

Study outcomes

The objective of this chapter is to provide an overview of the concepts, instruments, and participants in the equity market in South Africa.

When you have studied this chapter you should be able to

- understand the capital market as a source of longterm financing for companies
- define equity and discuss the different classes of shares
- differentiate between debt and equity
- discuss the equity market and its components



Study outcomes



- describe the various equity market participants
- explain the mechanics of the equity market in terms of listing, valuing and trading shares
- describe published equity market information.

© VAN SCHAIK PUBLISHERS

Introduction

Overview



- Equity market terminology
- Equity market instruments
- The equity market defined
- Market participants
- Mechanics of the market
- Published market information





Table 12.1 Size of the global capital market (in USD billion) (Textbook page 368)

| Markets | Global | | | South Africa | | | South Africa market share | |
|----------------------------------|---------|---------|----------|--------------|-------|----------|---------------------------|------|
| USD billion | 2012 | 2011 | % change | 2012 | 2011 | % change | 2012 | 2011 |
| Equity * | 54 672 | 47 538 | 15,0% | 908 | 789 | 15,0% | 1,7% | 1,7% |
| Private equity ** | 2 332 | 2 029 | 14,9% | 15 | 14 | 5,0% | 0,6% | 0,7% |
| Bonds and long- term debt *** | 100 392 | 96 835 | 3,7% | 273 | 247 | 10,6% | 0,3% | 0,3% |
| Capital markets | 157 396 | 146 402 | 7,5% | 1 196 | 1 050 | 13,8% | 0,8% | 0,7% |

© VAN SCHAIK PUBLISHERS

Equity market terminology



Box 12.1 The uses of retained earnings

Businesses can use retained earnings in two ways:

- Buy real or financial assets. As long as these assets are productive, their acquisition will increase the company's future earnings and the price of its shares.
- Buy the company's shares in the equity market. Such a share buyback will
 reduce the number of shares in issue and, as long as the company is profitable,
 will increase future per-share earnings and dividends. This will have a positive
 impact on the price of the company's shares.



Equity market instruments

Equity

- Equity defined (Box 12.2)
- Equity versus debt
 - Debt
 - Ordinary shares
 - Preference shares
- Debt, preference shares and ordinary shares compared

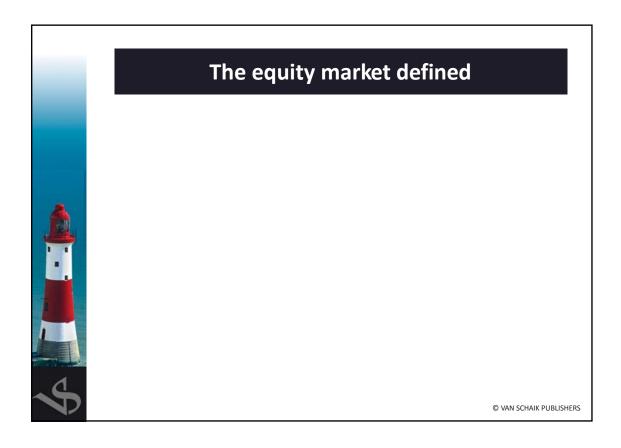
<u>Table 12.2 Debt, preference shares and ordinary shares compared</u>
(<u>Textbook page 372</u>)

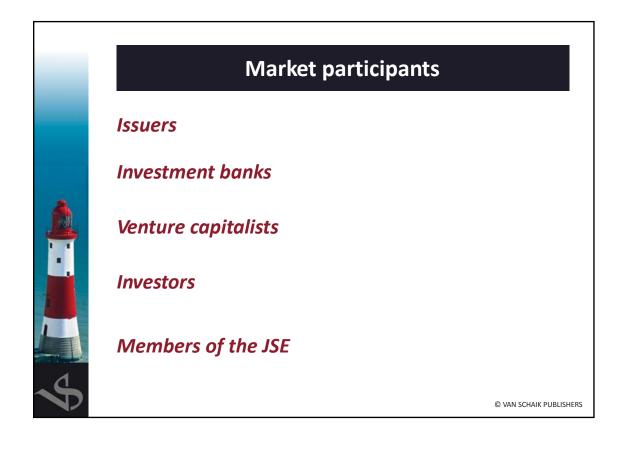
© VAN SCHAIK PUBLISHERS

Private equity

Depository receipts

Exchange-traded funds







Mechanics of the market

Issuing shares

- JSE listing requirements
- Choice of board or market

<u>Table 12.3 Listing requirements for differentequity boards</u>
(Textbook page 378)

• Methods of listing shares

<u>Table 12.4 Methods of bringing shares to listing</u>
(Textbook page 379)

© VAN SCHAIK PUBLISHERS

Mechanics of the market

Valuing shares

Table 12.5 Approaches to equity valuation (Textbook page 382)



| Relative valuation | Discounted cash-flow valuation | | | |
|---|--|--|--|--|
| Earnings yieldDividend yieldPrice/earnings ratioPrice/book value ratio | Present value of dividends Present value of free cash flow to equity | | | |

Mechanics of the market

Valuing shares



- Relative valuation
 - Dividend yield
 - Earnings yield
 - Price/earnings ratio

F.12.1

F.12.2

Market (price) to book value

F.12.3

F.12.4

© VAN SCHAIK PUBLISHERS

Mechanics of the market

Discounted cash-flow valuation

Dividend discount models

F.12.5

Gordon growth model <u>F.12.6</u>

Two-stage model<u>F.12.7</u>

Table 12.6 EPS and DPS calculations (Textbook page 385)

Three-stage model <u>F.12.8</u>

Figure 12.1 Expected growth rate and dividend payout in the three-stage DDM (Textbook page 386)

<u>Table 12.7 Value of the share using the three-stage DDM</u>
(Textbook page 387)

Free cash flow to equity (FCFE) models

<u>F.12.9</u>



Valuing private equity

Trading listed shares



- Market and limit orders
- Warker arra milit oraci
- Stop loss order
- Short selling and securities lending

© VAN SCHAIK PUBLISHERS

Mechanics of the market

Published market information



<u>Table 12.8 Published market information for shares (Textbook page 391)</u>

Table 12.9 Market information for Aspen shares (Textbook page 392)