THE EFFECT OF INITIAL PUBLIC OFFER ON THE STOCK EXCHANGE MARKET IN UGANDA

A CASE STUDY OF NATIONAL INSURANCE CORPORATION (NIC) LTD

SUBMITTED BY

MUGALULA SMUTS

BBA/32433/102/DU

A RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION (FINANCE AND BANKING OPTION) OF KAMPALA INTERNATIONAL UNIVERSITY

APRIL 2013

DECLARATION

I Mugalula Smuts do hereby declare that the information contained in this research proposal is from my own findings and it has never been presented by anyone in any university or any other training institution.

Signature .....

Mugalula Smuts

Date.....05/05/13.....

APPROVAL

I certify that this research has been done by MUGALULA SMUTS BBA/32433/102/DU under my supervision and is now ready for submission to the college of economics and management sciences of Kampala international university for examination.

Signature .....

RUTEGANDA MICHEAL

Date.....05/05/13.....

DEDICATION

First, to God the almighty for giving me life, strength and courage throughout my education career, to my noble hearted and phenomenal mum Mrs. Halima Namakula and big sister Christine Namutebi for their tremendous job and guidance through out the battle. Also to my other siblings Nancy, Erias, Ephraim, Harry, Charity and Hope; a great family to reckon with. Lastly to all my beloved friends for their wonderful assistance rendered to me in all aspects. God bless you all

ACKNOWLEDGEMENT

My sincere appreciations first and foremost go to the almighty God, my parents for the financial and moral support toward the completion of my research. I also appreciate the efforts, encouragements and guidance of my supervisor **RUTEGANDA MICHEAL** for his tireless support for the success of this project. Great thanks to my friends and entire classmates for their encouragement in the entire course studies.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

IPO	INITIAL PUBLIC OFFER
NIC	NATIONAL INSURANCE CORPORATION
USE	UGANDA STOCK EXCHANGE.
IGI	INDUSTRIAL AND GENERAL INSURANCE COMPANY.
CMA	CAPITAL MARKET AUTHORITY
EADB	EAST AFRICAN DEVELOPMENT BANK
NMG	NATIONAL MEDIA GROUP
UCL	UGANDA CLAYS LIMITED
BATU	BRITISH AMERICAN TOBACCO UGANDA
EBL	EQUITY BANK LIMITED
BOBU	BANK OF BARODA UGANDA
SBU	STANBIC BANK UGANDA
NVL	NEW VISION PRINTING AND PUBLISHING COMPANY LIMITED

ABSTRACT

The objective of this study was to establish the effects of Initial Public Offer to the stock exchange market in Uganda. This study was specifically looking at a case study of National insurance Corporation Uganda (NIC) LTD, The management of public offers is significant to investors, issuers and the government, which in this case represents the interests of the masses and Welfare improvement, in the process of analyzing the price patterns, to proactively manage their portfolios and develop strategies that lead to superior gains on the market and improved welfare.

A Public offer if properly executed has the potential of raising large sums of inn money that would otherwise not be possible through borrowing, and also improving incomes of the citizens through such kind of investments. When the masses get involved in planned or unplanned investment, it means that they do not leave large sums of their incomes lying in the banks, but put it in productive use thereby improving their income distribution.

An initial Public Offer however is not always a smooth sail. There are various I risks and costs associated with floating shares; both to the issuers and the investors.

As more and more IPO's flooded the market in the recent years, there was need to be wary of the imminent risks associated with IPOs and not necessarily stocks trading in the secondary market. There are various Opportunities to accelerate growth and take a big step for the companies towards achieving their usual vision of market leadership. However, alongside this natural excitement lies the reality of life on the public markets, the impact Such a process has on the investors as well as government.

As a newly listed business, it's important for them to be aware of the risks, and prospects that they now face. These can range from:

- Presenting unexpected results to the market
- Uncertainties associated with new initiatives, such as global expansion

To achieve full potential and deliver on pre-IPU promises companies must have clear picture of the new environment- both the opportunities and the risks, it is also paramount that they communicate this to the investors, i.e. the risks and prospects that they put themselves in the line to face.

CHAPTER ONE
INTRODUCTION

I .0 Introduction

An initial Public Offering (**IPO)** referred to simply as an offering or flotation, is when a company (called the issuer) issues common stock or shares to public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded.

In an IPO the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of securities to issue (common or preferred), best offering price and time to bring it to market.

For most businesses, an **IPO** is a completely new experience. The rewards for a successful IPO can be significant; however, so can the workload, As any leader of a recently listed public business will tell you, the success of an IPO lies in planning and preparation.

The Uganda Securities Exchange **(USE**) is the stock exchange of Uganda. The exchange is a market that deals in the exchange of securities issued by publicly quoted companies and the government bonds.

In the research, the researcher will attempt to study how initial public offer affects the stock markets in Uganda using a case study of NIC Ltd. The principle role of a stock market in an economy is to mobilize resources and direct them to productive sectors of the economy. A stock market offers a cheap source of capital for investment and working capital requirements compared to traditional and other conventional financial intermediaries or sources.

I Background of the case study

National Insurance Corporation limited NIC is a medium-sized insurance Services provider in Uganda, one of the licensed insurance companies in the country. As of December 2010, the company's total assets were estimated at about us$ 31.9 million (UGX: 73.3 billion)

Until December 2009, 60% of NIC was owned by a consortium called Corporate Holdings Limited. The consortium is owned by industrial and General
Insurance company Plc (IGI), Nigeria's leading insurance company (85%) and

By local businessmen Patrick Bitature and Erik van Veen (15%). The remaining 40% of NIC was owned by the Government of Uganda. By this time NIC was 45 years old and Uganda's biggest underwriter. Beginning on 31 December 2009, the government initiated the process to list on the Uganda Securities Exchange **(USE).** The 161.6 million shares of National Insurance Company that they owned. The process concluded on 25 March 2010, when active trading of National Insurance Company began on the USE, under the symbol NIC.

National Insurance Corporation Limited **(NIC)** is a leading provider of insurance, and risk management services in Uganda. Established by an Act of Parliament in 1964, NIC has a rich history of servicing the needs of our Government and private sector clients. In June 2005, the Government of Uganda divested 60% of its shares in NIC which were acquired by Industrial and General Insurance Company Limited (IGI) of Nigeria. The Government of Uganda retained a 40% interest in NIC, with plans to fully divest its interest with a public offering of shares in the near future.

NIC however, a highly capitalized insurance company licensed to underwrite all classes of insurance, has been a major provider of first class cover against the major risks in the Ugandan economy for the past 40 years. The objective of NIC is to be the leading and most-trusted insurance company in Uganda and East African sub-region. NIC is the biggest Life operator in Uganda with an enviable pedigree of service excellence, a superior customer care culture and top-drawer international business contacts. Its personalized services and prompt claims payment tradition have endeared NIC to discerning customers in Uganda and the entire East African region. NIC's countrywide branch network enables it to give personalized and prompt services to its clients throughout Uganda.

The new NIC that has emerged from the majority acquisition by **IGI** is strongly positioned to offer a broader range of insurance and risk management services. The new NIC will offer clients more responsive customer service, increased financial stability, innovative new products and services, prompt payment of genuine claims, and much more. The rich history of NIC, coupled with the proven management and technical capabilities of **IGI**, will help ensure NIC's success, as it continue to surpass the expectations of its customers.

Indeed, the accumulated experience of NIC management and staff, along with the able leadership of the distinguished Board of Directors, will enable NIC to continue to design and implement sophisticated insurance programmers that are truly responsive to the needs of its customers

NIC has its main Headquarters in Kampala, Uganda and a branch network in the following Ugandan towns; Arua, Busia, Fort Portal, Gulu,Jinja,Kapchorwa, Kasese, Lira, Mbarara, Malaba, Masaka, Masindi, and Mbale. In addition, NIC also has a branch in Juba, Southern Sudan.

