

**The Market Reaction to Secondary Listing: Evidence from  
Selected JSE-Listed Companies**

**A research report submitted by**

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## Declarations

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfillment of the degree, Master of Commerce by Coursework and Research Report, at the University of the Witwatersrand, Johannesburg. It has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other university.

Signature:



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Irfaan Omarjee

21 June 2014

I hereby declare that this research report used an event study methodology to analyse share price movements. The population and sample that was used is based on companies that are/were listed on the Johannesburg Stock Exchange. Therefore an ethics clearance was not required

Signature:



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Irfaan Omarjee

21 June 2014

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# **The Market Reaction to Secondary Listing: Evidence from Selected JSE- Listed Companies**

## **Abstract**

This research paper examines the effects associated with the issuing of cautionary announcements of intent to seek a secondary listing on foreign stock exchanges for companies with primary listings on the JSE (Johannesburg Stock Exchange). This research was carried out to analyse whether having a secondary listing benefits the company, whether a secondary listing enhances shareholder value, and whether this is consistent with previous literature which showed that companies with a secondary listing generally experience an increase in shareholder value. The market reaction to secondary listing announcements was analysed using the event study methodology. Abnormal returns were calculated using the market model approach, with an event period of 61 days and an estimation period of 90 days. The research analysed a sample of 29 corporations, which sought secondary listings between 1998 and 2013. The analysis shows a negative cumulative abnormal return over the event period, which suggests that, in the short term, secondary listings decrease shareholder value.

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# **1 Introduction**

## **1.1 Purpose of study**

The listing of a company's shares on a foreign stock exchange in addition to a local stock exchange is referred to as a secondary listing (Shi, 2012). The decision to seek an offshore secondary listing is driven by the requirements of a company's core business. Most companies require a large source of capital in order to fund growth. As limits are still placed on capital transfer in South Africa, and the local capital market is too small to provide sufficient funding to allow companies to expand, companies listed on the Johannesburg Stock Exchange (JSE) have sought additional capital by means of secondary listings on foreign exchanges (Stein, 2003).

The purpose of this study is to investigate market reactions to secondary listings by companies with primary listings on the JSE that took place between 1998 and 2013 and to determine whether, in the short term, a secondary listing by these companies enhanced shareholder value.

## **1.2 Context of study**

When seeking venues for alternative listings, companies generally attempt to find the capital market that offers the best access to development capital. Most local companies seeking a foreign listing do so in order to benefit from the effect of global support for the share price and increased liquidity which theoretically lowers the cost of capital (Ketley, 2000). These influences also reduce the risk posed by volatility associated with the share price. Importantly, the risk related to the company's earnings base is not affected by a secondary listing. Therefore, for companies that

earn most of their profits in South Africa, a secondary listing would not reduce the company's country risk, but would enhance its ability to operate internationally (Walters and Prinsloo, 2002).

The research base will show that secondary listings can have significant effects on companies' valuation (Bris et al., 2012). Companies that have secondary listings experience valuation benefits, most commonly from reduced market segmentation, greater trade liquidity, improved information disclosure, and enhanced shareholder protection (Roosenboom and Van Dijk, 2009, Ng et al., 2013). There is mixed empirical evidence for the influence of these factors on share value (Bris et al., 2012). Researchers argue that while factors such as reduced market segmentation and increased liquidity may have been motives for seeking secondary listings in the past, recent secondary listing decisions are better explained by companies' desire for improved information disclosure and shareholder protection (Stulz, 1999, Bris et al., 2012). Furthermore, the direct costs attached to having a secondary listing, which include listing fees, adherence to additional regulations, and additional reporting costs, are typically small in comparison to the benefits of such a listing (Bhana, 2000, Ng et al., 2013). However, this is not always the case. The introduction of the Sarbanes Oxley Act (2003) in the United States (U.S.) has increased the cost of having a secondary listing on U.S. stock exchanges (Doidge et al., 2009, Bianconi et al., 2013), causing companies such as Naspers and, more recently, Sappi to delist from the New York Stock Exchange (NYSE).

Aside from detailing the costs and benefits of a secondary listing, the literature also addresses the primary research objective of determining whether the market reaction

to a secondary listing decision can enhance shareholder value. Most previous studies have shown a significant positive market reaction to companies which dual list, suggesting that a secondary listing can create a short term enhancement of shareholder value. An earlier study on dual listed South African companies by Bhana (2000) found that JSE-listed companies that had either primary listings or secondary listings on the London Stock Exchange (LSE) experienced a positive market reaction which enhanced shareholder value in the short term. Other studies on secondary listings by Shi (2012), Roosenboom and Van Dijk (2009), and Adelegan (2008) also found positive market reactions around the decision to secondary listing. However, these studies also found that market reactions differed according to the foreign exchanges chosen for the secondary listing.

Roosenboom and Van Dijk (2009) and Shi (2012) found that when companies announced a secondary listing the choice of international exchange affected shareholder value. Miller (1999) and Bris et al. (2012) found that, compared to companies from developed markets, companies from emerging markets experienced a greater positive market reaction around a secondary listing. This is possibly due to the perception of emerging markets as being characterized by factors such as low liquidity, high market segmentation, inferior accounting standards, and low shareholder protection (Roosenboom and Van Dijk, 2009, Francis et al., 2011). Therefore, when companies indicate that they intend to seek a secondary listing on an exchange which is perceived more favourably according to these factors, there is a favorable reaction from investors. For these reasons, this paper will use event study methodology to evaluate whether primary-listed JSE companies that embarked on a secondary listing between 1998 and 2013 experienced an increase in shareholder



value, compared to the trends identified in the literature review for companies from emerging economies during that period.

### **1.3 Research problem**

Does a secondary listing by a company that is primary-listed on the JSE result, in the short term, in an enhancement of shareholder value?

### **1.4 Significance of study**

According to World-Federation-of-Exchanges (2011), as cited by Ng et al. (2013), in 1997 there were approximately 4 700 companies with secondary listings worldwide, with 1 000 new secondary listings occurring in that year. In 2006, according to the same source, there were a total of 2 837 companies with secondary listings, and 299 new listings, while in 2010 there were 394 new secondary listings. Although there has been a decline in recent years, secondary listing remains a common practice worldwide (Busaba et al., 2012). Evidence suggests that the benefits of a secondary listing accrue mostly to companies from emerging markets (Francis et al., 2011). South Africa is part of the “BRICS” bloc of countries. These represent the five largest emerging economies in the world, which include Brazil, Russia, India, China and South Africa, and, because of this, South African companies are ideally positioned to benefit from secondary listing on foreign exchanges.

Even though there has been a decline in JSE-listed companies seeking a secondary listing, the question of whether having a secondary listing on a foreign exchange remains beneficial for companies that are primary-listed on the JSE remains relevant.

With the decline in value of emerging market currencies and equities, companies with secondary listings have been able to attract strong equity inflows into South Africa (Bekker, 1999). Furthermore, despite high relative valuations, primary-listed JSE companies with significant global footprints via their secondary listings have become firm favourites among global investors (Mitter, 2013). This research will assist management in terms of strategic decision-making with regards to international investments and seeking global footprints. This study will also seek to update prior literature on the practice of secondary listing, based on research conducted by Bhana (2000) and Adelegan (2008).

### **1.5 Delimitations**

This research study excludes: (1) analysing the benefits and costs of secondary listings; (2) analysing the long-term effect of secondary listings on shareholder value; (3) analysing the strategic reason for a secondary listing for each individual company; (4) analysing the effect secondary listings have on shareholder value for companies that have a secondary listing on the JSE, and (5) analysing the laws and regulations governing secondary listings.

### **1.6 Assumptions**

This research study will be performed according to the following assumptions: (1) that markets are efficient, implying that all information available to investors is immediately reflected in the stock price in an unbiased manner (Bhagat and Romano, 2002, McWilliams and Siegel, 1997); (2) that the secondary listing event was unanticipated, meaning that investors learned about the secondary listing when the

cautionary announcement took place (McWilliams and Siegel, 1997); (3) there are no confounding events during the period under investigation, which means the effects of other events on the share price will be removed (McWilliams and Siegel, 1997); (4) that management makes decisions with the intention of maximizing shareholder value, and (5) that the JSE data, JSE SENS data, McGregor data and other data sources referenced are accurate and complete.

This research paper consists of a further four sections, numbered 2 to 5. Section 2 will discuss the literature review conducted in preparation for the research; section 3 will discuss the methodology and data used in generating the results; section 4 will discuss the results generated from the data, and section 5 will discuss the conclusions drawn from the results.

## **2 Literature Review**

### **2.1 Factors increasing value**

The last two decades have seen an increase in the holding of cross-country foreign assets by South African companies, prompted by the liberalisation of international capital flows and enhanced technological capabilities available to companies. However, there are still barriers to international capital flows, creating market segmentation. These barriers encourage the strategic use of secondary listings to enhance value for companies (Nyvltova, 2006).

A secondary listing allows companies to raise equity abroad, maximize liquidity, and reduce the cost of equity. While there has been a suggestion, supported by some data, that companies that have a secondary listing tend to experience abnormally high

returns prior to their foreign listing, the long term performance following a secondary listing varies for companies in different sectors (Chouinard and D'Souza, 2004).

