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# Whither the Yangon Stock Exchange?

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**EXECUTIVE SUMMARY**

- In mid-December 2015 the Yangon Stock Exchange (YSX) was formally opened. Actual market trading commenced in March 2016.

- Tellingly, the first shares to trade on YSX were not new ones; but rather existing ones that previously changed hands on an informal over-the-counter (OTC) market.

- There was no IPO, and thus no new funding was actually created. It is unlikely that the stock market will serve as a major source of finance for Myanmar's corporate sector in the near-term.

- Most firms in Myanmar are just too small to contemplate public share offerings, and the underwriting, compliance and other costs of an initial public offering (IPO) and listing will likely deter some of the larger corporates.

- Looking ahead, one of the YSX's main impacts could be to improve the overall standard of corporate governance practices and financial transparency within the traditionally opaque 'Myanmar Inc.'.

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## ORIGINS OF THE YANGON STOCK EXCHANGE

The origins of the Yangon Stock Exchange (YSX) can be traced back to the latter part of British colonial rule, when then-Burma was still part of India. Although the country did not have a fully independent stock exchange of its own where the shares of local firms were traded, there was an 'over-the-counter' (OTC) facility known as the Rangoon Stock Exchange, which operated in the 1930s, prior to World War II, and briefly again in the 1950s. The stocks traded were mostly those of American and British firms, with price quotes sourced from the Calcutta and Bombay stock exchanges.

The nationalization of most large-scale Burmese businesses after 1962 resulted in the market closing once again. Thus, rarely for a former British colonial possession, Myanmar's historical experience with equity markets has been surprisingly limited.

A culture of equity finance does not yet exist in Myanmar, and thus the opening of the YSX is something of a leap into the unknown. The only other 'exchanges' operating in Myanmar are the twin commodities exchanges – primarily used for the trade of beans and pulses – in Yangon and Mandalay.

The notion of introducing a stock market in Myanmar surfaced in 1996, when the Myanma Economic Bank established a joint venture with Daiwa Research Institute. But the initiative was effectively mothballed until 2012, when the lifting of most economic sanctions occurred. In 2013, a Securities and Exchange Law was passed by the government. And in mid-December 2015, the Yangon Stock Exchange (YSX) was formally opened: Myanmar was thus the last mainland Southeast Asian country to do so.[1]

## A BRIEF PROFILE OF THE YSX

The operations of the YSX are regulated by the Securities and Exchange Commission of Myanmar (SECM), which is under the Ministry of Finance and Planning. The SECM was established in August 2014, roughly one year after the Securities and Exchange Law was promulgated and one month after the securities and exchange implementing regulations were passed. In May 2016, a new chairperson was appointed to the SECM; U Maung Maung Win (a former permanent secretary at the Ministry of Finance), following the surprise resignation of former Deputy Minister of Finance, U Maung Maung Thein.[2]

The YSX itself was formally incorporated in December 2014, as a joint venture between Myanma Economic Bank, Daiwa Research Institute and Japan Exchange Group Inc. In April 2015 the YSX received formal approval from the SECM to establish a stock market,

[1] For details, see: https://ysx-mm.com

[2] In December 2015, U Maung Maung Thein predicted that the YSX had a good chance of catching up with Vietnam's stock exchange "within three years".

with a formal opening in December 2015, and the first day of trading in March 2016. The market is open for four hours each working day, with all trading conducted electronically.[3] Order matching occurs in the final two hours, with the YSX itself serving as the clearing agent, and a three-day settlement time period.

The stocks listed on the YSX, at the time of writing, number just four:

- First Myanmar Investment Co. (FMI), listed in March 2016;
- Myanmar Thilawa SEZ Holdings Public Co., listed in May 2016;
- Myanmar Citizens Bank Ltd., listed in August 2016; and
- First Private Bank, listed in January 2017.[4]

On 20 January 2017, the first day of trading for First Private Bank, the YSX saw over 19,000 shares traded, cumulatively worth Myanmar Kyat (MMK) 285.7m, with a total market capitalization of just under MMK 667m. This compares with about 113,000 shares traded in First Myanmar Investment Company (FMI), worth MMK 3.5 trillion, and a stock market capitalization of MMK 728m on the first day of trading at YSX on 25 March 2016. The YSX index (MYANPIX) itself peaked on the third day of trading, at 1,322, but has steadily declined since then, to reach 560 by mid-January 2017 despite the arrival of additional stocks.[5] Clearly, investor appetite for listed equity paper in Myanmar remains less than euphoric. There are currently six approved brokerage companies through which investors may trade.

