

Opportunities and challenges ahead for Yangon Stock Exchange

By William Aung, CEO, Bagan Capital

BAGAN CAPITAL



The New Yangon Stock Exchange

The Yangon stock exchange (yse) is now scheduled to open in October this year. already there is substantial interest – but few players are actually entering the market. when the Myanmar security exchange Commissioner announced that applications to conduct business on the yse, at least 150 companies bought application form – which cost 50,000 Kyat. But, when applications closed on March 6 2015, only 57 companies had applied for a license in one of the four categories offer. Twenty companies bid for a license as underwriters, two to be dealers, five to be brokers and thirty wanted to be registered as consultants.

The capital requirement for those securities companies to register with the securities exchange is high compared to other jurisdictions and those in the bourses of neighboring countries. But many Myanmar companies remain optimistic, and see a license on the yse as improving their credibility and offering greater opportunities for business. Many feel it is important for them to be in at the start when the securities exchange opens its operations later this year.

But while domestic Myanmar companies and some joint ventures are eager to be involved in one way or another, the biggest

question mark is how functional will the capital market manage to be – especially initially – how many of the country's public companies are interested in being listed on the yse.

the biggest question mark is how functional will the capital market manage to be

This is in fact is not about the capacity of the companies bidding for licenses on the stock exchange or yse, but relates to the mentality of most of Myanmar domestic companies. There, remains a lot to change and a lot to learn. The Myanmar business community needs to work with others. This is something, which is alien to the history of the country – whether in business, or in the community.

The recent asia society report, based on a nation-wide survey, found that there are significant trust issues. Nearly 4 out of 5 people interviewed believed most people cannot be trusted. This is also certainly the case in the business sector, and severely inhibits the

strong co-operation that is needed to allow the financial sector in Myanmar to thrive and prosper.

after more than half a century of isolation

from the rest of the world, combined with the military regime's intelligences stringent surveillance of everyone's every move, the people of Myanmar learnt to keep everything secret and not to trust each other.

as a result transparency and disclosure – the hallmarks of internationally accepted business practice -- are not part of everyday business activity practice within the Myanmar business environment. These years of isolation has resulted in the people in Myanmar, especially in the business community, doing everything secretly and cannot understand the definition of confidential, disclosure and transparency – which will be a major issue for successful operation of the

capital market.

Majority of Myanmar companies have a limited vision of the future: they not want to expand globally, but instead are intent on defending their position locally. This means many of them do not consider they need a huge capital base to do business -- that mindset will take time to change and may hamper the development of the yse in its infancy. well-connected conglomerates may not list on yse because they do not need capital or don't want to disclose their financial position or business activities and newly established, so-called public companies in Myanmar won't qualified to be listed on the securities exchange because of their weak financial position, corporate and financial structure.

The country's lack of infrastructure, such as – technology, communications, building, the limited pool of skilled financial professionals and the general financial illiteracy amongst most Myanmar citizens will severely impede its development. on top of that the high cost of running the distribution channel like brokers and agent network will also limit the successful operation of the securities market, at least in the first few years.

Many unanswered questions remain. Capital markets create opportunities for companies to access cheap capital and expand their businesses, while at the same time offer the public investment opportunities. The Myanmar public needs sound good investment opportunities so they can afford for their health care, children's education and retirement.

right now in Myanmar there is no private pension plan for people working in the private sector so millions of Myanmar citizens need to provide for their own retirement. also the public health care system is inadequate to meet the demand, so millions of Myanmar citizens must be relying savings to pay for health care in the case of unexpected health problems.

at present Myanmar has 12 private insurance companies – and their cash reserve and premium income are only invested in the government bonds and deposited in saving accounts because there is no alternative investment opportunities. These insurers could be valuable corporate investors in the Myanmar capital market.

The capital market is based on trust and

confidence. To build the trust the regulator has to establish strong rules and regulations, and enforce them stringently. In order to gain investors' confidence, the domestic public companies will have to be transparent and disclose all necessary information that investors usually expect.

