



Total market capitalisation of the bourse stood at €3.3bn in mid-2018

Ready and willing

The bourse upgrades infrastructure and rules while it awaits the introduction of new listings and financial instruments

Stability has been the order of the day in Algeria's capital markets of late, with little in the way of new products, listings or other impetus for significant evolution. The authorities' decision to embark on a programme of non-conventional monetary financing in late 2017 has restored liquidity to the banking system, increasing the availability and reducing the cost of bank lending (see Banking overview). Thus, for the moment, much of the pressure has been lifted from the public and private sectors to seek alternative sources of financing, whether through a stock market listing or issuing corporate bonds. Other recent events include the March 2018 announcement in which the government said it was no longer exploring the possibility of privatising state enterprises, a number of which had been expected to pursue initial public offerings (IPOs) in the coming years. Moreover, the window for small and medium-sized enterprises (SMEs) is still waiting for its first listing, and most economic actors are forced to use informal avenues to secure foreign exchange (forex).

Nevertheless, operators and regulators continue to develop the infrastructure and environment necessary to support future development of Algeria's capital markets in anticipation of a cultural shift in mindset and a more favourable macroeconomic backdrop – factors likely to be required if market financing is to rival bank lending as a go-to option for all types of business.

SIZE & PERFORMANCE: The combined market capitalisation of the debt and equity markets of the Bourse d'Alger jumped by one-third between 2012 and 2016, from AD347.6bn (€2.5bn) to AD462.4bn (€3.4bn). It has levelled off in the 18 months since, with total market capitalisation in mid-2018 little changed at AD458.7bn (€3.3bn). These aggregate figures hide notable developments in 2016, however, when the equity market nearly tripled in size to AD45.8bn (€332.5m) with the IPO of US pharmaceuticals company Biopharm. Market capitalisation as a whole advanced only AD7bn (€50.8m) that year, though, since most of the growth in the equity

market was mirrored by a AD23.4bn (€169.9m) decline in bond market capitalisation to AD416.6 (€3bn). While the debt market's steady capitalisation of AD416.4bn (€3bn) in June 2018 was still roughly 10 times the size of the AD42.3bn (€307.1m) equity market, the reallocation of assets that occurred in 2016 led this multiple to fall sharply from about 28.5 in 2015.

Meanwhile, the performance of equities listed on the bourse has been stable in recent years. After falling by 17% in 2013, the DZAIINDEX had recovered nearly all of that ground by the end of 2015 and has remained relatively flat since. Standing at 1288.5 points in December 2015, the index declined only marginally to 1263.4 points in June 2018, though a dip to 1203.2 points was recorded at the end of 2017.

Four of the five firms listed on the equity market recorded positive earnings in 2017. The stocks of the four saw their average price-to-earnings ratio decline from 6.6 times in 2016 to 5 times in 2017, while the average dividend yield increased from 6.95% to 8.85%. **LISTING HISTORY:** Established by Decree No. 93-10 in May 1993 and incorporated in May 1997, the capital markets operator Société de Gestion de la Bourse des Valeurs (SGBV) has six public banks as its shareholders, and is in charge of daily operations and IPOs. The first equity listings came to the market in September 1999, beginning with the publicly owned agri-food producer Eriad Sétif, which floated 20% of its capital, followed swiftly by Saidal, the state-owned pharmaceuticals firm. After the flotation of public hotel operator Entreprise de Gestion Hôtelière El Aurassi in February 2000, there was no new listing until Alliance Assurances became the first private sector IPO in March 2011.

When the insurer entered, there had been only two listed firms in the last five years, as Eriad Sétif left the exchange in 2006. These three firms were then joined by two further private sector listings: fruit drink manufacturer NCA Rouiba in 2013 and Biopharm in 2016. These IPOs, and particularly that of Biopharm, have

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added a degree of dynamism in recent years to a market that had exhibited fairly low listing and trading activity in the first 15 years of its existence.

MARKET REGULATOR: The Commission for the Organisation and Oversight of the Stock Market (Commission d'Organisation et de Surveillance des Opérations de Bourse, COSOB) was established alongside the SGBV in 1993 as the independent regulator of Algeria's capital markets. The body is charged with ensuring both investor protection and the proper, transparent functioning of the market through the correct use of financial instruments and the timely, accurate publishing of company records, among other measures.