Listing a company's share on a foreign stock exchange should have no impact on its price if local and foreign equity markets are fully integrated. However, if barriers exist between the two equity markets, a firm's share value may be affected by the secondary listing announcement (Papendorp and Bauknecht, 1999). Evidence suggests that there is typically some reaction to a company's foreign listing. This literature review explores the literature base to identify which factors increase the value of a company when that company seeks a secondary listing.

### **2.1.1 Market segmentation**

Market segmentation is a market imperfection which occurs due to information asymmetry, taxes, high securities transaction costs, foreign exchange risks, political risks and regulatory barriers (Bris et al., 2007, Roosenboom and Van Dijk, 2009). These barriers limit the growth of domestic companies since they impede a company's ability to access large amounts of capital (Ng et al., 2013). A secondary listing helps companies to overcome market segmentation, as it allows access to capital through an increase in the potential shareholder base, which in turn increases risk sharing and reduces the cost of capital, thereby resulting in a higher share value (Miller, 1999, Foerster and Karolyi, 1999, Ng et al., 2013). The benefit of a secondary listing will therefore depend on the extent to which the primary listing market is integrated with the global market (Bris et al., 2007). Bris et al. (2007) also found that, between 1980 and 1995, reduced market segmentation through a secondary listing had a significant impact on share value. Mittoo (2003) found that, contrary to the

belief that reduced market segmentation was a driving benefit for a secondary listing in recent years, abnormal returns were greater in the period 1990 to 1999 when compared to abnormal returns from the period 1980 to 1989, despite the former period having less market segmentation than the latter.

### **2.1.2 Trading liquidity**

A secondary listing on multiple stock exchanges increases share liquidity, resulting in higher share value (Roosenboom and Van Dijk, 2009). The increased liquidity is usually due to an increase in the number of trades on foreign markets and a reduction in transaction cost in the domestic market, due to increased competition (Domowitz et al., 1998). Foerster and Karolyi (1998) found that there was a reduction in trading cost and an increase in the number of trades for Canadian companies that had secondary listings in the U.S during the period 1980 to 1990. They also found that the decrease in trading cost was a positive determinant of abnormal returns. However, Mittoo (2003) found that the positive impact of liquidity on abnormal returns declined in the 1990s, and concluded that there are other benefits besides liquidity associated with having a secondary listing.

### **2.1.3 Information disclosure**

Merton (1987) equilibrium model for incomplete information suggests that an increase in information provided to investors causes the cost of capital to fall, due to the inverse relationship between investors' demand for returns and the information available to them. Studies by Foerster and Karolyi (1999) and Baker et al. (2002) produced findings which were consistent with this model. Companies therefore tend to have a secondary listing in countries with high disclosure requirements which

compel the provision of regular and significant disclosures to investors, since this continuous disclosure of information reduces monitoring cost by investors (Karolyi, 2006). However, other authors suggest that strict listing regulations in fact deter secondary listings. Fuerst (1998) found that companies which have a secondary listing on exchanges with high disclosure requirements use those requirements to signal strategic information about their future prospects. A secondary listing also serves to passively improve a company's information disclosure through greater analyst coverage, increased exposure to media reports and greater accuracy in analyst forecasting, all of which have a positive effect on a company's share value (Baker et al., 2002, Lang et al., 2003). Another study found that improved information disclosure from a secondary listing has permanent positive valuation effects (Sarkissian and Schill, 2009).

#### **2.1.4 Shareholder protection**

The bonding hypothesis proposed by Doidge et al. (2004) argues that a secondary listing can improve corporate governance, enhancing shareholder protection and reducing agency costs such as private consumption. The improved shareholder protections provided by secondary listings allows companies to access capital and to take up growth opportunities, which increases their overall share value. This finding was supported by another study by Bris et al. (2012). Doidge et al. (2004) also found evidence to support their hypothesis that companies that had secondary listings in the U.S, which is associated with higher disclosure requirements and a stricter legal system, were more highly valued than domestic companies that did not have secondary listing. This effect was especially strong for those companies with high growth opportunities.

## **2.2 Valuation and impact**

The majority of the literature on secondary listings has been around the short term effect that a secondary listing has on share value. Traditional theory has shown that the short term positive impact of a secondary listing on shareholder value is not universal across all stock exchanges because the location of the exchange on which a company has its secondary listing can also have an impact on share value.

### **2.2.1 International results**

Bris et al. (2012) examined a sample of 81 companies that sought secondary listings on the LSE between 1980 and 2004 and found significant positive abnormal returns for those companies around the listing period.

Adelegan (2008) investigated the effect of regional secondary listings for Sub-Saharan African companies that secondary listed between 1992 and 2008, and found that there were significant positive abnormal returns around the secondary listing date for all companies, and that a secondary listing increased shareholder value. However, the results varied across exchanges and companies.

Shi (2012) investigated the market reaction, reflected in the share price, when companies chose to dual list using a sample of 64 Canadian companies that had secondary listed on European stock exchanges between 2001 and 2012. Shi found that there was a negative market reaction to these decisions and suggested that the reason for the negative reaction was due to: (1) the European market being unable to provide improved information disclosure and bonding benefits, and; (2) the benefits from increased liquidity and shareholder base not being large enough to induce a positive

market reaction. Shi concluded that the destination country for a secondary listing is important, since listing in London had a better market reaction compared to listing elsewhere in Europe.

Ng et al. (2013) investigated the short-term and long-term price effects on the shares of 80 Australian companies that decided to secondary list between 1989 and 2005. They found that there was a small short term abnormal gain of 1.91%, with no significant abnormal gains in the long term. They concluded that the benefits from secondary listing are temporary and that investors should not overbid the share price above the fair value.

Roosenboom and Van Dijk (2009) showed that the abnormal returns from a secondary listing in the U.S were larger than secondary listings in London, Europe or Tokyo. Their results provided empirical evidence that the destination country for a secondary listing is an important factor for determining shareholder value. Abnormal returns for companies dual listing on the NYSE can be explained by increased investor protection and information disclosure, while companies dual listing on the LSE benefit from reduced market segmentation and increased investor protection.

Onyuma et al. (2012) investigated the financial performance of Kenyan firms that secondary listed their shares on the Ugandan Stock Exchange (USE), Rwanda Stock Exchange (RSE) or Dares Salaam Stock Exchange (DSE), between 2001 and 2011. Their findings suggest that companies may benefit in terms of increased liquidity and investor confidence from such secondary listings. However, they concluded that their



analysis did not provide clear evidence that regional secondary listings increase shareholder value materially, except by increasing investor confidence.

Lee (1991) studied a sample of U.S firms that secondary listed on both the LSE and the Toronto Stock Exchange (TSE) during the period 1962 to 1986. The study showed negative abnormal returns over the event period for companies that listed on the TSE. Companies that listed on the LSE experienced positive abnormal gains prior to the listing event, which were eliminated subsequent to the listing event.

### **2.2.2 Emerging markets**

Emerging markets are characterized by lower liquidity and less shareholder protection (Roosenboom and Van Dijk, 2009, Francis et al., 2011), therefore companies from emerging markets experience greater returns as a result of the decision to have a secondary listing, when compared to companies from developed markets (Miller, 1999).

Lins et al. (2005) showed a significant reduction in the sensitivity of investment to cash flow for companies from emerging markets that had a secondary listing. These findings imply that companies from emerging markets benefit more from improved access to capital markets, when compared to companies from developed markets.

Bris et al. (2012) found that companies that used higher-quality accounting standards prior to a secondary listing had lower abnormal returns from that listing, because they came from an environment that already uses enhanced disclosure, which is a characteristic of a developed market. This further supports the theory that companies

from emerging markets derive a greater benefit from a secondary listing than companies from developed markets.

### **2.2.3 South African companies**

Bhana (2000), investigated whether listings on the LSE by JSE listed companies increased shareholder wealth. The study used a sample of 35 companies that had either a primary listing or secondary listing on the LSE during the period 1986 to 1997 and found significant short term positive abnormal returns for these companies. He concluded that the results indicated that alternative listings enhance shareholder value in the short term.

Adelegan (2008) considered three South African companies with secondary listings either in Namibia or Botswana: all three companies experienced significant abnormal gains around the listing date. Adelegan (2008) found that the motive for dual listing, whether it was market related or in order to comply with government regulation, affected the abnormal returns. This is relevant, since most secondary listings by South African companies in Namibia were made in order to comply with government regulations resulting in a smaller impact on abnormal returns. JSE companies secondary listed on the Namibian Stock Exchange (NSE) so that they would qualify as Namibian investments. This was due to the nature of Namibian capital controls on portfolio and domestic investment requirements, which required foreign companies active in Namibia to invest large surpluses of insurance and pension funds in the country.

### **2.2.5 Summary**

While the literature makes it clear that companies from emerging markets derive greater benefits from secondary listings than companies from developed markets, there has been no investigation of whether there is any similar variation according to sector of activity. Since the majority of JSE-listed companies are active in the resource sector, this question will be of especial significance to this study. This study will therefore add to the literature on the valuation effects of a secondary listing for resource companies.

