

Preparing for Sierra Leone's Stock market

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Stock Market for Sierra Leone

- The govt has announced a new stock market will open by the end of 2008.
- Reporters will need to prepare now to learn how to cover the market.
- In countries with a stock market, companies are financed by bank loans and by personal savings.
- Many companies are owned by small business holders/family members or by the state or are a result of a joint venture with a foreign firm.

Advantages

- There are a number of other reasons why developing countries don't have stock markets (such as Laos, Somalia or Sudan) or have ones that are small (Vietnam, Ecuador) compared to the size of the economy. Low economic growth, high inflation, low savings rates all discourage the creation of strong markets. As well, weak regulations on investment, inadequate bankruptcy laws and a lack of protection for investors all work against the development of robust capital markets in developing and transition countries.
- Most economists say the creation of a stock market helps overall economic growth by:
 - Giving companies an avenue outside the banking system through which to raise investment capital. Traditionally, capital market financing, *when capital markets are working well*, is both cheaper and longer term than bank lending.
 - Bringing private savings into the public arena where they can be efficiently used
 - Raising corporate accountability especially as foreign investors demand transparency and regulation
 - Facilitating foreign capital inflows.

Be Wary of Overselling

- There are also fears that the entry of capital can destabilize the economy/exchange rate. I don't think you will need to worry about this in the beginning.
- The main thing to keep in mind is that the stock market is not a panacea. It will not solve a country's economic problems.
- Probably, in the beginning the market will be small. There will not be many companies listed and there will not be many traders either. The market will be "illiquid" and therefore "volatile" .

Insider information

- There will probably be a lot trading off of insider information.
- People will get rich off this information.
- Enforcement of regulations may be lax.
- Watch out for “first day bounce” and sudden share price movements.
- There will also be regulations about the amounts of price changes that are allowed. The govt may set laws preventing more than a 10% rise or fall (for example) each trading session.

Stories in Preparation of the Opening

- In the months before the market is open you will likely write stories about:
- The foreign banks who come to help set up the market/trading floor
- New regulations—including transparency
- The companies that are preparing to list.
- The foreign investors who come to work with local companies to prepare them to list.
- The technical assistance given by the WB or ADB and other groups.

Transparency

- Part of the preparation for listing will include increased transparency
- In countries where there is a stock market, there are usually regulations about information disclosure. Companies that are listed on the stock market may provide updated earnings information two or four times a year as well as an audited balance sheet at the end of the fiscal year. These companies are usually more willing to talk to the press because they are accustomed to releasing information. They may also be required to disclose market-moving news outside of the season in which they report earnings. In the weeks before earnings are reported they may stop releasing information. This is known as the “quiet period”.
- The advantage to dealing with more open companies is that you can get more information. The disadvantage is that they may be so accustomed to dealing with the press that they produce regular press releases which put forward news that puts the company in a favorable light. In this case it’s important to dig deeper and ask hard questions so you aren’t just repeating the good news from the company.
- Companies that aren’t listed on the stock market may be more secretive and many government-owned companies may not keep or release reliable information. In Vietnam, for example, information about how well a company is doing is often given only to the top directors of the company. When writing about these more secretive companies it’s even more important to build up your own sources both inside and outside the company by talking to suppliers, competitors and distributors.
- Many countries have rules that companies need to be profitable in order to be listed on the market.

The Roadshow Process/First Day Bounce

- Companies list shares on the stock exchange in order to raise funds for acquisitions or to have more cash on hand
- Underwriters are chosen
- Road Show
- Pricing
- Subscription
- Corruption in allocation of shares
- First day bounce is a rip-off to shareholders

Covering the Market

- Once the market opens you will probably write many stories about the trading on the market.
- These stories will describe where the shares moved and why and make a prediction for the future.
- You will talk to people in the market to find out this information and watch the screens as well.
- See the backgrounders on www.journalismtraining.net for more examples
- Also check the Reuters and Bloomberg websites

Covering Companies

- You will also be expected to write about the companies listed on the market.
- Corporate coverage is at the heart of the business reporting beat. Every country has companies both large and small that play a crucial role in the country's economy. At almost all newspapers, reporters are assigned specific industries and companies. Getting to know the companies on your beat is an important part of your job as a journalist.
- There are many different kinds of company stories that journalists write. But at the center of most of them is one simple question: how will the news you cover affect a company's profitability and/or its share price? If you keep this in mind, it will make it easier to gather the information needed and to structure your story once you have done the reporting.
- In developing countries, most companies are owned by private owners or by the state. In some cases the company may be listed on the stock exchange, although in developing countries stock exchanges are usually quite small and trading is limited. Foreign investment is also a large part of the story— new deals, existing companies and changes to regulation.

Basic Business Stories

- When there is a new product, you want to know how much the company is investing and launching it, whether the company will make money from it and when.
- When there is a new manager, you want to know why s/he was brought in and whether he has new plans.
- When a company plans an acquisition you want to know how it will be financed (stocks versus cash/debt) and whether it will work.
- Acquisitions and mergers will require lots of follow up stories in the months and years after it happens. Often the two corporate cultures don't mesh well, or there are layoffs. Look out for CEOs with big ambitions that don't pan out.
- Look at the different divisions of the companies you cover to see how they are faring.
- What are the barriers to entry? Will first-arrivals have an advantage over late comers?

