ESE
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INVESTOR

HANDBOOK

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Background and History

The Swaziland Stock Market was established in 1990 as a non-bank credit institution in terms of the Financial Institutions (Consolidated) Order, 1975 under Section 18 (1) (b). For eight years the Swaziland Stock Market operated as an over-the-counter single stockbroker facility. It was not until July 1999 that a fully-fledged stock exchange, the Swaziland Stock Exchange, was inaugurated.

In 2003 the SSX was incorporated in terms of the Companies Act, 1912 as a public company (Swaziland Stock Exchange Limited) utilizing Central Bank staff as promoters for the purpose of its registration.

After the promulgation of the Securities Act, 2010 since January 2013 the SSX was transferred to the Financial Services Regulatory Authority (FSRA) and operated as a 'quasi company' within the Capital Markets Development (CMD) Division.

It has been given the task of operating the national securities exchange in Eswatini, where companies can issue securities to raise capital and investors can invest and trade in those securities. The ESE, which is regulated by the Non-Bank Financial Services Regulatory Authority (FSRA), sets the rules which provide the requirements that must be fulfilled for the securities listed and traded on the Exchange. The ESE further has pre- and post-listing requirements to be observed by the issuers of listed securities. The securities listed and traded on ESE markets are stocks, and bonds.

From January 2017 the SSX moved out of the FSRA to be an independent institution, on the 3rd Floor, East Wing of Ingcamu (PSPF) Building. On March 2019 the SSX changed its name to Eswatini Stock Exchange (ESE).

Creating Wealth for emaSwati

On an everyday basis, there are emaSwati who use the goods and services produced by one or more of the companies listed on the ESE. For instance, when someone banks at any of the listed commercial banks (e.g., Nedbank Eswatini), that person is using the services of an ESE listed company and is in the process contributing to their business success. As a means of participating in the financial benefit of such businesses one can do so by buying shares in these companies.

What is a Share:

The most common definition of shares is that shares are financial assets that represent part ownership of a company. A share represents a financial claim to residual profits of a company. When you buy shares in a company you become a shareholder or one of the owners of that particular company. Companies issue shares to raise funds or capital from the public in order to support or expand their business operations.

Benefits of Investing in Shares

Diversify your portfolio.

As an investor it is wise that you diversify by spreading your investments across various securities and asset classes that behave differently in terms of risk and return. In other words, you should not put all your eggs in one basket. A well-diversified portfolio can help ensure that the bad performance by some securities at particular times is offset by good performance of other securities which have different characteristics to the bad performing securities. Overall, this provides stability to the portfolio's risk and return profile.

Receive part of company's profits in the form of dividends

When an ESE listed company has made a profit, it may choose to distribute the profits by either paying out dividends or retaining the profits to fund the expansion of the company. Shareholders have the right to receive the dividends when they are paid out. If, however, the company chooses to retain the profits without paying dividends, these will be useful in funding the company's expansion which can, in the long run, contribute towards growing the company's assets and the shareholder's residual claims on the company's assets. Shares provide a regular income since many companies pay quarterly and annual dividends.

Have a voice in the running of the company.

Shareholders are involved in the running of the company by way of appointing Directors responsible for the day-to-day operations of the company. They do this by exercising their right to vote on resolutions requiring their consent.

Easy to buy and/or sell

Shares are liquid in the sense that there is relative ease in purchasing or selling of shares compared to other assets. However, this, to some extent, depends on the type of stock and the timing of the transaction.

Exposure to long term returns

History demonstrates that shares, as long-term investment, have the potential to provide better returns than any other asset class. However, past performance is not a guarantee of future returns. Although share values have historically risen over the long-term, this has been punctuated with periods of short-term volatility where prices go up or down very quickly. For this reason, it is usually important to adopt a medium to long-term share investment view of several years thus minimising the impact of short-term volatility.

Benefits of Investing in the ESE

Listed companies in the ESE constitute the cream of Eswatini's private sector and in aggregate, listed companies have shown sustained profitability. ESE has a very good record of being reliable, efficient, and competitive and a record of integrity and fairness in trading, clearing and settlement of transactions. Investors are offered a chance for diversity of investments under one roof be it in terms of products or industries invested in.

The ESE has qualified and experienced brokers offering professional advice on investment and making recommendations at your service who will not hesitate to tailor make an investment plan to suit your profile.

Stock market performance is reported regularly in Eswatini's newspapers allowing for careful monitoring of stocks' value. You can invest in a wide variety of companies, sectors and countries to spread your risk and maximise your returns. The brokers research on domestic and international trends to provide information to aid your investments.