## **3 Data and method**

### **3.1 Population and sample**

#### **3.1.1 Population**

The objective of this research paper is to obtain empirical evidence of the effect on shareholder value of secondary listings by JSE listed companies between January 1998 and December 2013. The population will be comprised of all secondary listings by companies that were primary-listed on the JSE that took place during the period January 1998 to December 2013.

#### **3.1.2 Sample and sampling method**

The sample consists of a total of 29 secondary listings. The sample includes all secondary listings that took place during the period January 1998 to December 2013 for which a secondary listing cautionary announcement date is available and for which the closing share price of the secondary listed companies is available for the full observation period. To avoid survivorship bias, the sample includes secondary

listings by companies that took place during the period under investigation, but which are currently no longer listed either on the foreign exchange and/or on the JSE (Roosenboom and Van Dijk, 2009).

### **3.2 Data collection**

The JSE dual listing database was used to identify secondary listings that occurred during the period January 1998 to December 2013. To ensure that the population was complete, various Internet sources, which were found through Google searches, were used to identify secondary listings that took place during the period under investigation. The JSE SENS database was then used to identify the secondary listing cautionary announcement date. The cautionary announcement is used by the JSE to inform investors of the pending secondary listing. In instances where a secondary listing cautionary announcement date was not available on the JSE SENS database, BFA McGregor news reports were used to identify the secondary listing cautionary announcement date. The daily market return for each company within the sample was obtained from the BFA McGregor database. All data collected was recorded on an excel spreadsheet. (Refer to 2. *Sample of secondary listings*, in *Appendix A* for the sample selected.)

### **3.3 Research methodology**

The aim of this research paper is to add to existing knowledge regarding the impact on shareholder value of secondary listings by JSE listed companies. The event study methodology, which is a quantitative methodology, is used to determine the impact of secondary listings on shareholder value.

The efficient market hypothesis suggests that the price of a share adjusts rapidly and without bias when information about that share is made publicly available. The event study methodology, which was developed by Ball and Brown (1968) and Fama et al. (1969), shows how to determine a price adjustment associated with an unanticipated event. This method provides a true measure of the financial impact of an event only if the assumptions used are valid. The assumptions used for this study are that the markets are efficient, that the event was completely unanticipated and, most importantly, that there were no confounding effects during the event period. The event gives rise to price adjustments, which are measured as abnormal returns (Kothari et al., 2006).

Empirical evidence has indicated that this approach remains the most appropriate test to measure an increase in shareholder value. Research performed by Shi (2012), Adelegan (2008), Bhana (2000) and Ng et al. (2013) has used this methodology for similar studies with similar research questions.

### **3.3.1 Event date**

The event date is the secondary listing cautionary announcement date. This date was chosen because, in efficient markets, the valuation effects of secondary listing will be reflected in the share price at that date (Doidge, 2004, Doukas and Switzer, 2000, Bhagat and Romano, 2002). The secondary listing cautionary announcement date has been used in prior studies (Doukas and Switzer, 2000).

### 3.3.2 The observation period

This period includes both the estimated period and the event period. The event period refers to a 61-day period. This includes the 30 days before the cautionary announcement date, the cautionary announcement date (event date) itself, and the 30 days after the cautionary announcement was made. The estimated period is the 90 day period prior to the event period, which is free of the event (Shi, 2012, Seedat, 2013). (Refer to *1. Observation period*, in *Appendix A*, for a graphical representation of the observation period.)

### 3.3.3 Normal returns

Normal returns are those returns that might have been expected for a period of time had a company not, for example, embarked on a secondary listing. The market model is a popular model for the calculation of normal returns, as it is both well-specified and relatively powerful over a wide range of conditions (Brown and Warner, 1980, Brown and Warner, 1985).

In the market model, the normal returns for company  $i$  on day  $t$  are calculated using the following formula:

$$NR_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it},$$

Where:

$NR_{it}$  is the normal return of the company on day  $t$ ,  $R_m$  is the return on the market on day  $t$ ,  $\varepsilon_i$  is the error term for day  $t$ ,  $\alpha$  is the regression intercept, and  $\beta$  is the slope estimate.

The regression intercepts and slope estimates were obtained from an ordinary least-squares (OLS) regression model, and by specifying the daily return as the dependent

variable and the J203T, the JSE all share index (ALSI), as the independent market proxy index. Alpha ( $\alpha$ ) and Beta ( $\beta$ ) model parameters were captured for each firm and were used to calculate the normal returns.

### 3.3.4 Abnormal returns

The abnormal returns for each company were then calculated by subtracting the normal returns ( $NR_{it}$ ) from the actual returns ( $R_{it}$ ) for each day in the event period.

The abnormal return can be represented by the formula below:

$$AR_{it} = R_{i,t} - NR_{it}$$

Where:

$AR_{it}$  is the abnormal return of company  $i$  on day  $t$ ;  $R_{it}$  is the actual return of company  $i$  on day  $t$ ; and  $NR_{it}$  is the normal return of company  $i$  on day  $t$ .

A total of 90 observations prior to the event period were obtained for each company. If day zero is considered to be the day on which the event (secondary listing cautionary announcement) was experienced for each company considered by this study, then the observations will range from day -120 to day +30, with day -120 to day -31 constituting the estimation period and day -30 to day +30 the event period. A period of -30 days is included within the event period, as it allows for any information leakage reaching the market before the cautionary announcement is made.

The abnormal returns of each company were then averaged across the entire sample to get the abnormal returns of an equally-weighted portfolio. The abnormal returns for each day in the event period were calculated using the following formula:

$$AR_t = \sum_{i=1}^N \frac{AR_{it}}{N}$$

Where:

$N$  is the number shares with abnormal returns on day  $t$ .

### 3.3.5 Cumulative abnormal return

Once the abnormal returns of the equally-weighted portfolio were calculated, they were aggregated to produce a cumulative abnormal return for each day in the event window. The cumulative abnormal return is calculated using the following formula:

$$CAR_p = \frac{1}{N} \sum_{t=-30}^{30} AR_{it}$$

Where:

$CAR_p$  is the cumulative abnormal return of portfolio  $p$  for the period -30 days before the event to +30 days after the event.

The researchers used a one sample t-test to check whether any of the event period days differed significantly from zero. The cumulative abnormal returns were used to graphically analyse whether there was an overall cumulative upward or downward performance surrounding the cautionary announcement.

In an efficient market, the returns on a share price will be affected by any announcement that could impact the share price. Therefore, the abnormal returns and cumulative abnormal returns will be random, except when a cautionary announcement regarding a secondary listing is made. When the cautionary announcement reaches the



market relative to day 0, then abnormal returns should not be 0, because the change in future cash flows will have already been incorporated into the price.

## **4 Results and analysis**

### **4.1 The effect of secondary listing on shareholder value**

Despite the global decrease in the number of secondary listings, compared to the 1990s, secondary listing remains a common practice. The literature reviewed for this research paper suggests that secondary listing enhances shareholder value in the short term. The abnormal returns and the cumulative abnormal returns of primary-listed JSE companies that initiated secondary listing during the period 1998 to 2013 will be analysed below.

Table 1 represents the abnormal returns (AR) and the cumulative abnormal returns (CAR) for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .

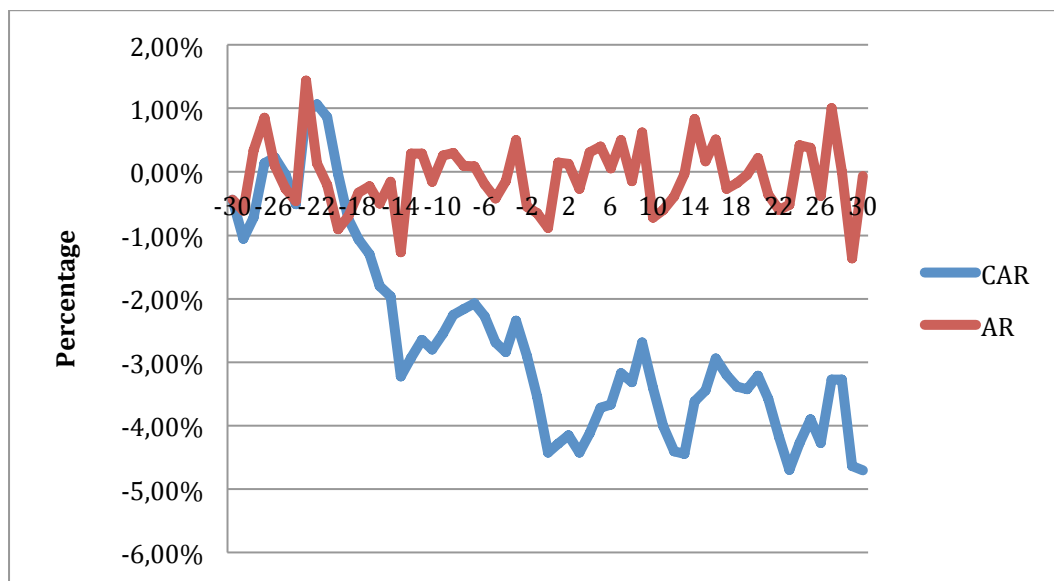
**Table 1: Abnormal returns and cumulative abnormal returns (overall analysis)**