The regulator is engaged in a large-scale project to upgrade the technological infrastructure that underpins the market. BME Innova-AFI, a consortium from Spain of which the former is a subsidiary of that country's securities market manager and the latter a financial consultancy firm, was contracted in February 2017 to design and install the hardware and software necessary to automate the information systems of the SGBV, COSOB and Algérie Clearing, the central securities depository. The new systems were undergoing testing in the fourth quarter of 2018, with a view to fully roll out the programmes in the first half of 2019.

REFORM: In an effort to stimulate activity, market participants saw aspects of trading and pricing change in 2018. Having previously been limited to sessions on Monday and Friday mornings, trading opportunities increased to three times per week on Sundays, Tuesdays and Thursdays in late September. Stock price increments were reduced from AD5 (€0.04) to AD1 (€0.007) that same month, while the maximum permitted buy-sell spread on block transactions was raised from 1% to 10%. Price movements continue to be subject to a daily limit of +/- 5%, however, so as to avoid excessive volatility. Additional changes in this realm may come in the future. "There is currently only a single price fixing per day, but recent regulatory changes and investments

in technology allow for the possibility of moving to continuous price quotation if and when there is market appetite for it," Kamel Taleb, director of market surveillance and development at COSOB, told OBG.

The 2018 Finance Law, meanwhile, introduced an amendment that allows COSOB to engage in cross-border information sharing with other exchanges, and permits the Bourse d'Alger to join the International Organisation of Securities Commissions to help tackle financial crimes. COSOB is working with the Ministry of Finance on other laws that would expand and clarify aspects of the financial markets that fall under the responsibility of the regulator; set out the nature of possible interventions; redevelop the mission of the SGBV; redefine the scope of activities of financial market intermediaries, such as brokers and portfolio managers; assign responsibility for market clearing; introduce a threshold above which a majority shareholder would have to bid for an outstanding minority stake; and set out a definition of market abuse and detail the various offences that market participants should not commit.

Listed companies, for their part, became subject to new rules in 2017 for information publishing requirements when issuing new shares. Regulation No. 17-01 related to firms wishing to issue stock for the first time via an IPO, and Regulation No. 17-02 related to subsequent issues for additional capital-raising endeavours.

IPOS & PLANNED LISTINGS: Many public and private sector enterprises feel discouraged from pursuing an IPO when they hear experiences like that of Société des Ciments de Aïn El Kebira, a subsidiary of Groupe Industriel des Ciments d'Algérie (GICA). In June 2016 the cement producer – which would have had a market capitalisation larger than the other five listed companies combined – embarked on an IPO. However, bids for only 5% of the available shares had been received by the final day of the subscription period. This was insufficient to surpass the minimum 20% free-float threshold set by COSOB, thus the firm's listing did not occur.

The most significant recent development related to the prospects for further flotations was the announcement in March 2018 that the government was suspending its privatisation programme, under which eight state-owned enterprises (SOEs) had been slated for IPOs in the coming years. These were bank Crédit Populaire d'Algérie, insurance company Caar, national hydraulic firm Hydro-Aménagement, mobile phone operator Mobilis, Cosider Carrières, a subsidiary of Cosider Group, and three cement companies of GICA. The authorities had already begun to lay the groundwork for these listings, working with the companies' senior management to prepare them for an eventual debut on the bourse. Public businesses continue to dominate the economy, and there is a degree of scepticism about relinquishing control of state assets with an IPO. However, it is likely that the primary factor behind the authorities' decision to halt the programme was the late-2017 launch of monetary financing, through which the central bank, the Bank of Algeria, lends directly to the government to finance budget deficits, investments and the debts of SOEs (see Economy chapter).

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This scheme has increased liquidity in the banking sector in 2018, improving the availability of financing from that source and reducing the need of many public firms to raise funds from alternative sources like the bourse. However, if the authorities begin to phase out monetary financing and reduce the budget deficit from late 2019 onwards, funding pressures are likely to re-emerge. Thus, it is conceivable that state privatisations, including via stock market flotation, could be back on the political agenda in the medium to long term.

For the time being, Yazid Benmouhoub, director-general of the SGBV, sees a silver lining in the government's decision to move away from its privatisation programme. "If large state enterprises were listed on the market with small free floats, they could have come to dominate the market in terms of size, but without adding much in terms of liquidity," he told OBG. "This gives us an opportunity to concentrate on other development measures, such as growing the SME window."