Risks of Investing in Shares

Don't let risk frighten you. Just make sure that you understand the different kinds of risk before you start investing. Find out about the effects of the identified risks on your investments and personal financial goals. Smart investment involves risk management as there are always ways through which you can alleviate the risks.

The following are some of the factors to consider when evaluating risk:

- Past performance is not a guarantee of future returns.
- Liquidity can vary from time to time.
- Interest rates can change periodically.
- Inflation can affect the value of your returns.
- Exchange rates also change from time to time.
- Performance of a company can affect share price performance.

It is important to remember that the best defense against risk is to diversify by investing in different companies or different instruments such as shares, bonds, and exchange traded funds.

Below are some of the risks elaborated:

Market Risk

Supply and demand is the nature of market risk. Investors buying and selling shares each trading day affect the share price. In the short term, it becomes difficult to predict which way your stock will move. To counteract this risk, one may adopt a medium to long term investment view over which period short term volatility can be expected to normalise and result in possible long-term gains.

Personal Risks

Sometimes, the risk involved with investing in the stock market may not be directly linked to the investment or factors directly related to the investment but may rather be linked to the investor's personal circumstances. Suppose that Musa invests E100 in shares of company X. Imagine that the company experiences a drop in share price that week and Musa's shares drop to a market value of E90.

Because stocks are regarded as long-term investments, this type of a decrease in the value of share prices is usually not an alarming incident. Odds are that this dip is temporary, especially if Musa carefully chooses high-quality companies. Incidentally, if a portfolio of high-quality shares does experience a temporary drop in price, it can be a great opportunity to get more shares at a relatively low price.

Over the long term, Musa would probably see the value of his investment grow substantially. But, what if during a period when his stocks are declining Musa experiences financial difficulty and needs quick cash? He may have to sell his shares to get some money and curb further losses.

This problem occurs frequently for investors who do not put money aside for a "rainy day" in order to handle large, sudden expenses. So, the best defense is to invest money you do not need right now and take a long-term view. It is usually not advisable to borrow money to invest in the stock market because this can increase your risks in the event of your investment not performing in line with your expectations.

Inflation Risk

This term just means that your money may not buy as much as it used to due to inflation eroding your money's purchasing power. For example, a Lilangeni that bought you a bag of sugar in 1980 can barely buy you the same bag of sugar a few years later. This therefore means that the cash flows received from your investment (such as interest payments received from an investment in a bond) may not keep up with inflation.

Tax Risk

Taxes (such as income taxes or capital gains taxes) do affect your investment directly. Taxes can affect the amount of money you get to keep as they can take away a portion of the wealth that you're trying to build. Because tax laws change so frequently, it pays to gain knowledge about how taxes can impact your wealth-building program before and as you make your investment decisions.

Political Risk

Of course, if you own stock in a company exposed to political risk, you need to be aware of these risks. For some companies, a new regulation or law is enough to send them into bankruptcy. For other companies, a new law could help them increase sales and profits. What if you invest in companies or industries that become political targets? As an investor, you have to ask yourself, "How do politics affect the market value and the current and future prospects of my chosen investment?"

As mentioned, the best defense is to diversify your risk by investing in different companies or different instruments such as shares, bonds, and exchange traded funds.

What is a Bond?

A bond is a financial instrument that is similar to a loan agreement between a borrower and a lender. The borrower promises to pay the lender some interest after a certain period of time at varied dates in the future. The borrower also promises to repay the initial or principal amount of money from the lender or creditor. The lender is known as a bondholder while the borrower is known as an issuer of the bond. An issuer can be any entity such as government, a private company or a parastatal.

Who Borrows Money through Bonds?

In Eswatini it is the government, and private companies. In other stock markets, different entities such as councils, hospitals, universities, schools, as well as governments and other entities can borrow money from the public through issuing bonds. For an issuing company to borrow, it must comply with the listing requirements of the ESE.

In its application to list or issue a bond, the main documents that the issuer must submit are the programme memorandum and the bond pricing supplement. These documents contain all the required details about the issuer, the issuer's business operations, financial conditions, the bond to be issued, prospects, risk factors and other information. The documents are very important for investors as they include information with sufficient details to enable investors to have an understanding of the issuer and the issuer's ability to effect scheduled interest payments and repay the principal amount.

What are the benefits of investing in bonds?

