

SMEs Stock Exchange in Egypt

Dr. Mohammed Omran

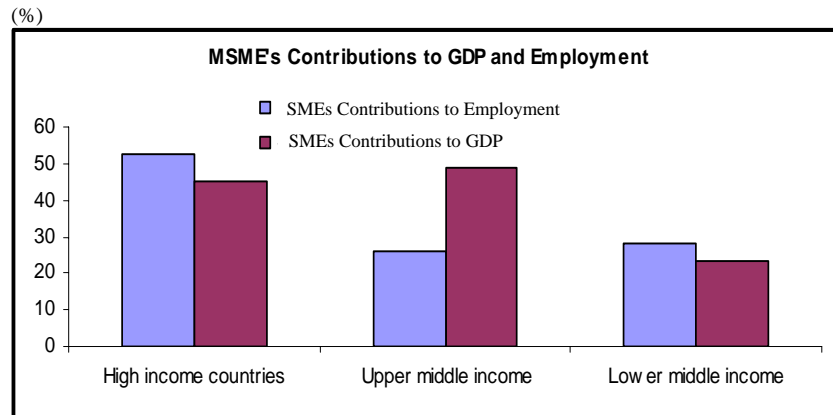
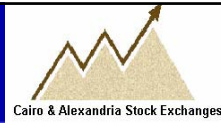
Vice Chairman

Cairo & Alexandria Stock Exchanges

Outline

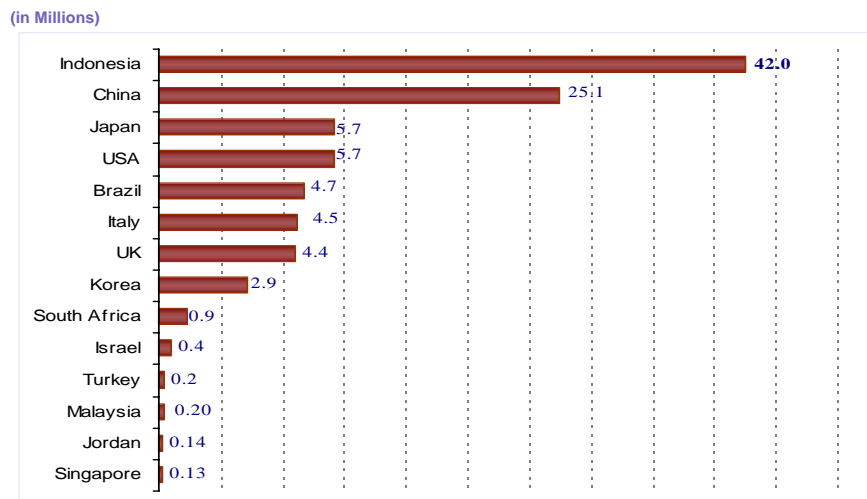
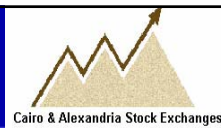
- 1 SMEs Globally.**
- 2 SMEs Profile In Egypt.**
- 3 SMEs Markets Globally.**
- 4 Establishing an SME's Market in Egypt**

SMEs Globally (Including Micro Projects)



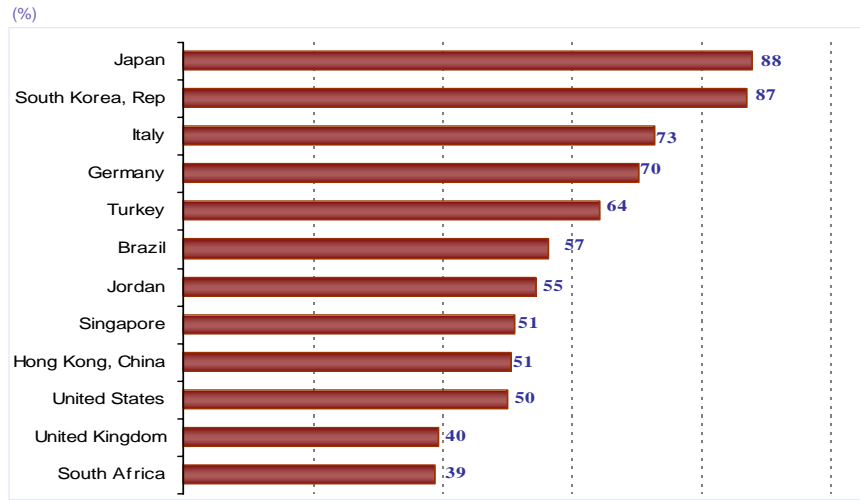
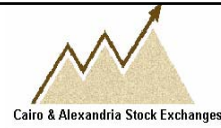
Source: MSME database, World Bank

Number of SMEs Projects in selected countries (Including Micro Projects)



Source: MSME database, World Bank, 2001-2004.

