

# **Uganda Housing Finance Conference**

## Growing the Housing Finance Sector (Real Estate Investment Trust Panel)

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20<sup>th</sup> October 2016

# Presentation outline

- Overview of financial markets structure in Uganda and Securities Markets operations
  - Capital sources and challenges of growth
  - Types of capital markets
  - The case for equity (public or private)
  - Benefits of public equity
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- REITS (definition, actors, prerequisites, key success factors)

*Absence of financing constitutes 50% of the constraints to business growth across the African continent – the others being ‘business climate’ (25%) and ‘infrastructure’ (25%) - Survey by Africa Investor*

*“Banks alone are not the answer to building robust businesses in Africa.” – Mr. Admassu Tadesse, President and CEO of PTA Bank*

# Financial Markets Structure in Uganda

CENTRAL BANK (19 trillion M3 70-75% of this being domestic credit)

Monetary Policy  
MGT, Foreign  
Exchange MGT

CAPITAL MARKETS  
AUTHORITY

INSURANCE  
REGULATORY  
AUTHORITY (500 b)

RETIREMENT  
BENEFITS AUTHORITY  
(7 trillion incl. NSSF)

- + Commercial Banks
  - ⌘ *Trade Finance*
  - ⌘ *Asset & Lease Finance*
  - ⌘ *Development Finance*
- + Development Banks
- + Credit Institutions
- + Micro-Deposit Taking Institutions (MDIs)
- + Forex Bureaus