It is within this regard that this research was conducted with the hope to establish and gather facts as to why there is such steady growth and contributing factors that have enabled the examplary performance of NIC Ltd. The research was conducted with the aim of establishing means and ways of improving stock market exchange and the effects it has to the economy of the country Uganda.

Despite global financial turmoil in this part of Africa, first time investors here are betting big on an initial public offering of stock on the Uganda stock exchange.

Investors have been queuing up at banks in Kampala to subscribe to shares of Insurance Company (**NIC)** ltd. On offer was 40% of the share capital (amounting to 161.6 million shares), priced at Ush45 per share (US$0.02/2 cents).

Organizations must have a clear view as to why they go public. A number of reasons might lead a company to seek a quotation for its shares on the stock exchange. The company for instance;

- Want to raise funds. The company will find it easier to raise additional long term capital. The owners may also wish to realize part of their investments.
- Want to make tax savings.
- Want to transform the business. The company will be able to offer quoted share as consideration for the acquisition of other businesses.
- Want to raise its public profile. There will be increased public awareness of the company which may help sales of its products. This process may also improve the status of the company by enhancing it, thereby improving its ability to borrow. This is because quoted shares are more acceptable as collateral against loans.
- Ready to share its profits with the wider population, among them the employees. Employees share participation schemes, which increase the involvement of employees in the business, become more attractive as the shares are more readily realizable.

- Want to enhance its corporate governance. Share values, will now be determined by supply and demand in the market rather than the subject judgment of professional advisers, although this may be a disadvantage as regards capital taxation.
- Want a strategic exit mechanism. The government may wish to privatize the company.

One of the most important functions of the stock markets is to act as a primary market in which companies and public authorities can raise finances by issuing shares and or securities.

It is in light of such fact of going public that this research will be carried out to understand the effects such trading has on the Ugandan economy and stock market despite the political interferences, inflation and other intervening factors.

1.3 Statement of the problem

Investors, in this case the Ugandan population, have a choice between varied options of investing their money. They may opt to invest in equity, treasury hills, bank deposits, insurance annuities, physical assets e.g. buildings, land and real estate etc.

Investors always, at last by assumption, seek to minimize cost of capital and maximize on gains. They therefore look for ways of raising capital that minimize their cost of capital. The various options available among others are;

1) raising equity on the open market.
2) (ii) Using debt.
3) (iii) Ploughing back profits.

The stock market has increasingly become an avenue for bridging the requirements of both the investors and borrowers in the Ugandan market. To foster this intermediation both parties should be seen to be able to benefit from the exchange.

The management of public offers would be significant to both investors and issuers to be able to analyze the price patterns, so as to proactively manage their portfolios and develop strategies that lead to superior gains on the market.

The role of raising capital on the public market cannot be underplayed. An initial public offer, if properly executed has the potential of raising large sums that would otherwise not be possible through borrowing, looking at it from the company's side of view. On the other hand, the same IPO is a great avenue for the shareholders to make significant

skills, especially those eyeing capital gains. It is therefore important to understand the entire process of public offering and be able to evaluate its performance thereof and in particular new issues, in order to develop appropriate policies that will lead to a vibrant market, and at the same time ensure that all parties don't emerge worse off in the long run.

1.4 Scope of the study

The scope of the study was limited to Uganda securities exchange looking at case study of NIC (National Insurance Corporation Ltd). The study sought to establish the entire process of going public, specifically the first sale of a corporations' common shares to investors common known as Initial Public offering (IPO) and the returns in the post-IPO market, and the consequent impact that process has on the stock market

1.5 General objective of the study

The general objective of the study was to find out the effect of initial Public Offer on the stock exchange market in Uganda a case study of NIC Ltd.

1.5.1 Specific objectives

i. To explore the process undertaken when managing initial public offers.
ii. The determine the performance of Initial Public Offer (IPO) in stock market.
iii. To investigate impact of IPO to the stock market.
iv. To investigate the risk involved in IPO.

I 6 Research questions

The study was to seek answers for the following questions;

i. What is the process undertaken when managing Initial Public Offer (IPO)?
ii. How does the performance of IPO affect the stock market?
iii. What impact do IPO have on the stock market?
iv. What are the risks involved in IPO?

I .7 Significance of the study

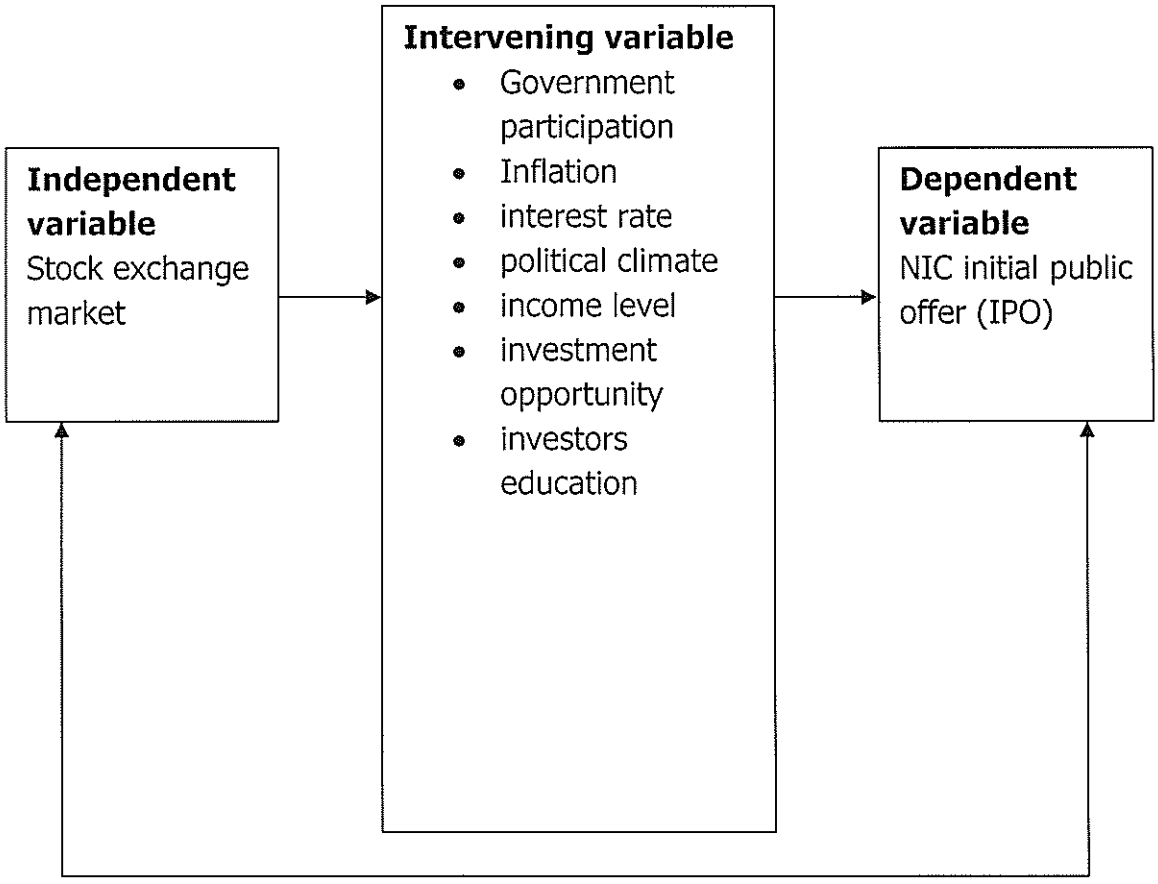
1) From an investor's viewpoint, existence of price patterns may present opportunities for active trading strategies to produce superior returns. Shareholders will usually be guided by their motives of investing. Some investors time out for capital gains while others want long term returns, in the form of dividends.