A bond pays interest either annually or semi-annually to the bondholder. Therefore, the benefits of investing in a bond are:

- The bondholder receives regular cash flow through interest payments made by the issuer during the life of the bond.
- Compared to stocks or shares, bonds can be said to be a safer investment option because the principal amount will be repaid when the bond matures and interest payments are normally paid as per schedule.
- As a bondholder you have a higher claim on the issuer's assets such that in the case of bankruptcy, a bondholder will get paid before any shareholder. Hence bonds are considered less risky than shares.
- The low-risk nature of bonds implies that bonds may be used by investors to preserve their capital.
- Bonds may also be used to diversify your investment portfolio in order to reduce losses in your investments. Therefore, it is possible to own bonds and shares at the same time.

What are the risks of investing in bonds?

The disadvantages or risks of investing in bonds are:

- Unlike investing in shares, if a company does well and realises increased profits the bond holder does not get an increased amount of interest payment because interest payments are fixed.
- The bondholder does not enjoy any voting rights and therefore does not have a say in the decisions of the Board and management in running the company.
- Inflation may erode the purchasing power of coupon payments if it rises above the rate at which the interest is paid (coupon rate).

WHAT IS THE DIFFERENCE BETWEEN A BOND & A SHARE

BOND	SHARE
Pays interest (coupon payment)	Pays dividends
Gains are limited up to the amount of interest paid	Gains are unlimited and losses are up to the original amount invested in the shares
Has a fixed life up to a specified maturity date	Has a perpetual life
Bondholder has no voting rights	Shareholder has voting rights
Low risk investment with known returns	Higher risk investment with potential for higher or lower returns
Paid interest before shareholders receive dividends	Paid interest before shareholders receive dividends
Paid dividends after bondholders receive interest	Entitles the shareholder to ownership of company assets
Bondholder receives principal amount at date of maturity	Shareholder can benefit from gains in the share price when selling the shares

What is a stockbroker?

Stockbrokers, also referred to as brokers, are agents licensed by the FSRA to buy and sell shares on your behalf. They have exclusive access to ESE markets to execute trades. Brokers provide other services and products and may offer professional advice on which shares to buy or sell. All brokers are required to meet certain standards such as acquiring appropriate qualification (such as Registered Persons Examinations or RPEs), experience and proven business integrity and must comply with ESE rules.

Process of buying and selling ESE listed securities.

Buying Shares	Selling Shares
1. Approach a Broker	1. Approach a Broker
2. Fill in a Client Application Form	2. Place a Sell Order
3. Open a CSD Account	3. Broker Executes Order
4. Place an Order	4. Broker Confirms with Client
5. Broker Executes Order	5. Payment
6. Broker Confirms with Client	
7. Settlement T+3 days	

What are the requirements for opening an account with a Stockbroker?

In order to open an account with a stockbroker you will be required to produce the below:

- A National Identification Card/Passport.
- A document showing proof of physical address, e.g., a lease agreement with a landlord, title deeds to a property.
- Two passport sized photos.
- Bank statemen/Income Sources.

<u>CLEARING & SETTLEMENT</u>

Any transfer of financial instruments, such as stocks, in the primary or secondary markets involves 3 processes:

1. execution
2. clearing
3. settlement

Execution is the transaction whereby the seller agrees to sell, and the buyer agrees to buy a security in a legally enforceable transaction. All processes leading to settlement is called clearing, such as recording the transaction. Settlement is the actual exchange of money, or some other value, for the securities.

Fees and Costs

Be aware that once you have engaged a stockbroker to act on your behalf and you make an initial investment with them, there are fees and costs involved. Brokerage fees are levied on any purchase or sale of shares. When buying and/or selling in different companies, it is considered two separate transactions. There is no fee charged on providing professional advice, but please note there is a sliding scale of commission fees to brokers. The following are the fees and charges for shares:

All trading fees that are charged by market operators and market participants are regulated. Fees are charged per each trade on both the buy and sell side. The following tables show the various market charges.

Equities

Type of charge	Buying%	Selling%
Brokerage Fees	0.92000%	0.92000%
Capital gains withholding tax	0.00000%	1.00000%
Central Securities Depository Levy	0.10000%	0.10000%
Financial Services Regulatory Authority (FSRA) Levy	0.10000%	0.10000%
Investor Protection Levy (To pay for in the event of liquidation)	0.02500%	0.02500%
Stamp Duty (Tax paid to the SRA)	0.25000%	0.00000%
Stock Exchange Levy	0.10000%	0.10000%
Total Transaction Costs	1.63300%	2.38300%
VAT 15 on brokerage fees	0.13800%	0.13800%

Debt Security

Type of charge	Buying%	Selling%
Brokerage Fees	0.06500%	0.06500%
Central Securities Depository Levy	0.10000%	0.10000%
Financial Services Regulatory Authority (FSRA) Levy	0.01000%	0.01000%
Investor Protection Levy	0.00300%	0.00300%
Stock Exchange Levy	0.01200%	0.01200%
Total Transaction Costs	0.19975%	0.19975%
VAT 15 on brokerage fees	0.00975%	0.00975%

What is the CSD?

