

THE IPO MARKET: GLOBAL PRACTICES, DEVELOPMENT TRENDS AND IPO IN KAZAKHSTAN*

Kulyanda K. NURASHEVA ^{a,*}, Aziza T. MERGENBAEVA ^b, Darikul' A. KULANOVA ^c,
Gul'zhanar I. ABDIKERIMOVA ^d

^a M. Auezov South Kazakhstan State University, Shymkent, Republic of Kazakhstan
nurasheva@mail.ru
<https://orcid.org/0000-0002-4639-467X>

^b M. Auezov South Kazakhstan State University, Shymkent, Republic of Kazakhstan
aziza.mer.69@mail.ru
<https://orcid.org/0000-0001-8387-7673>

^c M. Auezov South Kazakhstan State University, Shymkent, Republic of Kazakhstan
k_dana_a@mail.ru
<https://orcid.org/0000-0001-9188-5243>

^d M. Auezov South Kazakhstan State University, Shymkent, Republic of Kazakhstan
abdikerimova71@mail.ru
<https://orcid.org/0000-0003-2495-1209>

* Corresponding author

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Abstract

Subject The article discusses the stock market of Kazakhstan, which is crucial for the economy. Its weaknesses inhibit the development and impedes market reforms. We review IPO as a segment of the stock market.

Objectives The study analyzed the global IPO market in terms of the number of placements and volume of capital. We also review what made investment initiatives a success or a failure, investigating milestones of the IPO market evolution in Kazakhstan and formulating our proposals for its further growth.

Methods The study applies methods of relevant sampling, logical reasoning, data grouping, systems and statistical analyses. We intensively used the content analysis of available sources.

Results The IPO market develops in a different manner across countries. Analyzing major placements, even the risk assessment is found to not necessarily make a placement a success. Weak development institutions, unstable banking sector inhibit the development of Kazakhstan's stock market. The first attempts of IPO resulted in a low capitalization of stocks, high volatility due to small volumes. Kazakh IPOs are exposed to the risk associated with ownership, enterprise privatization, uncertainty of price and tariff regulation. Common people do not have enough skills and money to offer their funds in the local stock market. We suggest making the corporate operations more transparent, labeling them as public, determine clear guarantees for common shareholders. The suggestions concerning Kazakhstan's IPO market will strengthen the stock market. Research is also useful to emerging economies.

Conclusions and Relevance Kazakh IPO does not meet the development level of the economy. The Kazakh authorities shall be decisive to fairly distribute income, ensure a growth in people's wellbeing, thus expanding their opportunities for acquiring securities. Laws should be refined and enhanced in terms of shareholders' rights protection, transparency of corporate operations, broad involvement of people into operations of stock markets.

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Introduction

Initial Public Offering (IPO) serves effectively to raise long-term funds in many countries. IPO has become the main means of accumulating financial resources for the recent years. It works both for startups and mature companies, since the active use of IPO will help an issuing company raise investment resources faster in case of insufficient capitalization and scarce investment capital.

Until recently business leaders and top managers had had quite a few options when they had to raise funds. Institutional, regulatory and technological barriers prevented investors and banks to employ cheap funds of businesses, thus securing significant proceeds. Nowadays the situation is different. As Kazakhstan adopted a flexible exchange rate of the national currency and financial control measures the National Bank of the Republic of Kazakhstan may undertake, companies obtained a better access to international finance.

Companies can sell stocks more easily. Stock exchanges revised their stock market entry requirements. The economy has seen a new generation of investors who treat stocks as a lucrative option for investment. Therefore, this fact, IT and respective opportunities were enough to surmount some technical difficulties, thus changing the approach to investment processes.

Things are changing in Kazakhstan too as the country implements projects under the 2015–2019 program for the industrial and innovative development of the country, 2020 Road Map, etc. As new enterprises are set under the above programs, more financial injections are needed. Stock market instruments is considered as the main source of funding. However, weak development institutions, unstable banking sector hamper a growth and the implementation of innovative ideas and promotion of market reforms. Furthermore, due to inflation and devaluation of the

national currency, companies lose their opportunities to invest in securities.

Stock markets of the Western countries has a long history. Being well studied, they demonstrate perfect market relationships. In our opinion, it should be regulated only during crises. Kazakhstan's market reforms have hardly influenced some economic aspects, which relate to the stock market. People do not have enough income to save money and acquire securities. Possible securities risks cannot be foreseen. Common shareholders do not have clear and firm guarantees that their rights are protected. Small investors (people) are not meant to take part in sale and purchase of securities. We believe the issues stem from imperfections of laws, poorly elaborated aspects of the security market operations in Kazakhstan.

Hence, we think Kazakhstan should prioritize the development of the IPO market as a segment of the growing stock market. Pursuing the efficiency of economic management tools, we do research into the following aspects:

- analyzing the market of the leading companies' IPOs;
- reviewing what made initiatives of investing in securities a success or a failure;
- examining the history of Kazakhstan's IPO market;
- finding what impedes the development of the stock market;
- outlining recommendations for the development of IPO market.

The existing global IPO market is the subject of our research, while we focus on specific distinctions of the IPO market, issues and difficulties that arise from its operations in Kazakhstan.

