



# Introduction to the Rwanda Stock Exchange

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# Profile of the Rwanda Stock Exchange

- The Rwanda Stock Exchange (RSE) operates capital markets at which companies and Government can raise money and at which stocks and bonds can be bought and sold.
- The RSE is regulated by Rwanda's Capital Market Authority and owned by the Government of Rwanda (20%), six brokerages each holding a 10% share (60%), the Rwanda Social Security Board (10%), BRD (8%), SONARWA General Insurance Company (1%), and SORAS General Insurance (1%).
- In the same way that a landlord does not own the goods for sale in his tenant's shop, the RSE does not own the shares and bonds traded at the exchange. It simply provides the marketplace where buyers and sellers conduct their trading.
- At the end of 2015, the combined market value of the seven companies trading at the RSE – referred to as the RSE's market capitalization – was Frw 2,820,385,945,556.

# What is the purpose of the RSE's markets?

- The Rwanda Stock Exchange's equity and bond markets benefit companies and Government. By providing a means for companies to raise money (capital) through the sale of shares and bonds to the public, these capital markets offers an alternative to borrowing. Similarly, Government can use the bond market to raise money for infrastructure improvements and development projects without immediately having to raise taxes to do so.
- The RSE's equity and bond markets benefit small investors. Buying a business is beyond most people's means, but investing in shares is open to all. A person can buy either a large or small number of shares, depending on what he or she can afford, and can do so over a long or short period of time. Buying bonds also provides a way to save for the future.
- The RSE's markets also benefits Rwanda's economy. For an economy to grow, money needs to shift from less to more productive activities. The RSE makes this possible by providing a way for both domestic and foreign investors to participate in the expansion of the country's job and wealth creating businesses while maintaining the ability to convert their investment back into cash when the need or desire arises.

# How does the Rwanda Stock Exchange operate?

- The Rwanda Stock Exchange operates two markets, one for shares (the equity market) and one for bonds (the bond market).
- In the equity market's primary market, companies issue shares, for a set price, to the public through an Initial Public Offering (IPO). These shares are then available for trading by these new owners to others in the secondary market. Market forces determine the stock's price at any given time.
- In the bond market's primary market, Government or a company borrows money from investors by offering them a bond that contractually states the interest rate the issuer will pay and the time (maturity date) at which the investors' money (principal) will be returned. The bond is issued with a set face value, but the market price of the bond is determined through supply and demand in the secondary market.
- The important thing to remember is that stocks and bonds in the primary market are purchased directly from an issuing company or Government. In the secondary market, investors trade stocks and bonds among themselves through a broker.

# How does the actual trading occur?

- The Rwanda Stock Exchange operates a dual trading system.
- An open outcry trading session is conducted at the RSE during formal trading hours (9:00 am to 12:00 pm) on all working days. Open outcry means that bids and offers are exchanged verbally by traders.
- Members of the Exchange also trade through an Over the Counter market (OTC) where members are allowed to buy or sell to clients directly in their offices. Members are also allowed to trade with other members, either face to face or over the telephone, outside of formal trading hours.
- All OTC transactions have to be reported to the RSE no later than one hour after the transaction(s), and are then reported in the next formal trading session for purposes of settlement.
- All transactions are carried out manually, but cleared – the process of reconciling orders between transacting parties – electronically through a Central Securities Depository (CSD) system, a computer system that facilitates holdings of securities in electronic accounts opened by investors.



**RWANDA STOCK EXCHANGE**

The equity market

Securities

# How does the equity market work?

- Once a company has created shares, through an IPO for example, these shares are available for purchase and sale on the stock market.
- A share – sometimes called a stock or an equity – is simply a share in the ownership of a company, a claim to a portion of the company's total earnings and assets. In other words, a stock is a piece of the company's overall pie.
- The number of pie pieces, the shares that exist – referred to as the number of shares outstanding or shares in issue – is determined by a company's board of directors. In an IPO, the total number of shares to be sold is stated at the outset along with the price.
- Once the stock has listed on the Exchange, the price of a share at any given moment is no longer fixed. A share's price varies and is determined by the highest amount any buyer is willing to pay and the lowest price at which someone is willing to sell. A trade occurs when a seller's offer and a buyer's bid match.
- Unlike in a street market, individual buyers and sellers in the stock market do not bargain directly. They instead do so through a broker, a licensed member of the Exchange.