<b>Overall analysis</b>				
<b>Event Day</b>	<b>Daily percentage abnormal return</b>	<b>t-statistic</b>	<b>p-value</b>	<b>Cumulative percentage abnormal return</b>
-30	-0,44%	-0,55	0,58	-0,44%
-25	-0,27%	-0,57	0,57	-0,04%
-20	-0,90%	-1,38	0,18	-0,04%
-15	-0,16%	-0,39	0,70	-1,96%
-10	0,25%	0,51	0,62	-2,55%
-5	-0,42%	-0,85	0,40	-2,69%
-4	-0,15%	-0,42	0,68	-2,84%
-3	0,50%	0,98	0,34	-2,34%
-2	-0,56%	-1,40	0,17	-2,90%
-1	-0,65%	-1,27	0,21	-3,55%
0	-0,88%	-1,40	0,17	-4,43%
1	0,15%	0,27	0,79	-4,28%
2	0,12%	0,22	0,82	-4,16%
3	-0,27%	-0,70	0,49	-4,43%
4	0,31%	0,56	0,58	-4,12%
5	0,40%	0,71	0,49	-3,72%
10	-0,72%	-2,14	0,04*	-3,41%
15	0,17%	0,34	0,73	-3,45%
20	0,21%	0,52	0,61	-3,22%
25	0,38%	0,76	0,45	-3,90%
30	-0,07%	-0,14	0,89	-4,70%

\* Daily abnormal return significant at the 5% level.

The data from Table 1 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is -3.55% and -0.27% respectively. The AR on the day of the cautionary announcement to secondary list is -0.88%, which is not significant at a 95% confidence level. The CAR over the 61 day period is -4.7%.

Based on Table 1 and Figure 1, the CAR follows a downward trend from  $t=-25$ . This would suggest that investors expected the event, implying that information relating to the event had reached investors through the Internet and other media before the cautionary announcement was made. This could be as a result of the information having been leaked prior to the cautionary announcement. The downward trend in the CAR over the event period is not consistent with the general literature, which shows that secondary listing enhances shareholder value. In addition, the results suggest that investors do not react as quickly to new information as previously thought, since the CAR has an overall downward trend over the event period.



**Figure 1: Abnormal returns and cumulative abnormal returns over event period (overall analysis)**

These test results are in contrast to the general results derived from the literature review, especially those of Bhana (2000) and Adelegan (2008), which both found positive returns associated with dual and secondary listing, respectively, for JSE-listed companies.

This study's results reveal negative CAR associated with JSE-listed companies that secondary list. This indicates that there is a short term loss in shareholder value for primary-listed JSE companies that sought secondary listings during the period 1998 to 2013. These results suggest that the JSE market perceives that, in the short term, the costs of secondary listing are greater than the benefits.

## **4.2 The effect of secondary listing on shareholder value per sector**

The majority of the companies that have a primary listing on the JSE are resource companies. There is a gap in the literature in terms of analysing whether resource companies experience better returns from a secondary listing. The AR and the CAR for resource and non-resource companies that secondary listed during the period 1998 to 2013 will be analysed below.

### **4.2.1 Resource companies**

Table 2 represents the AR and the CAR for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .

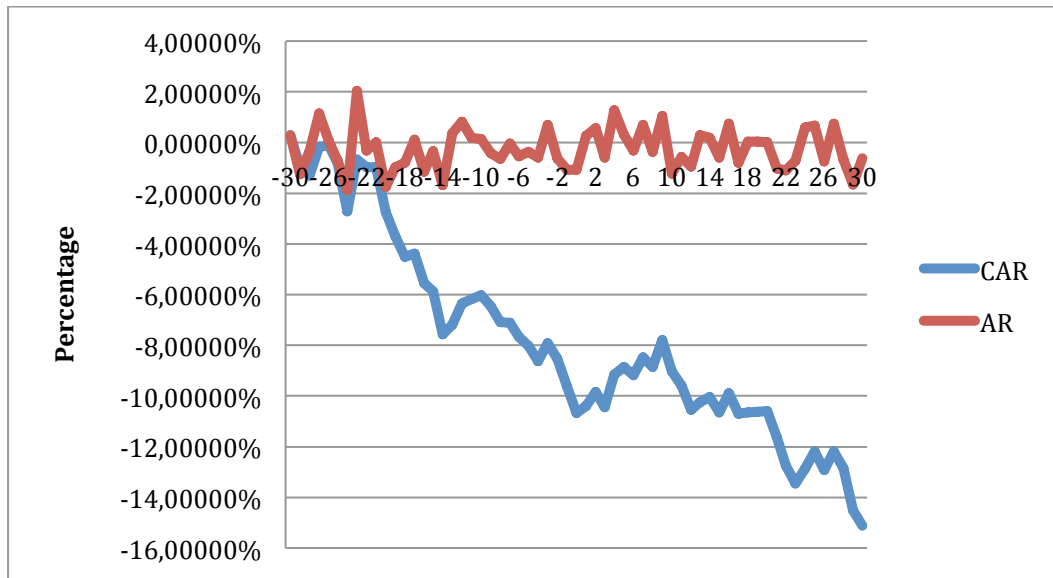
**Table 2: Abnormal returns and cumulative abnormal returns (resource companies)**

Resource companies				
Event Day	Daily percentage abnormal return	t-statistic	p-value	Cumulative percentage abnormal return
-30	0,30%	0,47	0,64	0,30%
-25	-0,73%	-1,07	0,30	-0,83%
-20	-1,76%	-1,87	0,08	-2,74%
-15	-0,35%	-0,55	0,59	-5,88%
-10	0,15%	0,18	0,86	-6,02%
-5	-0,36%	-0,55	0,59	-8,03%
-4	-0,60%	-1,12	0,28	-8,63%
-3	0,70%	0,78	0,45	-7,92%
-2	-0,61%	-0,92	0,37	-8,53%
-1	-1,08%	-1,44	0,17	-9,61%
0	-1,07%	-1,34	0,20	-10,67%
1	0,27%	0,37	0,72	-10,41%
2	0,57%	0,63	0,54	-9,84%
3	-0,60%	-0,99	0,34	-10,44%
4	1,27%	1,54	0,14	-9,17%
5	0,31%	0,31	0,76	-8,86%
10	-1,23%	-2,23	0,04*	-9,03%
15	-0,60%	-0,81	0,43	-10,65%
20	0,00%	0,00	1,00	-10,61%
25	0,68%	1,25	0,23	-12,18%
30	-0,61%	-0,74	0,47	-15,13%

\* Daily abnormal return significant at the 5% level.

The data from Table 2 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is -9.61% and -4.63% respectively. The AR on the day of the cautionary announcement to secondary list is -1.07%, which is not significant at a 95% confidence level. The CAR over the 61-day period is -15.13%.

Based on Table 2 and Figure 2, the CAR of primary-listed JSE resource companies that have secondary listed, during the period in question, follows a downward trend over the event period.



**Figure 2: Abnormal returns and cumulative abnormal returns over event period (resource companies)**

JSE-listed resource companies have historically sought secondary listings abroad to provide funding for expansion, due to the capital transfer limits in South Africa and the small size of the South African market. However, this strategy did not help to increase shareholder value, since market segmentation has generally decreased, liquidity on stock exchanges has increased, and resource stock investors have become a global body (Onyuma et al., 2012). The data analyses indicate that the cost associated with secondary listings for these companies exceeded the limited benefit of reduced market segmentation and of an increased liquidity of shares.

Another reason for the decreasing CAR experienced by resource companies is that South Africa is well known for its resources. South Africa's mineral production and reserves form a significant proportion of global output and reserves, which means South African mining companies are key participants in the global industry (Kearney, 2012). While the resource industry no longer dominates the South African economy (du Plessis, 2013), it remains the cornerstone of the economy and makes a significant contribution to economic activity (Kearney, 2012). Due to the prominence of resource companies in the South African economy, the threat of nationalization of mines is a common topic among South African politicians. According to the ANC Youth League, the nationalization of mines would help address unemployment and the high levels of poverty and inequality facing South Africans (Shivambu, 2010, ANC-Youth-League, 2010). They argue that the people of South Africa should share in the wealth from mines. Furthermore, the Mineral and Petroleum Resources Development Act (MPRDA) attempted to address past injustices arising from the Apartheid era by allowing aspirant black middle class ('previously disadvantaged') businessmen entry into the mining sector through partnerships with international investors. However, only a small percentage of the South African population has benefited from the implementation of this policy (ANC-Youth-League, 2010). Therefore, when South African resource companies embark on secondary listings, the threat of nationalization is always in the background, making potential foreign investors wary of the long-term security of investment in South African resource companies, which may possibly explain the negative CAR experienced by South African resource companies when they seek secondary listings on international stock exchanges.

This study's results reveal negative CAR associated with JSE-listed resource companies that have secondary listed. This indicates that there is a loss in shareholder value, in the short term, for primary-listed JSE resource companies that have sought secondary listings during the period 1998 to 2013.