Company Stories

- Wherever you are writing, the same kinds of stories are considered newsworthy:
- Company earnings results
- New products
- New marketing initiatives
- Mergers and acquisitions
- Stock market listings and share issues
- Labor disputes
- Management changes
- Privatizations
- Government intervention, regulation
- Moves in the broader economy
- The broader outlook for the sector in which the company operates
- Economic data that affects the sector in which the company operates
- Mergers and acquisitions and sell-offs of divisions
- Stock splits, share issues and offerings
- All of these topics are important because they affect the lives of consumers, employees, suppliers and distributors. But they also affect whether a company will make more profit or less.

Broader Climate

- Be aware of the larger environment in which your company is operating.
- Is it cyclical or defensive?
- How will it respond to the broader economy?
- Are there new regulations that are making its life easier or more difficult?
- The same goes for the competitive environment.

Developing Sources

- Building up sources on the corporate beat is the same as building up sources on any kind of beat. The process starts with a reporter getting to know the people and institutions he is writing about. This can be done in a number of ways:
- Visits to the company's headquarters
- Visits to the company's factories and distributors
- Interviews with top executives, managers and workers
- Interviews with former employees and executives
- A careful reading of company publications, brochures, annual reports and any earnings statements that they release.
- Interviews with major shareholders.
- Interviews with board members who advise or supervise the company even if they don't work there day-to-day.
- Interviews with suppliers and distributors
- Interviews with people who do the public relations and marketing for the company.
- Interviews with government regulators or Ministries that oversee the companies on your beat
- Interviews with competitors.
- It's worth it to take the time to do all of the above even if you aren't working on a specific story. This way you will get to know the players involved and they will get to know you which will be a help when news breaks and you need information quickly.

Beyond the Press release

- Many companies have well-staffed public relations department which deal on a daily basis with reporters. Company spokesman can be helpful and it is important to stay on their good side. They can arrange interviews, make sure you get information quickly and they can often provide important background information and answer questions when top executive are not available.
- But, of course, company spokesmen's job is to make the company they work for look good and their ideas about what constitutes important news may be different from yours. Typically, company spokesman will want to see stories published which cast their company in a favorable light and they may also downplay or deny problems in their company.
- When a company does something that can affects it earnings or share price, they may well put out a press release. They may also contact you to let you know that they are expanding operations or launching a new product.
- In these cases, you always want to know whether company expectations are realistic. To take a real-life example, if a company says it is going to start producing cars in a country where most people are poor and few people own cars, then you need to ask whether their projected sales figures are realistic. The company usually won't admit that their forecasts are overoptimistic but you can let readers know your views by putting information in the story which provides more background and context. This will give the reader more information so that he can evaluate the company's claims.
- You can also talk to a company's competitors or objective analysts (not ones who work for a bank trying to sell the company's stocks) and include their views in your story. These can balance statements made by the company you are covering.

Attracting FDI

- Foreign direct investment is a big story in developing countries and has grown dramatically in the last decade. The country which receives the most FDI is China. Most common are stories about foreign companies that decide to buy local companies or set up joint ventures in which each side contributes assets (such as land or equipment) and money to set up production facilities.
- FDI is considered important for development because it can promote economic growth and create jobs. Also foreign companies bring in new technology and world-class production standards and often hire and train local managers. All of this can influence local companies and help them learn from foreigners about how to compete on international markets.
- Governments often worry about foreign companies having too much influence so they may try and limit the size of the foreign investment. Often foreigners are barred from holding more than 49% of a joint venture. Government decisions on foreign invested projects and new regulations are important topics for journalists to write on

Localizing Your Story

- Very often something will happen overseas or in another places and you will have to do a story about how this news will affect the company you cover
- In this case, calls to analysts, academics and your sources will reveal whether they have thought about the topic and what they are planning to do about it.
- For example, will a new regulation mean the company you cover have to spend money on compliance. Will a change in the dollar affect their profitability outlook?

Profiles

- Profiles of top executives—these take months to get so you should always have a few requests in.
- Do lots of background research before you go into see the CEO so you don't waste time asking general questions.
- Follow-up stories so that you go back to their major announcements and see what happened later.

Earnings Reports

- Companies report their earnings between 2-4 times a year.
- Before this happens they issue profit outlooks and warnings.
- These are stories that business journalists write about. Often reporters write “curtain razors” predicting what is going to happen.
- On the day of the earnings, reporters write a spot news story about the results.
- They talk to analysts for their views and write stories about how the market reacts.
- In the days after the earnings are reported, journalists write more detailed stories about what has happened.

The P and L

- When analyzing the profit and loss statement you need to look for:
- What has actually happened (read the footnotes)
- How each division is faring
- Any major events or charges
- Large changes or inconsistencies
- Whatever number your editor feels is the most important

Looking at the P&L and the B/S

- That could be net profit
- Or it could be operating income
- Cost of goods sold should move in tandem with the net profit. If not, you want to know why.
- As you go down the p&l, you want to look at each number and see what has happened to it.
- Taxes are a place where companies may massage their earnings
- Compare the P&L to the free cash flow statement
- Look at the balance sheet –liabilities equal assets
- Look at liabilities and amount of debt
- Read the footnotes to the statements
- Learn how to use the internet and find documents filed with different exchanges. If there is information you can not find in your country, it may be available somewhere else.

A Word About Accounting

- The whole point about accounting is to provide a smooth and steady set of figures
- Companies don't like surprises or major changes
- Accounting is different from cash flow
- Accounting is all about revenue recognition and when things are booked. COGS is booked when revenue is booked.
- Provisions
- Depreciation/capital expenditures

Debate Over Accounting

- People in corporate finance don't like accounting because they believe it is too murky.
- They look at the free cash flow to see what has happened
- They look at ratios such as inventory to see how the company is functioning