As part of research, we rely upon statistical data of renowned companies, electronic resources, overviews and reports of analytical agencies, materials of the Kazakh stock exchange. We also applied methods of sampling and grouping of relevant information, systems and statistical analysis.

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Global IPO Market: Operations and Trends

What distinguishes stock markets is huge amounts of money that can be wired from some companies, financial institutions and countries to others. In such circumstances, IPO seems to be the most effective means of raising funds of major companies that possess substantial resources. The stock market is a channel of information about investors' sentiment. It serves for forecasting current events, responding to them and foresee the future¹. However, stock exchanges can be unpredictable, being influenced by any factors. For example, fluctuation of prices, rotation of management, structural shifts, changes in resource reserves, sentiment of partners and even panic².

Investors were noted to tend to IPO more frequently, being sure that new deals will be a success. At the pre-IPO phase and initial placement of stocks in 2018, 82 percent of investors across Europe put their funds into promising businesses³. As the analysis shows, the trend will persist. According to investors, the trend will persevere, while companies' income is expected to grow as well. Besides, seeing the recovery of the macroeconomic environment, revitalizing stock market, aptitude of other depositors to assume risks, investors feel more assured. As many companies succeeded in maintaining the high capitalization during the economic downturn, they regained investors' trust and made IPO deals more attractive for them.

We carried out the analysis of major IPOs worldwide, considering IPO deals across regions⁴. We discovered what companies lead the market, and traced new trends. Major deals signify a success in the history of IPOs. For

example, 15 biggest deals consolidated totally USD 251.5 billion, with the USA and China standing at the top of the list (*Table 1*).

Alibaba's IPO on the U.S. stock exchange is considered as the largest deal for the recent times. The deal attracted 50 percent of total capital for FY 2016.

It is worth mentioning that the situation in stock markets has changed. Nowadays companies try to raise funds from new sources, rather than from traditional Western sources only. Before the 2010–2011 crisis, international deals and amounts of raised funds had been increasing until the global IPO market slumped. There has increased the number of IPO deals since 2013, with the positive trend still surviving [1].

We spotlight new tendencies of the global IPO market [2]. IPOs within a region demonstrate more active trends than cross-regional ones. There were 873 IPOs concluded in 2003–2017 (USD 181 billion). Issuers' jurisdiction and the place of IPOs pertained to the same region. Trying to increase the raised funds as much as possible, issuers enter international markets. Moreover, investors are very well cognizant with companies operating in the domestic market as opposed to international placements. Undoubtedly, it facilitates the complete analysis of business performance and reduced the country risk and transaction costs.

Europe, the Middle East, Africa (EMEA), including Russia, account for the highest share of IPOs within the region. There were 395 IPOs in the EMEA region, which accounts for about 50 percent of all deals closed worldwide. Furthermore, IPOs make about 70 percent of total intra-regional placements. Asia is the region seeing the highest number of IPOs, actually being the origin of a half of international IPOs⁵. It is the Chinese issuers that contributed to the result as they made 38 percent of deals on the U.S. stock exchanges and 38 percent in Singapore. We should note that the Asian markets are rather stringently regulated, with some of them being closed at all or restricted. Therefore, foreign issuers are not an attractive option for IPO, thus streaming companies to foreign stock exchanges.

¹ Hayes A. How Does the Stock Market Work?
URL: <https://www.investopedia.com/articles/investing/082614/how-stock-market-works.asp>

² Vaishnavi N. Essay on Stock Exchange: Top 8 Essays.
URL: <http://www.businessmanagementideas.com/essays/stock-exchange-essays/essay-on-stock-exchange-top-8-essays-business-management/11832>

³ EU Global IPO Trends (2017).
URL: https://www2.ey.com.ch/publications/items/strategicgrowthmarkets/201406_global_ipo_trends/20140626_EY_Global-IPO-Trends.pdf

⁴ The Review of the IPO Market in Europe, 2017.
URL: http://www.pwc.com/en_UA/ua/services/capitalmarkets/assets/ua_ipo_watch_europe2017rus.pdf

⁵ Ernst & Young. URL: https://www.ey.com/en_gl

Notably, many factors determine the place of an IPO, which is different from the issuer's jurisdiction of origin. For instance, issuers want to benefit as much as possible from a placement, though they could have the same gains in the domestic market. Geographical developments in the IPO market reflect how the global economy evolves and advanced development some countries demonstrate.

IPO in Advanced Economies

IPO markets are very different across countries. IPOs trends totally depend on events in financial markets, because they influence interests of capital and result from its liquidity. The investment model is another factors of the IPO market activity. So, the Anglo-Saxon law, which exists in the USA, Canada and the United Kingdom and some other countries, mostly aims to obtain funds of stock markets, rather than bank loans and credits [3] (*Table 2*). The European IPO market attracts 5–10 percent of investment in capital stock. The indicator is higher, reaching 15–20 percent, in the Anglo-Saxon jurisdictions. Currently, most IPOs are organized in the Anglo-Saxon countries, which intend to enter the global stock market as a source of investment, because the national market have limited resources and opportunities [4].

