

**Review Article**

**IPO (INITIAL PUBLIC OFFERING) PRACTICES AND OPPORTUNITIES FOR DERIVATIVES IN THE STOCK MARKET OF UZBEKISTAN**

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**Abstract**

The article focuses on the role of IPO and SPO practices in the development of securities market of Uzbekistan, its problems and solutions. We have studied the measures, taken to increase the number of investors in the stock market of Uzbekistan and to increase attention to it.

**Keywords:** IPO and SPO practices, stock market, stock market capitalization, derivatives, emission, trend model, stock transactions.

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**INTRODUCTION**

Given the current dynamics of the financial instruments market in the global, regional and national economies, the actual issue of derivatives compatible with the securities market of Uzbekistan remains relevant.

Demand for trading in the securities market should always be high, and one of the most common methods of valuing securities and evaluating the interest of institutional investors in the market is fundamental analysis.

This method is based on the identification of the strengths and weaknesses of the securities and involves the complete analysis of various indicators of financial-economic activity at various levels of management to determine the investment attractiveness of shares and bonds.

Considering the current state of the securities market of Uzbekistan, it is important to mention that there is a need to adapt the fundamental analysis methods to the activities of the National Stock Exchange and to develop relevant research on the problems that arise in this process. In order to attract financial resources to emerging stock exchanges, it is necessary to familiarize the shares of businesses and organizations traded on it. IPO practice, initial public offering of shares can contribute to this.

This practice provides information about the companies' shares, unknown to investors and thus is attractive. The shares begin trading publicly in one of the stock markets, providing the movement of financial resources from the sale of shares. It also serves to increase the capitalization of the company through its IPO practice and to raise its finances.

The largest stock exchanges are NYSE and NASDAQ, situated in New York. North American Securities Market is the leader in the number and volume of transactions. The second place is occupied by Asian stock markets, where Hong Kong, Shanghai, Tokyo and Osaka are the major securities trading centers.

If the company decides to place their shares on the stock exchange, then the underwriting service should be used. Underwriters are intermediaries between securities market participants and potential investors. In the United States, large investment banks and brokerage companies act as insurers. They set a starting price for a stock or bond, attract investors willing to buy on an IPO, and receive a certain amount of gains from the issuing company for their services, which is usually 7% of the offering price.

Underwriters do not make a profit only from gains. Their basic income is derived from the difference between the initial price

of the stock and later market price in the stock market. Under traditional IPO terms, the underwriting firm conducts a full financial analysis of a company seeking to conduct an IPO, based on which the initial bid price and its share purchase offer are determined. This is useful for them since the onset of trading on the stock market (in the first hours and days) usually indicates an increase in prices, which allows the first buyer and insurance company to make good money on the sale of the stock.

**MATERIALS AND METHODS**

Considering Twitter's IPO, one of the largest in the US, the company's capital before the IPO was 475 million shares, of which 25% belong to the founders and directors of Twitter. It was decided to sell 70 million shares, which is 13% of the total.

The goal was to attract US \$ 1 million of investment from IPO practice. On September 13, 2013, Twitter applied for the initial public offering of its shares on the New York Stock Exchange (NYSE). Investment banks Goldman Sachs, Morgan Stanley and Morgan Chase acted as insurers in these transactions. As a result, the initial placement was set at the price of US \$ 17-20 and the stock was sold for \$ 23-25 due to the increased public interest. This IPO operation was considered successful because investors received high returns. The underwriters' gains were 3.25% and had revenues of \$ 59.2 million. They also had rights to buy 10.5 million shares. In total, they received \$ 200 million from this IPO operation.

In accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated May 10, 2017, from December 5, 2017 to April 3, 2018, it was allowed to purchase shares of "Quartz" (located in Kuvasay, Ferghana region). This practice was called the first IPO in the history of Uzbekistan. The activities of the company are focused on the production of glass, glass products, glass for automobile industry, glassware. Payment of dividends of 31% for 2014, 34% for 2015 and 68% for 2016 was announced for each ordinary share of the enterprise.

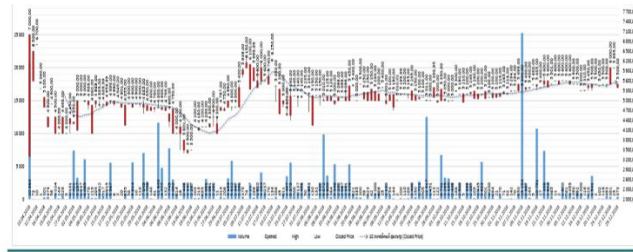
As a result, from December 5, 2017, 4,574,944 ordinary shares of JSC "Quartz" were offered for sale on the Republican Stock Exchange "Tashkent". The nominal price of the share was determined as 1,715 soums. The total nominal price of the shares was 7,846,011,810 soums.

Shares are issued through the underwriter. The National Bank for Foreign Economic Activity of the Republic of Uzbekistan (IPO Practitioner) was the underwriter.