2) From the administrative angle, that is the government as the regulator of monetary and fiscal policies in the country, it is vital that it keeps an eye on public expenditure so that the policies made concerning money flow, supply and circulation is maintained at levels that keep inflationary pressure in check. Excessive money supply or too much gain to the public might creep in inflation.
3) Issuing firms can plan the timing of the issue, and the volume of IPO's variation. If the high volume periods are associated with poor long run performance, this would indicate that issuers are successfully timing new issues to take advantage of windows of opportunity.

The primary goals when going public are to have a successful offering; to receive a fair price for the stock; and to have a stable liquid aftermarket trading in a stock. The underwriter's responsibility is to assure that these goals are achieved.

1.8 Conceptual framework

The conceptual framework helps to define the topic through the explanation of the variables within the topic of research. There are independent variables which predict, influence and control or determine the dependent variables. There also intervening variables which may also work with the independent variable to influence the dependent variables. For the purpose of this study, the independent variable was the stock exchange market and the dependent variable was the Initial Public Offer (IPO). The intervening variables include government participation, technology investor's education, income level, investment opportunity, interest rate, political climate and changing public attitude.



CHAPTER TWO
LITERATURE REVIEW

1.0 Introduction

This chapter deals with the definitions of initial public offer (**IPO**), history of NSE, potential risk arising from issue of IPO and requirements of getting listed on the stock market.

2.1 Definition of initial public offer

An initial public offering (**IPO**) referred to simply as an "offering' or "flotation" is when a company (called the issuer) issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded.

An IPO can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth Period and they are therefore subject to additional uncertainty regarding their future value ("http:/ /en. Wikipedia. Org/Wikipedia/initial-public-offering).

2.2 History of Uganda stock exchange (USE)

According to (http://www.mapsworld.com/uganda/ economy/Uganda –stock exchange e.html) Uganda Stock Exchange was established with the aim of improving the economic condition of the country. The Stock Exchange is more commonly known as Uganda Securities Exchange. It was set up in June, 1997. The license was issued by the Capital Markets Authority of Uganda (**CMA**). The ensuring years saw the rapid growth of the Uganda Stock Exchange.

The year 1998 was the time when the first security listing of the Uganda Securities Exchange was done. It was the UgShs. 10 billion 4 years East African Development Bank Bond (EADB) its maiden instrument. The 5 year UgShs 8.3bilion PTA Bond was listed in 1999. Uganda Securities Exchange's first equity was the Uganda Clays Ltd. Share was on flotation and was also listed in 2000. The share of the British American Tobacco Ltd was on flotation in the same year.

The year 2001 saw the first cross border listing of the Uganda Securities exchange. The company was East African Breweries Ltd. The share of the Kenya Airways was the second cross border listing products in 2002. The same year saw the flotation and ultimately the listing of the shares of the Bank of Uganda, making it the first commercial bank to offer its listings on Uganda exchange.

The next year 2003 was the period when the first tranche was listed. It was also in this year that the USE All Share Index was launched. The first government Bond to be a part of the Uganda Securities Exchange list was the 2 year, ushs 20 billion Uganda Government 2O% Coupon Rate Treasury Bond in 2004.

In 2004, DFCU group went public making it Uganda's second financial Institution to do so. New Vision also offered 20% of its shareholding for sale to the public, making it the fifth local company to conduct an IPO in the Ugandan market. NVIL is officially listed on 16 Dec 2004.

2005 saw the listing of the 8 year East African Development Bank (**EADB**) Bond in December 2005. Whereas 2006 was the Official cross-listing of Jubilee Holding, Limited (JHL) on the USE on 14th February making it the first insurance to list on the USE.

In 2007 Stanbic Bank Uganda was listed on the **USE** on 25 Jan following a successful IPO that was 200% over-subscribed and in 2008 Kenya Commercial Bank (**KCB**) was cross listed in November, **USE** hosted the annual **ASEA** conference and celebrated ten (10) years of existence

2009 on the 18th of June, Equity Bank Limited (**EBL**) was cross-listed on USE. September 17th of the same year was the listing of the Stanbic Bond.

In 2010, the Securities Central Depository (**SCD**) was introduced in February. And on 25th March 2010 National Insurance Corporation (NIC) was listed on USE while on 19th, October same year, Nation Media Group (NMG) was cross-listed on USE.
2011 However on 10th, February **CENTUM** Investment Limited was cross-listed on USE Currently the products listed on the Exchange include bonds and 9 equities (3 of the requites are cross listings).The fast development of Uganda Securities Exchange is the sign of the improving economic structure of Uganda.

2.3 Requirements for listing on stock market

According to (http://www.nse.co.ke/newsite/inner-asp?Cat-rules), there are Conditions that companies must adhere to before they can he sold to the mainstream public. These are usually set by the capital markets authority (**CMA**)

According to (www.use.or.ug/documents/listing-on-the-USE.pdf) In order for a company to raise capital through the Uganda Securities Exchange by issuing securities the company or the securities must be listed on the Exchange. Listing on the Exchange is governed by the Listing Rules of the Exchange. A listed company is a company any part of whose equity or loan securities have been admitted to the Official List of the Exchange. It is also permissible to list securities while the company itself is not listed and the securities will be admitted to the Official List of the Exchange, for instance corporate bonds.

In the NIC case, eligibility criteria used was simply the criteria for the main 'investment market. This is as follows;

- Freely transferable securities; the issuer of the securities must be incorporated as a public company under the laws of Uganda and must be in conformity with such laws. The company should therefore be incorporated under the Companies Act (Cap 85) of Uganda. The memorandum and articles of association of the company should permit the issuance of shares or other relevant securities to the public. In other words, the securities for which listing is sought must be freely transferable.

- Status of the Securities; The securities for which listing is sought must be issued in conformity with the laws of Uganda and in conformity with the issuer's memorandum and articles of association or equivalent documents. All authorizations required for the creation and issue of the securities under the law must have been duly obtained including approval of the prospectus or offer for sale document by the Capital Markets Authority.
- Accounting Records; The Company must have filed accounts for a period of five years if it is applying for a main market listing, or three years for the alternative market listing. The accounts must have been drawn up in accordance with the Companies Act and must be prepared in accordance

- With the standards regarded by Council as appropriate for companies of international arid repute. The audited financial statements must comply with international accounting standards to ensure that the financial records are reliable. The auditors must have reported on the accounts without any qualification which in the opinion of Council is material for the purpose of listing. In exceptional cases, a shorter period of accounting may be accepted if there is satisfactory evidence that the investors will have the necessary information to arrive at an informed judgment on the company and the securities for which listing is sought.
- Capital requirements; Capital requirements are based on the segment that the owner wished to list under. In order to qualify for a main market listing the company must have listed securities with the value of at least 500 million shillings for equity, and 150 million shillings for a debt cute we ii As regards alternative market listing the minimum stated
  Capital for equity 150 million shillings, and 80 million shillings for debt security these figures are currently under review and will most probably be revised upwards. Securities of a lower value may be admitted to I, ii 11w 1 c'vcrr1Itlg Council of the Exchange is satisfied that adequate stability of the securities can be expected.