#### **4.2.2 Non- resource companies**

Table 3 represents the AR and the CAR for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .



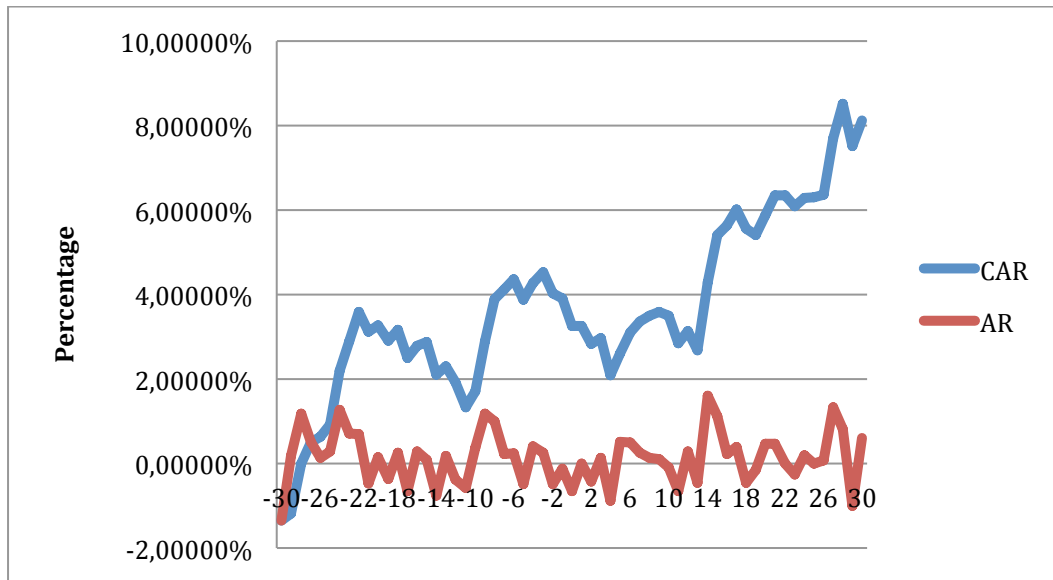
**Table 3: Abnormal returns and cumulative abnormal returns (non-resource companies)**

Non resource				
Event Day	Daily percentage abnormal return	t-statistic	p-value	Cumulative percentage abnormal return
-30	-1,35%	-0,84	0,53	-1,35%
-25	0,29%	0,45	0,50	0,92%
-20	0,15%	0,19	0,64	3,28%
-15	0,08%	0,19	0,88	2,87%
-10	0,38%	0,73	0,50	1,72%
-5	-0,49%	-0,63	0,55	3,87%
-4	0,40%	0,93	0,34	4,27%
-3	0,25%	0,87	0,30	4,52%
-2	-0,49%	-1,33	0,11	4,03%
-1	-0,12%	-0,18	0,76	3,91%
0	-0,65%	-0,62	0,51	3,26%
1	0,00%	0,00	0,95	3,26%
2	-0,42%	-0,74	0,61	2,84%
3	0,13%	0,31	0,71	2,97%
4	-0,88%	-1,59	0,14	2,09%
5	0,51%	1,51	0,17	2,60%
10	-0,10%	-0,38	0,77	3,50%
15	1,12%	2,05	0,08	5,41%
20	0,47%	1,31	0,18	5,88%
25	0,00%	0,00	0,81	6,30%
30	0,61%	1,70	0,10	8,12%

\* Daily abnormal return significant at the 5% level.

The data from Table 3 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is 3.91% and 4.86% respectively. The AR on the day of the cautionary announcement to secondary list is -0.65%, which is not significant at a 95% confidence level. The CAR over the 61-day period is 8.12%.

Based on Table 3 and Figure 3, the CAR of primary-listed JSE non-resource companies that have secondary listed, during the period 1998 to 2013, follows an upward trend over the event period.



**Figure 3: Abnormal returns and cumulative abnormal returns over event period (non-resource companies)**

The sample of 13 non-resource companies included 9 secondary listings that took place in Sub-Saharan countries. According to Onyuma (2012), cited by Onyuma et al. (2012), regional secondary listings by non-resource companies in Sub-Saharan African countries had associated growth strategies (setting up and expanding foreign establishments). The majority of these companies set up establishments in the foreign country before seeking a secondary listing. The primary motive for the secondary listing by these non-resource companies was to expand their operations in the foreign country. Therefore, in addition to reducing market segmentation, non-resource JSE companies sought secondary listings in Sub Saharan Africa to increase information disclosure, as the increased information disclosure created a higher demand for these

companies' products and shares, which then helped achieve better growth. Improved information disclosure is a crucial benefit related to secondary listings by non-resource based JSE companies, and could explain the positive CAR returns associated with secondary listings by non-resource companies.

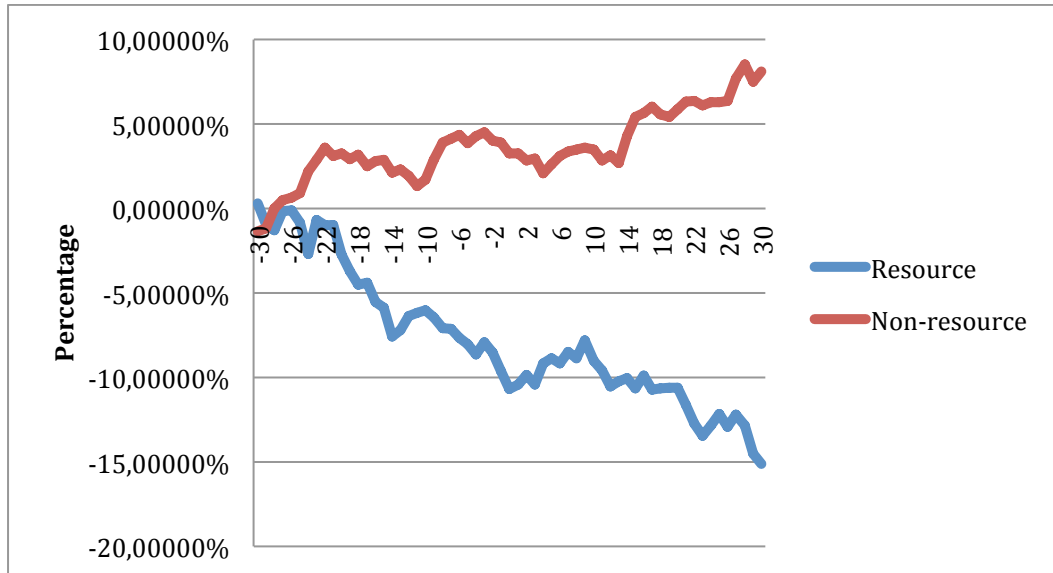
This study's results reveal positive CAR associated with JSE listed non-resource companies that have secondary listed. This indicates that there is a short term gain in shareholder value for primary-listed JSE non-resource companies that have sought secondary listings during the period 1998 to 2013. These results suggest that for non-resource companies the benefits of secondary listing exceed the cost associated with secondary listings.

#### **4.2.3 Discussion of sector results**

This study's results reveal positive CAR for non-resource companies that seek secondary listings and negative CAR for resource companies that seek secondary listings. This indicates that the decision to secondary list, during the period 1998 to 2013, by primary-listed JSE non-resource companies, enhanced shareholder value in the short term, while the decision to secondary list, during the period 1998 to 2013, by primary-listed JSE resource companies, decreased shareholder value in the short term. These results suggest that the JSE market perceives the short term benefits of secondary listing to be greater than the costs for non-resource companies, while the opposite is true for resource companies.

Figure 4 below shows that the CAR returns of primary-listed JSE resource and non-resource companies that secondary listed during the period 1998 to 2013. The CAR

has an upward trend over the event period for non-resource companies and a downward trend over the event period for resource companies.



**Figure 4: Abnormal returns and cumulative abnormal returns over event period for both resource and non-resource companies**

### 4.3 The effect of secondary listing on shareholder value by continent

According to the literature on secondary listing, the market reaction to secondary listing varies across different stock exchanges. From a South African perspective, there is a gap in the literature, regarding which is the best destination continent, in terms of maximizing shareholder value, for primary-listed JSE companies that secondary list. The abnormal returns and the cumulative abnormal returns of primary-listed JSE companies that secondary listed in Africa, Europe, North America and Oceania during the period 1998 to 2013 will be analysed below.

### 4.3.1 Africa

Table 4 represents the AR and the CAR for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .

