



## Cross-Listing Prospects: “UZAUTO MOTORS” JSC IPO Cost Prediction

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### **Abstract**

This article analyzed the IPO market of Uzbekistan. In particular, the requirements for the entry of Uzbek companies into the world stock market were studied. The listing requirements of the stock exchanges of the leading countries of the world are analyzed. In the example of “UZAUTO MOTORS” JSC, the possibilities of the company's entry into the London stock market were studied and the income and expenses of the IPO were predicted.

**Keywords:** *Initial Public Offering; Cross-Listing; Free Float; Listing Costs; Underwriter; Listing Requirements*

### **Introduction**

Developed countries attract a significant number of resources through the mechanisms and tools of the stock market for the development of their national economy. That is why advanced and developed countries of the world, such as the USA, Germany, and Japan, have good and developed stock market systems that allow people, enterprises, organizations, and the state to attract temporary free money and other funds and direct the national economy to develop.

After the independence of Uzbekistan, the main focus was on bank loans as a source of financing the economy. It is banks that have made huge investments in the real sector of the economy as institutions that attract people, enterprises, and organizations, as well as state funds on the basis of credit. Banks, in turn, gathered large financial resources and qualified personnel left over from the Soviet system. The state provided comprehensive support to the banking sector in the form of large funds and incentives.

The penetration of Uzbek companies into the stock markets of developed countries is definitely a time-consuming and difficult event.

On the other hand, the shares of our national companies must fulfill the listing requirements in order to be traded on stock exchanges of foreign countries, but not all companies can fulfill these requirements. Access to the capital markets of foreign countries gives companies the opportunity to diversify financing, increase the international status of the company due to the market price, liquidity, and transparency of the business, and increase the level of financial, economic, and technical security.

As of November 1, 2022, only government bonds - Eurobonds and bonds issued by commercial banks - were sold on stock exchanges of foreign countries, only on the London Stock Exchange. However, the problems of listing the shares of companies in stock markets of foreign countries and conquering other stock exchanges have not yet been solved.

The requirements for the listing of the shares of Uzbek companies in the stock markets of foreign countries today are the USA, Japan, Germany, the United Kingdom, and the People's Republic of China, which have the most developed stock markets, in three large regional groups - America, Asia-Pacific, and EMEA. We considered it necessary to consider the example of African countries. The stock markets of these selected countries are considered today as the main cores of the world's financial centers and the turning points of the world economy. We tried to give a complete and clear answer to the question of why it is necessary to sell the shares of our national companies in these markets through the indicators of the table below (Table 1).

Table 1. Results of the stock markets of the countries of the America, Asia-Pacific, and EMEA regional groups (2021)

<b>Indicators</b>	<b>America</b>	<b>Asia-Pacific</b>	<b>EMEA</b>
Number of IPOs held	679	1278	721
Funds raised from IPOs (\$ mln)	218,28	191,79	88,06
Number of listed companies	11 229	24 672	15 731
Number of non-IPO listings	263	1871	581
Number of transactions	11 908 630	30 802 118	3 118 927
The volume of transactions (\$ mln)	82 604 014,0	65 030 236,0	13 310 886,0
Investment flow (except IPO) (\$ mln)	210,52	360,60	283,47

If we analyze the data in the above table, the stock exchanges of developed countries such as the USA, China, Japan, Great Britain, and Germany have recorded an upward trend in all indicators in 2021 compared to 2020. More than 45 million deals were made on these stock exchanges, resulting in a total volume of deals of almost 170 trillion dollars.

In order to enter these markets, Uzbek companies are required to go through several stages and, most importantly, to fulfill the listing requirements. Listed below are the requirements for listing on the world's most developed stock exchanges (Table 2).

Table 2. Listing requirements of developed stock exchanges for companies of foreign countries