# Which companies' shares trade on the RSE?

- As of January 2016, seven companies were listed on the Rwanda Stock Exchange. Three – Bank of Kigali, Bralirwa, and Crystal Telecom – are domestic companies. Four – Equity Group Holdings, KCB Group, Nation Media Group, and Uchumi – are cross-listed on the Nairobi Securities Exchange.





# What determines a stock's price?

- A stock's price is determined by the highest amount buyers are willing to pay and the lowest price at which sellers are willing to sell. A trade occurs when a seller's offer and a buyer's bid match. The price at which the most recent trade occurred is the current market price of the share. The RSE reports prices for each share at the end of each trading day.
- For example, on 16 January 2016, the RSE reported that Crystal Telecom (CTL) closed unchanged at Frw 99. The trading session recorded a total turnover of Frw 138,600 from 1,400 shares traded. This means that buyers agreed to purchase 1,400 shares from sellers at Frw 99. They agreed on price, so trades occurred. CTL's share price remains Frw 99 until another set of buyers and sellers agrees to a higher or lower price.
- Also on 16 January 2016, the RSE reported that at the end of trading hours, "there were outstanding offers of 1,046,200 shares between Frw 99-106 and an outstanding bid of 1,300 shares at Frw 95" for Crystal Telecom's shares. In other words, one or more sellers was willing to sell shares at prices between Frw 99 and Frw 106, but no one was willing to buy at those prices, they were only willing to pay Frw 95 per share. Until either the sellers reduce their offer price or the buyers raise their bid price, no trade will occur.

# Why do share prices go up or down?

- When there are more buyers than sellers, share prices tend to rise. Conversely, when there are more sellers than buyers, share prices tend to fall.
- Many factors drive sellers to sell and buyers to buy. For example, if a company is expanding and highly profitable, more investors will consider it a good investment and drive up the company's share price. If, on the other hand, a company posts weak results or seems likely to struggle in the future, investors will look to sell the stock to put their money to better use elsewhere. As more people do this, the stock's price will fall.
- Company-specific events (e.g. the release of company's earnings, news reports, etc.) as well as industry events or news (e.g. tightening capital requirements on all banks) can affect share prices.
- Political and economic events, both locally and globally, can also affect share prices. News that suggests a period of political uncertainty or economic slowdown generally pulls stocks lower. Good political and economic news tends to have the opposite affect.

# What are the benefits of owning shares?

- Shares represent partial ownership of a company, entitling you to a portion of the company's profits and assets and, by exercising your right to vote at the company's annual general meeting, to a say in its affairs.
- Shares also offer limited liability, meaning that you cannot be held personally responsible for the debts of the company.
- Shareholders profit from gains in a stock's price. For example, on 16 January 2012, Bank of Kigali (BK) shares cost Frw 119 each. By 14 January 2015, BK shares had risen to Frw 280, a 135% increase.
- Shareholders may also receive income in the form of dividends, a distribution of a portion of profits to shareholders. Sticking with our BK example, in addition to capital appreciation, someone who bought shares back in 2012 could have received a dividend per share of Frw 8.83 in 2012, Frw 11.10 in 2013, and Frw 16.33 in 2014.

# What are risks of owning shares?

- Stock prices can fall as well as rise. In the previous slide we saw that if someone bought Bank of Kigali (BK) shares in early 2012 and sold them in early 2016, he or she would have enjoyed a 135% increase in the share's price. If a different person bought BK shares on 14 January 2015 at Frw 299 and sold them one year later on 14 January 2016 for Frw 280, he or she would have lost 6.35% on the investment.
- Some shares are infrequently traded (illiquid) meaning that buying or selling them can be difficult to do without negatively affecting the share's price. This could present a problem to an investor that needs to sell his or her shares at a specific point in time.
- Different investment instruments carry different levels of risk and stocks carry a higher level of risk than cash or government bonds, for example. The trade-off is that they carry a higher potential return as well.
- The bottom-line is that investors should only take on a level of risk that is appropriate to their own circumstances, should only invest an amount they can afford, and should not invest money that they need to access quickly. Before investing, you should consult a qualified professional who is licensed by the Capital Market Authority.