SMEs Contribution to employment (% total) in Selected Countries (Including Micro Projects)



Source: MSME database, World Bank, 2001-2004.

SMEs Profile In Egypt

(Definition)

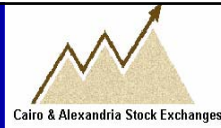


SME Development Law No. 141 of 2004 set a definition for SMEs in Egypt:

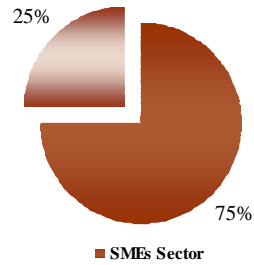
Criteria	Capital	No. of Employees
Small Co.	LE 50,000– LE 1 Million	50 or less
Medium Co.	LE 1 Million – LE 5 Million	51 - 99

SMEs Profile In Egypt

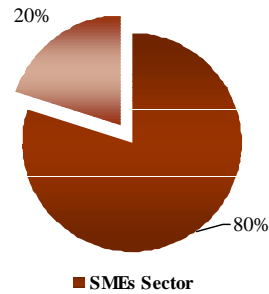
(Including Micro Projects)



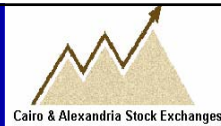
SMEs Contribution to Employment



SMEs Contribution to GDP



SME's Division in Egypt



✚ Small Enterprises

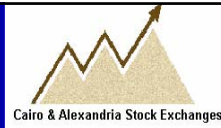
- More than 128,000
- Contribute with 19% of Employment

✚ Medium Enterprises

- More than 40,000
- Contribute with 10% of Employment

SME's Profile in Egypt

(Leading Sectors)



- **Information Technology (IT)**
- **Contracting Sector**
- **Services Sector**
- **Food Sector**

SMEs Profile In Egypt

Finance Obstacles



**Absence of guaranties
(Bankable Assets)**

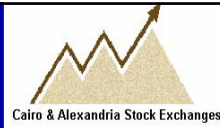
**Lack of accounting systems
& financial forecasting**

**Absence of solid historical
track records**

**Lack of a competent management
team increased SMEs risk profile**

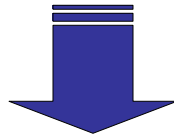
SMEs Profile In Egypt

Finance Obstacles



75% of SME's applied for a bank loan

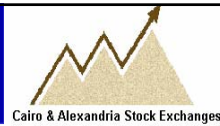
92% of small firms applying for banks' loans are rejected



Only 6% of bank loans are granted to SMEs

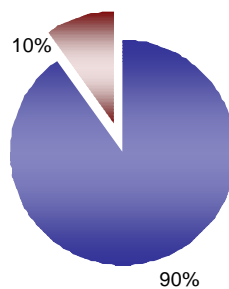
SMEs Profile In Egypt

...Results



Minimal contribution to capital formation

SMEs share in Capital Formation

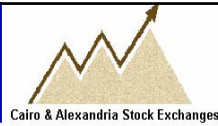


■ SMEs Sector

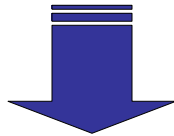
Source: (OECD)

SMEs Profile In Egypt

Proposed Solution



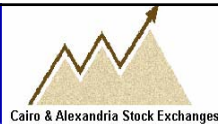
SMEs sector now needs to access other sources of finance



Small & Medium cap markets

Small & Medium Cap Markets

(Global Definition)



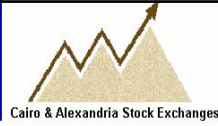
Market for securities of smaller, less-capitalized companies (small caps) that do not qualify for inclusion in the main market.