According to Bloomberg's experts, in 2018, technological companies were among those that succeeded in their IPO on the European stock exchanges. However, the situation left much to be desired for developers and financial companies. Currently, as Bloomberg's experts report, the European stock market undergo a hard phase of their development. Investors are concerned with some political tensions and waffle on active steps of investment. Due to the situation, IPO deals accounted for USD 37 billion only in from January through September 2018 against USD 44 billion year-on-year⁶. In the mean time, according to Bloomberg, in 2019, investors may presumably have some other surprises. For now, Bloomberg made the 2018 list of the best and worst IPOs of the European companies⁷.

⁶ Bloomberg. URL: <http://www.bloomberg.com/europe>

⁷ *Bloomberg nazval luchshie i khudshie IPO evropeiskikh kompanii 2018 goda* [Bloomberg announced the best and worst IPOs of European companies in 2018]. URL: <https://www.rbc.ru/business/17/02/2020/5e4a73a79a794717948e457f5> (In Russ.); <https://www.pwc.pl/pl/pdf/publikacje/2018/ipo-watch-europe-2017.pdf>

The Best IPO in Europe, 2018. Adyen (the Netherlands) launched its IPO on Euronext in June 2018. It is called a direct competitor of PayPal. The company's name originates from the Suriname notion *starting from the very beginning*. Digital payments is its business novelty. Its clientele includes globally renowned companies, such as Netflix, Facebook, Spotify and eBay. During this IPO, Adyen's shareholders sold 13.4 percent of their shares on the stock exchange at EUR 240 (the cap price). As part of the IPO, Adyen's capitalization reached EUR 7.1 billion. On the first trading day, Adyen's quotations increased by 90 percent. The trading closed at EUR 455 and boosted the company's capital up to EUR 13.4 billion. As at 1 October 2018, Adyen's stock were estimated as much as EUR 714.7 on the stock exchange, which is trice as high as the average IPO.

In March 2018, Sensirion, a Swiss manufacturer of sensors for motor vehicles, cell phones and other electronic devices, launched an IPO of 7.68 millions of stocks worth CHF 36 per unit (the range ceiling). Sensirion secured the capitalization amounting to USD 531 million. As of October 1, 2018, the value of the securities reached CHF 67.8 per share (adding 88 percent to the listing price).

In June 2018, as part of the IPO, shareholders of Denmark's Netcompany sold 23 million of their stocks at DKK 155 per unit, thus ensuring the capitalization of DKK 7.75 billion (USD 1.2 billion). Revenue from the disposal of Netcompany's stocks amounted to DKK 232 on the Copenhagen Stock Exchange in three months (adding 49 percent to the listing price).

The public offering of stocks owned by Elkem, a Norwegian leader in silicon production, became the largest deals the country has ever seen. China National Blue Star As of March 2018, China National Blue Star was the sole owner of Elkem when it chose to offer its stocks. Elkem placed 38.2 percent of its stocks on the Oslo Stock Exchange at NOK 27.95 per unit. As a result of the deals, the capitalization reached NOK 16.9 billion (USD 2.1 billion). In October, the price for the stocks increased up to NOK 41.17 on the Norwegian Stock Exchange (adding 47.3 percent to the listing price).

IPO Failures in Europe, 2018. CEVA Logistics, a Swiss company of CMS-CG Investment Group, placed a large portfolio of shares on the Swiss stock exchange in May 2018. CMA-CGM Investment purchased some of the. The remaining ones were reissued at CHF 27.5 per unit. Gross profit of the IPO amounted to CHF 1.2 billion (USD 1.22 billion). However, on the first trading date, the listing price of CEVA Logistics dropped by 8 percent. As of October 1, 2018, the value of the stocks was CHF 18.56 per unit, which is 32.5 percent lower than the listing price.

In February 2018, Metrovacea, a Spanish developer, offered its stocks at EUR 16.5 per unit, the floor price of the published range on the Madrid stock exchange. The capitalization was EUR 2.5 billion. Early in October 2018, Metrovacea's stocks were quoted at around EUR 11.5 per unit (losing 30.3 percent of the initial price).

Consolidating assets worth more than EUR 700 billion, DWS, a subsidiary of Deutsche Bank, entered the public market in March 2018. Deutsche Bank sold its 22.5 percent share for EUR 32.5 per unit and earned totally EUR 1.4 billion. However, quotations of DWS Group's stocks decreased after some investors withdrew their money from the company. In October, DWS Group's securities depreciated down to EUR 23.59 per unit (losing 27.4 percent of the listing price).

Headquartered in Hamburg, Godewind, a company specializing in real estate trade and management, started an IPO on the Frankfurt stock exchange in Spring 2018. However, it managed to sell only 93.75 million of 112.5 million new stocks. The stocks were traded at EUR 4 per each. The IPO generated EUR 375 million instead of EUR 550 million as it had been estimated. As of October 1, 2018, the value of Godewind's stocks was about EUR 3.5 per each (losing 12.5 percent of their listing price).

We should mention that the positive sentiment of investors about a growth in the value of stocks really matters. Dealing with optimistically-minded investors, issuers may benefit from a window of opportunities to enter the market.

