

# **NOTE ON PUBLIC LISTING OF NATIONAL TELECOMMUNICATIONS OPERATORS**

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## 1.0 Background

The cabinet of Uganda approved the National Broadband Policy in the financial year 2018/19 which mandates telecommunication companies to offer their shares to the public. In furtherance of implementing provisions of the policy, Regulation 9 (1) (a) of the Uganda Communications (Licensing) Regulations, 2019, states that the Uganda Communications Commission (UCC), may in considering an application for a National Telecommunication Operator's licence, require an applicant to register a prospectus with the Capital Markets Authority (CMA) and sell shares to the public at a percentage of total ownership prescribed by the commission.<sup>1</sup> It is important to note that, the UCC, in exercise of its mandate under sections 5(1) (b), (v), 6(1) (a) (e), 21, 22, 24, 25 of the UCC Act and the Regulations made thereunder, approved new categories of licenses for immediate implementation. Key among the salient features of the National Telecommunication Operator (NTO) licence is that the licensee shall be required to list at least 20 percent of its shares on a securities exchange within two (2) years from the date of grant/ issuance of a license.<sup>2</sup> The purpose of this note is to develop a framework to guide potential applicants to ensure compliance with the provisions of the licensing regulations that require NTOs to offer their shares to the public.

## 2.0 Operationalization of Provisions of the National Broadband Policy and the Uganda Communications (Licensing) Regulations, 2019

In order to ensure compliance with the provisions of the licensing regulations that require NTOs to offer their shares to the public, the following will be critical:

- i) As a first step, the telecommunication companies intending to list shall become public companies;
- ii) The listing method shall be through an Initial Public Offer (IPO)<sup>3</sup> on a local securities exchange;
- iii) The listing shall be in accordance with requirements of the CMA Act, the Capital Markets (Prospectus Requirements) Regulations; and
- iv) A company intending to apply for a listing on a securities exchange shall conform to the listing rules and the continuing listing obligations.

## 3.0 Summary of Initial Public Offering (IPO) Execution and Listing

The process of making an IPO and listing on a securities exchange involves four distinct phases of work: initial groundwork to prepare the company for public ownership and agreement of the structure of the offering; preparation of the offering; seeking regulatory approvals; and execution of the offering. (A detailed table of the process is attached as appendix 1). It is important to note that the length of the IPO process varies from company

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<sup>1</sup> The Uganda Communications (Licensing) Regulations, 2019.

<sup>2</sup> <https://uccinfo.blog/2020/01/27/approved-new-telecommunications-license-categories/>

<sup>3</sup> An IPO involves the sale of a company's shares to the public for the first time i.e. going public.

to company. The timeline is influenced by several factors, including how well the company plans the process, how well positioned the company is in the market, the experience of the underwriters, management team and professional advisers, the complexity and size of the transaction, how quickly the listing documentation can be prepared as well as other factors not within the company's control, such as market conditions.<sup>4</sup>

#### **4.0 Listing of Telecommunication Companies in Other Jurisdictions**

It is noteworthy that Uganda is not the first country to mandate telecommunication companies to list on the local securities exchange. African countries such as Malawi, Ghana, Tanzania and Nigeria have taken the same action. The cases in the table that follows demonstrate similar government driven initiatives to develop the local capital markets through increased local participation into the respective telecommunication sectors.

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<sup>4</sup> KPMG. (2015). *A Guide to Going Public*.