# How do I know which stocks to buy or sell?

- Good decisions come from knowledge. Do research on the stock market. Read financial literature, search for information from reputable sources online, and seek the advice of a qualified expert, like a licensed stockbroker. All of this will help you to make better informed decisions.
- The Rwanda Stock Exchange and Capital Market Authority present introductory materials on their websites and are useful, free resources for investors.
- All companies listed on the Rwanda Stock Exchange are legally required to publish their financial results at least half-yearly. In most cases, company's most recent annual report (containing results and commentary from management) and half-yearly or quarterly reports are available on their websites. Some companies – for example Bank of Kigali, Equity Group, and KCB – even publish presentations aimed specifically at investors.
- Additionally, annual reports for all RSE listed companies for the past five years and five half-yearly/quarterly periods can also viewed and downloaded from [RwandaInvestor.com](http://RwandaInvestor.com) for free along with company profiles, price histories, and dividend details.



# The bond market



# What is a bond?

- A bond is a loan between a borrower (the bond issuer) and a lender (a bondholder). In return for the lender's cash, the bond issuer promises to pay the bondholder interest at a predetermined rate on a specific schedule. The borrower also promises to repay the initial money (principal) invested by the lender at a specified maturity date.
- Bonds are known as fixed-income securities because, as an investor, you know the exact amount of money you will receive if you hold the security until maturity.
- If, for example, you buy a bond with a face value of Frw 100,000, a coupon of 11.25%, and a maturity of five years, you will receive a total of Frw 11,250 ( $100,000 \times 11.25\%$ ) of interest per year for the next five years. When the bond matures, you will also get your Frw 100,000 back.
- Bonds' maturities and interest rates (coupon rates) vary. On 14 January 2016, for example, the eight Government bonds trading on the RSE had maturities ranging from three years to 10 years and coupon rates ranging from 11.250% to 12.925%.

# What is the difference between being a shareholder and being a bondholder?

Shareholder	Bondholder
<ul style="list-style-type: none"><li>• A shareholder is an <u>owner</u>.</li><li>• Shareholders expect a profit in the form of a dividend, share price gain, and bonus shares.</li><li>• He or she invests expecting the highest return possible, but accepts that there are risks inherent to any business.</li><li>• He or she is entitled to attend and vote at annual general meetings and therefore participate in a company's governance.</li></ul>	<ul style="list-style-type: none"><li>• A bondholder is a <u>lender</u>.</li><li>• He or she expects profit in the form of interest paid on a set schedule.</li><li>• Bondholders invest to earn a reasonable return and are willing to accept lower returns than stocks for lower risk.</li><li>• He or she does not participate in the management of the company or government that issued a bond.</li></ul>



# What are the benefits to buying bonds?

- Bonds offer a guaranteed source of income, a means of saving money for the future, and a good way to manage money to meet specific needs.
- Bonds' interest rates are usually higher than the interest rates paid by banks on savings accounts. So if you are saving, and do not need your money in the short term, bonds will give you a better return without posing much risk.
- Say, for example, you need to pay school fees in three years. Buying a three year Government bond is a good way to preserve your savings while generating additional funds for use at the specific time you need them.
- Bonds are easily transferable and can be sold on the Rwanda Stock Exchange's bond market.
- Government bonds are an accepted guarantee for many types of loans by cooperative societies and banks.

# Which bonds trade on the RSE?

- As of 14 January 2016, eight government bonds and two corporate bonds (one from the International Finance Corporation and one from I&M Bank) trade on the Rwanda Stock Exchange.