The fact was studied in 2000. Referring to data of the U.S. companies 1920 and onward, researchers [5] determined that the more companies launching IPOs at a certain point of time, the higher percentage of all stocks issued the current year. However, profit turns to be lower on the stock market the following year. The potential for growth, investors' expectations and the right point of time are key aspects that influence the IPO market. In the IPO market, the high return is noted to boost the number of public offerings the following half a year.

Speaking about external ingredients of a successful IPO, all investors go for the favorable market environment that contributes to corporate growth.

Current quotations should not be overlooked. 83 percent of respondents notes that the business value is an important characteristics of an IPO. We agree with experts saying that IPO failures are often caused by inappropriate prices, poor planning strategies of management, premature public offering [6]. To avoid IPO errors, the company should enhance its operational efficiency, key indicators so as to meet investors' expectations, use raised funds as declared and implement new corporate governance techniques.

The Stock Market of Kazakhstan: Challenges and Issues

As of August 1, 2018, comprehensive trading volume amounted to KZT 9.7 trillion on the KASE and sloped by 4.2 percent, or KZT 427,8 billion, as compared with the previous month (*Table 3*). The most promising trends were captured in the stock market (a 9.3-fold increase) and the segment of investment foundations' securities (a 27.6 percent increase). As of August 1, 2018, there were 383 items of securities issued by 151 issuers. Trading volume of governmental securities reached KZT 234.1 billion, including KZT 233 billion in the principal amount. The Ministry of Finance raised funds by issuing long-term bonds at 8.43 – 8.48 percent per annum. Local authorities collected the remaining amount of KZT 1.1 billion as part of governmental programs.

As of August 31, 2018, individuals opened 109,993 current accounts in the central

depository. This is 748 accounts more than in the beginning of the year. Finally, the capitalization of KASE stocks rose by 4.6 percent, or KZT 773.4 billion, as more companies were included into the capitalization perimeter. KASE index closed in July–August 2018 in the red and lost 49.6 points, or 2.1 percent. Negative trends began to materialize as a result of some companies' reports on their operations, prices on the resource market, and corporate news about some companies' performance.

In August 2018, trading volume amounted to KZT 773.4 billion, with deals reaching KZT 6.8 billion daily, which is higher than in the previous period. There were 488 deals on average every day, with the average volume exceeding KZT 14 million.

As key investors may see it, individuals are the most active players in the segment. They account for 43.9 percent of total turnover. Two-tier banks did not take part in the auction. Broker-dealers made 41.9 percent, while other institutional investors and legal entities holding 10.8 and 3.4 percent respectively. Non-residents account for 1.6 percent.

In spite of positive trading dynamics, the Kazakh stock market does not completely match the stock market format [7]. There are about eight trading sessions in the total number of deals closed in the stock market. The public sector still prevails, accounting for 66 percent of trading sessions. It is worth saying that some companies' stocks are unavailable in the market, though being indicated in the official stock listing, which include *inter alia* blue chips.

If we look at the KASE quotation list, we see the mismatch with the securities turnover by industry. The secondary market of government securities makes 29.2 percent, while that of non-government ones is just 6.2 percent. We should say that the secondary market takes an insignificant share of the KASE turnover and continues to decrease. Spreading contractual deals is the main challenge to the market. The Financial Market Supervision Committee⁸

⁸ Presidential Decree of the Republic of Kazakhstan of April 12, 2011. The Agency was abolished, with its functions being transferred to the National Bank. On May 14, 2019, Oleg Smolyakov, the deputy head of the Chair of the National Bank,

(FMSC) and KASE take efforts to counter direct transactions, but they are still numerous in volume and numbers⁹.

The IPO Market of Kazakhstan: The Present, Issues and Future

Milestones and Positive Effects. In the Kazakh economy today, most investment is raised by domestic companies through banking facilities. Therefore, as the global economy slows down due to trade warfare and violation of the WTO principles, national banks slackened their lending practice, notwithstanding the need in investment capital. Hence, there should be some new methods for the national companies to raise funds. Long-term IPOs were not treated as a reasonable way to attract investment until recently. The fact that national issuers account for relatively few primary listings is a testimony of this. Certainly, the Kazakh companies are getting more and more interested in going public¹⁰.

As a result of economic reforms in Kazakhstan, the government adopted some legislative, economic and organizational principles for promoting IPOs in the domestic market¹¹. In the mean time, the Kazakh IPO market evolved and settled gradually. The market saw more deals be concluded, new market actors come, and the legislative framework be improved. *Table 4* presents the key milestones of the IPO market development.

In the early 2000s, the Kazakh companies actively tried to find how they could increment their capital. Then, they came up with the idea of IPO in foreign markets. During the period, major national companies and banks, such as KazMunayGas, Kazakhmys, ENRC, KazakhGold, Kazkommertsbank, Alliance Bank,

reported about the decision to reestablish an independent body charged with control and oversight over the financial market and financial institutions.

⁹ Beinoeva M. V *Kazakhstanе vozrodyat Agentstvo po regulirovaniyu finansovogo rynka* [The agency for the financial market regulator will be reestablished in Kazakhstan]. URL: <https://www.lsm.kz/afn-v-kazahstane> (In Russ.)

