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STOCK EXCHANGE

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Is it whither or wither the mighty JSE?

IT IS IMPORTANT for our economy and our country that the Johannesburg Stock Exchange (JSE) reverses the trend of delistings. At its height in the 1990s, the JSE boasted some 850 companies listed on the bourse. Today the number is down to some 340.

Last year, 25 companies delisted from the JSE, preceded by 20 others in 2020 and 24 in 2019. Conversely, the JSE enjoyed just seven initial public offerings (IPOs) last year and four the previous year. The combined market capitalisation of the JSE listings is around $1.36 trillion (R23trln), which makes it the largest in Africa, and 19th by size globally.

The NYSE at $25.85trln and the Nasdaq at $17.36trln by comparison are by some way the largest bourses, followed by the Shanghai Stock Exchange at $7.37trln and the combined Euronext exchange at $6.41trln.

Placed in further comparative context, the JSE ranks slightly lower than the Taiwan stock exchange and just above the Iranian bourse by market cap. In other words, the JSE remains in the top tier of bourses globally (just), but has shown a consistent decline relative to, say, its Canadian and Australian peers in recent years.

The news is not all doom and gloom, however. The JSE saw a net inflow of foreign investment during quarter one of 2022 and even recorded its highest average of daily trades ever in March. So, what explains the precipitous decline in JSE listings?

Companies tend to list for four or five main reasons, namely: access to capital for growth, liquidity, enhanced company profile and visibility, efficiency and transparency, and finally, as a reward to owners, private investors and employees. The weight of these factors may vary and indeed there are waves of listings that propel owners to list in order to cash in on the high multiples offered in times of intoxicating market exuberance. So how do these factors, or their absence, explain the hollowing out of the JSE? Some reasons are technical and relate to capital markets, as well as the behaviour of institutional and passive tracker investors, but the first and most obvious issue is lack of investor confidence.

JSE listings, daily trade and market capitalisation, are correlated to the broader economy and the local economy has merely bumbled along since the global financial crisis. That there is pent-up liquidity being held by South African institutional investors in particular is demonstrable.

Indeed, some of the more exciting local IT start-ups have rather sought and secured private equity funding, or have simply "virtually" externalised their operations. The second issue is that of the expense of being listed, combined with overly demanding regulations and reporting requirements governing JSE-listed companies. These operating and cost aspects have been cited by a number of household names that have taken their companies private over recent years and it is something that the JSE has promised to address, but to which it has not yet provided corrective and attractive solutions. A third factor is the failure of the JSE to provide a platform for significant and sustainable broad-based black economic empowerment. While it may be argued that disadvantaged people have been economically empowered through entities such as the Public Investment Corporation and Government Employees Pension Fund, direct ownership on the JSE remains overwhelmingly in white hands.

This structural pathology needs to be addressed by the JSE for reasons not simply of economic and social justice, but rather to avoid the adoption and imposition of the more catastrophic economic policies currently being touted by some extremist politicians.

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