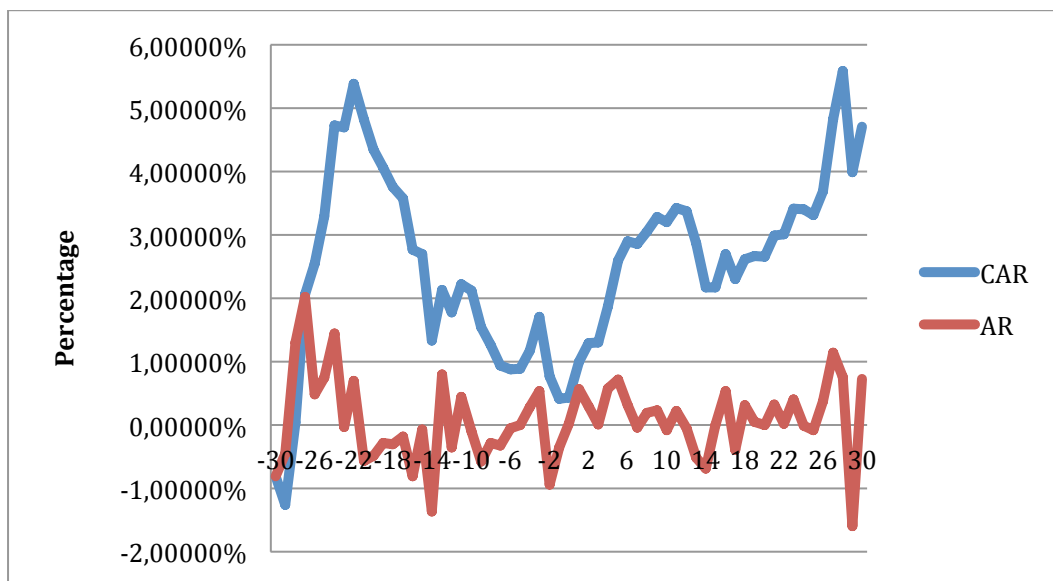
**Table 4: Abnormal returns and cumulative abnormal returns for companies that secondary listed in Africa**

Continent: Africa				
Event Day	Daily percentage abnormal return	t-statistic	p-value	Cumulative percentage abnormal return
-30	-0,81%	-0,56	0,58	-0,81%
-25	0,75%	0,94	0,37	3,29%
-20	-0,48%	-0,67	0,52	4,34%
-15	-0,07%	-0,16	0,87	2,69%
-10	-0,10%	-0,19	0,86	2,13%
-5	0,00%	0,01	0,99	0,88%
-4	0,29%	0,92	0,38	1,17%
-3	0,54%	1,38	0,19	1,71%
-2	-0,94%	-2,55	0,03*	0,77%
-1	-0,36%	-0,66	0,52	0,41%
0	0,02%	0,02	0,98	0,43%
1	0,57%	0,75	0,47	1,00%
2	0,29%	1,02	0,33	1,29%
3	0,01%	0,03	0,98	1,30%
4	0,57%	0,84	0,42	1,87%
5	0,72%	1,06	0,31	2,59%
10	-0,08%	-0,33	0,75	3,20%
15	-0,01%	-0,01	0,99	2,17%
20	-0,01%	-0,02	0,98	2,66%
25	-0,08%	-0,16	0,88	3,32%
30	0,72%	1,95	0,07	4,71%

\* Daily abnormal return significant at the 5% level.

The data from Table 4 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is 0.41% and 4.28% respectively. The AR on the day of the cautionary announcement to secondary list is 0.02%, which is not significant at a 95% confidence level. The CAR over the 61-day period is 4.71%.

Based on Table 4 and Figure 5, the CAR of primary-listed JSE companies that secondary listed in Africa, during the period 1998 to 2013, follows an upward trend over the event period.



**Figure 5: Abnormal returns and cumulative abnormal returns over event period for companies that secondary list in Africa**

Adelegan (2008), found positive returns for JSE listed companies associated with secondary listing in Africa (specifically Botswana and Namibia). This study's results show positive CAR over the event period for JSE companies that secondary listed in Africa, which is consistent with the findings of Adelegan (2008).

Regional secondary listings can bring about regional integration, leading to synergies, increases in efficiency, economies of scale, increased competition within the regional financial systems, reductions in financial instability and the promotion of economic growth (Adelegan, 2008, Decressin et al., 2007). These additional benefits can possibly explain the positive CAR experienced by JSE-listed firms when they had secondary listed in regional African markets (in this instance, Botswana, Namibia and Ghana).

This study's results reveal positive CAR associated with JSE listed companies that have secondary listed in Africa. This indicates that there is a gain in shareholder value, in the short term, for primary-listed JSE companies that have sought secondary listings in Africa during the period 1998 to 2013. These results suggest that the benefits of secondary listing in Africa, by JSE listed companies, exceed the cost associated with the secondary listings.

#### **4.3.2 Europe**

Table 5 represents the AR and the CAR for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .

**Table 5: Abnormal returns and cumulative abnormal returns for companies that secondary listed in Europe**

<b>Continent: Europe</b>				
<b>Event Day</b>	<b>Daily percentage abnormal return</b>	<b>t-statistic</b>	<b>p-value</b>	<b>Cumulative percentage abnormal return</b>
-30	1,01%	1,10	0,35	1,01%
-25	-0,66%	-1,51	0,23	-0,35%
-20	-2,48%	-0,92	0,42	-1,71%
-15	-1,93%	-0,96	0,41	-6,06%
-10	-0,71%	-1,07	0,36	-9,28%
-5	0,19%	0,11	0,92	-14,12%
-4	0,61%	0,43	0,70	-13,51%
-3	-0,36%	-0,21	0,84	-13,87%
-2	-0,92%	-1,27	0,29	-14,79%
-1	0,22%	0,12	0,91	-14,57%
0	-1,08%	-0,70	0,53	-15,65%
1	-0,42%	-0,86	0,45	-16,07%
2	1,42%	0,45	0,68	-14,66%
3	-0,65%	-0,40	0,72	-15,31%
4	1,90%	1,04	0,37	-13,41%
5	-0,33%	-0,19	0,86	-13,74%
10	-2,10%	-1,92	0,15	-9,55%
15	-2,09%	-2,01	0,14	-15,46%
20	-0,30%	-0,40	0,71	-12,90%
25	-1,63%	-3,81	0,03*	-15,42%
30	0,99%	0,64	0,57	-18,65%

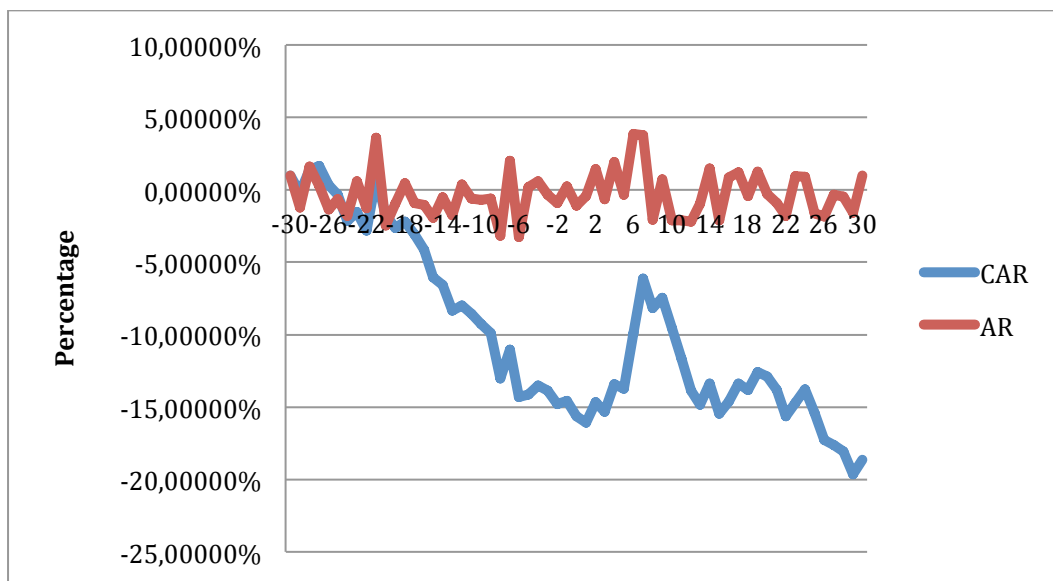
\* Daily abnormal return significant at the 5% level.

The data from Table 5 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is -14.57% and -3% respectively. The AR on the day of the cautionary announcement to secondary list is -



1.08%, which is not significant at a 95% confidence level. The CAR over the 61-day period is -18.65%.

Based on Table 5 and Figure 6, the CAR of primary-listed JSE companies that secondary listed in Europe during the period 1998 to 2013 follows a downward trend over the event period.



**Figure 6: Abnormal returns and cumulative abnormal returns over event period for companies that secondary listed in Europe**

All the secondary listings within the Europe sample took place on the LSE. Our results show negative CAR over the event period for secondary listing on the LSE. These results are not consistent with the general results found in the literature for secondary listing on the LSE and the results of Bhana (2000). Bhana (2000) used a sample of South African companies that had dual listed on the LSE between 1986 and 1997, while this study has used a sample of JSE-listed companies that secondary listed on the LSE between 1998 and 2013. The decrease in market segmentation, the

reduction in share liquidity and the increase in listing cost could explain the negative returns experienced in the 1998-2013 period.

This study's results indicate that there is a loss in shareholder value, in the short term, for primary-listed JSE companies that sought secondary listings on the LSE during the period 1998 to 2013. These results suggest that the benefits of secondary listing in Europe, by JSE listed companies, exceed the cost associated with the secondary listings.