¹⁰ Nurasheva K.K., Kulanova D.A., Mergenbaeva A.A., Abdirkerimova G.I. et al. [Municipal securities: The system for updating and risks]. *Vestnik Kazakhskogo gosudarstvennogo universiteta = Bulletin of Kazakh State University*, 2018, no. 3, pp. 125–133. (In Russ.)

¹¹ On the Securities Market: Law of the Republic of Kazakhstan of July 2, 2003, № 461-II.

Halyk Bank, were trailblazers offering their stocks on the London Stock Exchange. Currently, more than 20 Kazakh companies underwent IPO, thus laying the ground for research¹².

The Kazakh IPOs on the London Stock Exchange. In 2005, KAZ Minerals and KazakhGold, two largest national producers of copper and gold, were the first Kazakh companies that pioneered the London Stock Exchange (LSE)¹³. KAZ Minerals placed 26.2 percent of its shares at GBP 5.4 per unit and raised GBP 661.4 million, or USD 1,117 billion. The stocks appreciated up to GBP 7.74 per unit, or by 43 percent, by the end of 2005. The company was included into the FTSE-100. During the following years, the value of the stocks continued to grow. KazakhGold managed to raise more than USD 196 million by selling 25 percent of its stocks at USD 15 per each. In 2012, the company was delisted after Polyus Gold absorbed it and got to own 93 percent of the share capital.

In 2007, Eurasian Natural Resources Corporation (ENRC) offered 252.5 million new stocks, or 20 percent of its share capital, on the LSE. In spite of the outbreak of the global crisis, the value of the stocks rose from GBP 5.4 up to GBP 15.3 within half a year. However, ENRC endured a series of scandals, which undermined the value of its stocks. It fell down to GBP 2.7 in April 2013. The delisting from the LSE was also accompanied with another scandal. Holders of free floating stocks expressed their discontent with the REPO value of stocks amounting to 251 pence.

Kcell and KazAtomProm are major Kazakh companies that has entered the LSE for the recent years, being worth mentioning. Kcell's IPO took place in 2012, launching its stocks at USD 10.5. On the first trading day, they appreciated by 5 percent, generating USD 525 million for the company. The IPO included the sale of 50 million stocks of Telia Sonera, the other

telecommunications company operating in Sweden and Finland. As of February 14, 2018, the value of the stocks was USD 4.8. In November 2018, Samruk-Kazyna Fund announced the listing of KazAtomProm's stocks. Investors in London and Astana (Kazakhstan) were offered a portfolio of 15 percent of securities worth USD 451. The demand was 1.7-fold as high as the supply [7].

Samruk-Kazyna Fund proposed the Kazakh citizens to buy its subsidiaries, such as KazTransOil in 2012, KEGOC in 2014. KazTransOil's stocks were listed at KZT 725. At the end of November 2, their price reached KZT 1,290 per unit. One application amounted to KZT 638 thousand on average. So, as of the listing date, individuals, who were the Kazakh citizens, owned 30,405,531 common stocks, or 7.91 percent of total stocks.

In 2014, IPO KEGOC's IPO gave similar results. According to Samruk-Kazyna, 99.92 percent of retail investors' applications requested no more than 14 thousand stocks each. The average value of an application amounted to KZT 428.5 thousand. Considering the amounts requested in the applications, the IPOs of Samruk-Kazyna's companies attracted people, who were not millionaires, but those who could manage their funds reasonably and make savings. Both companies' dividends rose during the previous period. KEGOC's stocks more than tripled on the KASE for four years of being listed there, i.e. starting from KZT 505 up to KZT 1,560 at the end of the trading day (November 2). Debunking the common belief about minority shareholders' vulnerability, KEGOC protected the minority shareholders' income more than that of the controlling shareholder.

The Present and Future of the Kazakh IPO Market. Comparing total trade volume on the KASE with stock exchanged in other countries, we see that the domestic stock market seem underdeveloped. For example, trading volume of KASE companies is 2,375 times less than FTSE-100 (United Kingdom). Low trading volume on the KASE signifies that the stock market grows slowly, thus preventing parties to sale – purchase deals to set fair prices on their own and

¹² Tukasheva A. *Kaspi.kz i drugie IPO. Zachem kazakhstanskije kompanii idut na Londonskuyu birzhu?* [Kaspi.kz and other IPOs. Why do Kazakh companies go public on London Stock Exchange?]. URL: <https://informburo.kz/stati/kaspikz-i-drugie-ipo-zachem-kazakhstanskije-kompanii-idut-na-londonskuyu-birzhu.html> (In Russ.)

¹³ Ospanov A. *IPO: opyt Rossii, perspektivy Kazakhstana* [IPO: The case of Russia, prospects of Kazakhstan]. URL: <http://www.investkz.com/journals/42/101.html>

undermines the status of the Kazakh Stock Exchange. Capitalization is another metric of the IPO market. In this case, the capitalization of KASE stocks seems unstable. For instance, in 2015, it dropped by 4.6 percent, or KZT 773.4 billion, having reached KZT 17.53 trillion. The indicator will rise if capitalization computations embrace more companies and their stocks and the USD/KZT exchange rate increases¹⁴.