Tellingly, these initial listings on the YSX have not emanated, as is usually the case, from an initial public offering (IPO); but rather stem from the transfer of shares that were previously trading on an informal over-the-counter (OTC) market on to the YSX. Typically, IPOs and other kinds of rights issues are conducted as a means for a company to raise capital through the sale of shares to institutional and retail investors, with the listing that follows to serve as a means for those same investors to subsequently buy and sell those same shares in the so-called 'secondary market'. Thus, a market listing alone, without an IPO, does not generate any new money for the relevant company (even when the price of the shares rise). The aim of the YSX is to have 10 companies listed by the end of 2017. Other companies that have expressed some degree of interest in listing on the YSX include Myanmar Agribusiness Public Corporation (MAPCO) and Great Hor Kham (hydropower and construction company).[6]

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[3] A marked improvement on the manual 'clearing' that still occurs in Myanmar's interbank market.
[4] For details, see: https://ysx-mm.com/en/listing/company/lc00001/; https://ysx-mm.com/en/listing/company/lc00002/; https://ysx-mm.com/en/listing/company/lc00003/; and https://ysx-mm.com/en/listing/company/lc00004/.
[5] Despite reporting relatively strong profits and being the first company to list, FMI's share price has dropped from MMK 40,000 on debut in March 2016, to MMK 13,500 by mid-January 2017. Similarly, the Thilawa Special Economic Zone company debuted at MMK 50,000 on the first day of trading, but was down to MMK 4,400 by mid-January.
[6] The latter is expected to be the first real IPO, with new shares sold and then listed.

At present, only domestic investors are permitted to buy or sell shares on the YSX, all of which are denominated in Myanmar kyat (MMK). In November 2016, it was reported that the YSX had 20,000 registered investors.[7] With scant prior experience in stock market investing, it is likely that most retail investors will be driven more by sentiment and rumours than by fundamentals-driven analysis and the usual financial sector metrics used for equity valuations.

## THE ECONOMIC CONTEXT

Myanmar's macro-economic profile is that of a less developed country, seeking to transition into a more vibrant economy, after decades of mismanagement and cronyism. With the exception of an assorted group of State-owned enterprises, military-owned enterprises, and a dozen or so family-owned conglomerates, the majority of Myanmar's businesses are small, informal or formal enterprises and cooperatives. Although foreign direct investment has started to flow into the country once more, it will take time for a more robust corporate community to take shape.

Until recently, Myanmar was subject to an array of economic and financial sanctions that served to inhibit the country's ability to host inward investment, conduct overseas trade, enact financial transactions, and participate in international production networks. As a result, the domestic economy was contorted in various ways, and with a fragile banking sector, access to capital investment and technology has been markedly constrained. The resulting under-investment has left much of the corporate sector uncompetitive.

Access to debt finance for the majority of firms in Myanmar is extremely limited. Lacking access to formal and external sources of finance, they must rely on informal or internal sources as their primary means of funding. Bank loans are hard to attain, and even then have a tenure of just one year, making them useful for working capital needs only. The strict collateral requirements are also burdensome, rendering many businesses ineligible from applying for bank loans. The government sets interest rates, so loan providers cannot 'price for risk'. This has made illegal loan shark and usury practices common, sending some firms and individuals into a permanent state of debt.

In this context, one could argue that since Myanmar companies are so poorly served by even the most basic debt finance provision, pursuing the introduction of more technically demanding equity finance is an unneeded distraction for the country's economy at present. So why did Myanmar's policy-makers embark on establishing a stock market; is it not something of a luxury?

[7] 'World's Youngest Stock Market Struggles in Burma', Associated Press, 15 November 2016.

**THE UTILITY OF THE YSX**

There are probably a number of economic and more subjective reasons. There is often a temptation in transitional and developing economies to establish a stock market as a symbolic ‘totem’ of the country’s aspirations for modernity. This explains in large part why some of Southeast Asia’s smallest economies, such as those of Cambodia and Laos have proceeded with stock markets despite the not inconsiderable sunk and fixed costs of doing so, and with little appetite from local corporates to become listed entities.

