

IPO of Ukrainian companies on the Warsaw Stock Exchange (WSE)

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Abstract – *The paper analyzes the Initial Public Offering of shares of Ukrainian companies on the Warsaw stock exchange. Also, it provides a comparative analysis of the composition and dynamics of the WIG-Ukraine and WIG-Poland indexes.*

Key words – Initial Public Offering; IPO; Warsaw Stock Exchange; GPW; index WIG-Ukraine; index WIG-Poland; capital; financial instruments; stock market; shares; investors.

I. Introduction

The vast majority of Ukrainian companies uses over-the-counter method of its share placement and raises share capital through a private share offering during its share issue process. This method of placement doesn't allow to raise high volumes of share capital and determine the real market price of the shares. Therefore, the placement of shares through an initial public offering of shares on the stock exchange (IPO) may be a promising way to the company to attract the additional capital in the future.

II. Results

An Initial Public Offering of shares on the international stock markets has become a common practice in Ukraine recently only. IPO - is a process of initial share alienation of the public stock exchange company on the basis of reports of securities sale, which are addressed to unspecified persons. It is usually held by trading on the stock exchange [5].

Even though high costs of conducting, an initial public offering of shares gives the opportunity to attract significantly larger amounts of funds than other sources of raising capital.

Not all Ukrainian enterprises have fully understood the idea of this concept, but some have already enjoyed its main advantages in comparison with other sources of raising capital. The existence of those significant advantages obtained by the companies with public status is a major reason of the growing interest in the IPO.

Among the main advantages of public company status there should be mentioned such ones as: the ability to use almost unlimited opportunities of the international stock market, and accordingly, attract significant funds; increasing reputation and popularity in the market; ability to attract loans and place bonds under the lower interest rates.

The main disadvantages of the IPO are: substantial costs; lengthiness of the process in time; a certain loss of control over the company; the companies' responsibilities that are related to public status.

The implementation of the initial placement of Ukrainian companies usually takes from one to several years. First, it is connected to the fact that national companies often don't meet the criteria for listing neither on worlds trading platforms, nor on the Ukrainian ones.

Speaking about the global stock exchange, the company will be able to enter them, only if they have a transparent system of doing business and ownership structure. Ukrainian companies are not used to hold regular audits of their activities and open all the information about them. Many companies have only started caring about their image. This means that if the owners of the company are not ready to disclose information about themselves and their business, there is no point of talking about IPO.

The Warsaw Stock Exchange (WSE) is quite popular world stock exchange among Ukrainian enterprises.

The Warsaw Stock Exchange (WSE) is one of the most promising European stock markets and the most dynamic IPO market - the official market, which enter the companies from different countries by opening all their data. From year to year, the stock market in Poland grows stronger and becomes more international. One of the reasons for this is an active marketing policy, which the WSE is carrying for the promotion of stock market infrastructure in Poland.

According to Polish experts, the IPO is quite an outstanding theme in Ukraine. There are investors on the Polish stock market who know and appreciate the tendencies of Ukrainian enterprises entering the international stock markets. They not only want, but also are ready to buy shares of Ukrainian companies at a competitive price. The most attractive sectors of Ukrainian economy are agriculture and food industry.

The Warsaw Stock Exchange is actually an ideal place for the placement of shares of companies with average capitalization. Conditions offered by this market exchange are attractive enough for Ukrainian companies, because, the placement of shares on the WSE worth less than on the London stock exchange, the market liquidity is high enough, and there is unlimited volume of placement as well as the optimal ratio of costs and result.

The usual way of entering on the WSE consists of the following steps (algorithm) [2]:

1. At the beginning, the owners have to make a decision about entering the Polish stock market.
2. Then, if the company is not a joint stock company, it must be reorganized into such one.
3. The general meeting of shareholders of the issuer should take a decision to enter on the stock market and, if it's necessary, to increase the share capital.
4. The possible reorganization of the company is carried out.
5. The company selects its brokers and consultants.
6. The Company makes prospectus.
7. The approval of the prospectus is held by the Polish Financial Supervision Commission (KNF) or supervisors of the EU.
8. When the company fulfills all these requirements, it should register the shares in the Polish official depository (KDPW), and then they will be admitted to the market.
9. There is held a first listing of shares.

The Warsaw Stock Exchange has circulation of its financial instruments on the following markets [4]:

- New Connect, launched on August 30, 2007, is a platform for secondary trading, where new businesses with high growth potential can attract capital. This market functions as an alternative system of trading. It gives dynamic small businesses a simple and inexpensive access to the capital and trades, in comparison with the classical market. Total capitalization of the companies has reached 2 billion Euros.

- Catalyst – is the market of instruments intended for trading with municipal, corporate and mortgage bonds.

- Polish Power Exchange. Since 2010, the WSE activity has expanded, covering transactions in the commodity market. In 2012, the WSE has bought a controlling stake in Polish energy market, where trades are conducted by selling electricity, natural gas, property rights to certificates of origin of energy.

The index of Ukrainian companies is present on the WSE. Index WIG-Ukraine is the second (after the WIG-Poland) national index, the calculation of which is carried by Warsaw Stock Exchange since December 31, 2010. Its portfolio consists of companies whose shares are listed on the Main market of the WSE, their location or central office is situated in Ukraine, or whose activity is significantly carried out in on its territory [1].

The structure of the stock market indexes may include companies that meet the following criteria:

- The number of shares in free float must exceed 10%;
- The value of shares in free circulation must exceed 1 million Euros;
- The company shall not be included into the Lista Alertów (warning list) and can't be in the low liquidity.