In 2014–2015, before global prices for natural resources went down, Kazakhstan's GDP was at its peak, approximating USD 227 billion. Later on, it fell down to USD 167.4 billion in 2018 (KZT 64 trillion) due to a decrease in prices for exported energy resources. Therefore, the ration of the KASE capitalization to the national GDP dropped from 26.8 to 23.3 percent, which mainly resulted from a significant decrease in the national GDP. Generally, the indicators are very volatile as the market is small. As long as the Kazakh stock exchange is not big, any large deals cannot but influence the indicators. Assuming that the stock market capitalization in an advanced economy usually is twice as big as the national GDP, the indicator is considered to signify the weak IPO market in Kazakhstan.

The way issues and issuers change and develop on the Kazakh stock exchange is evidence of the low activity of the IPO market. For instance, there are about seven thousand large and medium-sized companies and one thousand large State-owned companies in Kazakhstan. Besides, the KASE offers stocks of 140 companies. In the mean time, most deals concern securities of a restricted number of issuers (about ten) operating predominantly in banking and mining.

As compared with developing markets, it is relatively small. There are more than 6,000 and 4,000 issuing companies on trading platforms of China and India respectively. Securities of 3,500 and 3,552 companies are traded on stocks exchanges in London and New York respectively. However, we admit that the Kazakh companies do go for IPO to finance the economic growth.

¹⁴ Nurasheva K.K., Kulanova D.A., Mergenbaeva A.A., Abdirkerimova G.I. et al. [Municipal securities: The system for updating and risks]. *Vestnik Kazakhskogo gosudarstvennogo universiteta = Bulletin of Kazakh State University*, 2018, no. 3, pp. 125–133. (In Russ.)

The Kazakh entities have been actively applying the tool for the recent time. Nevertheless, the IPO market leaves much to be desired, since the Kazakh companies often opt for their IPO to take place abroad.

The Kazakh companies get substantial earnings from their stocks and global depository receipts on stocks markets around the world. About 95 percent of the Kazakh securities circulate on foreign stock exchanges. The LSE is the primary platform for the Kazakh IPOs. In fact, the Kazakh IPO market is virtually based in the United Kingdom.

Possible Solutions and Opportunities of the IPO Market. Entering the LSE, the Kazakh companies elevate their business status, as Arman Beisembaev opines, the head of the analytical department at FXPrimus. The thing is that stocks of almost all Kazakh companies have low liquidity due to the poor demand for them¹⁵. According to Arman Beisembaev, Kaspi Bank launched its IPO on the LSE to better its image too. Nowadays, Kaspi Bank is a 100-percent private and independent from the State, thus being attractive for those aspiring to acquire it. Moreover, there arises a disturbing tendency of the State consolidating specialized assets and pushing foreign market actors out of the market. Hence, the fact that Kaspi Bank chooses to delist from the KASE seems like an attempt to diversify source of finance and defend itself from a hostile takeover. This is the first time a technological product with rather a high value added enters the international market, rather than just a financial institutions or a resource production company. The reason is that the bank comprises the financial institution and other services of the group, including a marketplace. Kaspi Bank demonstrates very good financial indicators and promising strategy for investors, being guided by trustworthy management. According to Timur Turlov, the CEO of Freedom Finance¹⁶, Kazakhstan passes the maturity growth phase of its retail lending cycle. Therefore, further

¹⁵ Bizhikeeva M. *Pochemu kazakhstantsam bol'she ne predlagayut "Narodnoe IPO"* [Why are the Kazakh no longer offered an IPO for people?]. URL: <https://newtimes.kz/eksklyuziv/30719-pochemu-kazakhstantsam-bolshe-ne-predlagayut-narodnoe-ipo> (In Russ.)

¹⁶ Ibid.

business growth may require an additional capital buffer. It is noteworthy that financial institutions are the first economic agents who respond to inflationary processes, fluctuations of the national foreign exchange rate. Hence, it is of paramount importance that the regulator and government hold a stringent and consistent monetary and fiscal policy.

As NewTimes.kz puts it, citizens who kept their money in USD or KZT doubled their gains than those who bought KEGOC's stocks and expected their value to increase¹⁷. Some experts call the National IPO Program a failure and believe that the purchase of stocks turned out to be a negative experience. As Botagos Zhumanova, the head of the guiding council of the Financial Freedom Public Foundation, says, selling expenses for IPO are just huge in comparison with the resultant effect¹⁸. Generally, the stock market is inhabited by profiteering traders and long-term investors. Furthermore, as long as the practice of corporate governance is underdeveloped in Kazakhstan, many solutions are made on the basis of information which is not in public domain.