INTERMEDIARIES: While no IPOs occurred in 2017 and 2018, COSOB granted permission for two new intermediaries to participate in the stock market in March 2018, bringing the total to 13. Banque Al Baraka d'Algérie and El Salam Bank Algeria, both financial institutions with a focus on sharia-compliant products, joined the bourse in anticipation of the issuance of Islamic instruments such as *sukuk* (Islamic bonds). However, their intervention in the market proved limited for the first year, not least because the eagerly anticipated launch of *sukuk* had yet to materialise by end-2018. Other, more established players include BNP Paribas El Djazir, which was named the best-performing intermediary in 2017 by the authorities, and Banque Extérieure d'Algérie, which came in second for the distinction.

DEBT MARKET: The bourse's debt market, meanwhile, has been comprised exclusively of sovereign issues since the last corporate bond matured in 2016. In parallel to the publicly listed market, a number of corporate bonds are also traded on an over-the-counter (OTC) basis, while a number are solely traded on the OTC market. Examples of the latter include Air Algeria, Algeria Telecom and Sonatrach. Opponents of such OTC activity believe that it suppresses liquidity of the publicly traded debt market and undermines efforts to develop the capital markets more generally.

TRADING ACTIVITY: After years of relative stagnation, trading activity on both the equity and bond market surged in 2015. The value of debt instruments traded that year more than doubled from 2014 levels to AD16.9bn (€122.7m), while the value of equities traded increased by a factor of 30 to reach AD1.25bn (€9.1m). Much of this increased exchange was attributed to the liquidation of positions ahead of the widely anticipated IPO of Biopharm in 2016. The effect carried through to that year, although liquidity fell by roughly one-third to AD11.6bn (€84.2m) in the bond market and AD800m (€5.8m) in the equity market.

With no new listings since 2016, equity transaction volume fell to AD300m (€2.2m) in 2017, and 2018 was on track for further contraction, with AD80m (€581,000) recorded for the six months through June.



Debt market trades totalled €108.9m in the first half of 2018, double the value in the same period of 2017

While the value of this six-month period was down 29% from the first half of 2017, it places the equity market on course for full-year 2018 activity that is about four times the pre-2015 level, suggesting that meaningful progress has been made in recent years.

Activity in the debt market has been far more robust, doubling to reach AD23.7bn (€172.1m) worth of traded bonds in 2017, with a further AD15bn (€108.9m) traded in the first six months of 2018 – again, double the AD7.5bn (€54.5m) traded in the same period of 2017. If these trends continue through the second half of 2018, aggregate trading activity for bonds and equities could top AD30bn (€217.8m) for the first time.

SME BOARD: For smaller firms, an SME window was established in 2012, but it was still waiting for its first listing as of November 2018. AOM Invest, a firm based in western Algeria that specialises in the study, development and operation of tourism projects, was expected to be the first to the market in late 2017, but delays saw its IPO postponed. In November 2018 COSOB gave approval for the company to enter the market, with the SGBV then becoming responsible for the actual integration. Over 10% of the firm's shares had been pre-placed with three institutional investors by November, and if the IPO is successful, the shares will debut at AD297 (€2.16) each. AOM Invest has registered capital of AD115.9m (€841,000).

With the first listing seemingly very close, more may be to come. "We have other SMEs in the pipeline and we are working with them on valuation and other issues, with a view to bringing one or two of them to market in the second half of 2019," Benmouhoub told OBG.

NEW INSTRUMENTS: To date, Algeria's capital markets have featured relatively unsophisticated, straightforward instruments such as bonds and equities. However, there has been growing appetite in recent years for a more diverse offering. Perhaps the most keenly awaited new instrument is sharia-compliant, fixed-income *sukuk*, which the authorities have been

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In November 2018 the regulator approved the first firm expected to list on the dedicated SME board. Over 10% of the company's shares had been pre-placed with three institutional investors by that month.



A culture of holding cash savings is one hurdle to market development

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considering introducing for some time now. Already the 2018 Finance Law included a provision for the eventual issuance of sukuk, while the SGBV is prepared at a technical level for their quotation, whether sovereign or corporate issues. It is hoped that these instruments can mobilise citizen savings that are currently held in cash outside the financial system, while they will also be necessary to successfully underpin the development of Islamic banking and insurance in the country.