Or

Regulated equity market focused on SMEs with high growth potential with reduced administration criteria.

Small & Medium Cap Markets

Overview



Started in 1971

Currently, there are more than 37 Small & Medium Cap Markets with a Market cap Exceeds US\$ 4 trillion*

Some countries own more than one Small Cap Market

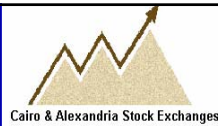
Annual Return over 50% in some markets

* Excluding Nasdaq market

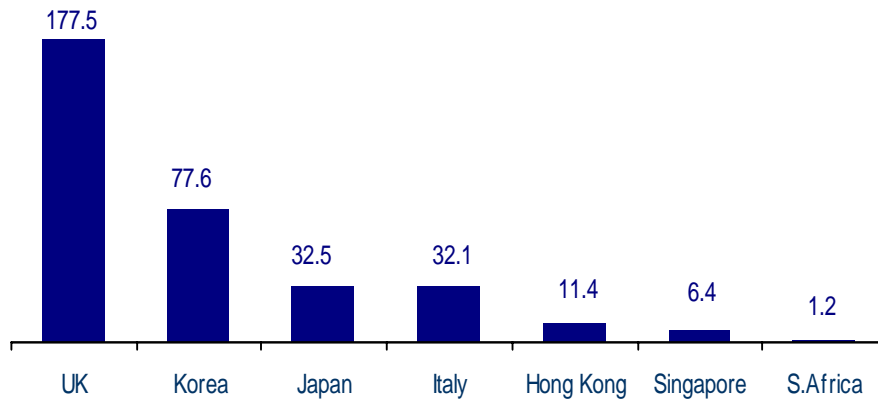
Global Small & Medium Cap Markets

Performance in 2006

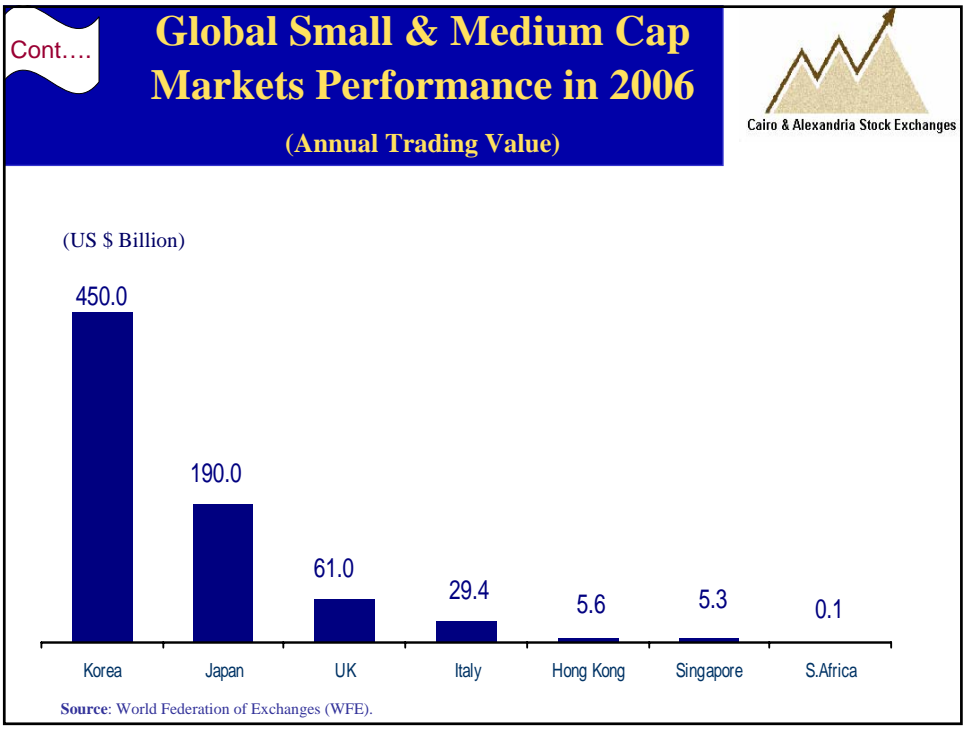
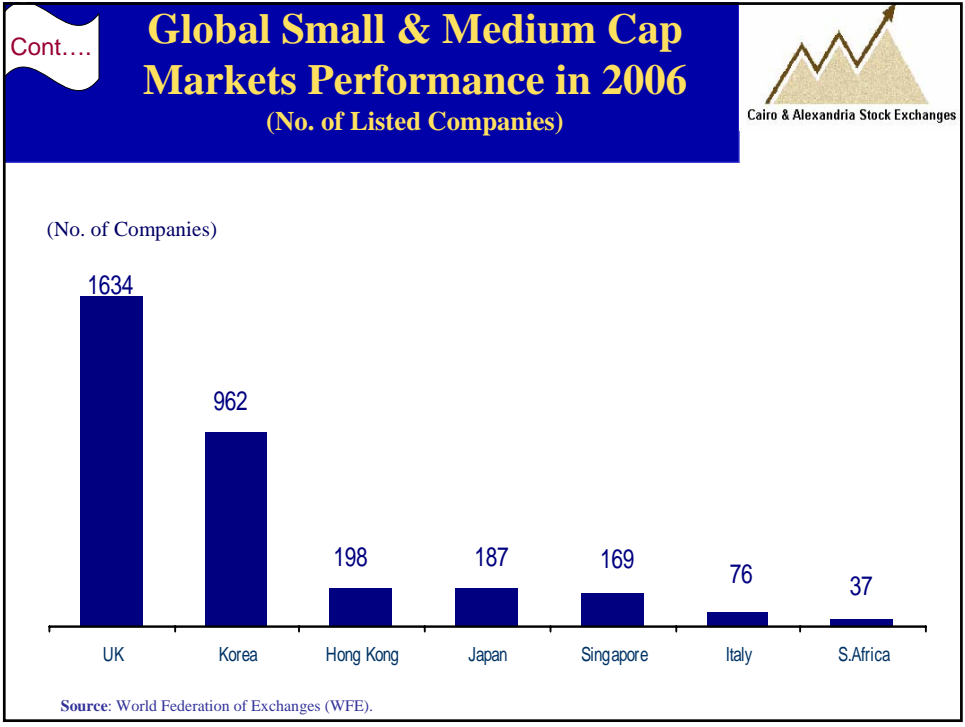
(Market Capitalization)