#### **4.3.3 North America**

Table 6 represents the AR and the CAR for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .

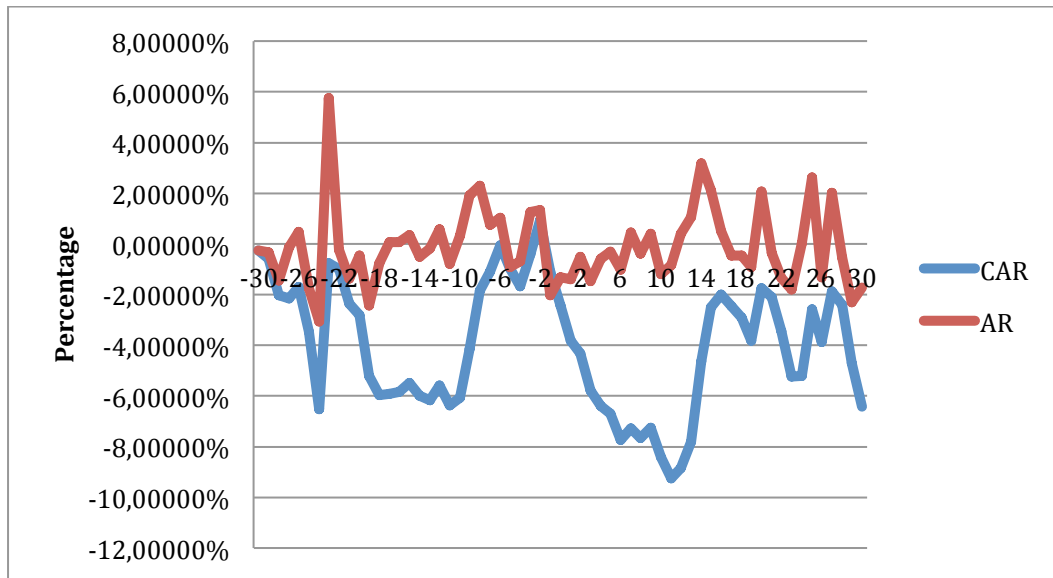
**Table 6: Abnormal returns and cumulative abnormal returns for companies that secondary listed in North America**

<b>Continent: North America</b>				
<b>Event Day</b>	<b>Daily percentage abnormal return</b>	<b>t-statistic</b>	<b>p-value</b>	<b>Cumulative percentage abnormal return</b>
-30	-0,26%	-0,16	0,88	-0,26%
-25	-1,76%	-2,17	0,07	-3,45%
-20	-0,45%	-0,37	0,72	-2,80%
-15	0,36%	0,60	0,57	-5,48%
-10	0,31%	0,46	0,66	-6,07%
-5	-0,91%	-0,60	0,57	-0,98%
-4	-0,69%	-0,83	0,43	-1,67%
-3	1,26%	1,02	0,34	-0,41%
-2	1,34%	1,83	0,11	0,93%
-1	-2,03%	-1,75	0,12	-1,10%
0	-1,32%	-0,89	0,40	-2,42%
1	-1,40%	-1,13	0,29	-3,82%
2	-0,51%	-0,51	0,63	-4,33%
3	-1,47%	-2,97	0,02*	-5,80%
4	-0,59%	-0,45	0,67	-6,39%
5	-0,31%	-0,20	0,85	-6,70%
10	-1,18%	-1,86	0,11	-8,43%
15	2,11%	2,19	0,06	-2,51%
20	2,06%	2,27	0,06	-1,75%
25	2,63%	2,16	0,07	-2,57%
30	-1,71%	-1,32	0,23	-6,41%

\* Daily abnormal return significant at the 5% level.

The data from Table 6 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is -1.01% and -3.99% respectively. The AR on the day of the cautionary announcement to secondary list is -1.32%, which is not significant at a 95% confidence level. The CAR over the 61 day period is -6.41%.

Based on Table 6 and Figure 7, the CAR of primary-listed JSE companies that have secondary listed in North America during the period 1998 to 2013 follows a downward trend over the event period.



**Figure 7: Abnormal returns and cumulative abnormal returns over event period for companies that secondary listed in North America**

Seven of the eight secondary listings within the North America sample took place in the U.S. This study's results show negative CAR over the event period for secondary listing in North America, which mainly represent secondary listings in the U.S. These results are not consistent with the general results found in the literature for secondary listing in the U.S.

A factor contributing to the negative CAR associated with secondary listing in North America could be the introduction of the Sarbanes Oxley Act (2003), which has increased the cost of secondary listing in the U.S. Bianconi et al. (2013) found that the introduction of the Sarbanes Oxley Act decreased the value of companies listed in the

U.S. The delisting of Sappi and Naspers due to the high cost associated with secondary listing in the U.S further supports this reasoning.

The study's results indicates that there is a loss in shareholder value, in the short term, for primary-listed JSE companies that sought secondary listings in North America during the period 1998 to 2013. These results suggest that the benefits of secondary listing in North America, by JSE listed companies, exceed the cost associated with the secondary listings.

#### **4.3.4 Oceania**

Table 7 represents the AR and the CAR for the 61 day event period from  $t=-30$  to  $t=30$ , relative to the cautionary announcement date  $t=0$ . The pre-cautionary announcement period is  $t=-30$  to  $t=-1$ , while  $t=1$  to  $t=30$  is the post-cautionary announcement period. The day before the cautionary announcement is  $t=-1$ , while the day after the cautionary announcement is  $t=1$ .

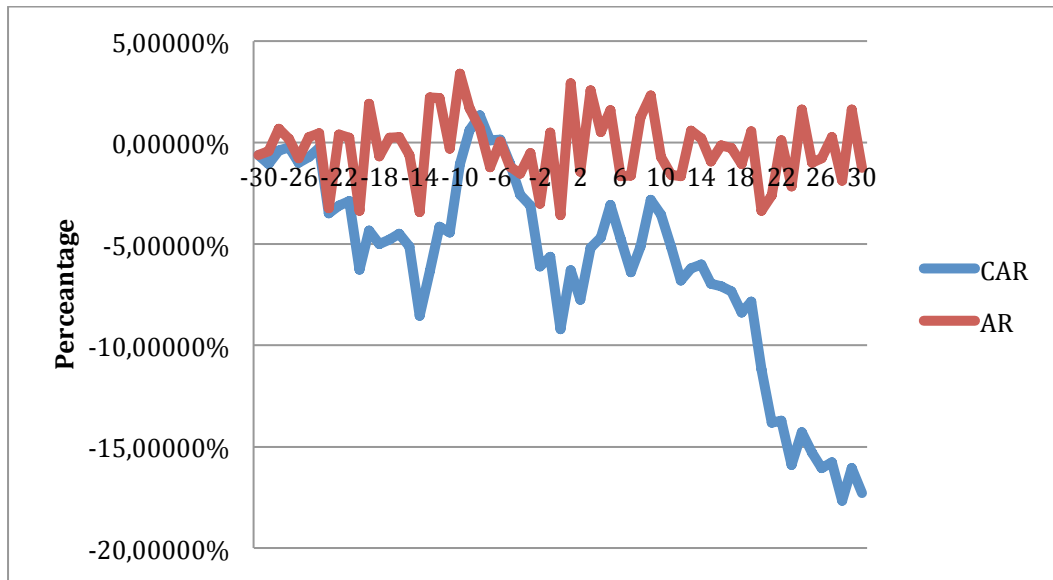
**Table 7: Abnormal returns and cumulative abnormal returns for companies that secondary listed in Oceania**

<b>Continent: Oceania</b>				
<b>Event Day</b>	<b>Daily percentage abnormal return</b>	<b>t-statistic</b>	<b>p-value</b>	<b>Cumulative percentage abnormal return</b>
-30	-0,61%	-0,36	0,75	-0,61%
-25	0,28%	0,19	0,87	-0,72%
-20	-3,37%	-1,30	0,32	-6,26%
-15	-0,61%	-0,70	0,56	-5,12%
-10	3,39%	0,89	0,47	-1,06%
-5	-1,19%	-1,09	0,39	-1,04%
-4	-1,54%	-1,04	0,41	-2,57%
-3	-0,53%	-0,17	0,88	-3,10%
-2	-3,02%	-1,70	0,23	-6,12%
-1	0,47%	0,22	0,85	-5,64%
0	-3,58%	-1,94	0,19	-9,22%
1	2,91%	3,05	0,09	-6,31%
2	-1,45%	-0,56	0,63	-7,76%
3	2,56%	1,82	0,21	-5,19%
4	0,52%	0,52	0,65	-4,68%
5	1,58%	1,76	0,22	-3,09%
10	-0,72%	-0,33	0,77	-3,55%
15	-0,94%	-0,62	0,60	-6,95%
20	-3,36%	-2,72	0,11	-11,21%
25	-1,00%	-1,52	0,27	-15,29%
30	-1,25%	-1,14	0,37	-17,30%

\* Daily abnormal return significant at the 5% level.

