

Interview of Mr. Sulaiman S. Mehdi, Chairman-PSX published in Dawn Special Supplement (Capital Markets & Investment Awareness) dated February 13, 2019

“I am hopeful that the Pakistani capital markets will perform better this year,” says PSX Chairman

The following excerpts are taken from an interview with Sulaiman S. Mehdi, Chairman, Pakistan Stock Exchange Limited.

What are the benefits of listing at the PSX?

There are many benefits of being listed. Being a private company, you just need to compare yourself with a company listed on the stock exchange. It's all about 'visibility economics. The moment you are a listed entity, the banking channels and the world opens to you. It provides easy access to capital from market via initial issue of shares, right issues, and higher esteem in the eyes of its debtors and creditors because of the availability of its financial statements for general public, and close monitoring by the regulators. Sponsors and shareholders can easily pledge shares to obtain loan from various sources. Thus, you get into a process of self-discipline by adopting best practices and good corporate governance.

Additionally, if you are a private company, attracting the best talent is always a challenge because all graduating from the top universities aspire to work for a prominent listed name.

Another advantage of listing is higher valuations. For example, if you are a private company that earns Rs.100 million in profit-after-tax today. Once you get listed at the stock exchange, depending on the sector, you can reap a certain multiple of your profit-after-tax. In other words, a company can be valued at a billion rupee, while earning Rs.100 million, because markets trade at a certain price-to-earning's multiple.

What should be the ethos of a Stock Exchange?

The actual ethos of a stock exchange is not just to provide a trading platform. It should be a platform, where people can look to raise capital.

All exchanges provide a trading platform where exchange of hands takes place between buyers and sellers, but what is really more important and the way I would really want PSX to operate is to be a platform, where high-growth potential companies can list and raise capital for expanding their businesses and create employment.

Do you think the investors of today are well aware of these benefits?

If you do a 5-year analysis of the listed companies at the PSX, you'll observe that the listed companies have been in the range of around 550-560. Which begs the question why we have not been able to attract more companies for listing? We have had few IPOs in the last five years, but then there have been certain de-listings also. So, it has been a zero-sum game for the PSX. I think, we really need to work on creating awareness for entrepreneurs about the benefits of listings.

Why do you think not many companies in Pakistan are getting listed at the stock exchange?

When a private company moves to a public setup, it is no more 100% family owned, no double books and also demands more transparency, disclosures and compliance with regulations. These are the few challenges which discourage listings at PSX. We are also working on making the listing requirements flexible for attracting more listings.

What do you suggest to increase the number of listed companies?

I have made a suggestion in the past which I'll make again and that is, in order to promote listing at the PSX, we need to introduce some provision in law where no questions are asked about the double books of the past once a company gets listed. This will actually help attract more tax revenue for the Government.

How is the Pakistan's capital market performing?

Pakistan's capital markets are no different to other markets globally. Market's performance is contingent upon the economic performance of the country. I have repeatedly said that the markets can absorb even bad news and then again consolidate, but what really hurts any market is the uncertainty. So, whenever and wherever you're in an uncertain environment, markets can't perform. If you talk about the performance of the PSX, we have had two consecutive bad years.

There are challenges, but there are opportunities too. So, I am hopeful that this year the capital markets will perform better as the present Government has already taken, widely considered unpopular but correct actions of putting the economy on track. With more clarity on IMF Programme, structural and policy changes resulting in improved macro-economic indicators, the markets should respond positively.