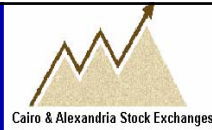
(US \$ Billion)



Source: World Federation of Exchanges (WFE).



Global Small & Medium Cap Markets



UK (AIM)

- ✚ Launched in 1995.
- ✚ There is no minimum requirement in terms of size or number of shareholders. Companies also do not need a particular financial track record or trading history.
- ✚ Almost 1600 listed companies.
- ✚ A total annual trading value exceeds US\$ 61 billion.
- ✚ A Market cap of US\$ 178 billion.

Cont....

Global Small & Medium Cap Markets



Italy (Star)

- ✚ Launched in 2001.
- ✚ More complicated disclosure rules imposed on SMEs companies as opposed to the main market companies in order to maintain more investors protection.
- ✚ Over 76 listed companies.
- ✚ A total annual trading value of almost US\$ 30 billion.
- ✚ A Market cap of US\$ 32 billion.

Cont....

Global Small & Medium Cap Markets

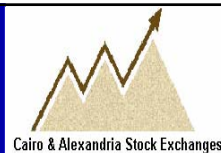


Korea (KOSDAQ)

- ✚ Launched in 1996.
- ✚ The impressive growth of IT sector in Korea is backed by KOSDAQ market.
- ✚ Over 962 listed companies.
- ✚ A total annual trading value hovers around US\$ 450 billion.
- ✚ A Market cap of US\$ 78 billion.
- ✚ An annual growth of more than 84.5% in 2005 (the highest in the world)

Benefits of Small & Medium Cap Markets

(For the Economy)



- ✚ Increasing the Integration of the informal sector in the economy.
- ✚ Attracting Foreign Investments to SMEs sector.
- ✚ Supporting the promising sectors in the economy which suffer from finance obstacles.