CSD stands for the Central Securities Depository, which is a computer system that facilitates holding of securities in electronic accounts in contrast to paper certificates. The CSD is very similar to a bank and an account in the CSD operates in a similar manner to a bank account.

Bank	Depository
Holds funds in accounts	Holds securities in accounts
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the account holder
Facilitates transfers without having to handle money	Facilitates transfer of securities without having to handle paper certificates
Facilitates the safekeeping of money	Facilitates the safekeeping of securities
Gives monthly statement of funds in accounts	Gives monthly statement of securities in the CSD

What is the Automated Trading System?

The Automated Trading System is the system employed by the Eswatini Stock Exchange (ESE) to facilitate automated trading. The ESE introduced this system in April 2023 in line with global exchange endeavours to increase transparency and efficiency in the trading of securities.

Previously, trading was conducted manually at the exchange, with brokers meeting daily at the Exchange in order to execute trades for clients. With the introduction of the Automated Trading System however, trading now occurs on-site at the individual brokerages, with the ESE monitoring trading activity.

Delisting

This refers to the process by which a listed company no longer has the status of being "Listed" and is no longer governed by the rules and regulations of the Eswatini Stock Exchange. There are two types of delisting that exist, Voluntary and Involuntary.

During the Voluntary delisting process, a listed company may make an application to the Listings and Trading Committee in which it enumerates the reasons it wishes to no longer be listed on the exchange. The application is then reviewed by the Committee and a decision passed on the validity of the rationale provided in the delisting application. The applicant shall then enter into the process of informing the market and market participants of its removal from the ESE, and the cessation of trade in its securities.

Involuntary delisting of a security is when the ESE, using its discretion, takes punitive action against a listed company for failure to comply with Listings Requirements. For the company to fall into this category, there would have been a failure to rectify infringement(s) of the Listings Requirements, and following an investigation, shall be deemed to no longer be able to meet these requirements. At this point, the company shall be removed from the ESE, and the market and market participants informed in due course.

Suspension

Suspension can be voluntary where a listed company requests for its securities to be suspended from trading for a specific period in order to allow for the completion of a specific price sensitive action. The suspension of a listed security also refers to the ban on trading in a listed company's securities by the ESE based on a failure to meet its obligations as defined in the Listings Requirements. Involuntary suspension occurs when a company infringes on the listings requirements and the Listings and Trading Committee deems it fit to suspend trading of its securities, pending compliance or if the exchange believes that it is necessary to suspend trading until an information asymmetry has been removed. An example of an infringement would be the failure to submit company financial statements at the stipulated time.

Cautionary Statements

The ESE regulations require that listed companies often offer cautionary statements and Trading Statements. These forward-looking statements may be issued through the press before the company engages in an action that may alter its current share price.

Whenever listed companies have issued Cautionary Announcements and/or Trading Statements, they are said to be trading under cautionary, and thus they are annotated with a "C" status in the Daily Market Report to indicate this to the public. During this period, Directors, and senior management of the listed company, as well as any employee who has access to the information the subject of the announcement, are not allowed to trade on the company's shares. This period, for these people, is the closed period.

A stockbroker is an ESE member firm and is licensed by the Financial Services Regulatory Authority (FSRA) to deal in securities on the ESE on behalf of investors and issuers.

STOCKBROKER	TELEPHONE	PHYSICAL ADDRESS	EMAIL
African Alliance Eswatini Securities Limited (AAESL)	+268 2404 2002	1st Floor, Matsapha Link Portion 3 of 582, Along Police College Road and Lihawu Street, Matsapha Eswatini	securities@africanalliance.sz
ESW Securities Limited	+268 2417 1615	4th Floor, Sibekelo Building 2, Mbabane Office Park, Mhlambanyatsi Road, Mbabane, Eswatini	info@eswsecurities.com

ESE PHYSICAL ADDRESS

3rd Floor, Ingcamu Building

Mhlambanyatsi Road

Mbabane, Eswatini

ESE CONTACT DETAILS

Tel: +268 2406 8243 | Fax: +268 2404 7930

Email: info@ese.co.sz

Web: www.ese.co.sz

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