There is substantial concern with the financial and business community in Myanmar that the yse will follow the route of Laos and Cambodia – which have failed to have strong disclosure procedures and regulation, lack credibility and as a result have a paltry number of companies registered on the stock exchange. But Myanmar has an opportunity to set a trend that will allow the yse to grow and gain credibility both locally and regionally.

if Myanmar chooses the right model to follow – especially insisting of on accountability and transparency, and ensuring stringent regulation of the capital market – the yse will leapfrog Laos and Cambodia within a short time. Myanmar has all the advantages: with its size, population and economy, and above all it strategically important geographic location, to become an important stock market in the Mekong region – one which could attract substantial will regional and international investors.

Myanmar needs to expand in every area of business, and to build its infrastructure. The government and military-own business enterprises should be privatized or converted into public companies, and they could take the opportunity to list on the yse. when asean economic Community (aeC) kicks in at the end of this year, companies and the business communities in Myanmar will have to realize with the impact of the aeC-- and will have to change their business operation mentality to be able seize the commercial opportunities a freer asean market will offer. one of the easiest measures they could adopt would be to turn their businesses into public companies and list on the yse. some business owners have to be start thinking about exit strategies to get out of locally competition among aeC countries, and an attractive option could to list on the yse.

since the government regulations and laws allow joint ventures, between an international and domestic business, to form a securities company and allowed to participate in Myanmar capital market, this is likely to increase investors' confidence in the stock market when it opens. The international companies would bring the international securities company code of conduct and ethics, and would transfer these international practices to the Myanmar capital market that Myanmar severely needs to practice. That JV allowed investors to be more optimistic about the Myanmar economy for future growth but it is not just come by it needs to be reward by following the internationally accepted security practice and hard work.



rome wasn't built in a day – and so Myanmar's securities exchange will take time to bed down. it will need hard work and commitment – all of which are very prevalent in Myanmar.

Those companies who have bid for licenses to operate on the yse know that they are unlikely to trade profitably for the initial years of operation – maybe even for the next four or five years. Consequently, these securities companies may be tempted to try and keep their costs down by hiring junior and inexperienced professionals, mainly from abroad. This could affect the functioning of the capital market. with the existing lack of communication and financial literacy, these foreign experts alone cannot make the stock market function efficiently. So what is needed is a new generation of Myanmar financial professionals who study hard and work together to build an industry that gains the faith of the country and who can then persuade business owners to go public, providing the average person with access to attractive investment opportunities. This is what will build a true Myanmar capital market.

The securities business is an intensely knowledge-based service industry, so securities companies should invest heavily in human resources and the training of staff.

as yet it is unclear whether or how foreign investors will be allowed access to the Myanmar capital market. even when foreign investors eventually are permitted to enter the market, Myanmar's accounting, financial reporting standards and lack of disclosure practices could be issues.


Conduct based on rumor rather than accurate and authoritative information is endemic in Myanmar, and often will affect the market. without transparency and sufficient timely information, rumor can turn into reality almost instantly, and this can lead to market instability. i wish to see the yse as an investors' market rather than a speculators' one.

The criteria for listing on the yse should meet internationally acceptable standards; if that is not the case qualified Myanmar public companies may list in singapore or elsewhere to benefit from what they consider better financing opportunities. Lenient listing criteria could lose investors trust and confidence.

now Myanmar, until recently asia's last economic frontier, is beginning to face the

world and come out of its decades-old international isolation. in that context, Myanmar's capital market and the yse offer unique opportunities – but they also offer major challenges – and if investors, companies and securities exchange regulators can work together they can successfully take the next step into the modern financial era. The future remains uncertain but the potential for growth is tremendous

SUBSCRIBE NOW



THE MYANMAR INSIDER

IS THE COUNTRY'S PREMIERE MONTHLY JOURNAL
DELIVERING YOU TOP CLASS BUSINESS AND TOPICAL
NEWS BOTH IN PRINT AND ONLINE

| | | |
|--|--------------|---|
| TO SUBSCRIBE | | Postage + Packing Outside Yangon not included |
| 6 Issues | 6,800 Kyats | |
| 12 Issues | 14,000 Kyats | |
| WWW.MYANMARINSIDER.COM | | |