- Further information: The Exchange may require further information regarding the background the company, its capitalization and share distribution, long term and funded debt financing, dividend records, pending legal and so on. It is the role of the sponsoring member of the exchange to compile all this information and fulfill the due diligence requirements of the Exchange. In this way the Exchange ensures that a Proper due diligence has been done on the issuer prior to listing.

- The sponsoring Member; According to the Listing Rules, every company applying listing must be represented by a sponsoring member of the exchange. The sponsor's role involves providing a link between the company and the Exchange, and advising the company on all aspects of list cog on the USE including assessing the company's initial suitability for listing. The sponsoring member is responsible for the lodging of any documents that are required to be submitted with the application for listing and for ensuring that the said documents fully comply with the listing Rules. The sponsor's main responsibilities include: Advising the company's directors on the Listing Rules, Coordinating the activities of her professional advisers, Helping to draft the prospectus, Drawing up the time-table and the overall marketing strategy for the

flotation and Confirming to the exchange that all the listing rules have been complied with.

- Professional Advisers; The sponsor in carrying out these responsibilities works with a team of professional advisers. The advisers play a key role in helping the company meet the listing requirements. The advisers include: The reporting accountant, the legal advisers, the auditors, and Property / assets valuers.

The reporting accountant provides a detailed financial and business analysis of the company covering its financial controls, financial record, financing and forecasts. The auditors provide an independent review while the legal advisers are primarily concerned with ensuring that all the legal requirements are complied with. The team of advisers then prepares the prospectus which is the invitation offering to the public for subscription any shares or debentures of a company. The next issue of the Bulletin will focus on the prospectus requirements and the costs of flotation,

2.4 Effect of NIC Share on the Ugandan market

According to (eatrader.blogspot.com/ 2008 / 12 / impact-of-share-price-fall-on business -html),Uganda's National Insurance Corporation (www.nic.co.ug), was oversubscribed after Uganda Shilling (UGX) 9.5 billion (US$4.6 million came in applications when Government offered its remaining 40% stake in the company in an 161,552,000 shares totaling UGX 7.2 billion.

Shares are set to trade on the Uganda Securities Exchange (www.use.or.ug) according to a report on Reuter's news agency, quoting Jim Mugunga, communications manager for the Uganda's Privatization Unit.

"It will be a welcome boost to the USE, which had seen foreign investors leaving in the global crisis and share prices falling. It is reportedly the first listing since
2006."
Retail investors were allotted 90% of the shares, which had been sold at "a subsidized affordable price" of UGX 45 ($0.02) each, according to the insurer's website per share. Another 4% of the issued shares had been reserved for the permanent employees of NIC at the IPO price. In 2005, the Government had sold 60% of the company to Nigeria's In June 2005 the Government had sold 60% of the shareholding in NIC to Industrial and General Insurance Company Limited (**IGI**) of Nigeria (www .iginigeria .com),

Reuters quotes an analyst at African Alliance brokerage (www; itncanailiance.com), Kenneth Kitariko, saying he expects NIC's share price II rise modestly in the secondary market.

We do expect some correlation between the level of oversubscription and performance in secondary market, so mostly we'll see a share price rise hut the numbers will be conservative," he said.

Reuters says discovery of large crude oil deposits turned a spotlight on East African third-largest economy, where growth is expected to be 5% in fiscal 2009-2010 and then climb to 7% the next year.

According to the NIC website: "The Government of Uganda has to-date privatized over 6 of Uganda's successful public companies by way of IPOs. The companies namely are; -Uganda Clays Limited (**UCL**), British American Tobacco Uganda Limited (BATU), Bank of Baroda (U) Limited (**BOBU**), **DFCU** limited New Vision Printing and Publishing Company Limited (NVL), Stanbic Bank Uganda Limited (**SBU**) among others."

2.5 Potential risk exposures arising out of an IPO

These arise out from a firm when it is listed on the stock exchange. It will be discussed under:

2.5.1 Regulatory risks

Stock exchange requirements when preparing for an **IPO**: The requirements to company with stock exchange rules increase the duties of directors and officers
Of the company. For example, in a dual listing, care must be taken to comply will tie different regulatory requirements for the various exchanges.

Enhanced corporate governance: recent trade practices have led to regulators imposing more stringent requirements and duties upon directors and officers of public companies, exposing them further to personal liability.

Increased regulatory scrutiny: public companies owe a duty of care to shareholders and clients, leading to greater scrutiny by regulators than would be the case for a private firm. Regulators must also react to negative press surrounding an **IPO**.

New regulation in relation to the publication of financials. Late publication of financials would lead to regulators imposing fines and /or penalties.

Insider trading post IPO: share trading by directors could lead to regulatory investigation into alleged insider trading, resulting insubstantial fines and legal costs being incurred.

2.5.2 Shareholder related risks

Alleged errors, omissions, misstatements in the listing oiler document: following an **IPO**, potential lawsuits are inherent in the offering document shareholders rely on statements made in the document and an alleged misstatement, or breach of the offering, could lead to substantial defense costs and the potential settlement costs.

Increase in the number of shareholders: the increase in shareholders following an **IPO** magnifies the potential for a lawsuit.

Change in geographical location of shareholders: claims may be brought in Jurisdictions to which the company was not previously exposed, depending on where the new shareholders are based, for example, US investors.

Share price: stock market volatility increase the magnitude of potential tails in share price, resulting in dis satisfied shareholders.

Poor earning: Lack of earnings and revenue history may require a company to advantage internal projections and estimates that could lead to a suit due to investor is appointment.

2.6.3 Counterparty risks

Potential indemnities to underwriters in the event of being sued as a result of the Misstatements, etc. the offering document usually allows for indemnities to be provided to the underwriters and/or sponsors of an IPO. If the listing Company is used for misstatement in its prospectus, not only will the directors and officers be potentially liable, but further indemnities may have to be provided to counterparties.

2.6.4 Employee risks

Pension changes: changes to pension plans following an IPO may cause Employees issue the Company's pension scheme.

2.6.5 Managing the Risks of an Initial Public Offering (IPO)

Following the market absence of companies coming to the market between 2001 and 2003 there is a resurgence of planned and actual initial Public

Offering on exchange across Europe. This leads to changing risk exposure for the stakeholders such as directors and for the company itself. Marsh is the
World's leading risk and insurance services firm. Our mission is to create and deliver solution and services that make our clients more successful. Their specialist expertise helps the business before, during and after an IPO by designing an appropriate risk management programmer ensuring that the process runs smoothly.

2.7 Ways of Mitigating or Transferring the Risk.

Marsh (2002) has a range of global specialist team that work together to ensure seamless analysis of investors new and changing risk profile, making sure that exposure arising out of an IPO are adequately addressed by insurance products and advice. Through the combined capabilities of marsh and its sister companies, they are able to: advice on current directors' and officers' (D&O) Liability cover and the new exposures that need to be addressed.

Tailor-make a specific six years IPO policy solely to protect directors from potential actions arising out of the IPO.

Perform due diligence on the company to be listed. This exercise advises on risks and related statements within the offer documentation

Identify the business risks to the newly listed firm and advice on risk management culture and practices.

Advise and assist in drafting share plans and provide benchmarking on employee compensation and benefits.

CHAPTER THREE
RESEARCH METHODOLOGY

1.0 Introduction

This chapter focuses on research methodologies adopted in which involves data collection methods, procedures, sampling techniques used, population sample size and the administration of the methodologies. In this regard, the research was constructed leaning towards obtaining the required data, in a systematic manner, so as to further analyze it to come up with actionable information.

3.1 Research design

The research design was a case study of NIC Ltd in Uganda. The study utilized exploratory research design. It was geared towards explaining the whole Process undertaken when managing initial public oilers, and more importantly, the impact that this process has had on Ugandan economy also it analyzed the returns in the post IPO market.