Security	Maturity	Coupon Rate	Closing Price	Previous Price
<b>Government</b>				
FXD1/2014/3yrs	24 February 2017	11.475%	100.500	100.500
FXD2/2011/5yrs	30 September 2016	11.250% fixed	100.317	100.317
FXD 3/2014/5yrs	23 August 2019	11.875%	103.000	103.000
FXD4/2014/7yrs	19 November 2021	12.475%	100.000	105.000
FXD1/2015/3yrs	23 February 2018	11.550%	103.400	103.000
FXD2/2015/10yrs	25 May 2025	12.925%	100.190	99.574
FXD3/2015/5Yrs	21 August 2020	11.950%	100.000	-
FXD4/2015/3yrs	23 November 2018	11.800%	103.400	102.000
<b>Corporate</b>				
I&M	25 January 2018	10.500%	102.000	102.250
IFC	16 May 2019	12.250%	106.500	106.000

# Can I sell a bond before its maturity date?

- Like stocks, bonds can be bought and sold at any time on the RSE and, as with stocks, prices vary. Prices move in the opposite direction to interest rates. So when prevailing interest rates in Rwanda rise, bond prices fall. When interest rates fall, bond prices rise.
- Changes in price affect a bond's return, called its yield. Initially, all bonds have a yield which is equal to the bond's coupon rate divided by the bond's price. For example, if you buy a Frw 100,000 bond with a 10% coupon at its face value, its yield is 10% ( $10,000/100,000$ ). If the bond's price changes, its yield also changes.
- For example, if the price of your bond dropped to Frw 95,000, then the yield would go up to 10.5%. This happens because you are getting the same guaranteed Frw 10,000 on an asset that is worth Frw 95,000 ( $10,000/95,000$ ). If, on the other hand, your bond's price rose to Frw 105,000, your bond's yield would fall to 9.5% ( $10,000/105,000$ ).
- As a bondholder, you locked in your interest rate when you initially bought your bond, so if you want to sell your bond before its maturity date, you want the bond's price to have risen above its face value (be selling at a premium). If you are a bond buyer, you want lower prices and higher yields (be buying a discount).

# How do I calculate a bond's return?

- The total anticipated return you earn on a bond if you hold it until its maturity date is called its yield to maturity (YTM). YTM measures a bond's yield from the day the investor buys it to the day it expires.
- Yield to maturity (YTM) calculations assume all coupon payments are reinvested at the same rate as a bond's current yield and factor in a bond's current market price, par value (face value), coupon (interest) rate, and term to maturity.
- As the previous slide showed, initially, all bonds have a yield which is equal to the bond's coupon rate divided by the bond's price, but this can change over time.
- Depending on whether a bond is bought on the secondary market at a discount (below its par value) or premium (above its par value), the actual yield (rate of return) can be greater or lower than the quoted annual coupon rate.
- Calculating YTM is complicated. Fortunately, there are a number of free online calculators that will allow you to calculate a bond's yield to maturity. Typing "online yield to maturity calculator" into your preferred search engine will produce a number of results.