As Financial Times's experts hold, the Kazakh IPOs are exposed to quite high risks in case of ownership changes, privatization of power engineering companies, uncertain power tariff regulation procedures, etc.¹⁹ [8]. The national IPO is intended to set up new standards, alleviate consequences of privatization processes initiated in the 1990s, when business groups close to the presidential family of Kazakhstan took control over enormous reserves of oil, metals and financial assets. Widespread condemnation of such misappropriation of national wealth and property basically still causes political controversies and disputes, as Financial Times reports. National mass media serve as resources to promote the idea of people's involvement in

IPOs. However, common people have limited funds and skills to invest their money in bonds circulating in a local stock market. To herd people into this process, authorities should enhance the financial literacy of the population.

As major companies emerge in the stock market, there should be an enhanced system of settlements, clearance procedures, seasoned broker-dealers, self-regulatory organizations (SRO), since foreign investors will come to the market, expecting the market environment for their operations. The quality of information investor seek is another issue to consider, since there is a lack of transparency today. We should admit that the pre-trial dispute resolution practice is almost non-existent in the country. The Astana International Financial Centre (AIFC) is to house the platform where such matters can be dealt with. Creditors, issuers and investors will gather there to discuss relevant issues²⁰.

The Regional Financial Centre of Almaty City used to be a promising institution for the purpose²¹. Notwithstanding all activities the Centre has conducted for the recent years to develop the Kazakh stock market, it failed to accomplish tasks it was expected to. It failed to make the stock market more competitive, prevent the Kazakh market from turning into a pool of financial resources for developed financial centers and migration of domestic investment to foreign stock markets.

What can change the situation is a modern infrastructure of the stock exchange market. After EXPO-2017 finished, it becomes the basis for the AIFC housing a stock exchange, mortgage company, insurance companies, and offices of the principal Kazakh banks, microfinance entities, Islamic financial institutions and so on. Documents will be prepared in English to facilitate the integration into the global stock market. Strategically, the project aims to create favorable conditions for developing a competitive financial hub, which would meet international

¹⁷ Bizhikeeva M. *Pochemu kazakhstantsam bol'she ne predlagayut "Narodnoe IPO"* [Why are the Kazakh no longer offered an IPO for people?]. URL: <https://newtimes.kz/eksklyuziv/30719-pochemu-kazakhstantsam-bolshe-ne-predlagayut-narodnoe-ipo> (In Russ.)

¹⁸ Ibid.

¹⁹ *Eksperty ne veryat v uspekhnost' "narodnogo IPO" v Kazakhstane* [Experts are sceptical about the IPO for people will be a success]. URL: https://rus.azattyq.org/a/ipo_kazakhstan_investors_/24183221.htm (In Russ.)

²⁰ Batishcheva T. *Kazakhstanskije IPO – yasnosti vse men'she* [Kazakh IPOs. The clarity becomes more blurred]. URL: <https://expertonline.kz/wiki/author/34610/> (In Russ.)

²¹ On the Regional Financial Centre of Almaty: Law of the Republic of Kazakhstan of June 5, 2006 № 145 (abolished in 2015).

standards and enter Top-10 financial centers of Asia. Furthermore, Kazakhstan reestablished the Agency for Regulation of Financial Market. There is a high probability that the company will face some challenges in the domestic market during the IPO. Based on the analysis, we propose some recommendations.

Business Transparency. Large Kazakh companies have not yet prepared for making their business transparent. Information about shareholders and affiliates should be publicly available. However, it is almost impossible to find financial results or other information.

Going Public. The public status is not only about involving people and promoting the investment culture. It may be a kind of a shield from governmental claims. Hence, the issue prospectus shall inform of the following:

- internal business structure profit dynamics, remuneration to top managers;
- the clientele and suppliers;
- competitors;
- shareholders;
- intentions to use proceeds from the listing of stocks.

A Clear IPO Strategy. Good business planning, reasonable marketing will help predict the outcome of an IPO. A virtue of an IPO is that investment will not have particular timing and a company will learn its market value as opposed to lending.

Conclusion

The way advanced economies developed their stock markets serves a guiding line for Kazakhstan in its endeavor. However, the initial basis provided support, being able to augment the success. The stock market evolved in purely a market environment. Kazakhstan's economy observes a trail left by the system of a central planned economy. Development institutions are underdeveloped, being coupled with the red tape and some instances of corruption. The situation in the stock market does not correlate with the development level of the economy. Companies do not resort to the stock market completely to raise funds. Compared with GDP, the capitalization of the Kazakh companies is still low and grows slowly.

Kazakhstan observes the emergence of legislative, economic and organizational principles and pillars for the development of the Kazakh IPO market. In the mean time, there should be decisive actions, specifically, the declaration of income and expenses, introduction of a progressive withholding tax rate instead of a flat 10-percent rate. This will ensure the fair distribution of income and boost the wellbeing of most people, increase their ability to purchase securities. Doing so, the government will be able to improve the legislation to protect shareholders' rights, transparency of business, development of the stock market in pursuit of involving more people into its operations. Furthermore, there should be a legal regulation obliging national companies offer their stocks in the domestic stock market.