**RESULT AND DISCUSSION**

“Dalal standard”, which is listed on the RSE “Tashken” acted as an investment intermediary. As of March 24, 2018, “Tashkent” Republican Stock Exchange received 1,747 inquiries to purchase 652 211 shares and invested 3.42 billion soums to depositor. Under the IPO practice, an investor can buy 0.05% of the total number of shares. This includes 2287 shares. Price per

share fluctuated between 2300 and 9100 soums. As a result, 54% of the shares were sold for \$ 7.5 billion soums. Investors, participating in the IPO, acquired high profit, but 46% of the shares was not sold. The underwriter would have to repurchase the remaining shares, but the National Bank for Foreign Economic Activity of the Republic of Uzbekistan refused.



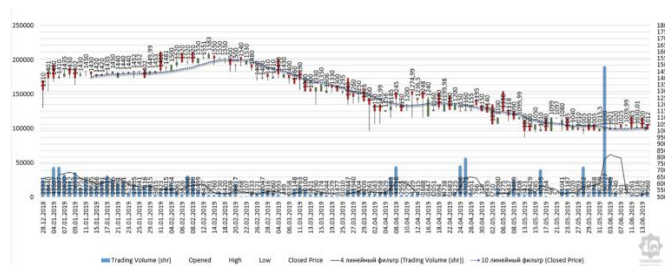
**Figure 1. Impact of the first IPO practice on JSC “Quartz” shares sold (10.04.2018 -31.12.2018 y.)**

Firstly, held IPO practice has its advantages and disadvantages. Advantages of the practice encompass announcing the sale of shares of JSC “Quartz” to the public, investors with profit up to 60%, the engagement of stock market participants, while the drawbacks of the IPO include that the majority of shares was not sold, the lack of public and legal awareness on the IPO practice, no Road shows. But overall, the IPO practice has been successful, and many businesses are now planning to implement this practice.

(IPO Practitioner) was the underwriter. “Uzneftegazmash”, listed on the RSE “Tashkent”, acted as an investment intermediary. JSC “Uzneftegazmash” is a part of the national holding company “Uzbekneftegaz” and is the main shareholder of the Kokand Mechanical Plant.

In the meantime, JSC “Kokand Mechanical Plant” conducted its own SPO (Secondary Public Offering). On November 27, 2018, the stock purchase requests were collected. The National Bank for Foreign Economic Activity of the Republic of Uzbekistan

During SPO practice, 2,2 million shares were issued. As a result, the share of JSC “Uzneftegazmash” fell to 64.08% and the share of other shareholders increased by 35.92%. According to experts, the stock price is expected to rise 1.5 times. As a result, 100% of the shares (2.2 million shares) was placed. The number of requests was 2 821 065. 26.14% of requests was not satisfied. Today the average price per share is between 1400-1460 soums.



**Figure 2. Impact of the first SPO practice on JSC “Kokand Mechanical Plant” shares sold (28.12.2018 - 11.06.2019y.)**

Considering the above, it can be noted that SPO and IPO practices play an important role in the development of the securities market. Especially, in the context of Uzbekistan, it is necessary to expand the scale of such practices to increase the interest of investors. In this way, increasing confidence in the stock exchange will lead to the introduction of derivatives.

clients can be used not only as a means to generate profits, but to quickly acquire credits.

Despite the low efficiency of the securities market in the Republic of Uzbekistan, the government is taking all measures to develop this sector. Undoubtedly, such measures as capital market development, international stock market activity, IPO and SPO operations, introduction of derivatives, and engagement of investors to the securities market will increase its efficiency.

REPO deals with corporate securities in the stock market are now approved by the Center for Coordination and Control over the Securities Market and registered by the Ministry of Justice on August 6, 2004, No 1396. are being regulated.

In the foreseeable future, our republic will be able to create more favorable financial and investment markets, a global stock market and reach global competitiveness, and more favorable conditions for domestic and foreign investors. As a first step you can see the cooperation with the “Thomson Reuters” information agency.

From 2004, REPO agreements have been implemented on a broader scale. However, these operations were completed after cooperation between the Tashkent Stock Exchange and the Korean Stock Exchange. According to national legislation REPO agreements are done by two stages: stock selling and repurchasing stocks. In the Korean system, a broker is responsible for REPO agreements and it is done within one stage. Due to the fact that there are not in accordance in carrying out REPO transactions, these agreements are not going to work right now.

In order to broaden the activity of RSE “Tashkent” the REPO contracts should be reformed. REPO contracts are common method of borrowing money for securities. Securities owned by

It is necessary to develop the secondary market for the REPO agreement. In this case, the quantity of the stock market is high, although the number of transactions on the stock market is decreasing. As a result, during the year 2016, the stock exchange traded \$ 22.3 billion, total trading volume was \$ 0.4 billion. The bulk of this (\$ 0.13 million) was recovered in foreign currency.

