

# Jumpstarting the Serbian Equity Market

Trends - Impediments - Potential Measures - Impact

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**European Bank**  
for Reconstruction and Development

# Four key industry trends



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## ■ Increasing Power of Investors

- Globalisation intensifies competition
- Single currency looses existing ties to national exchanges (e.g. Euro-Zone)
- Direct market access

## ■ Change of International Regulatory Environment

- Increases global competition by eroding advantages of domestic exchanges and clearing structures (MiFID2/MiFIR, EMIR, CSDR...)

## ■ Increasing Importance of Status of Technology

- Easy and cheap access to exchange and clearing platforms
- One stop “shopping”

## ■ Economies of Scales drive Consolidation Process

- Margin pressure leads to integrated value chains
- Multi-market functionality leads to cost/fee reductions
- Shift from national to regional markets

# Marginalized Capital Markets – a Vicious Circle

## ■ Exchanges face a number of challenges in CEE and SEE

- Low market capitalization as well as trade velocity
- Domestic investors seek global liquidity
- Limited access of international investors
- Going public of domestic companies on international exchanges
- Strong reliance of companies on bank financing
- Capital markets infrastructure still in development
- Partly lack of support by Governments
- Financial literacy



# Potential reasons for underdevelopment



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## Specifics of companies

- Mainly SMEs
- Not listed or no intention to list
- Rely on bank financing
- Prefer to list abroad

## Venture Capital/Private Equity

- Underdeveloped or even not existing

## Pension system

- Size of private pension scheme (AuM \$0.24bn)
- Missing capital market orientation

## Private stock ownership

- Small number of active retail investors
- Based on voucher privatisation a big number of passive stock owners
- Lack of awareness/education
- Invest outside of country

## Ownership structure of listed companies

- Few majority owners
- Small free float

## Lack of attractive stocks

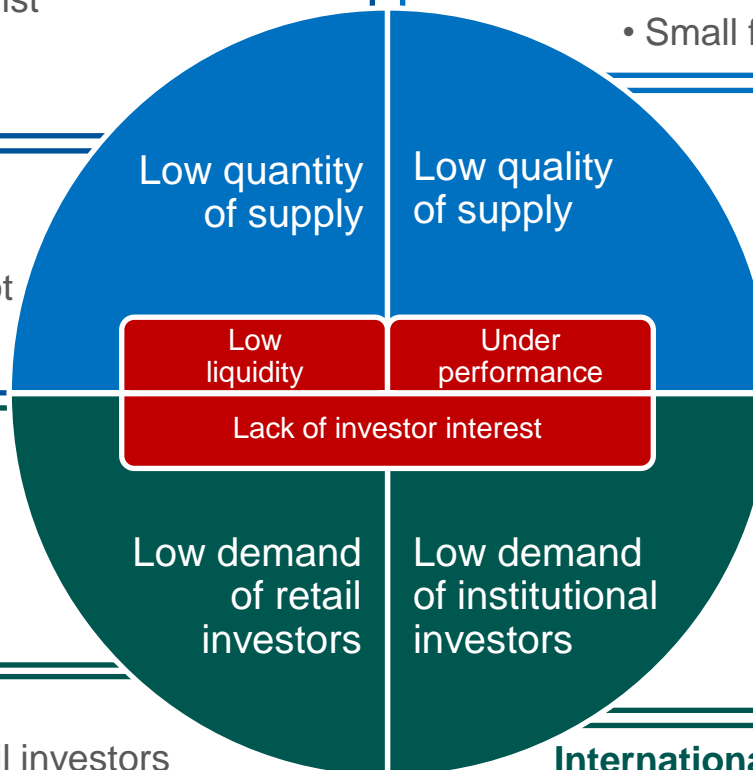
- Few top performers
- Corporate Governance
- Partly weak fundamentals
- Value orientation
- Lack of growth segment

## Domestic institutional investors

- Insufficient number of local institutional investors
- Low level of local stock investments

## International investors

- Lack of demand based on low weighting of local market in international portfolios
- Lack of research coverage