Requirements	NYSE	NASDAQ (Standard 1)	FTSE (Standard)	TSE (Standard)	FWB (Entry Standard)	SSE
<b>Period of activity of the company</b>	Should not be less than 3 years	Should not be less than 3 years	Should not be less than 3 years	Should not be less than 3 years	Should not be less than 2 years	Should not be less than 3 years
<b>The minimum capitalization of the company (in currency units)</b>	\$4,5 mln.	\$5 mln.	£700 000 (\$802 thousand)	More than 1 bln yen (\$6,82 mln.)	€1.25 mln. (\$1,41 mln.)	50 mln. RMB (\$7,2 mln.)
<b>Free float of shares</b>	1,1 mln. units	1,25 mln. units	10 percent of the total shares	At least 2000 units or 25% of the total shares	10 percent of the total shares	25 percent of the total shares
<b>The nominal value of the share</b>	Must not be less than \$4	Must not be less than \$4	information is not available	information is not available	Must not be less than €1	information is not available
<b>Number of shareholders</b>	400	450	not intended	400	30	information is not available
<b>Income for previous periods</b>	must not be less than 2,0 mln USD for the last two financial years (total of \$10,0 mln for the last 3 years)	must not be less than 2,2 mln USD for the last two financial years (total of \$11,0 mln for the last 3 years)	not intended	must not be less than 0.1 billion yen (\$681 thousand) for the last fiscal year	It is required to have an increasing trend in revenue and net profit for the last 5 years	In the last year, positive net profit and operating income in the amount of 100 mln. RMB (14 mln USD)
<b>Financial reporting obligations</b>	GAAP USA IFRS	GAAP USA IFRS	GAAP GB IFRS	Japanese GAAP, IFRS	National GAAP or IAS/IFRS, US-GAAP	Based on CSRC requirements
<b>Corporate governance</b>	Required	Required	Not required	Required	Required	Required
<b>Listing access duration</b>	Within 2 weeks after submission of all documents	4-6 weeks	3-6 months	100 days	6 months	3 months
<b>Listing costs, IPO (price)</b>	\$295 000,0	\$150 000,0	£101835,0 (\$116 800,0)	11 mln. yen (\$78 857,0)	€ 100 000,0 (\$103 772,0)	95000 RMB (\$13 500,0)

Source: Official websites of stock exchanges, developed by the author based on the requirements of the listing guidelines of PwC and KPMG financial organizations. Since the information presented in the table was developed on the basis of the data up to November 15, 2022, the information presented as a result of subsequent changes may not be current.

As can be seen from the table, the rules of listing in the stock exchanges of foreign countries, especially in the stock exchanges of the most developed countries in the world, which make up a very large weight in the country's GDP, are somewhat complicated. We believe that one of the reasons why the

shares of our national companies are not sold on the world stock exchanges is that they cannot go through the listing process.

In foreign practice, the company and the underwriter seek to select the best trading platforms for the public offering of shares. In turn, this ensures greater material and moral benefits from the IPO. However, it is appropriate to offer shares of companies aiming for publicization not only to foreign investors but also to local residents. Therefore, it is suggested that our national companies, especially those going for IPO, use the cross-listing mechanism to publicly offer their shares to local and foreign investors.

Cross-listing is the listing of the company's ordinary shares on national and foreign stock exchanges.

While many companies prefer to list only on their home country's local stock exchange, there are several advantages to cross-listing on multiple stock exchanges.

We will consider the mechanism of cross-listing on the example of "UZAUTO MOTORS" JSC, which is the object of the research work.

The state program on the implementation of the Development Strategy of New Uzbekistan for 2022-2026 in the year "Glorification of human value and active neighborhood" approved by Decree №60 and the Decision of the Cabinet of Ministers of the Republic of Uzbekistan dated August 15, 2022 "Fund for shares of large enterprises with state participation" on primary and secondary public placement on the stock exchange

According to Decision No. 446, "UZAUTO MOTORS" JSC is one of the 23 national companies whose shares are scheduled for public placement. According to the decision of the Cabinet of Ministers, the shares of the company will be included in the list of stock quotations, i.e. listing, at the "Tashkent" Republican Stock Exchange (UZSE).

"UZAUTO MOTORS" JSC is one of the 7 automobile manufacturing companies that are part of "Uzavtosanoat" JSC, and "Uzavtosanoat" JSC is a fully state-owned company (100% of the company's shares belong to the Ministry of Finance of the Republic of Uzbekistan).

"UZAUTO MOTORS" JSC is expected to go to IPO at the end of 2022, in which 10 percent of the company's shares will be publicly placed on the domestic market - the "Tashkent" Republican Stock Exchange. According to the Charter of the company approved on September 22, 2022, the authorized fund of the company consists of 1 344 000 017 200 (one trillion three hundred forty-four billion seventeen thousand two hundred) ordinary shares with a nominal value of 1 sum, 10 percent of which will be issued for IPO in this case, it is 134 billion shares. In our opinion, due to the fact that such a large size of the chartered fund will lead to an excessive number of shares offered during the IPO, the company will soon consolidate the shares, and the estimated nominal value of the shares will be 1000-5000 sums per unit. When the nominal value of the shares is 1000 sums, the number of shares of the company is 1.34 billion units, when it is 3000 sums, it is 448 million units, when it is 5000 sums, 268.8 million units. So, in the event that 10 percent of the total shares are released to the local stock market as part of the IPO of UZAUTO MOTORS JSC, this figure will be 1.34 billion shares out of approximately 270 million. However, in order to make our further calculations more accurate, we decided to calculate the volume of consolidation as 5000:1 and take the total number of shares as approximately 270 million units.

It is worth noting that the public placement of such a large block of shares in the local stock exchange may lower the share offering price, and as a result, the company may not provide the expected profitability. Therefore, since "UZAUTO MOTORS" JSC is one of the potential companies of

Uzbekistan, we believe that it is appropriate to issue its IPO on local and foreign stock markets using the cross-listing mechanism.