The company gets to the list Lista Alertów if its market capitalization falls below 5 million Euros or its stocks are characterized by low liquidity.

Ukrainian companies whose shares are represented on the Warsaw stock exchange are "far behind" from the market. The WIG-Ukraine index on the WSE demonstrates from the very beginning a steady decline. He reached his peak in 2010 (the maximum value was

1089.8 PLN), and since then has been falling steadily, reaching its minimum in 2015 with a value of 216.63 PLN. (Fig. 1).

International investors are attracted by high-quality assets. The peculiarity of Ukrainian companies is the fact that at foreign markets their shares are sold with a discount because of the risks of the country. Ukraine is a country with a high risk of conducting business. Military-political crisis in Ukraine has frightened investors. This trend is clearly displayed on the Polish stock market.

The situation looks much worse, if to compare dynamics of the WIG-Ukraine index with the dynamics of the national index of Poland - WIG-Poland (Fig. 2). This index for the past 5 years has shown significant growth, with the only significant drop in 2011. In the period from 2010 to 2015, the index has increased by almost 60% and has reached a maximum in 2015 with the price of 58998.61 PLN.

It is also necessary to emphasize the tendency of reducing the number of companies whose shares are included in the index WIG-Ukraine. Thus, at the end of 2013 there were 11 such companies (Table 1), and by the end of the 1st quarter of 2015 there has left only 7 ones (Table 2). That is, only some companies were able to comply with certain conditions in the stay list, and some have even stopped quoting its shares on the WSE.

The reducing of the value of WIG-Ukraine index to significant extent was caused by the rapid decline of such index market leaders shares value, e.g. of such companies as KERNEL, ASTARTA and OVOSTAR. For example, the cost of the package of the largest company in the list - KERNEL – has declined more than twice from 80080600 to 366446080 PLN. At the same time, the company's share in the portfolio grew from 38,77% to 48,72% [1].

That is, that the decrease of the index WIG-Ukraine is explained by the steady decline of market value of Ukrainian companies shares, the failure of some companies to comply with all the requirements for entry to the index list, and, as a result, their exclusion from the index, and the absence of new companies, which could be included into the index instead of the predecessors.



Fig. 1. Dynamics of WIG-Ukraine index on the WSE in the period 2010-2015 [4]



Fig. 2. Dynamics of the index WIG-Poland on the WSE in the period 2010-2015 [4]

TABLE 1

THE COMPOSITION OF THE WIG-UKRAINE (AS OF LATE 2013) [3]

№	Tool	Package	The market value of the package (PLN)	Share in portfolio (%)
1	KERNEL	13 807 000	800 806 000	38,77
2	ASTARTA	9 256 000	549 806 400	26,62
3	OVOSTAR	1 558 000	155 488 400	7,53
4	IMCOMPANY	9 809 000	147 135 000	7,12
5	MILKILAND	8 426 000	126 390 000	6,12
6	AGROTON	6 610 000	68 942 300	3,34
7	COALENERG	11 253 000	93 062 310	4,51
8	KSGAGRO	5 126 000	62 793 500	0,576
9	KDMSHIPNG	996 000	32 838 120	1,59
10	SADOVAYA	10 771 000	20 464 900	0,99
11	WESTAISIC	11 033 000	7 943 760	0,39

TABLE 2

THE COMPOSITION OF THE WIG-UKRAINE (AS OF APRIL 15, 2015; QUARTERLY PUBLICATION) [3]

№	Tool	Package	The market value of the package (PLN)	Share in portfolio (%)
1	KERNEL	9 856 000	366 446 080	48,73
2	ASTARTA	9 253 000	222 072 000	29,53
3	OVOSTAR	1 725 000	120 750 000	16,06
4	MILKILAND	8 276 000	23 917 640	3,18
5	AGROTON	6 399 000	7 358 850	0,98
6	COALENERG	11 252 000	7 201 280	0,96
7	KSGAGRO	5 093 000	4 329 050	0,58

The reasons of companies' value depreciation in WSE have become mainly some fundamental factors. Ukrainian economy has been already 17 months in recession and is still weak. The trade deficit, a sharp reduction in foreign exchange reserves, weakening of the hryvnia have not gone unnoticed.

No less important were the falling prices on agricultural goods on world markets and problems with the sale of coal.

"Astarta", whose shares are the most liquid ones that together with shares of "Kernel" occupy 70% of the weight of the index WIG-Ukraine, have had its own problems (reduction in the price of sugar).

All Ukrainian issuers whose shares are traded on international stock exchanges, including the Warsaw Stock Exchange, came under threat impact on their business by negative force majeure circumstances, which are the recent events in our country.

Thus, investors and owners of companies do not have sufficient grounds to expect the growth of the index WIG-Ukraine to the end of military-political crisis in Ukraine.

Conclusions

Public status of company and compliance with certain requirements allows the company to make an initial public offering on the stock markets. This method of raising financing has fully justified itself, despite large costs and long lasting process. Consequently, practically

limitless possibilities of international stock markets become opened for these companies. In recent years, the Warsaw Stock Exchange has become increasingly popular among Ukrainian enterprises to carry out IPO.

The index WIG-Poland showed significant growth over the past five years as compared with the index WIG-Ukraine, which has been falling rapidly. The reason is in reducing number of companies whose shares are included in the index WIG-Ukraine, military-political crisis in Ukraine and the rapid decline of such index market leaders shares value, e.g. of such companies as KERNEL, ASTARTA and OVOSTAR. Thus, investors and owners of companies do not have sufficient grounds to expect the growth of the index WIG-Ukraine to the end of military-political crisis in Ukraine.

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