# Jumpstart the Serbian Capital Market



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## ■ Pre-requisite

- Full commitment and support from the Government and key market participants

## ■ Selected basic measures to develop the Serbian capital market

- Establish a Capital Market Development Initiative
- Prepare and agree a capital market development strategy
- Initiate IPOs/SPOs of state-owned enterprises (SOEs)
- Increase free float of listed SOEs
- Introduce a listing support programme and provide incentives
- Introduce a liquidity improvement scheme
- Raise public awareness and educate retail investors
- Improve corporate governance and transparency standards
- Upgrade capital market infrastructure
- Organise roadshows and financial analyst briefings
- Consider joining SEE Link – the regional order-routing platform

- **IPOs of state-owned enterprises can jumpstart the Serbian Capital Market**
  - Most transparent privatisation process
  - Creates public awareness and brings Serbia back on the radar screen of investors
- **Impact**
  - Improved diversification opportunities for investors
  - Increased participation of institutional and retail investors
  - Improved market liquidity
  - Increased liquidity of private companies as positive spill-over effect
  - Reduced low liquidity - high risk premiums
  - Improved corporate governance and transparency standards

**Share-issue Privatization can jumpstart stock market development in Serbia  
and trigger gains in economic growth!**

# Example: Croatia - Privatisation

- IPOs of state-owned enterprises increase retail investors awareness and participation



INA Oil&Gas Listing: end of 2006

•Privatization of	17%
•Total issued value	400 mEUR
•Total demand	2,7 bEUR
•Total domestic demand	700 mEUR
•Total retail demand	200 mEUR

T-HT Telecom Listing: end of 2007

•Privatization of	32,5%
•Total issued value	940 mEUR
•Total demand	5 bEUR
•Total domestic demand	2,3 bEUR
•Total retail demand	1,7b EUR

# Example: Spill-over Effects in Croatia

- **Successful IPOs pave the way for other companies to access capital market financing**
  - Seven public offerings in two years after the IPO of INA and HRT

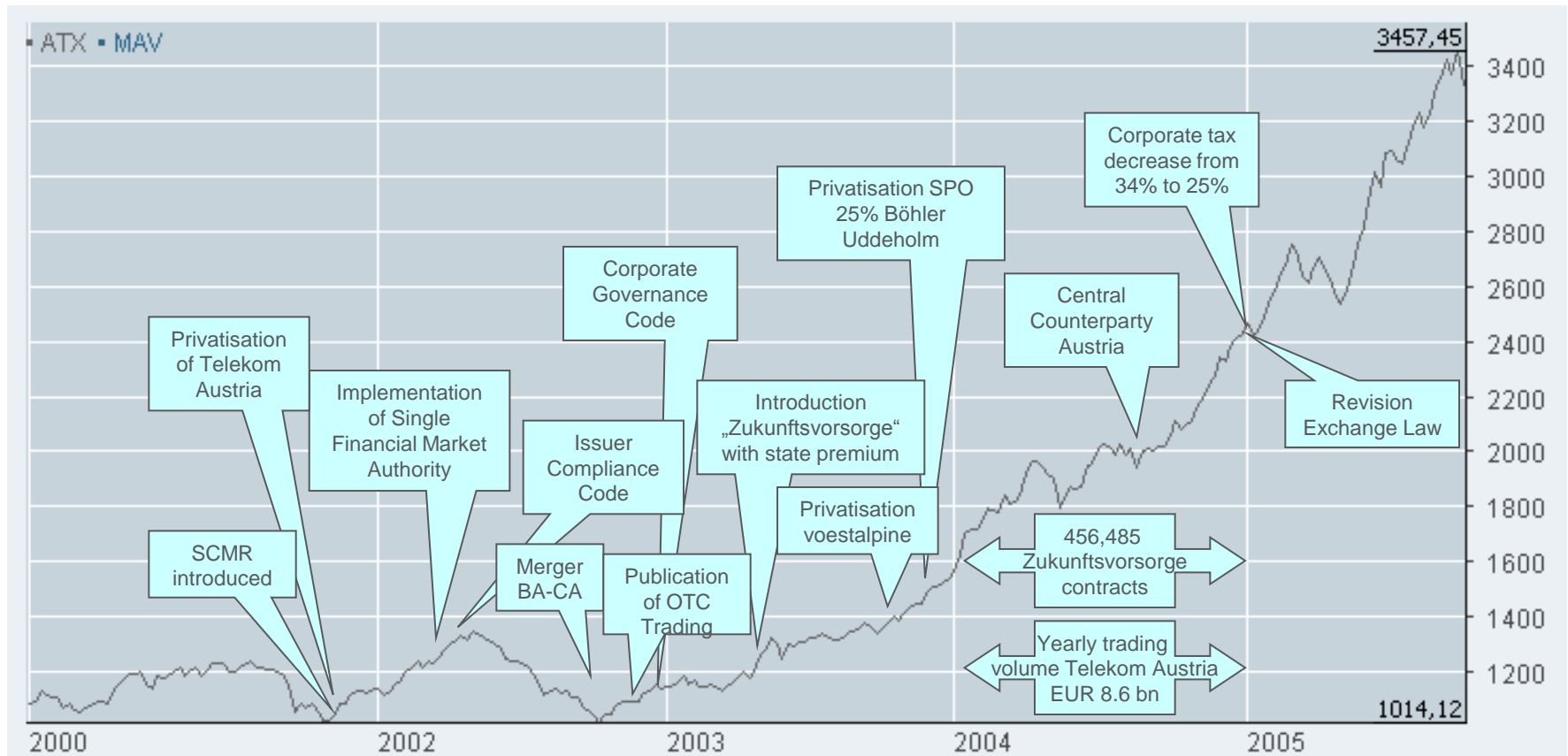
Issuer	IPO Size	Demand	Retail Investors	% Retail Allocation
Magma	40 m EUR	240 m EUR	9,500	40%
Ingra	47 m EUR	135 m EUR	0	0%
Veterina	25 m EUR	107 m EUR	7,600	30%
Atlantic Grupa	100 m EUR	400 m EUR	20,000	25%