3.2 Research population

The major target was MIC ltd employees, which has over 1000 employees. A reference was made to some brokering agents who are legal members of Kampala stock exchange. The researcher employed random sampling technique in choosing the respondents to be involved in research.

3.3 sample size

The sample size of 50 out of 100 respondents will be chosen. A random sampling was due to the fact that it is free from bias and therefore each unit or potential all respondents has equal chances of being included in the sample, in addition, Random sampling was also be to conduct

Where n = sample size

N = Total Population

e = deviation of sampling (degree of error at 0.05 level of significance)

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{100}{1+100(0.05^2)}$$

$$n = \frac{100}{1+100(0.05^2)}$$

$$\mathbf{n = 80}$$

3.4 sampling techniques

Methods used to collect data included both secondary and primary methods. The primary methods used include the questionnaires, observation and interview schedules. The secondary data used included data from the NIC prospectus Uganda Stock Exchange, The Capital Market Authority, the different investment banks, daily results posted to the local dailies, websites of the above participants.

3.4.1 Questionnaires method

Data was collected by the use of structured questionnaires designed by the researcher. The questionnaires were sent to the head of department, stalls and other subordinate staffs concerned. This technique will be used because all the respondents are literate. The major advantage of this method includes; free from bias information and enough time for the respondent to consider his/her points carefully than in an interview.

3.4.2 Interviewing Method

The personal interviews were carried out by the researcher as a follow up to the questionnaires so that the interviewee was aided in the areas of difficulty and seek an in-depth discussion and explanation on matters missed on the questionnaires.

3.5 Data Processing and Analysis

Data collected was edited an analyzed using percentages, tables and graphs. Quantitative data analysis was performed in relation to research questions in chapter one.

Statistical findings were interpreted in light or the objectives of the study and conclusion was made based on the literature review to attach more meaning.

3.6 Limitations of the Study

The researcher faced some of the limitations in the course of the research.

i. N1C information and business finance sources was a very sensitive issue, which was likelihood in most organization of Kampala Securities Exchange, hence some of the respondents were unwilling to answer the questionnaires in time thus leading to the delay in data collection.

ii. There was the problem of information access by the researcher; the management of the Kampala Securities Exchange involved confidentiality and internal use only clauses and regulations thus this lead to delay in data collection.

iii. Respondents never acted in time due to unaffordable timing, especially during times when they were very busy with the office work thus this lead to delay of data collection and analysis.

CHAPTER FOUR
DATA PRESENTATION ANALYSIS AND DISCUSSION
4.0 Introduction

This chapter compiles, arranges and presents data in different forms. The researcher analyses and presents data using two methods that were mentioned in the previous chapter.

This chapter presents data on the background information of the organization and the employees who were involved, the researcher used Kampala Securities exchange to find effects of initial public offer to the stock exchange market in Uganda a case study of NIC Ltd. The researcher employed both descriptive and statistical methods to analyze data

Table 1: Gender of respondents

Gender	Number of respondents	Percentage (%)
Male	50	62.5
Female	30	37.5
TOTAL	**80**	**100**

The researcher administered questionnaires to 40 respondents where 28 were male and 12 were female. This is represented by the table above.

Table 2: Ages of Respondents

Age	Number of respondents	Percentage (%)
20-25	10	12.5
26-30	15	18.75
31-35	15	18.75
36 and above	40	50
TOTAL	**80**	**100**

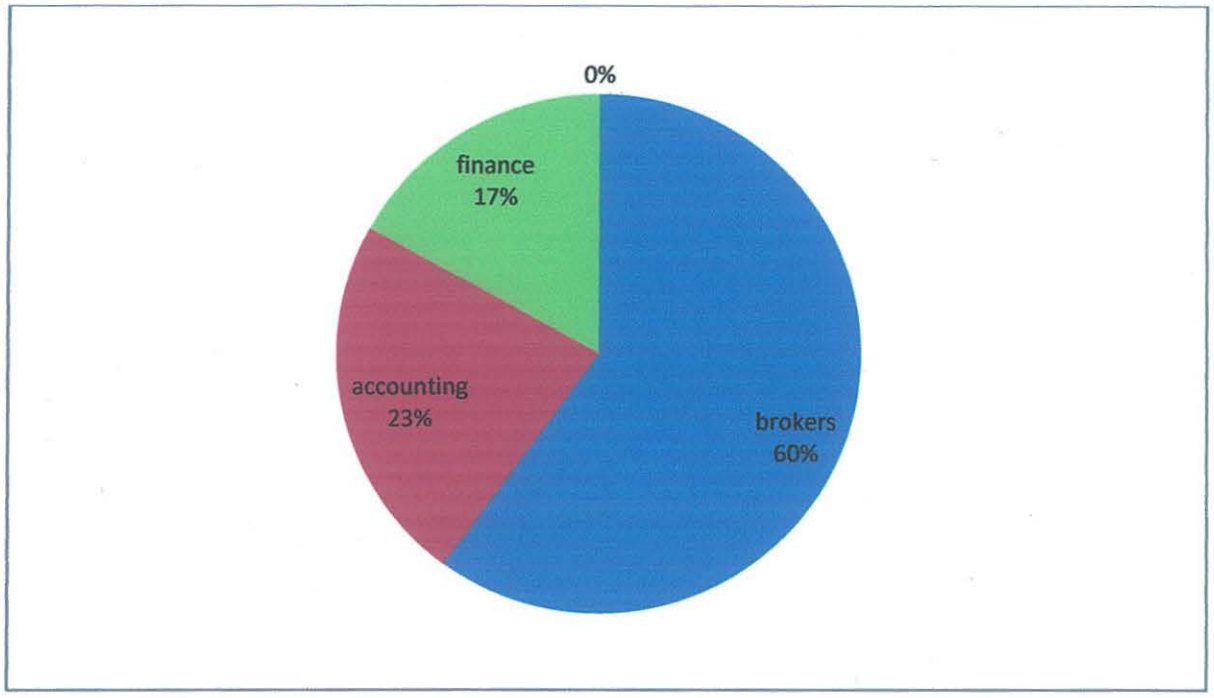
The table above represents the ages of the respondents who the researcher administered the questionnaire to: 32.5% were above the age of 36 whereas only 15% were between the ages brackets of 20-25.

Table 3: The experience of the respondents

Number of year	Respondents	Percentage (%)
0-5	30	37.5
5-10	20	25
10-15	30	37.5
Total	**80**	**100**