Equity  
Debt  
Unit Trusts

Insurance  
Assurance  
Reinsurance

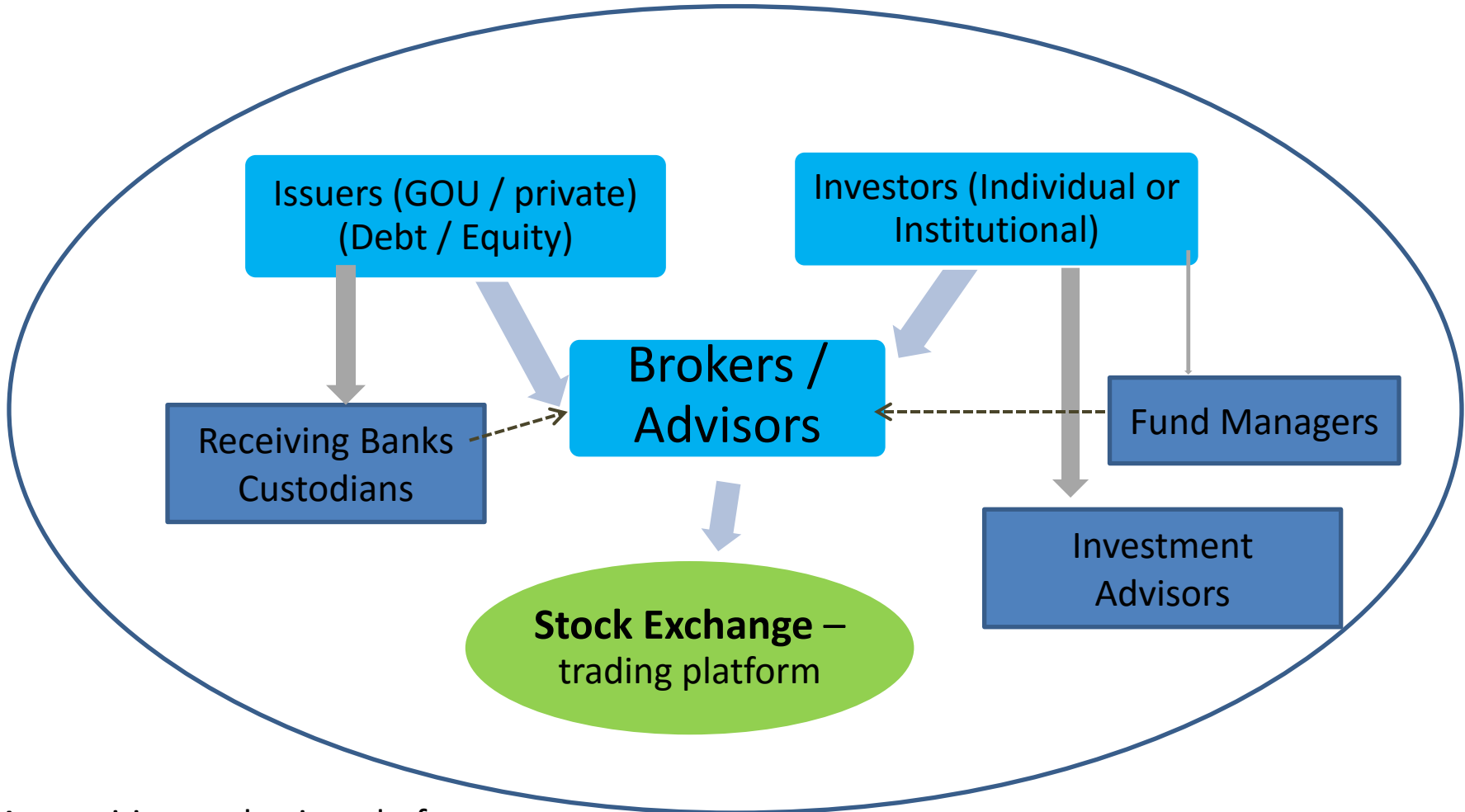
Pension &  
Provident  
Funds

- + Securities Exchange
- + Broker/Dealers
- + Investment Advisors
- + Fund Managers
- + Unit Trust Managers
- + Custodians

- + Insurance Companies
- + Insurance Brokers
- + Loss Assessors,  
Adjustors & Surveyors

- + Fund Managers
- + Trustees
- + Custodians
- + Administrators

Private Equity Funds, Investment Clubs, Contractual & Voluntary Savings  
Micro-Finance Institutions/Savings & Credit Co-operative Organizations e.t.c



A securities market is a platform where financial securities are issued & individuals & institutions trade securities – equity & debt

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# Capital sources & challenges of business growth)

## 1. Growth needs capital

## 2. Sources of capital

- Savings/wealth; Family/friends; Business profits reinvested Debt (high bank lending rates for medium sized companies)
- Equity (Private, Public)

## 3. Challenges of growth

- Management: reduction in direct management control
- Formalization and visibility
- Working capital – frequently underestimated (importance of ‘visibility of demand’)
- RISK – complexity increases

# Capital Markets

- Equity Capital Markets (private equity, public equity, private placements)
- Debt Capital Markets (non-Gov't or corporate bonds – medium to long term, commercial paper – short term)

# Thoughts for business owners before raising finance

- 1) Is growing your business via own funds/bank borrowings increasingly looking difficult?
  - 2) Are you willing to sell some of your shares in your business to raise more capital?
  - 3) Does your business have a good or unique product/service?
  - 4) Does your business have high growth prospects?
  - 5) Does management have the relevant industry/sector experience, drive, vision? Who is in charge?
  - 6) Is your business organized – books of accounts, good governance practices?
- *If your answers to 5 out of the above 6 questions is “YES”, equity is worth considering ....*

# But, why the concerns against equity ..... ?

- 1) There is no loss of control in decision making if you remain the majority shareholder
- 2) The risk of losing your company to other shareholders as a result of failing to meet capital call requirements / rights issues etc. is low given the above.
- 3) Reporting to the public – publishing abridged financial statements is done twice a year & AGM is held once a year
- 4) The information published is historical not forward looking (no risk of losing competitive advantage to competitors because company information is “public”)
- 5) The cost of listing is negotiable (5-8% of issue size)