Yet, for companies seeking to use stock markets as a vehicle by which to raise equity funding through initial public offerings, it often makes greater sense – where permissible – to list shares in one of the larger stock markets overseas, where trading volumes are greater and larger pools of portfolio funds can be readily tapped. This is exemplified by Yoma Strategic Holding; a wholly Myanmar-oriented entity, listed on the SGX in Singapore and owned by the same family behind YSX-listed FMI.[8]

However, the YSX’s primary impact could be as a vehicle to improve the standard of corporate governance practices and financial transparency of a traditionally opaque ‘Myanmar Inc.’ The degree of opacity can be seen in the Myanmar Centre for Responsible Business’s annual ‘Pwint Thit Sa’, survey of Myanmar’s 100 largest firms, on the information they provide on company websites and social media pages.[9] Similarly, the World Bank’s latest ‘Doing Business’ annual survey ranks Myanmar as 179th globally (out of 190 countries) for protecting minority investors and 188th for enforcing contracts.[10]

At the time of writing, the country’s parliament is debating a new Companies Act, intended to replace the current one which dates back to 1914 and to a very different economic age when then-Burma was an adjunct of British colonial India. If the new law is passed in 2017, as widely anticipated, then it – along with the revised investment law of 2016 – will set the stage for a more robust legislative and regulatory framework for the conduct of business in Myanmar.

It is often the case that the laws, regulations and compliance requirements of publicly traded firms are where the highest standards of corporate governance are to be found and enforced. The fact that potentially thousands of individual investors have their savings in the shares of such firms – either held directly or through various portfolio funds – necessitates that standards of corporate governance and its practice are greater than one would expect for family-owned or privately held businesses.

Another role that the YSX could play is as a trading platform for the issuance and secondary market trading of bonds and other ‘fixed income’ paper, whether issued by sovereign or corporate entities. Myanmar’s current fiscal revenue base is far from adequate, and there is

[8] See: http://www.yomastrategic.com/html/ir_stock.php.
[9] See: http://www.myanmar-responsiblebusiness.org/pwint-thit-sa/2016.html
[10] See: http://www.doingbusiness.org/data/exploreeconomies/myanmar

a pressing need to raise greater funds for the considerable expenditures required to rehabilitate an economy that has suffered from decades of mismanagement and under-investment. But for this to happen, there will clearly need to be adequate demand for such paper. While banks and other financial houses may have some appetite, and could be encouraged by the government to invest a proportion of their liquidity reserves in sovereign paper, for example, the most obvious investors would be insurance companies.

Unfortunately, the insurance sector in Myanmar is highly under-developed, constrained by an onerous regulatory framework, and a complete absence of foreign industry actors. It is widely anticipated, however, that the Ministry of Planning and Finance will issue regulatory reforms for the insurance sector in 2017 that have the potential to invigorate the market. If so, and insurance companies burgeon, this could bode well for the YSX.

While some local resistance is likely towards foreign institutional investors, fund managers, brokers and other organisations with international capital market expertise entering Myanmar at such an early stage in the YSX's development, the merits of them doing so are clear. This was a dim prospect while the country remained subject to international economic sanctions, but the lifting of those sanctions now provides a valuable window of opportunity, should Myanmar wish to take it.

## CONCLUDING REMARKS

These are early days for Myanmar's first experiment with equity finance. A degree of patience and perseverance will be required.

As a platform for local companies to raise long-term finance for investment, through share issuance, the YSX has yet to prove itself. As a vehicle for the under-resourced government to raise much-needed revenues through bond issues, the YSX has potential, particularly if other reforms are implemented to liberalise the wider financial sector, and particularly the insurance sector.

As a conduit through which to attract and funnel foreign portfolio flows, as overseas investors seek to gain exposure to the Myanmar economic growth 'story', legal and regulatory changes will need to be enacted to make this feasible.

There will also need to be a marked increase in market capitalization size, average daily trading volumes, the array of stocks available, and various other minimum requirements expected by institutional investors. Until then, the YSX will remain something of an esoteric interest for boutique frontier market investors.

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