# Example: Austrian Capital Market Initiative

- Impact of Capital Market Initiative on Austrian equity market
  - IPOs of state-owned enterprises increased investment flows and public awareness



- **Cooperate with regional exchanges**

- Access to market via order-routing
- Joint roadshows and analyst presentations
- Joint regional index

- **Activate international investor base**

- Connection of foreign remote members
- Research coverage and roadshows
- Work towards inclusion into Emerging Market Index
- Offering direct market access

- **Activate domestic retail investors**

- Public awareness raising and improving financial literacy
- Introduction of retail products (i.e. retail bonds)

- **Only investors with know-how invest in the stock market**
  - Investor education is also major pillar of investor protection
  - Retail investors often prefer convenient access to stock market (online brokers)
- **Selected Measures**
  - Implement Capital Market Training Centre and investor days
  - Train brokers and financial advisors on retail investor services
  - Promote services of online brokers as soon as base liquidity is established
  - Promote research coverage
- **Impact**
  - Private investor know-how and of the stock market liquidity are positively related
    - Example: Philippine Stock Exchange experienced a 7% increase in private investor accounts following a market education campaign in 2009
  - Active retail investor participation in day-to-day trading & upcoming IPOs

■ **Multi-tier Exchange structures can cover the financing life cycle of companies**

- Increased access to capital market financing
- Focus on issuers of various sizes and at different development stages
- Based on the size of the SEE market a regional approach should be considered



# Order-routing cooperation – SEE Link

- **Cross-border trading via SEE-Link initiated by Bulgaria, Croatia and Macedonia**
  - SEE Link will act as order-routing facility using the regional exchanges as access points
  - Should be a value driver for local exchanges
  - Will act as an additional distribution channel
  - Standard interface for regional trading via order-routing
- **Aggregation of liquidity in the home market**
  - Without maintaining an own order-book SEE Link will route all orders to local exchange
  - Liquidity stays in the central order book of the home market
- **Market regulation, supervision and enforcement**
  - Home market rules prevail
  - Regulation, supervision and enforcement stays with home market authorities
- **Clearing and settlement**
  - No changes in current clearing and settlement structures needed
- **An opportunity for BELEX to tap the regional investor base**



**SEE Link Start: Q1/2016**

More on SEE Link: <http://www.see-link.net/>

- **EBRD supports local capital market development in its countries of operation**
  - Strategic initiative of EBRD
  - Full-time dedicated team focused on capital markets development
- **EBRD's activities strongly influence local capital market development**
  - Policy dialogue
  - Technical cooperation projects
  - Local currency lending
  - Guarantees
  - Asset Backed Securities/Covered Bonds
  - Bond issues – senior/subordinated
  - Investments in Private Equity Funds
  - Investments/equity participation in companies, FIs and CMI
  - Pre-IPO and IPO investments
  - Exits via IPO
- **Local Currency and Capital Market Initiative (LC2)**

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