AFRICA PREBRIEF

Tullow's IPO In Ghana And The Rise Of Secondary Listings In Africa

Tullow Oil's 4 million share IPO on the **Ghana Stock Exchange**, which began on Monday, is significant and we think signals the potential impact of secondary listings in Africa in five ways – arbitrage opportunities, wealth distribution, branding, contract certainty and political reform.

First, because the shares are fully fungible and can be traded on more than one stock exchange (the shares are also listed on the **London Stock Exchange** and **Irish Stock Exchange** on the local market) there may be arbitrage opportunities as was the case in 2009-2010 with Africa's largest retailer **Shoprite Holdings (**and member of **S&P's CIVETS Index – see *APB*, May 4, 2011, "South Africa In The CIVETS 60 Index")** which traded on **Zambia's Lusaka Stock Exchange** at a 56% discount to its price on **South Africa's Johannesburg Stock Exchange (JSE)**. The strategy was obvious – buy low in Zambia and sell high in South Africa.

Second, by allowing local investors an opportunity to own stock in multi-nationals exploiting African resources, wealth which previously exclusively accrued to government becomes democratized, better distributed to the masses. The impact will be felt in a profound way as African markets become deeper and more liquid (the **Ghana Stock Exchange** - http://www.gse.com.gh/ has a way to go in this regard). Until direct distribution of oil revenues becomes a reality, capital market participation can help alleviate concerns about how corruption, greed, and nepotism prevent wealth from being shared more broadly. Perhaps as a way to stave off direct distribution, more and more governments will encourage secondary listings. This is already the case in **Uganda** where Tullow is being pushed to list on the local exchange, providing a very dissatisfied and restless electorate with an indirect way to 'own' the country's oil revenue.

Third, the listing will likely improve visibility of foreign brands. Here **Coach**'s plans to list in **Hong Kong** are instructive and may reveal a non-financial motivation for Tullow's and other secondary listing in Africa. As one analyst put it, "These companies come to Hong Kong mainly to demonstrate their commitment to Asia and also to significantly raise their profile, although not many of them have plans to raise funds immediately," (http://www.ft.com/intl/cms/s/0/4e1e332a-80a6-11e0-85a4-00144feabdc0.html#axzz1Mi167XNK) We think the secondary listing in Africa as an advertising tactic will gain popularity.

Fourth, contract certainty gains a boost. The dividend here is a bit more metaphysical but tangible in the sense that as brand awareness grows, people and consumers will identify more closely with companies and this, we believe, may enhance contract certainty because governments will find it harder to play fast and loose with deals and negotiations with firms that people own and have confidence in and with whom they have formed an emotional attachment.

Fifth, the secondary listings provide a form of information regarding the quality of government policies or dangerous errors made by the same. As **Reuven Brenner** put it "Who can put an end to stupid policies, to government statistical lies…? Votes? Democracy? That takes quite a while, and meanwhile the mistakes compound. Financial markets force governments to react more quickly and correct their grave mistakes…Financial markets generate prices, for example, related to the probability of insolvency…These prices, exchange rates, etc. say a lot about policies pursued." (http://www.obserwatorfinansowy.pl/2010/06/25/break-the-thermometer-and-you-will-not-have-a-fever/). With financial markets revealing the mistakes and errors of policy-makers the potential is there for better decision-making in the direction of economic development and growth.

We expect the Tullow Ghana offering to be oversubscribed and with good reason(s).

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June 14, 2011