Capital Markets

Equity listing champion

There is always a place for profitable and well-established companies to list their shares on the Malta Stock Exchange, argues **Dr Nick Curmi**, Partner at Ganado Advocates. The firm is also well placed to advise banks and other financial services firms that face more stringent regulatory hurdles than others in their quest to access the capital markets.

Dr Nick Curmi
Ganado Advocates Partner

Irrespective of prevailing economic conditions, investors are always less likely to take a risk on companies with more speculative business cases as opposed to issuers with a proven track record. According to Dr Nick Curmi, who heads the Capital Markets Team at Ganado Advocates, this is particularly so when it comes to the local equity market.

"It's a tougher sell to get many local retail investors to part with their savings, given their particular approach to equity and their preference for bonds," he said, which has contributed to a stark scarcity of equity issuances in the local market over the years. "Yet, there is still a place in the equity market for well established, profitable companies with steady revenue streams that can reasonably be expected to ride out external factors, such as recessions, the war in Ukraine and rising interest rates, for example."

Dr Curmi pointed out that 2021 was easily the best year in the past decade for equity issuances in terms of volume. "The market saw five equity listings – four IPOs and a secondary issuance by an already listed issuer. So, that was very encouraging to see, even though investor sentiment towards equity during this period may not have been optimal."

2022, too, started strongly with IPOs by M&Z plc and APS Bank plc, both proven brand names within their respective sectors. Both issues were oversubscribed, with substantial amounts being pre-placed prior to the shares being offered to the public, also indicating significant institutional support.

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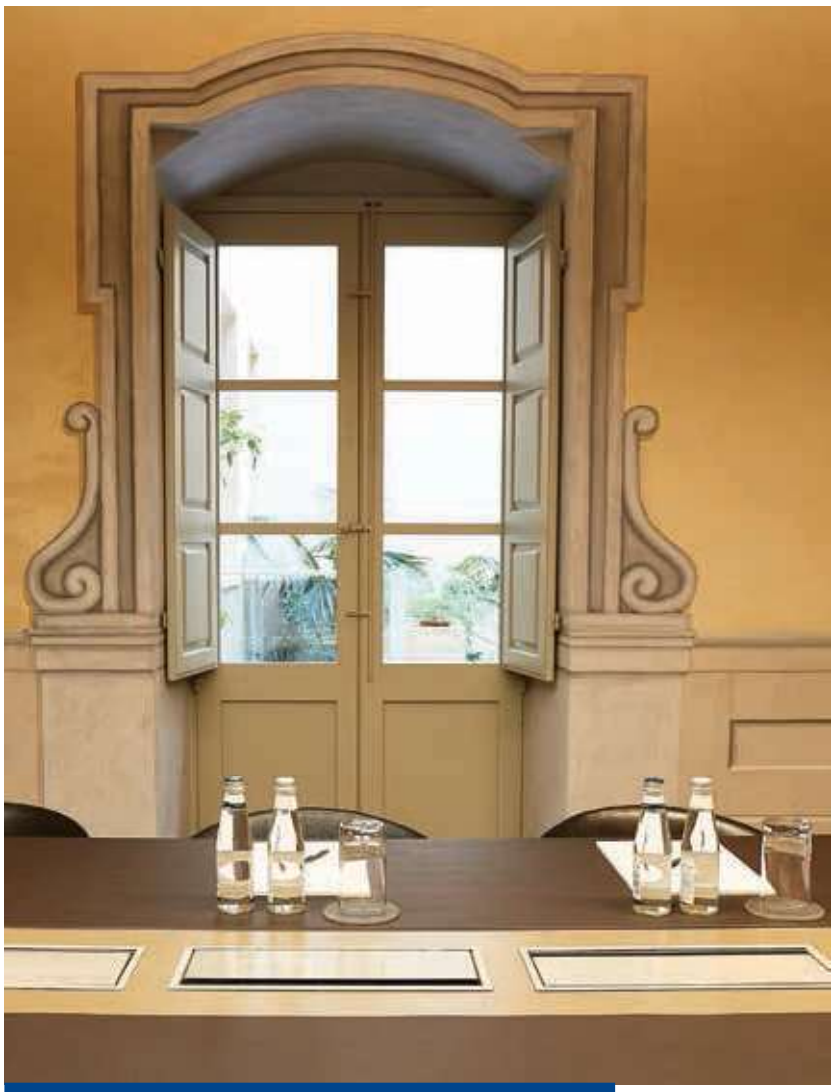

understand its story, so the local element is important, particularly in a market with a predominantly local investor base such as Malta's.