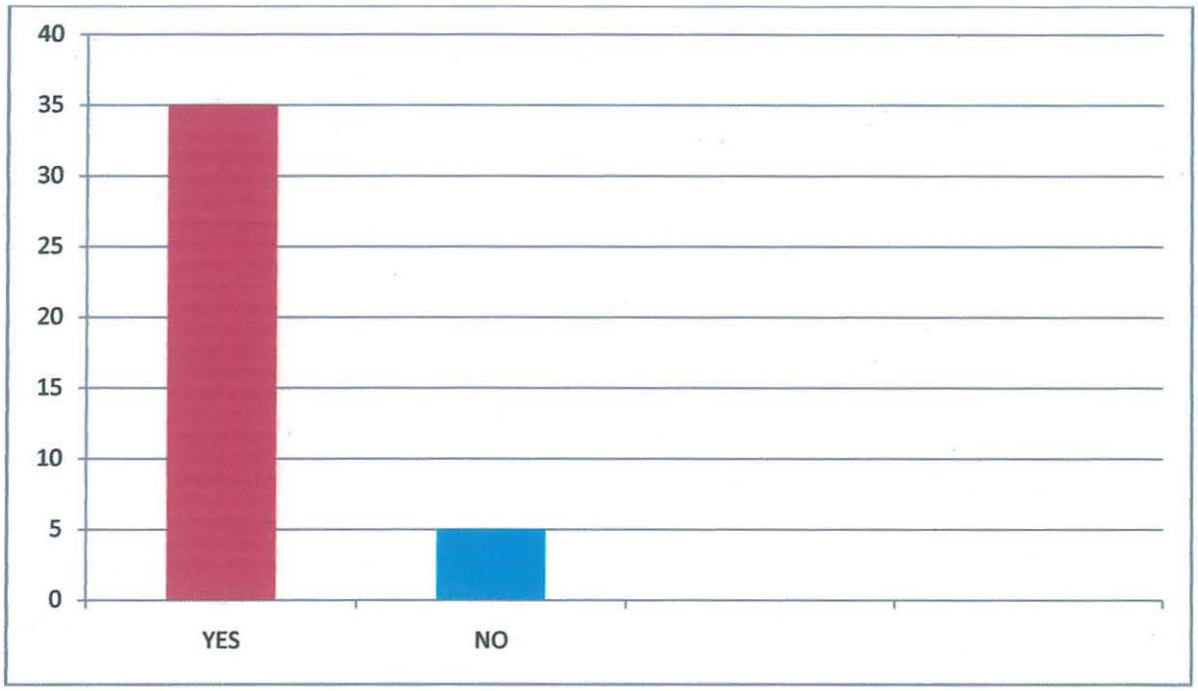
Majority of the respondents have worked in their respective capacities for a period of between 10-15 years. This was represented by 21 respondents; those who have served for 5-10 years were 12 respondents while those who served for period between 0-5 years were 7 respondents.

Figure 1: Designations of Respondents



60 % of the respondents were brokers which are the majority, followed by 23% who are from accounting department and 17% were from finance department.

Figure 2: whether there is risk involved in IPO



35 out of 40 respondents said that there is indeed risk involved in IPO whereas 5 of them argued there is no risk. Hence the researcher was able to identify that there is risk involved in IPO. Some of the risks faced can range from:

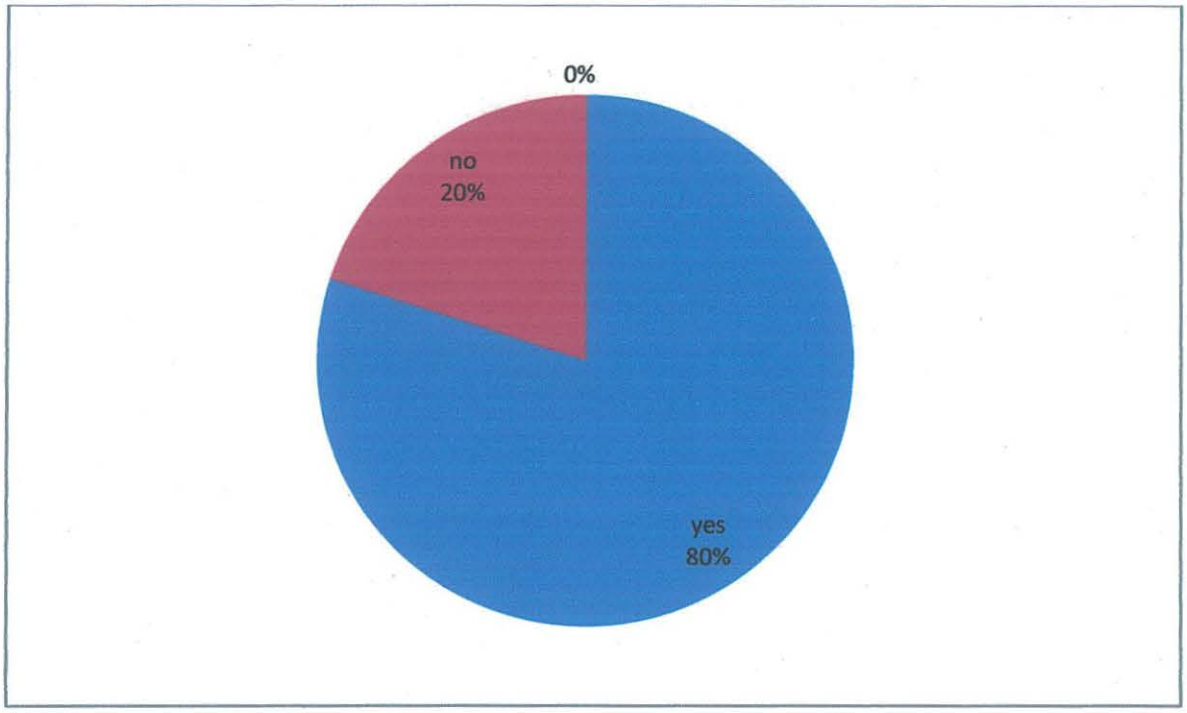
- Presenting unexpected results to the market.

- Uncertainties associated with new initiatives, such as global expansion.

- Infrastructure and systems that cannot provide timely and appropriate information to the stakeholders.

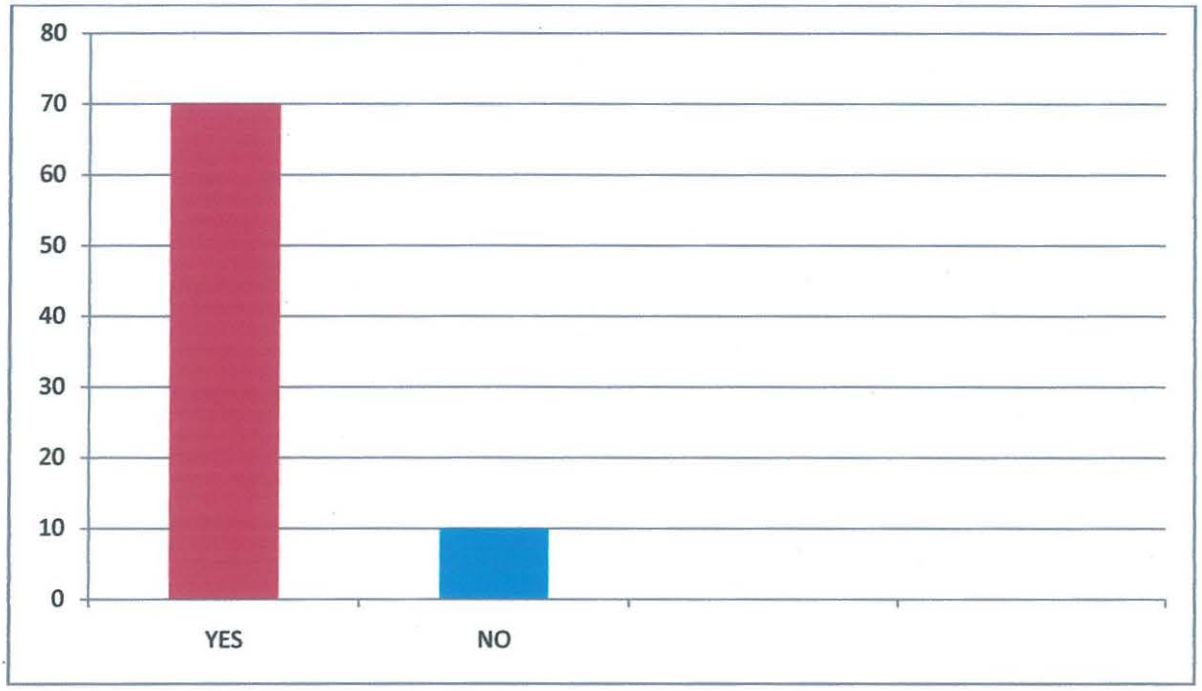
Non-compliance with the rules followed by public companies.

