

Encouraging New Public Equity Financing

The local Stock Market has provided a good opportunity for investors to increase their wealth over the years. Be they business or individual investors, the Market created an avenue whereby some could achieve capital appreciation more rapidly than the alternative investment opportunities available. The Market however, has been void of any new security offerings for some time. The only new companies to have had an Initial Public Offering (IPO) on the First Tier in the last ten years were Life of Barbados - 1997, Ansa Finance and Merchant Bank - 1997, Prestige Holdings Limited - 1999, BWIA West Indies Airways Limited (BWIA) - 2001 and National Enterprises Limited - 2001.

As may be observed from the preceding list, there were no new IPOs in the latter half of the decade. Further, within the same period, BWIA has been de-listed and Life of Barbados was acquired by Barbados Mutual who subsequently made an IPO in Barbados under the new name Sagicor Financial Corporation before cross listing its shares to the Trinidad and Tobago Stock Exchange.

Currently, the Market presents a narrow selection of investments with only 33 listed securities in the First Tier. Notably, of these 33 securities, Furness Trinidad Limited shares have been suspended from trading since 2006, while Valpark Shopping Plaza Ltd. has not traded since February 2005. In addition, it was announced that Royal Bank of Canada agreed to acquire RBTT Financial Holdings Limited (RBTT). Should this deal materialize, RBTT would be de-listed causing a further reduction of equity alternatives.

If the vision of making Port of Spain the financial capital of the Caribbean is to come to fruition, the current trend needs not only to be abated, but reversed. The Stock Market has to develop and be adequately represented as a viable means of raising capital and sufficiently diversifying investment portfolios. There should be some strong and immediate incentives to encourage entrepreneurs to fund their business initiatives through public equity so that the Stock Market progresses along with the rest of the economy.

The lack of new listings may be an indication that debt financing for rapid growth is considerably more favorable than acquiring public equity. Entrepreneurs in their assessment may prefer the advantage of having relatively low interest rates on debt which allows for affordable repayment. Additionally, from a taxation point of view the attractiveness of debt is increased as interest payments are deducted in deriving taxable profits. Also, the prospect of complete ownership of the business and its earnings is likely to lure entrepreneurs to seek debt financing.

This may speak to the presumed limited scope of opportunities by these entrepreneurs to expand; as equity financing can usually make available significantly greater levels of capital than debt financing. It is hoped that the nation's Entrepreneurial Resource Pool would benefit from the provision of free tertiary education coupled with the signed Memorandums of Understanding regarding trade agreements and diplomatic trade missions. One thing for sure, there is definitely a need for larger scale opportunities and increased productive impetus leading to a greater number of organizations raising capital on the equity market.

I am by no means discounting the hefty price private business shareholders would have to pay by going public. The risk of losing control of the company that may have been nurtured from the very infant stage or that has been in the family for generations may certainly make such a decision quite difficult. This is a real possibility should external shareholders form a coalition or sell out to a single large investor. This risk can however be effectively eliminated if the original private owners maintain a majority stake in the business by issuing less than 50% of shares externally.

Another serious consideration is the burden of having to formalize relationships with the new shareholders. The company will have to develop systematic and routine communications of facts to shareholders about developments in the company that would have a material impact on the trading prospects, its value and fundamental solvency. On the other hand, the communication of opinions must be more disciplined and cautious to avoid misleading shareholders or encourage false expectations about future performances.

There is also the obligation and cost of drawing up a prospectus, commissioning valuations, fees charged by the exchange, subsequent compliance procedures and tougher accounting and reporting requirements. However, this added obligation causes managers to be more disciplined and accountable for their strategies and the financial performance of the company.

Additionally, there is greater pressure on the management of the company to generate profit growth and keep shareholders happy with increased earnings per share, capital appreciation and dividend payout. Failure to grow profits can cause shareholders to lose confidence which usually is reflected in lower share prices and ultimately can attract predator companies that may attempt to take over the company. It may well have been that RBTT's results for the last couple years were a contributing factor to the current acquisition interest.

Notwithstanding the added pressure on companies to produce, there are several advantages for companies that wish to go public.

These would include:-

- Raising of capital for rapid expansion to take advantage of large scale opportunities
- Increasing the visibility of the company through the publicity gained at the IPO
- Providing an opportunity for existing private shareholders who wish to withdraw some or all their capital to do so without diminishing the capital of the company
- Existing shareholders would have a market value for their shares which can make it easier for them to secure loans against their capital
- Lower cost of debt for future financing as the more detailed reporting to shareholders can induce financiers to extend more at lower costs

When considering options of equity versus debt capital for major expansion and rapid growth, one should remember that creditors are not particularly concerned about the success or survival of an enterprise, but rather in its ability to recover its issued debt. Lenders therefore require that debt is collateralized. For this reason consideration should be given to whether the timescale of cash generation adequately meeting the timescale for repayment to lenders. If there is any uncertainty, it is quite possible that debt financing is not the most appropriate option as this may eventually lead to loss of assets and possibly failure of the business.

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