**Table 1. Comparative Analysis of Telecommunication Companies' Listings in other Jurisdictions**

	<b>Airtel Malawi</b>	<b>MTN Ghana</b>	<b>Vodacom Tanzania</b>
<b>Enabling Legal framework</b>	Section 35 of the Communications Act of 2016, Regulation 26 (2) of the Communications (Telecommunications and Broadcasting Licensing) Regulations of 2016 and clause 42.2 of the company's operating licence, requires it to have 20% local Malawian shareholding	The Ghana National Communications Authority required MTN Ghana to offer Ghanaian investors an opportunity to own up to 35% of its shares	The Electronic and Postal Communications Act 2010 mandates all licensed telecommunication operators, holding licenses under its jurisdiction, to have a minimum local shareholding of 25% of their authorized share capital issued to the public and listed on the local bourse
<b>Target Amount (USD)</b>	37 Million	602 Million	205 Million
<b>Number of share on offer</b>	1.65 billion with an additional 550 million shares through an Over-allotment Option	4.6 billion	560 million
<b>IPO Offer Period<sup>5</sup></b>	59 working days	71 working days	114 working days
<b>Percentage of Equity on Offer</b>	15% with an Over-allotment Option for 5%	35%	25%
<b>Allocation to Local Investors</b>	20%	30%	25%
<b>Allocation to Foreign Investors</b>	Any foreign allocation subject to MACRA approval	5%	Nil
<b>Valuation of Offer Price</b>	Not provided	<ul style="list-style-type: none"> <li>• Discounted cash flow valuation;</li> <li>• Trading comparables valuation of listed companies in the same industry across comparable emerging markets;</li> </ul>	<ul style="list-style-type: none"> <li>• Tanzania's macro-economic outlook;</li> <li>• The historical and projected financial performance of Vodacom Tanzania;</li> </ul>

<sup>5</sup> This period starts from the offer commencement date and ends on the listing date

		<ul style="list-style-type: none"> <li>• Precedent transaction multiples; and</li> <li>• Broker-based sum of the parts valuation for MTN Group and valuation for MTN Ghana</li> </ul>	<ul style="list-style-type: none"> <li>• The relative values at which the shares of comparable companies on other African exchanges are trading at prior to the Offer; and</li> <li>• The discounted cash flow of Vodacom Tanzania.</li> </ul>
<b>Minimum Amount to be raised under the Offer</b>	2% of the total offer size, amounting to USD 0.7 Million	10% of the total offer size, amounting to USD 60 Million	Nil
<b>Procedure in case of Oversubscription</b>	<ul style="list-style-type: none"> <li>• Airtel employees would be given preferential entitlement and allotted shares prior to other applicants under the overallotment option.</li> <li>• Any other outstanding subscriptions would be thereafter allotted after all employees that applied for shares have been allotted.</li> </ul>	<ul style="list-style-type: none"> <li>• First, satisfy all duly completed applications from Ghanaian Investors; and</li> <li>• Second, satisfy all duly completed applications from other Qualified Applicants who are not Ghanaian Investors.</li> </ul>	<ul style="list-style-type: none"> <li>• In the case of oversubscription by Tanzanians and Tanzanian institutions, the offer shares were to be allocated on a pro rata basis</li> </ul>
<b>Manner of Subscription for the Offer Shares</b>	<ul style="list-style-type: none"> <li>• Through a physical application form or scanned soft copies of the application forms</li> <li>• The Airtel Mobile Money platform</li> </ul>	<ul style="list-style-type: none"> <li>• Through a physical Application Form,</li> <li>• The Offer Website</li> <li>• The MTN Mobile Money platform</li> </ul>	<ul style="list-style-type: none"> <li>• Through a physical application form or scanned soft copies of the application forms</li> <li>• The Mobile Money platform</li> </ul>
<b>IPO Subscription Level</b>	134%	32.97%	100%

Source: Airtel Malawi IPO Prospectus, MTN Ghana IPO Prospectus, Vodacom PLC IPO Prospectus, Airtel Malawi IPO Results Announcement, MTN Ghana IPO Results Announcement and Vodacom PLC IPO Results Announcement

## 5.0 Lessons for Uganda from other Jurisdictions and Recommendations

The Malawi Communications Regulatory Authority's (MACRA) recommended that shares be allotted to Malawian retail investors first, followed by companies owned by Malawians and then Malawian Pension Funds. Any outstanding shares thereafter were to be allocated to foreigners, subject to MACRA's approval. Based on the offer results, the Airtel Malawi IPO was oversubscribed by 34 percent. All Malawian individuals were allotted shares, followed by companies owned by Malawians and then Malawian pension funds. Given that applications from Malawian retail investors, companies owned by Malawians and Malawian pension funds' applications met the required amount to meet the 20 percent localisation, all foreign applicants were refunded. This allotment model should be applied in Uganda's case by giving preferential treatment to Ugandan retail investors, companies and institutional investors. However, for our case East African institutional investors should also be allowed to participate as domestic investors. Any outstanding shares thereafter could be allocated to East African retail investors and foreigners outside East Africa.