Figure 3: Whether IPO Has Impact on Stock Market



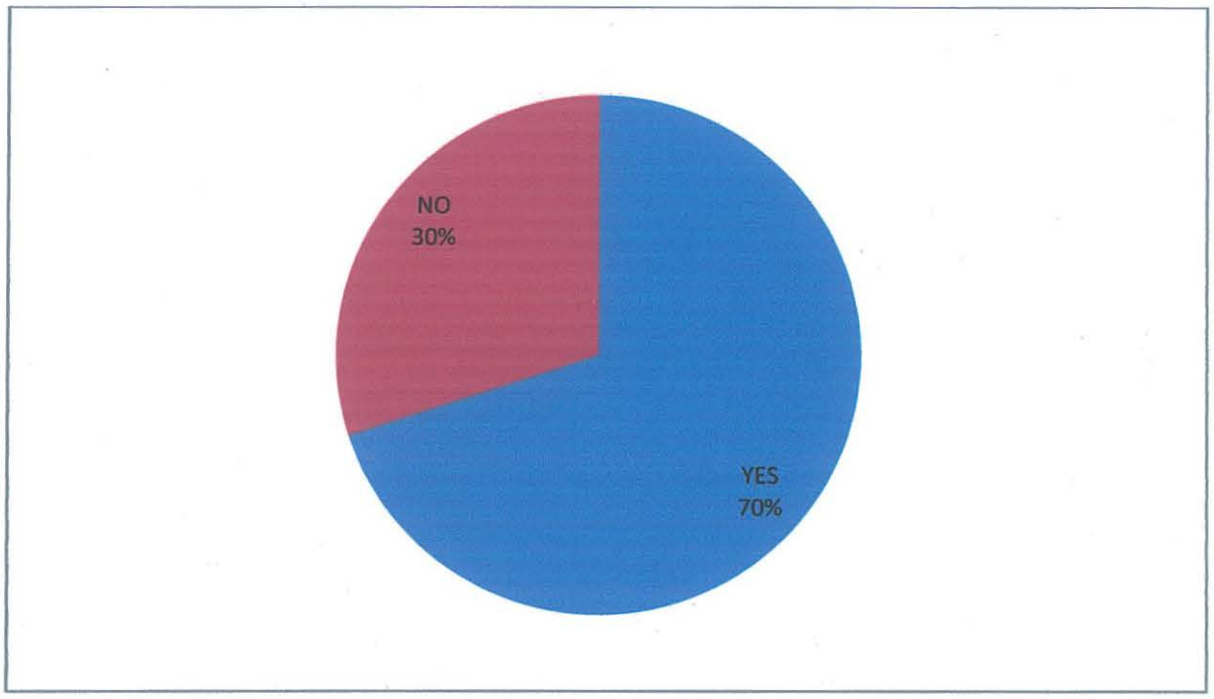
IPO have impact on the stock market since 80% of the respondents said yes while 20% argued against. Hence the researcher found out that indeed. IPO have impact on the stock market depending on the movement (trading) of shares.

Figure 4: Whether There Has Been Growth in Stock Market.



It was evident that there has been growth in the stock market since all the respondents agreed to the statement

Figure 5: whether Performance of IPO affects the stock Market



70% of the respondents agreed that the performance of initial public offer affects the stock market while the remaining 30 % argued against it.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of findings of research, recommendation and conclusion of the study. These recommendations and conclusions based on me information obtained from the analysis of questionnaire, interview and literature review.

5.1 Background Information

The background information indicated that the sex majority was male; the age bracket that was majority was between 36 years and above. The level of experience by employees the majority was between ages of 10-15 years, the designation of most of the respondents was stockbrokers in the Kampala Securities Exchange and were 18 out of the 40 respondents.

5.2 Effects of Initial Public Offer to the stock market in Uganda a case study of NIC Ltd

The findings of the researcher on the stock market, a case study of NIC ltd indicated that majority of the respondents approved that Initial Public Offer has increased the performance of stock market indicated by 70% of the respondents who reported positive effect relating on the government opportunity, investors education, increased technological advancement and the changing public attitude towards investment which are indicators of stock market growth.

5.3 Discussion

It can therefore be concluded that NIC share prices are not correctly price since
Insider information is no reflected in the share price. H
Post IPO however is an exciting time. There are various opportunities to accelerated growth and take a big step towards one vision of achieving market leadership. However, alongside this natural excitement lies the reality of life on the public markets.

As a newly listed business, it's important to be aware of the risks you now lace. These can range from:

- Presenting unexpected results to the market
- Uncertainties associated with new initiatives, such as global expansion
- Infrastructure and systems that cannot provide timely and appropriate information to the stakeholders.
- non-compliance with the rules followed by public companies

To achieve full potential and deliver on pre—IPO promises one must have a clear picture of the new environment- both the opportunities and the risks.

If one can proactively identify and manage these risks, the result will be a stronger, better managed business with more robust decision making. This in turn can exert a stabilizing influence on the operation, make one more attractive to investors, and help accelerate growth.

Changing from private to public transition is not easy. The strategic growth markets professionals have worked for many years alongside many of the most dynamic businesses in the world to make the transformation from domestic, entrepreneurial businesses to market- leading public companies. And this is what companies thrive on.

Risk management can affect company valuations, as four-fifths of investors are willing to pay a premium for companies that manage risk well.

5.4 Recommendations

The researcher recommends the following;

i. Companies should volunteer all information to the shareholders in order for them to make an informed decision concerning g their investment choices. They should therefore adopt the strong form hypothesis when pricing their shares.

ii. Shareholders should be made to understand the benefits of long term investments. They should therefore he discouraged from buying shares for speculative reasons.
iii. When drafting the prospectus, companies should try to be real especially when it comes to the returns expected so as to avoid future shareholder disappointments. They should also let the shareholders know and understand the risks that come along with investing in different forms of securities.

5.5 Conclusion

In the recent year's of economic boom, investors have cashed in small amounts of money into the initial public offering IPO and ended up with astounding proceeds. Companies like NIC have realized more than 300 percent investors. For majority of Ugandans, taking positions on these two counters meant a quick exit on realization of capital gains- That made investing look too easy, a feature that changed business headlines not in Uganda but also in the region.

However, experiences prove that such a phenomenon could have been the result of acknowledgement gap: i.e. market inefficiency. Uganda's security market has been bubbling and is set to keep the pace as we wait for other hyped 1PO's e.g. companies such as Kenya commercial Bank; New Vision Group and Stanbic Bank limited are already confirmed. As all these
opportunities come close to fruition, investors have to belt up for a harsher f reality; that investing is not always about making more than double returns
within a short period of time.

Indeed, investing in IPO's will soon shift from first day sale to for capital gains to a long- term investment. As more and more IPO's flood the market these recent years, there is need to be wary of the imminent risks associated with IPO's and not necessarily stocks trading in the secondary market.
One of the points to look out for is the amount of information available on the company being listed. Such information originates from objective research. The problem usually is that it is difficult to get information about a company prior to its listing. Caution should be taken when checking the prospectus of a company because the prospectus originates from the company and no opinion is given by a third party.

It would do an investor a lot of justice to search for information about the competitors, how the company raised its capital, and what the media has to say about the company in the past. Getting concrete information to support your decision may be hard but if well done, it could make a whole lot of difference and mean a lot to you as the investor, There is a rule in investment banking that goes like, quality investment banks bring quality companies to the bourse". Perhaps that explains why most underwriting deals have in the recent past been going to three major investment banks in Uganda. Any brokerage firm / investment bank will be willing to underwrite a firm that is going public. Trouble however arises when a small brokerage firm underwrites a company being listed. This could mean that

more small retail investors will be more attracted to the IPO than high net worth and corporate investors.