CULTURAL BARRIERS: It is a combination of many reasons why the Bourse d’Alger has not developed as quickly or robustly as markets in other countries. The primary factors include the historical ready availability of bank lending, the government’s general unwillingness to privatise state entities, and private sector business owners wary of ceding control or taking on the increased burden in terms of reporting and transparency that comes with a stock market listing. Moreover, some citizens do not use financial products that are not sharia-compliant, while others simply keep their savings

in cash rather than put money in a bank account – let alone invest it in the financial markets. The SGBV has thus undertaken efforts to raise awareness among key population segments as to the benefits of using the market as both a source of finance and a destination for investment. “We work closely with and put on training sessions for chambers of commerce, universities and employer organisations to explain how the markets work,” Benmouhoub told OBG.

The relative aversion of Algerian households to financial instruments as a way to grow their savings means that the market is largely left to professional investors. “Our investor base almost exclusively consists of institutional investors, particularly local banks and public bodies,” Benmouhoub added. “To generate more interest among households, we are going to need a more representative stock exchange, with more listings from a wider range of sectors.”

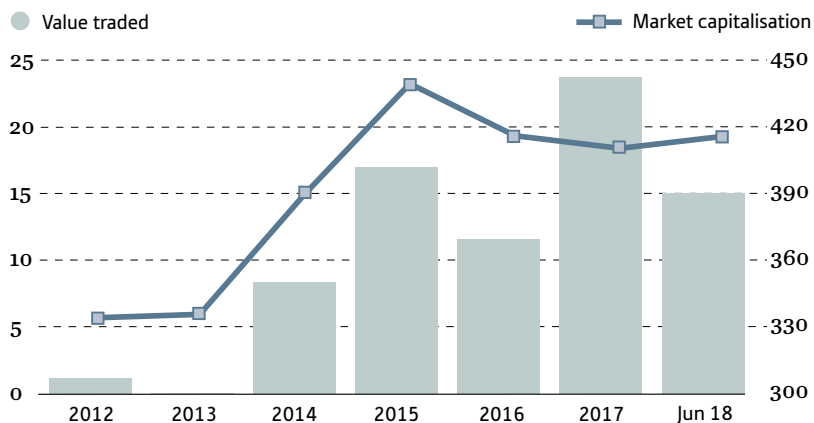
FOREIGN CURRENCY: Access to forex is another ingredient of a well-functioning capital market and financial ecosystem at large. The Bank of Algeria operates the country’s official exchange avenues and is the primary market maker, as it is the sole body permitted to sell hydrocarbons for export, which is Algeria’s main source of foreign currency. The central bank’s exchange framework has been deemed too rigid for the common economic player, however, thus a parallel, informal forex market has developed over time to cater to the needs of retail investors, commercial actors and foreigners. Due to high demand, foreign currency on the parallel market was trading at about 150% of official rates in mid-2018, according to the IMF.

In its Article IV Consultation from June 2018, the body warns that the government programme of monetary financing could have the indirect effect of further fuelling demand for foreign currency on the parallel market. Due to its negative impact on macroeconomic management, the IMF recommends the government take steps to phase out this alternative avenue by adjusting the official rate and relaxing import restrictions.

OUTLOOK: While equity market liquidity has fallen in recent years, with delays and disappointments in bringing new firms to the primary market since 2016, the sovereign debt arena has been far more dynamic, both in terms of issuance and trading activity. The anticipated arrival of sukuk to the bond market in the coming years is expected to add a further dose of dynamism.

Looking back, recent financial performance suggests that valuations in the equity market have become compressed, as indicated by relatively low price-to-earning ratios and high dividend yields. Turning ahead, the April 2019 presidential election represents near-term political risk for investors, and the macroeconomic backdrop is expected to deteriorate thereafter as the authorities reign in monetary financing and phase out the budget deficit. Over the medium term, the end of the monetary financing programme has the potential to add impetus to capital market development, as it is likely to be accompanied by a tightening of bank liquidity and a need for public and private sectors alike to explore alternative sources of funding to bank lending.

Bond market statistics, 2012-18 (AD bn)



Source: SGBV