When using the cross-listing mechanism, since the local stock market is one, the company has no choice of other markets. However, since there are so many foreign stock markets, choosing the best one is a bit of a challenge.

In our opinion, choosing one of the 6 stock markets listed in Table 2 is the best solution to attract potential investors. Based on the analysis of scientific literature, it was concluded that the US NYSE and NASDAQ stock exchanges are the most difficult for conducting IPOs of foreign companies, TSE (Tokyo Stock Exchange), FWB (Frankfurt Stock Exchange), SSE (Shanghai Stock Exchange) are more interested in foreign companies. relatively low, and the FTSE (London Stock Exchange) has been highlighted as the best trading platform for IPOs of foreign companies due to relatively relaxed listing requirements. However, it should also be taken into account that the stronger the requirements for market entry, the more large and potential investors will gather there because the conclusion that the company is reliable is formed.

Placing shares of UZAUTO MOTORS JSC on the foreign stock market can increase the company's reputation, increase capitalization, diversify and modernize production, and ultimately achieve strong financial indicators. As a result of the conducted research, we believe that FTSE (London Stock Exchange) is the best trading platform for the IPO of "UZAUTO MOTORS" JSC on the foreign stock market.

This decision was based on the study of the listing requirements of the stock exchanges, the role of the countries in the world economy and their current situation, and the behavior and flow of investors under the influence of the geopolitical changes occurring in the world.

Also, another reason for offering the London trading floor is that the stock exchange is an international trading platform. Among the foreign stock exchanges, the London Stock Exchange has listed the most shares of foreign companies, 37% of the listed companies are foreign companies. For comparison, this figure is 22% on the Toronto Stock Exchange, 18% on the Australian Stock Exchange, 15% on the Nasdaq Stock Exchange, and 11% on the New York Stock Exchange. In general, there are the following positive aspects of conducting an IPO of a company on the London Stock Exchange (Figure 1).

Based on the following positive reasons, we believe that conducting the IPO of the company on the London Stock Exchange using the cross-listing mechanism is the most appropriate choice.

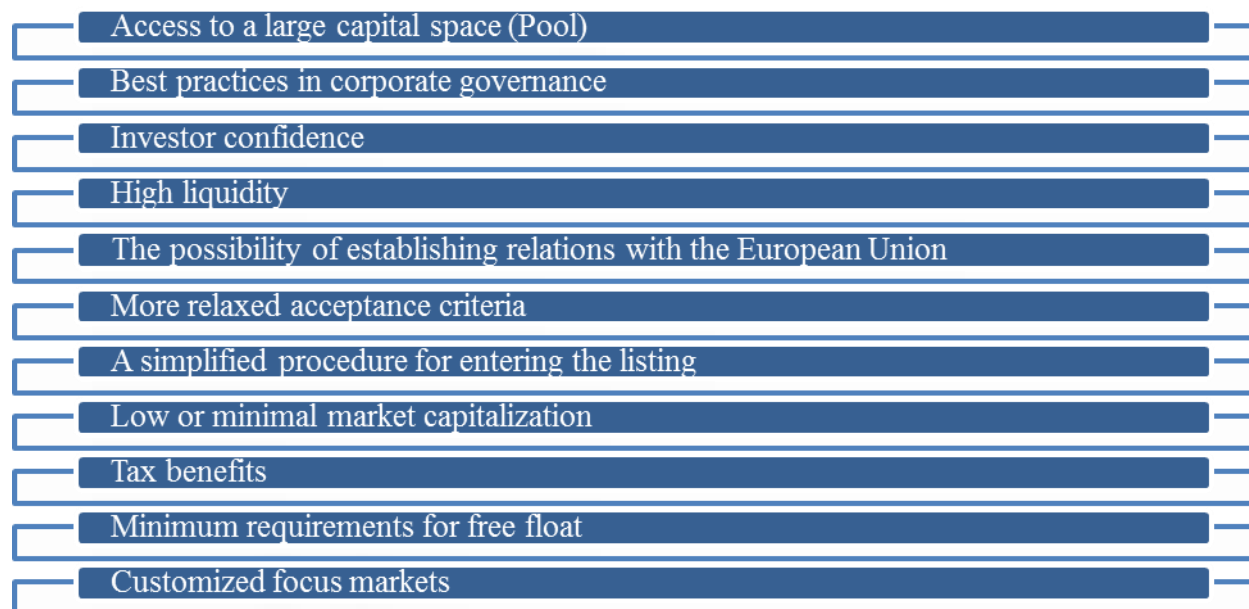


Figure 1. Advantages of conducting an IPO of a company on the London Stock Exchange

Below is a comparative table of listing requirements (Table 3) and estimated costs (Table 4) for the IPO of UZAUTO MOTORS JSC on the Tashkent Stock Exchange and the London Stock Exchange.