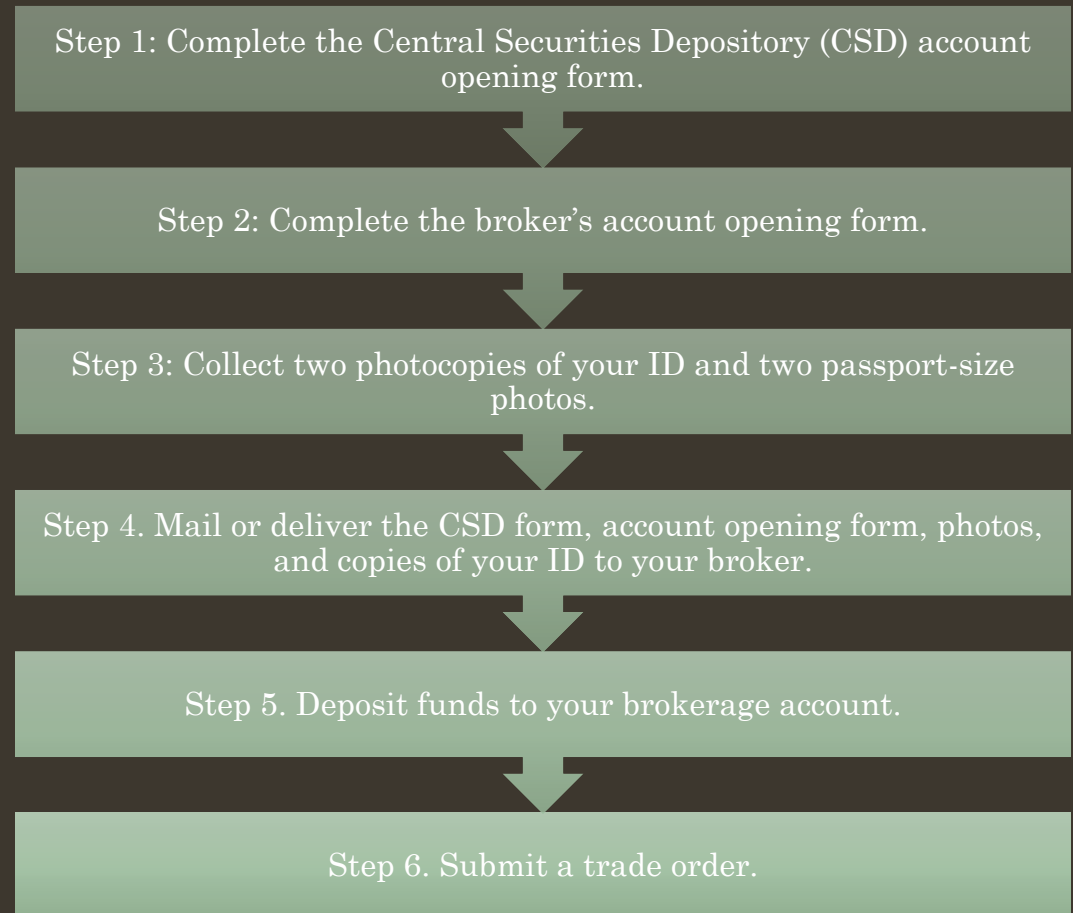


# Getting involved



# How do I buy and sell shares and bonds?

- All trading on the RSE occurs through brokers, so your first step is to select one.
- A list of members can be found on the Rwanda Stock Exchange's website, on the Capital Market Authority's website, or on RwandaInvestor.com.
- Once you have selected a broker, you must follow this process



# How much does it cost to trade?

- Members of the Exchange charge a commission for their services.

Transaction Value	Net Brokerage Commission	Transaction Fee	Investor Compensation Fund	CSD Settlement Levy	Total Cost to Investors
Equities – Up to Rwf 100,000,000	1.5%	0.14%	0.02%	0.05%	1.71% or brokerage commission plus statutory fees
Equities – Above Rwf 100,000,000	Negotiable, but subject to a minimum of 1.25%	0.14%	0.02%	0.05%	
Bonds	0.08%	0.05%	0.02%	0.03%	0.18%

# Where can I get more information?

- The websites of the Rwanda Stock Exchange ([www.rse.rw](http://www.rse.rw)) and Capital Markets Authority ([www.cma.rw](http://www.cma.rw)) provide valuable information to investors as do the investor relations sections of some RSE listed companies. Some brokerage websites also offer free information and reports and, periodically, recommendations.
- An additional resource is RwandaInvestor.com ([www.rwandainvestor.com](http://www.rwandainvestor.com)) a free source for company profiles, financial statements, annual reports, financial ratios, share price histories, dividend histories, and much more.
- For more information on Rwanda's bond markets, the African Financial Market Initiative – an initiative of the African Development Bank – has an excellent website ([www.africanbondmarkets.org/en/country-profiles/east-africa/rwanda/](http://www.africanbondmarkets.org/en/country-profiles/east-africa/rwanda/)).



# Thank you for viewing this presentation.

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