their companies, which they have spent 10-20 years setting up.

Secondly, entrepreneurs do not see any incentive in listing their companies. They feel that the existing corporate tax facilities, and in many cases the pricing methods, are not enough for them to come to the market. The lengthy IPO process is also a reason for their disinterest.

If these are the reasons, we need to raise awareness amongst entrepreneurs that the stock market is a good alternative to raise funds for expanding their companies. Moreover, a family can still retain control by holding a majority of the stock.

The stock market is the place where an entrepreneur can raise capital without liability, high interest or capital repayments. If a company issues an IPO to raise capital from the stock market, it only needs to share a portion of its profit and maintain good corporate culture and governance.

The government should also come forward with an effective initiative to list state-owned enterprises, especially considering past experiences. During 2006-7, the government offloaded shares in the stock market from its five state-owned enterprises, namely Titas Gas, Meghna Petroleum, Jamuna Oil, Desco and Powergrid. All of them received tremendous responses from the market. Since then, the government has initiated a move to offload shares of some 25 state-owned enterprises, but the process has gotten stuck in red tape.

Even then, the government can use the capital market as an alternative

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