Table 3. Comparison table of the requirements for listing the shares issued for the IPO of the company in domestic and foreign stock exchanges

Requirements	UZSE (Standard)	FTSE (Standard)
<b>The market capitalization of the company</b>	should not be less than 500 mln sums (\$45.0 thousand) during the presentation of documents*	£700 000 (\$802 000,0)
<b>Duration of activity (history) as a joint-stock company</b>	The duration of the company's activity is not fixed	Should not be less than 3 years
<b>Corporate governance</b>	Not included in the standard package	Not required
<b>Number of shares in free circulation</b>	No requirement has been set	10 percent
<b>Number of shareholders</b>	30	Not required
<b>Income for previous periods</b>	A positive financial result for the last financial year ending with a positive audit opinion for issuers with less than two years of activity	Not included in the standard package
<b>Financial reporting obligations</b>	GAAP Int. IFRS	GAAP GB IFRS

There is no market capitalization requirement of the company in UZSE requirements. Here, the amount of the company's authorized fund is meant.

An important part of the listing in the "Standard" tariff of the local stock exchange, in which the listing requirements for the IPO company based on the decisions of the President or the Cabinet of Ministers are implemented in a slightly simplified manner, and the requirements for the number of

shareholders and financial statements are canceled. There is also a "Transit" tariff of the local exchange, where the listing requirements are set to 6 months based on the minimum requirements.

Table 4. Comparison table of organizational, listing, and storage costs of the company's IPO in domestic and foreign stock exchanges

Expenses	UZSE	FTSE
<b>Listing Costs (Standard)</b>		
<b>The authorized fund of the company is 100 mln. more than a dollar</b>		
Listing entry amount	18,0 mln. sum (\$1600,0)	£247 635 (\$282 500,0)
Listing stay amount (for one year)	9,0 mln. sum (\$800,0)	Capitalization amount (without zeros, for example, £320 million = 320) is determined by multiplying by £48 (\$55) (320*48=15360). However, there are the minimum and maximum limits: Between £10 000,0 – £220 500,0 (Between \$11 399,0 – \$251 358,0)
<b>Total listing expenses</b>	<b>27,0 mln. sum (\$2500)</b>	<b>£260 000,0 – 470 000,0 (\$296 600,0 – 536 200,0)</b>
<b>Organizational costs</b>		
<b>Underwriter services</b>	3-5 %	5-7 %
<b>Taxes</b>	-	VAT may be applicable
<b>Commission expenses</b>	1 %	1-2 %
<b>PR campaign costs</b>	Starts from \$50,000	Starts from \$1 mln.
<b>Total (as a % of the volume of shares placed in the IPO)</b>	<b>3-7%</b>	<b>5-10 %</b>

Based on the information in the above table, it can be concluded that national companies have a difficult opportunity to enter the listing in foreign stock markets, which requires a lot of effort and allocation of material resources from the company's management. However, a company that uses cross-listing will have the opportunity to attract not only local but also a large number of foreign investors. With this, a real foreign corporate culture and management mechanisms can enter the company.

So, we found out that if UZAUTO MOTORS JSC goes to IPO using the cross-listing mechanism, it will have to spend about 150 thousand US dollars for listing on local and foreign stock exchanges. Also, we estimated that the company's internal and external IPO expenses will be up to 15% of the number of shares issued for the IPO. We found out that when the company's shares are publicly placed on trading platforms based on the cross-listing mechanism, the forecast indicators of its income and expenses will be as follows (Table 5).

Table 5. Forecast indicators of income and expenses arising within the framework of the IPO based on the cross-listing mechanism

<b>Indicators</b>	<b>UZSE</b>	<b>FTSE</b>
<b>The number of shares to be issued in the IPO (in relation to the number of shares in the authorized fund)</b>	10% (27 mln. units)	10% (27 mln. units)
<b>The price range of the shares to be issued in the IPO</b>	\$4-7	\$15-20
<b>Expected revenue from the IPO</b>	\$108,0 - 189,0 mln.	\$405,0 – 540,0 mln.
<b>Listing costs</b>	\$2 500,0	\$300 000,0
<b>Organizational costs</b>	\$3,2 – 13,2 mln.	\$20,2 – 54,0 mln.
<b>Total costs</b>	\$3,2 – 13,2 mln.	\$20,5 – 54,3 mln.
<b>Net profit</b>	\$ 94,8 – 175,8 mln.	\$350,7 – 485,7 mln.

The information presented in the above table is of an approximate nature, and the exact numbers are determined by "UZAUTO MOTORS" JSC and the underwriter. However, if the IPO is successful, the amount allocated to expenses may not be significantly large for the company, and the profit volume may reach the planned indicators.

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