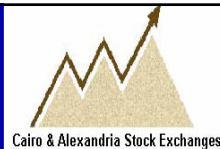
Advantages SME's Market

(For Companies)



- ✦ Grater access to domestic and overseas sources of finance.
- ✦ Allowing Strategic investors to become partners in the company which would improve the efficiency of the company management.
- ✦ Help in determining a fair value of the company as well as better bargaining position towards financiers.

The Success Elements of SMEs Market

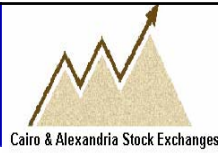


Attracting promising companies

Insuring efficiency, transparency and liquidity in the new market

Attracting investors to the new markets

Key Players in SMEs Market



1

Venture Capital Funds

2

Underwriters

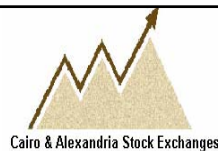
3

Qualified Sponsors

4

Market Makers

Key Players in SMEs Market ...Role



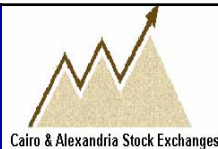
- ✚ Guarantee of approaching high growth potential companies.
- ✚ Increasing investors' confidence in the new market.
- ✚ Guarantee of determining a fair value for the company.
- ✚ Guarantee of efficiency, transparency and liquidity in the new market.

Incentives to Attract SMEs



- ✦ Some Countries offer Tax exemption for companies listed in SMEs market, Qualified Sponsors and Venture Capital (UK Experience).
- ✦ Several countries established new funds which focus on investing in companies listed in SMEs market only.

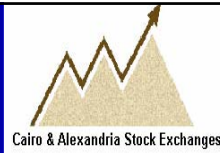
Egypt SMEs Market



Action Plan



First: Organization Chart for SME's Market in Egypt



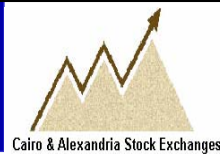
1. First Phase: Early Stage

“The new market is suggested to start as a separate sector within the framework of CASE, has its own management including candidates from different departments operating in the market.”



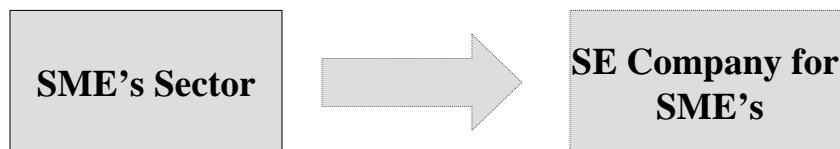
Cont....

First: Organization Chart for SME's Market in Egypt

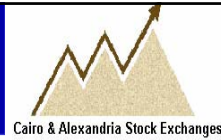


2. Second Phase: Organizational Stability Phase

Following the establishment of the market, its stability, and the availability of financial and organizational resources, it may computerized, owned by the SE, allowing financial institutions to share in its stocks after a while.



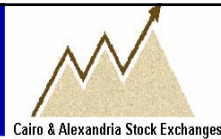
Second: Market Regulations for SME's in Egypt



Proposed Listing Rules

Lessen disclosure and listing rules to meet the conditions of the SMEs, while maintaining an acceptable level of quality and efficiency in the market.

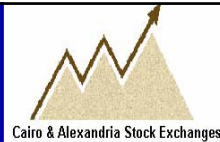
Second: Market Regulations for SME's in Egypt



Proposed Listing Rules

	Current Main Market Listing Rules	SMEs Proposed Rules
Min. Capital	LE 5 Million	Minimum LE 500 thousand
Floating Shares	10-30%	10% within 1 year of listing date
No. of Shareholders	50-150 shareholders	25 shareholders within 1 year of listing date
Financial Statements	The company should have realized a net profit in last fiscal year.	Allowing exceptions for the promising companies if they deliver business plans illustrating their expected cash flows.
Listing Fees	2 per thousand	0.5 per thousand
Qualified Sponsor	-	Obligatory (except in the presence of a venture capital fund or any of the investment banks for more than 10% of the co. shares with an obligation of not selling for 2 years)

Second: Market Regulations for SME's in Egypt



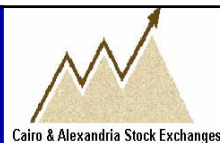
Qualified Sponsor

✚ The companies that are engaged in one or more of the following activities

- A. promotion and underwriting of securities.
- B. participation in establishing companies which issue securities, or capital increases.
- C. venture capital.