The MTN Ghana IPO was able to utilise the mobile financial services, MTN Mobile Money, as a medium for subscription of shares. The IPO registered a total of 128,152 applicants, of which 127,826 were Ghanaians. Also, 108,434 applicants subscribed through the MTN Mobile Money portal, representing 84.6 percent of applicants, further making a strong case for financial inclusion. To this end, telecommunication companies intending to list on the USE should also be encouraged to utilise this mode of subscription for the offer of shares. The transaction enabled Ghanaians from all walks of life to own a share in MTN Ghana and after listing it had the largest number of Ghanaian shareholders among all listed companies on the GSE. Notably, MTN Ghana was able to raise only USD 199 million out of the expected USD 602 million from its Initial Public Offering, representing 32.97 percent of the offer. However, the share sale exceeded the minimum of USD 60 million or 10 percent of the total required for the offer to be declared successful.

The Vodacom Tanzania IPO was initially ring fenced for Tanzanians and Tanzanian institutions. However, the offer period was later extended to give local investors more time to take part and also allow foreign investors to participate in the offer. According to the results, the Vodacom Tanzania IPO was fully subscribed with 60 percent of the amount raised by Tanzania investors and 40 percent from international investors. This further vindicates the proposal that for Uganda's case the IPO should be open to East African and foreign investors. It is also noteworthy that the Vodacom IPO attracted more than 40,000 Tanzanian investors, most of whom were first time participants in the capital markets in Tanzania.



## Appendix 1: Summary of IPO Execution and Listing

INITIAL GROUNDWORK	PREPARATION FOR GOING PUBLIC		APPLICATION FOR GOING	IPO EXECUTION & LISTING
<p><b>COMPANY PREPARATION</b></p> <ul style="list-style-type: none"> <li>- Hire of the Transaction Advisor, Reporting Accountant, Lawyer</li> <li>- All necessary restructuring</li> <li>- Strategy and business plan</li> <li>- Financial and accounting issues</li> <li>- Capital structure</li> <li>- Corporate structure</li> <li>- Corporate governance</li> <li>- Board structure and management</li> </ul>	<p><b>PRELIMINARY IPO PREPARATION PROCESS</b></p> <ul style="list-style-type: none"> <li>- Develop investment case</li> <li>- Determine Offer structure</li> <li>- Initial assessment of demand                             <ul style="list-style-type: none"> <li>Retail investor demand</li> <li>Institutional Investor demand</li> </ul> </li> </ul>	<p><b>PREPARATION FOR GOING PUBLIC</b></p> <ul style="list-style-type: none"> <li>- Undertake all the necessary Due diligence</li> <li>- Prepare Prospectus</li> <li>- Hire Public Relations/Marketing Consultants</li> <li>- Develop Public Relations/Marketing strategy</li> </ul>	<p><b>SUBMIT APPLICATION FOR PUBLIC OFFER &amp; LISTING</b></p> <ul style="list-style-type: none"> <li>- Submit Application for Public Offer to the Capital Markets Authority</li> <li>- Submit Application for Listing to an approved securities exchange</li> <li>- Undertake a book building to assess actual investor appetite and also to guide the valuation of the shares (Optional)</li> </ul>	<p><b>INITIAL PUBLIC OFFER</b></p> <ul style="list-style-type: none"> <li>- IPO Road Show</li> <li>- Share Allocation</li> <li>- Listing of the Issued Shares</li> </ul>

Source: Capital Markets Authority. (2019). Operationalization of the National Broadband Policy: Listing of Telecom Operators