As much as the prospectus offers biased company information, it is not gooa to leave it out altogether but analyze it very carefully. of the most important pointers to this is the company's debt position. If the company has financed most of its capital through debt, then it is likely that their listing is a way of raising money to pay off their debt. This is a bad sign and a big risk to shareholders, while looking at the current balance sheet's strengths and current earnings, one should be wary of how the projections vary from the present earnings (forward ratios). The wider the gap, the more one needs to be concerned.

According to analysts from most efficient markets, skepticism does pay a lot when it comes to IPO's. This is because information availability is not always guaranteed which could result to decision being made base on inadequate information.

In addition, there are always the additional provisions that make brokerage firms give their favored clients. This could shut one out even after he has tied his funds for a period of time.

When lock-up period exists, there is a legally binding contract that prohibits the underwriters and insiders of a company from selling stock for a period of time which can range from 24-36 months. The fact here is, a good company will remain so and if the insiders continue holding stock even after the lock up period, then it is an indication that the company will be doing well and is not likely to change. However, if the insiders start selling off their stock after the lock up period expires, should cause worry.

Previously, we barely had a single IPO getting into the market. That has changed and recently, we have had one company going public almost every quarter of the year. Soon things might change hence having one company every month. The market capitalization recently hit the billion mark but that should not cause any excitement because with more and more 1PO's, there will tie a mixture of' reactions- and not all will be smooth sailing. But again, "an IPO is always an IPO. By now we can predict the move of NIC 1K) due to the current stiff price war between other service providers but from the current share price there is a drop in the price and this would however lead to a price per share drop due to low profitability of the firm.

5.6 Recommended areas for further study

The researcher further open room for other researchers to undertake some areas related to the study, which includes;

- A similar study on secondary offers issued at the same time to be undertaken

- Further research can be undertaken into the factors that resulted into fall of share price immediately after the IPO all other companies listed in the USE should be included i.e. the researcher should widen his scope to cover all the listed companies.

REFERENCES

CORDELL, David M(2001) Commercial Bank Spread Management: 5th edition, London: Working Papers Series.

Flannery, Mark, J (2001), Market interest Rates and Commercial Bank Profitability: an Empirical Investigation, Journal of Finance.

Goldfield, Stephen, Albert (2000), A Model of Stabilization Policy, Studies in Economic Stabilization, Washington D.C: the Brookings institution.

Good friends Parthemos, and summers, B (1999), Financial Innovations: Causes, Consequences for the Payment System and Implication for Monetary Control, Federal Reserve Bank of Richmond, Economic Review, 66.

Gramley, Lyle E. and Chase, Samuel, B (1995), Time deposits in Monetary Arzalysis, Federal Reserve Bulletin 51:10.

Jaffee, Dwight 200 1), Credit Rationing and the Commercial Loan Market. New York: John Wiley and sons.

Karaken, John K 2007), Commercial Banks and the Supply of Money, a Market Determined Demand Deposit Rate: Federal Reserve Bulletins, 53:10.

Macaulay Frederick r (2004), Some Theoretical Problems, Suggested by the Movement of Interest Rates Bond Yields and Stocks Prices in the United States since 1856, National Bureau of Economic Research, New York: Columbia University Press.

Maisel, Sherman J. and Jacobson R (2U04) interest Rate Changes and Commercial Bank Revenues and Cost, Journal of Financial and Quantitative Analysis.

Maikiel Burton g (2uub) The Term Structure of Interest Rates: Expectation and Behavior Patterns: Princeton University Press.

Mishkin Frederick B (1996), The Economics of Money, Banking and Financial Market: Little Brown and Company.

Slovin, Myron B. and Sushka, Marie Elizabeth (1995), A Model of The Commercial Loan Rate, Journal of Finance, (1995).

Yawitz, Jess B., Hempel, George H. and Marshall, William (1995), The Use of Average Maturity as a Risk Proxy in investment Portfolios. Journal of Finance.

Chuck Waterfield (2009)," The Role of interest as in Microfinancet. In Microfinance India: State of the Sector Report 2008:N. Srirnvasan, Sage Publications, Los Angeles, New Delhi.
28

APPENDIX 1
RESEARCH INSTRUMENTS

(a) INTERVIEW GUIDE

Interview guide to the head of section of NIC Ltd

1. Has the initial public oiler aided in the performance of the organization?
2. In your opinion, what factors have led to the rise in demand for the NIC shares?
3. Does the initial public offer affect the organization management in terms of managerial decisions?
4. What are the risks involved in IPOs?
5. Does dividend policy affect the organization cost of capital?

b) QUESTIONNAIRE.

Kampala international university
School of business and management
P.O. BOX 20000
Kampala
Uganda

Dear respondent,

My name is Mugalula Smuts. I am a student at Kampala international university pursuing a degree in bachelor of business administration (finance option). in partial fulfillment of my degree, I am undertaking a research and 1 humbly ask you to participate in this research on the "effects of initial public oiler on the stock exchange market in Uganda a case study of national insurance corporation ltd (Nic)". The questionnaire enclosed here serves as a data collection instrument and the information sought will be purposely used for academic purpose and will be treated with utmost confidentiality. The information and data you offer will be highly appreciated.

Yours faith fully,

.....

Mugalula Smuts

PART A: BACKGROUND

1) Name of the organization

.....

.....

2) Your names (optional)

.....

.....

3) Gender

Male ☐ Female ☐

4) How old are you?

20-25 ☐ 26-30 ☐ 36-above ☐

5) Designation

.....

.....

6) For how long have you been in the organization?

0-5 years ☐ 5-10 years ☐ 10-15 years ☐

PART B: GENERAL INFORMATION

7) Is there any risk involved in the IPO?

Yes ☐ No ☐

8) Do IPO have impact on the stock exchange market?

Yes ☐ No ☐

9) Do you think there has been growth in the Ugandan stock exchange market?

Yes ☐ No ☐

10) In your opinion, has the initial public offer of NIC affected the stock market?

.....

.....

11) Does performance of the initial public offers affect the stock exchange market?

.....

.....

12) What is the process that is undertaken when managing initial public officer?

.....

.....

.....

13) What are the challenges facing stock exchange markets in Uganda?

.....

.....

.....

14) In your opinion explain how these challenges can be overcome?

.....

.....

.....

APPENDIX 11

THE RESEARCH ESTIMATED BUDGET

The researcher incurred the following expenses while carrying out research.

ITEM	QUANTITY	FREQUENCY	UNIT RATE	AMOUNT
Stationery				
Ruled papers	1 ream	1	8,000	8,000/=
Note books	1	1	3,000	3,000/=
Pens	10	1	200	2,000/=
Staple wires	1	1	1,000	1,000/=
Subtotal				**14,000/=**
Computer services				
Photocopying (lump sum)	1	1	15,000/=	15,000/=
Typing & printing proposal (lump sum)	1	5	15,000	15,000/=
Typing & printing of		1	10,000	10,000/=

questionnaires				
Typing & printing proposal		1	7,000	7,000/=
Sub total				**47,000/=**
Accommodation & transport				
Transport		20 times	1,000	20,000/=
Accommodation			40,000	40,000/=
Sub total				**60,000/=**
Grand total				**121,000/=**

APPENDIX III

RESEARCH TIME FRAME WORK

Activity	Jan	Feb	March	April
Concept identification				
Proposal writing				
Training of research assistants				
Pre-testing of the tools of data collection				
Data collection				
Data coding and analysis and Submission				