# Benefits of public equity (listing)

**Lower Debt Burden,  
increases profitability**

**Equity Financing  
Opportunities**

**Expands Investor Base  
(incl. succession)**

**Enhanced Visibility**

**Incentive for Greater  
Venture Capital  
Participation**

**Encourages  
Innovation and  
Entrepreneurial Spirit**

**Shares can be an  
acquisition currency**

**Incentive for  
Employees**

**Greater Credibility**

## Issue 2 million new shares (33% of company) at UGX 25 to raise UGX 50m

		Before	After
a)	Shares (number)	6,000,000	8,000,000
b)	Equity UGX	60,000,000	110,000,000
c)	<b>Debt</b>	<b>50,000,000</b>	<b>2,000,000</b>
d)	Gross profit	30,000,000	30,000,000
e)	Interest @25%	12,500,000	500,000
f)	<b>Profit Before Tax</b>	<b>17,500,000</b>	<b>29,500,000</b>
g)	NPAT (Net Profit After Tax)	12,250,000	20,650,000
h)	EPS (earnings per share)	2.04	2.58
i)	Price 12x	24.5	31.0
	<b>Value of company</b>	<b>147,000,000</b>	<b>247,800,000</b>
	<b>Value of 6,000,000 shares</b>	<b>147,000,000</b>	<b>185,850,000</b>

# REAL ESTATE INVESTMENT TRUSTS (REITS)

# What is a REIT

- A REIT, or Real Estate Investment Trust, is a company that owns or finances income-producing real estate.
- REITs provide investors / shareholders regular income streams, diversification and long-term capital appreciation.
- REITs typically pay out all of their taxable income as dividends to shareholders. Shareholders pay the income taxes on those dividends.
- CMA will approve Development-REITs and Income-REITs.

# Reasons for Issuance of REITs

- To raise money for expansion of operations
- To reduce debt financing on existing property portfolios
- To acquire other companies or property portfolios
- To diversify and liquidate personal holdings
- To provide liquidity for existing owners or shareholders
- To enhance the company's reputation and business profile in the market (which could, for example, assist in completing transactions with tenants)

# REIT Actors

- REIT Trustees
- REIT Manager
- Property manager (optional but preferred)
- Transaction Advisor (one off)
- Professionals: Engineering professionals (for D-REIT), Lawyers, Accountants

# Is your property company a public offering candidate?

1. Are your company's properties of interest to tenants, and therefore the investing public as well (location, design etc)?
2. Does your company have an attractive track record?
3. Does your company have sound financial accounting, internal controls and reporting processes?
4. Is management capable and committed? In any public offering, the quality and competence of the management team is a key factor.

# Is your property company a public offering candidate?

5. Has your company received venture or private capital funding?
6. Are your companies prospects for maintaining a steady cash flow good? Possibility of growth in cash flows attracts investors more.
7. Do the benefits outweigh the costs of going public? Raising capital in the public markets can entail substantial costs, such as the underwriting discount, plus other fees and expenses. These should be seen as an investment not a cost.

# Key Success Factors for Issuance of REITs

- 1. Market Timing:** The demand for public offerings can vary with market conditions: the market's opinion of IPOs, credit markets, industry economic conditions, and many other factors.
- 2. Asset quality:** The key measures used to gauge asset quality (technical and market appeal – occupancy, comparison with peers, history of performance)
- 3. Size and Diversity of Assets:** A REIT that has a diversified portfolio is more attractive.
- 4. Operational Efficiency:** Larger developers will enjoy economies of scale.
- 5. Management and Operational Strategy:** The capability of the REIT manager is key

# Pre-Listing Preparations

- 1. Plan and prepare-Good project preparation is key**
- 2. Establish a good management team**
- 3. Establish relationships with a Transaction Advisor, law firm, and independent auditor-in advance**
- 4. Have your financial statements audited, and resolve potential disclosure and accounting issues in line with international financial reporting standards**
- 5. Build a positive public image-a positive image can enhance the initial sales effort and maintain the public's interest in the stock in the aftermarket.**

Thank you