Table 1
World's largest IPOs during 1988–2017

Company	Country	Year	Capital raised, billion USD	Industry	Stock Exchange
Alibaba	China	2016	25	E-commerce	NYSE
Agricultural Bank of China	China	2012	22.1	Finance	HKEX and SSE
ICBC	China	2008	21.9	Finance	HKEX and SSE
American Intl Assurance Group	USA	2012	20	Finance	HKEX
Visa Inc	USA	2010	19.1	Finance	NYSE
Facebook	USA	2014	18.9	Social networks	NASDAQ
General Motors	USA	2012	18.1	Manufacturing	NYSE
NTT Mobile Commun Network Inc	Japan	2000	18	ICT and high technology	TSE
Enel SpA	Italy	2001	16.6	Manufacturing	NYSE
Nippon Telegraph & Telephone	Japan	1988	13.7	ICT and high technology	TSE
Deutsche Telecom AG	Germany	1998	12.5	ICT and high technology	NYSE
Bank of China Ltd	China	2008	11.2	Finance	HKEX and SSE
Daichi Mutual Life Insurance	Japan	2010	11.2	Finance	TSE
OAO Rosneft	Russia	2008	10.7	Power engineering	MOEX
AT&T Wireless Group	USA	2002	10.6	ICT and high technology	NYSE

Note. Capital raised is given in values prevailing as of the listing date, net of inflation and changes in the purchasing power of USD.

Source: Authoring, based on Thomson Reuters data

Table 2
Leaders in the global IPO market, changes in the share by the number of placements and volume of attracted capital (2006–2017)

Region/Country	2006	2010	2012	2017
The number of IPOs				
Europe	373	295	430	364
USA	227	37	124	173
China	146	157	432	344
Capital raised, billion USD				
Europe	53	18	41	59
USA	48	27	40	33.3
China	15	24	81	59.5

Source: Authoring, based on KPMG, Ernst & Young, and PricewaterhouseCoopers data

Table 3
The composition of total trade volume on the Kazakhstan Stock Exchange (KASE) in August 2018

Type of Transactions	Trade volume, billion KZT	Percentage of trade volume
Currency	1,002	10.33
REPO of government securities	6,400	65.97
Government securities	234.1	2.42
Bonds	289.9	2.99
Stocks	773.4	7.98
Other	1,000.6	10.31
Total	9,700	100

Source: Authoring, based on the KASE data

Table 4
Phases of the IPO market evolution in Kazakhstan

Evolutionary phases of the IPO market	Period	Description
Phase 1 – Origination	1991–1994	As some social processes revitalized due to the introduction of democracy in 1991, joint-stock companies emerged in the market. They were the first businesses in Kazakhstan that issued stocks. Kazakhstan opened stock exchanges, such as the Almaty Stock Exchange and Kazakh Stock Exchange. In 1991, the legislature passed the Law On Circulation of Securities and Stock Exchange in the Kazakh Soviet Socialist Republic. Subsequently, the government approved the Securities Regulation. During the origination phase, there were not conceptual approaches to issuing securities and trading in them. Securities are issued on the basis of some provisional rules. The country sees the upswing of privatization
Phase 2 – Growth	1995–1998	The enhancement of legislative framework and market infrastructure, termination of the privatization investment fund, growing numbers of stock market actors, originating infrastructure of the stock market, adoption and implementation of the 1996–1998 governmental program for the stock market development, the launch of the retirement reform. The country began training of the first generation of professionals who would crucially contribute to the stock market and legislative developments. Experts of international organizations were invited to Kazakhstan for various workshops and training sessions. Being a major owner of property, the government was preparing for a noticeable movement in the stock market. All property were classified into blue chips and Tier 2. Blue chips include the larges enterprises (mining, ferrous and non-ferrous metallurgy, oil production, power engineering and communications)
Phase 3 – Infrastructure	1999–2004	Further refinement of the legislative framework; emergence of new investors represented by pension funds, insurance companies and mutual investment funds; increase in types of securities; issue of municipal bonds; surge of the corporate securities segment. The adoption of new laws, governmental resolutions, instructions of the National Bank and other institutions. In 1999 the corporate bonds segment assumed its growth. The establishment of the secondary market of sovereign bonds of the Republic of Kazakhstan under the auspices of the National Securities Commission. The Kazakh Stock Exchange was the first venue in Kazakhstan where Eurobonds were traded. The stock market has grown significantly since 2000, paving the way for Law of the Republic of Kazakhstan On Securities Market of July 2, 2003 № 461-II
Phase 4 – Development	2005–2007	The adoption of the 2005–2007 Program for the Securities Market Development; focus on the market transparency; more issue options; protection of investors’ rights and fair competition; crucial changes in the securities market infrastructure; establishment of the Regional Financial Centre of Almaty City (RFCA); union of trading venues KASE and RFCA. The 2007–2011 Concept for the Development of the Financial Sector of the Republic of Kazakhstan
Phase 5 – Enhancement	2008 up to the day	The development of the stock market during the financial crisis. The 2009–2010 joint action plan of the Government of the Republic of Kazakhstan, National Bank and Agency for Stabilization of the Economy and Financial System, which provides for further promotion of the stock market. The adoption of the 2011 – 2012 national program – National IPO. The establishment of the Astana International Financial Centre in 2018, issue of municipal bonds for programs, such as Affordable Housing, Mortgage Housing

Source: Authoring

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Conflict-of-interest notification

We, the authors of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.