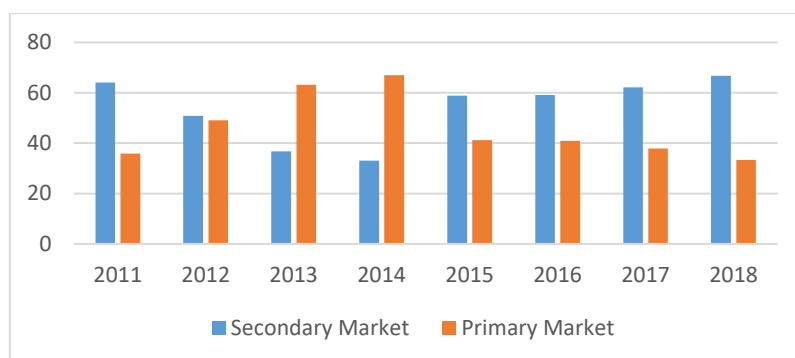


Figure 3. Tashkent Stock Exchange Relative to Primary and Secondary Markets

To date, there is an expansion of the secondary market, which is a major breakthrough in the development of the securities market. While the stock market has not traded in the past, the secondary market continues to dominate.

The stock market is another one of the emerging market sectors. The Government of Uzbekistan issued 3 billion Tenge (US \$ 10 billion) of shares issued in the capital of the Republic of Kazakhstan.

As of January 1, 2018, the issuance of shares for the 16 huge banks is 90.6% of the nominal value and medium banks 8.5%, small banks are 0.9%.

Up to 2017, 6 out of 28 joint-stock banks have a state share in the statutory fund. Up to January 1, 2017, the total authorized capital of commercial banks is 0.07%. Decrease in state share in the authorized capital of commercial banks can be explained by control of the existing banking system by licensing institutions. It is noteworthy that the less the state's share, the more attractive the investor is. Therefore, a reduction in government involvement in this area could contribute to the development of the securities market.

The development of the securities market also depends on the clearing activity. Modern clearing systems contribute to the qualitative development of the financial market by reducing risks and transaction costs of stock market participants, improving liquidity and pricing, and increasing the effectiveness of financial instruments. This, in turn, will create new conditions for further stabilization of the existing infrastructure.

The activity of the clearing house is approved by the Law of the Republic of Uzbekistan "On the mechanism of functioning of the securities market" and the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated 29 April 2003 "On measures for further development of the secondary securities market" decree and other legislative acts.

Another promising trend in the development of Uzbekistan's capital market is its access to trading areas on the world stock exchanges. The first step in this regard was the placement of 1 billion USD of Eurobonds on the London Stock Exchange Market by Uzbekistan. These bonds will be placed in two tranches: 500 million US dollars in 2024 and 2029 respectively. The yield on the five-year securities is 4.7% and the 10-year is 5.3%.

Table 1. Key players in the placement of Eurobonds

Tranche	Profitability (%)	Share of British investors (%)	US investors' share (%)	European investors' share (%)	Asian investors' share (%)
2024	4,7	39	23	6	6
2029	5,3	32	31	10	10

This practice was in high demand on the London Stock Exchange Market and received 150 inquiries from institutional investors. The main investors are organizational funds (75% and 78%), insurance companies, pension funds (20% and 16%) and banks (5% and 6%, respectively). The successes of this placement are:

- Uzbekistan achieved its first entry into the international market through a successful deal;
- With the help of investors, modern methods of valuation of the securities were used and the rating of Uzbekistan was increased;
- Uzbekistan plans to issue and place bonds by other state-owned enterprises and organizations;
- In 2019, for the first time in the Commonwealth of Independent States, bonds were placed by Uzbekistan.

On January 17, 2017 the President of the Republic of Uzbekistan signed a Decree "On measures to further simplify and accelerate the sale of state-owned facilities for entrepreneurial purposes". The third part of the Decree focuses on the conduct of IPO operations, which will allow the company to raise its capital.

The presence of traded stocks in the capital market allows the company to assess its value, which can be used as a tool for managers' performance evaluation for mergers and acquisitions (M&A). The Company's shareholders are able to

sell most or part of their shares while at the same time allowing them to capitalize on the company's expected future earnings. The above-mentioned changes in the securities market undoubtedly determine its future development and prospects.

### CONCLUSION

The national stock market is a relatively new and underdeveloped segment of the national economy. The presence of external and internal factors may hinder the development of the national stock market on the one hand. Banks in the financial market can participate in three ways (as issuer, investor and professional participants). With the development of Uzbek banks, they have recently begun to act as intermediaries in the issuance of corporate bonds and their placement, which in turn suggests that they are effectively using derivatives in the securities market.

IPO and SPO operations carried out positive results through the RSE "Toshkent". A number of shortcomings will be addressed during subsequent operations. These agreements will undoubtedly increase the number and volume of transactions on the secondary market.

In the conditions of Uzbekistan, option contracts of financial instruments available on the securities market are the most appropriate. Legally available but practically nonexistent

instrument is very convenient for the investor and can minimize the risk.

Issues related to the creation of consulting services and hedge funds in order to reduce and manage existing risks in the securities market are also crucial and need to focus on.

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