"That is why you are only going to see local companies listing equity in Malta, unless a foreign company is specifically looking for an EU market on which to list, in which case the MSE faces strong competition from better known EU markets. I feel we haven't pushed ourselves as a domicile of choice for listing as much as we could have, and this also applies to debt," he said.

Another interesting trend in recent years has been an increase in the frequency of issuances (of both equity and debt) by local banks, brought about primarily by their need to finance their ever-increasing capital requirements. "After the 2008 financial crisis, there was a big focus by global legislators on increasing regulatory capital requirements to make sure that banks (and insurance companies) would be able to withstand liquidity issues in a potential economic downturn."

BNF Bank plc is (at the time of writing) the latest local bank to make its capital markets debut with an offer of subordinated bonds, the proceeds of which will constitute a fundamental part of the bank's capital funding plan.

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A steady stream of equity issuances is a hallmark of well-developed, thriving capital markets, he pointed out, so this is, hopefully, a positive sign in terms of the development of the local market. He does acknowledge that there are obvious limitations due to the size of the country.

"There are only so many issuers of a certain size and quality that can go to market and conduct a successful IPO." Education and a shift in local investor mindset will also be fundamental in encouraging greater take-up of equity investments and increasing liquidity in the secondary market, in turn hopefully incentivising more issuers to come to market.

When it comes to international companies listing their shares in Malta, Dr Curmi said investors seeking to buy into a company's equity need to know the company and

Dr Curmi went on to mention several new regulations that were introduced in the EU since then. The European Commission has, earlier this year, adopted fresh legislative proposals for a substantial reform of EU banking rules in the form of CRD III and CRD VI. These proposals, once in force, are expected to result in yet another set of increases to banks' capital requirements over the coming years.

Another significant introduction post-crisis was the BRRD – the Banking Recovery and Resolution Directive (as more recently amended by the BRRD II) – with its bail-in resolution tool. Banks now need to look inwards and absorb losses in other ways before going to the government to bail them out using taxpayer funds.

In terms of the BRRD rules, shareholders would typically suffer the first losses, then bondholders, starting first with the lowest ranking subordinated bonds and then, eventually, uninsured depositors. "This presents an added level of risk and complexity when it comes to issuances by banks and the relevant rules are incredibly detailed," he said.

This is an area where Dr Curmi believes the depth of Ganado Advocates' financial services expertise proves particularly valuable to its clients. The firm has several dedicated financial services teams, including a banking team, whose sector specific knowledge enables the firm to provide comprehensive advice to financial services firms on their capital markets transactions.

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"Bonds issued by banks are now much more complex (and) harder to sell, including as a result of stricter legislation governing the sale of such instruments, even though this does not necessarily mean that such investments are, in fact, riskier than others" he observed.

"Like with any other type of bond, the risk ultimately boils down to an issuer's creditworthiness and Maltese banks generally tend to demonstrate fairly solid fundamentals and capital ratios, indicating that certain worst-case scenarios contemplated by the law, while of course possible, are not necessarily as likely to occur in practice."

Turning to the broader debt capital markets, Dr Curmi said debt issuers are finding that, given the current scenario, with rising interest rates and inflation, the cost of borrowing from the capital markets is now increasing. "Issuers, who might have come to market last year but have delayed things to this year, are going to have to pay slightly more than they would have last year," he pointed out.

"This could push some issuers back towards traditional bank finance because the cost of funding between the two options is narrowing, perhaps also drawing attention away from some of the typical limitations associated with bank borrowing when compared to capital markets financing."

Dr Curmi believes, however, that these difficult times present an opportunity for quality issuers to stand out. "Companies that may be contemplating a debut issuance and listing on the MSE, whether equity or debt, have an opportunity to not only raise finance but to firmly establish their brand, products and services at the forefront of people's minds."