✚ Banks can also act as a qualified sponsor in the SME's Market

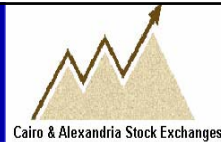
Second: Market Regulations for SME's in Egypt



Role of Qualified Sponsors

- ✚ Providing advice for companies regarding the listing rules and regulations in the market.
- ✚ Assisting the Company in preparing its financial statements and presenting it in its proper time
- ✚ Assisting the Company in fulfilling all listing requirements
- ✚ Informing the CMA in case the company doesn't it to comply with the rules
- ✚ Helping the company in the offering process whether an IPO or a private placement.

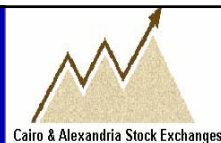
Second: Market Regulations for SME's in Egypt



Proposed Disclosure Rules

- ✚ Maintaining the majority of the disclosure rules enforced on the main market to ensure the protection of the market quality and investors rights.
- ✚ Only annual financial statements are required in addition to semi annual results summery
- ✚ Co-joint responsibility between the sponsor and the company towards the Exchange to comply with the disclosure rules

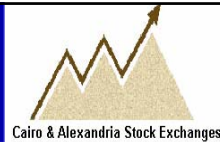
Second: Market Regulations for SME's in Egypt



Proposed Trading Rules

	Proposed Regulations
Trading System	<p>Auction System:</p> <ul style="list-style-type: none"> -Allows investors to place their orders through the auction session. -Allows brokerage companies to record orders on the same security with different prices according to the orders given by its clients. -Investors are allowed to cancel or change their orders anytime during the auction session. -Execution takes place after the auction session. -Only one closing price is chosen which is the best price offered during the auction which allows the execution of the largest trade volume. -Transactions that match with the closing price are chosen to be executed.

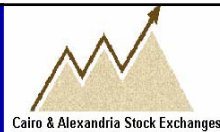
Second: Market Regulations for SME's in Egypt



Proposed Trading Rules

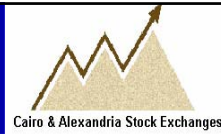
	Proposed Regulations
Session duration	One hour
Session time	12:00 p.m. to 1:00 p.m.
Price Limits	No price Limits
Trading Fees	1/8 per thousand of the total value of the transaction with a maximum of LE. 50
Clearing & Settlement	(T+2)

Third: Attracting Promising SME's to the New Market



- Approaching SME's with high growth potential, in particular those backed by banks, venture capital or other financial institutions.
- Conducting an awareness campaign emphasizing the benefits of listing for SME's.
- Prepare meetings with promising SME's companies in order to illustrate the advantages of being listed in the exchange, and hence attracting them to the new market

Third: Attracting Promising SME's to the New Market



✚ Coordination with some international and local Financing institutions supporting SME's to attract a group of the promising companies and convince them of listing in the new market, some of these institutions:

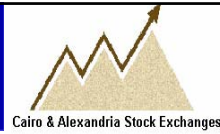
- ✚ IFC
- ✚ USAID
- ✚ Commercial International Bank (CIB)
- ✚ HSBC
- ✚ Technology Development Fund
- ✚ Canadian Development Agency
- ✚ Investment Banks e.g. :
Hermes, Belton

Fourth: Attracting Investors to the New Market



- Setting up a transparent, efficient trading environment, aiming at enhancing the visibility of high quality SMEs.
- Launching the market making system to ensure liquidity in the secondary market.
- Launch of a dedicated index that tracks the performance of SMEs market.

Proposed Schedule to Start the New Market



	May				June				July	August
	1st	2nd	3rd	4th	1st	2nd	3rd	4th		
Finalizing the new market rules and regulations	x	x								
CASE BOD approval of the new rules			x	x						
CMA approval of the new rules					x	x	x			
The promotion campaign of the new market	x	x	x	x	x	x	x	x	x	x
Official announcement for the launch of the new market.									x	
Start the Listing of the Co. in the new market										x

Proposed Names for the New Market



**Session Starts
and the New
Market is
Operating**