The data in Table 7 indicates that the CAR during the pre-cautionary announcement and post-cautionary announcement period is -5.64% and -8.08% respectively. The AR on the day of the cautionary announcement to secondary list is -3.58%, which is not significant at a 95% confidence level. The CAR over the 61 day period is -17.3%.

Based on Table 7 and Figure 8, the CAR of primary-listed JSE companies that have secondary listed in Oceania during the period 1998 to 2013 follows a downward trend over the event period.



**Figure 8: Abnormal returns and cumulative abnormal returns over event period for companies that secondary listed in Oceania**

This study's results show negative CAR over the event period for JSE companies that secondary list in Oceania. These results indicate that there is a loss in shareholder value, in the short term, for primary-listed JSE companies that sought secondary listings in Oceania during the period 1998 to 2013. These results suggest that the benefits of secondary listing in Oceania, by JSE listed companies, exceed the cost associated with the secondary listings.

#### 4.3.5 Discussion of continental results

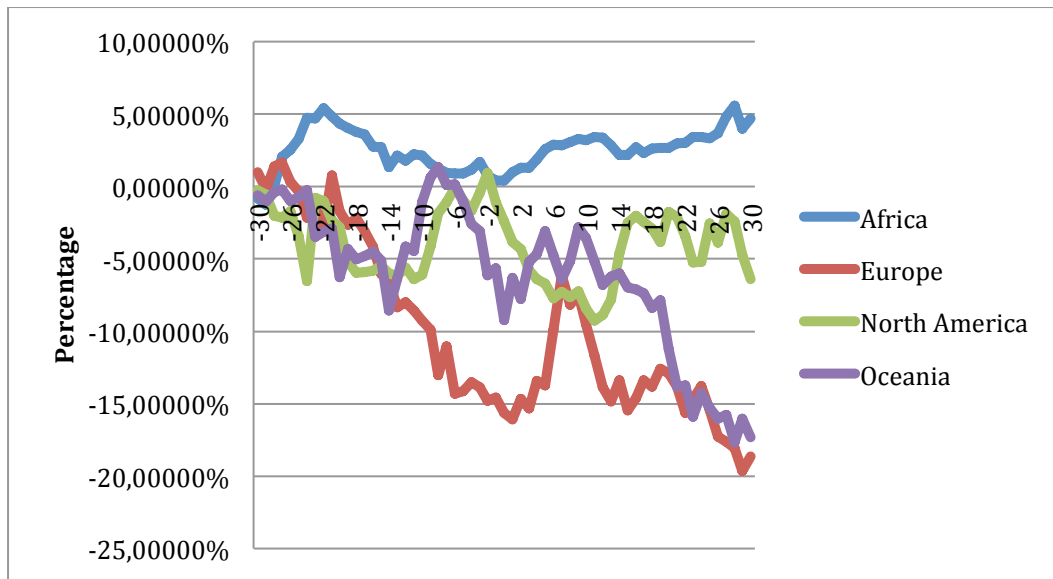
This study's results reveal positive CAR for companies that sought secondary listings in Africa, and negative CAR for companies (particularly resource companies) that

sought secondary listings in Europe, North America and Oceania. These results are consistent with the results found by Shi (2012), Roosenboom and Van Dijk (2009) and Adelegan (2008), since these results suggest that the market reaction to secondary listing decisions varies across international exchanges.

According to findings by Miller (1999), Lins et al. (2005), and Bris et al. (2012), companies from emerging markets benefited more from the decision to secondary list, compared to companies from developed markets. This study's results are not consistent with these findings since (1) South Africa is an emerging market, yet JSE-listed companies experienced negative CAR from the decision to secondary list in Europe, North America and Oceania, which are developed markets, and (2) South Africa is relatively more developed than other African countries, yet JSE-listed companies experienced positive CAR from the decision to secondary list in Africa.

Figure 9 below shows the CAR returns of primary-listed JSE companies that had secondary listed in Africa, Europe, North America and Oceania, during the period 1998 to 2013.





**Figure 9: Cumulative abnormal return over the event period for companies that secondary listed in Africa, Europe, North America and Oceania**

The majority of the North American sample consisted of secondary listings on the NASDAQ and the NYSE, while the European sample consisted only of secondary listings that occurred on the LSE. According to previous research by Reese Jr and Weisbach (2002) and Roosenboom and Van Dijk (2009), non-U.S companies seek secondary listings in the U.S to increase the protection of minority shareholders due to the high standards of corporate governance prescribed by the American stock exchanges. According to Onyuma et al. (2012), while it may be true that companies historically listed in the U.S and on the LSE due to the high standards of corporate governance requirements, many developing countries have since improved their corporate governance requirements. Therefore, the benefit to corporate governance from secondary listing in a developed market is not as significant as it was in the past. South Africa has also been at the forefront of international development for corporate governance through its King Codes (Schulscenk, 2012, Wyk, 2010), thereby reducing the perceived benefits to corporate governance of listing in North America or Europe.

Firms therefore face higher disclosure costs in order to meet the regulatory requirements of full disclosure, while not benefiting from a significant improvement in the amount of quality of information disclosed to investors. This could explain the negative CAR experienced by JSE listed companies when they secondary list in North America and Europe. A further consideration is the fact that South African companies are considered to be comparatively small when placed in the context of the American and European markets and therefore the shares of South African companies are not that attractive to European or American investors.

The results indicate that there is a gain in shareholder value, in the short term, for primary-listed JSE companies that sought secondary listings in Africa during the period 1998 to 2013, while there is a decrease in shareholder value for primary-listed JSE companies that sought secondary listings in Europe, North America and Oceania during the period 1998 to 2013. The results suggest that the JSE market perceives that the benefits of secondary listing are greater than the costs of secondary listing, in the short term, when companies pursue secondary listing in African markets, while the opposite is true when seeking secondary listings in European, North American and Oceanian markets.

## **5 Conclusion**

This research paper explored whether secondary listings by South African companies that are primary-listed on the JSE enhance shareholder value in the short term.

In general South African companies seek secondary listings when their financial needs exceed the capacity of the JSE to provide them with capital. Due to a limited

liquidity permitted by a single listing, companies seek a secondary listing, as the price of the dual listed share becomes more attractive on a foreign stock exchange. The literature review showed that as a result of the dual trading of shares, the company becomes more visible and the share prices become more efficient.

Another frequently cited benefit of having a secondary listing is the reduction in the cost of capital. When a company is active only in its home market, the efficiency frontier is determined solely by the company's domestic assets and the equity cost of capital depends on the risk premium of the home market portfolio. However, when a company secondary lists, it can reach foreign investors who will be able to invest in both foreign and local firms. As a result, the market risk premium will be lower, due to the far greater level of diversification that investors can attain in an open market (Lasfer et al., 2012).

This study analysed secondary listings that occurred between January 1998 and December 2013 by South African companies that were primary-listed on the JSE. The results indicate that there is no increase in shareholder value, as a negative CAR of 4.7% over the event period was found. Furthermore, AR on the day of the cautionary announcement was not significant at a 95% confidence level, showing that secondary listings by JSE-listed companies do not enhance shareholder value.

These results are in direct contrast to the general literature and the results of both Bhana (2000) and Adelegan (2008), which both found positive CAR for JSE companies that secondary listed. The possible reasons for the differing results are (1) Bhana (2000) used a sample of South African companies that dual listed on the LSE

between 1986 and 1997, while this study used a sample of JSE-listed companies that secondary listings on different markets between 1998 and 2013, and (2) Adelegan (2008) included only three JSE-listed companies, all of which secondary listed in Sub-Saharan Africa, while this study considered secondary listings by 30 companies that secondary listed across a global selection of different stock exchanges.

Additionally, as most JSE-listed companies that secondary list are resource companies, this study attempted to analyse the data to determine whether resource companies experienced a better return from secondary listing than non-resource companies. The sample was split into resource and non-resource companies in order to examine the valuation effect from secondary listing on these two sectors. The sample of 13 non-resource companies consists of 9 secondary listings that took place in Sub-Saharan countries. These non-resource companies experienced a positive CAR of 8.12% over the event period, while resource companies experienced a negative CAR of 15.13%. AR on the day of announcement was not significant at a 95% confidence level for either resource or non-resource companies. These results suggest that secondary listings by non-resource companies enhance shareholder value in the short term, while secondary listings by resource companies diminish shareholder value.

Non-resource based JSE companies have secondary listed in Sub-Saharan Africa to achieve their growth strategies. Improved information disclosure creates a higher demand for a company's products and shares, which helps achieve growth. Thus, improved information disclosure is a crucial benefit related to secondary listings by

non-resource based JSE companies, and could explain the positive CAR returns associated with secondary listings by non-resource companies.

The threat of nationalization of mines makes foreign investors wary of the long-term security of investment in South African resource companies. This could explain the negative CAR experienced by South African resource companies when they seek secondary listings on international stock exchanges. In addition, the strategy of obtaining funds for expansion, by South African resource companies, through a secondary listing motivated by reaction to market segmentation and limited trade liquidity, is not as effective as it has been in the past, since market segmentation has generally decreased, liquidity on stock exchanges has increased, and resource stock investors have become a global body. This could also explain the negative CAR experienced by South African resource companies that have secondary listed, since the benefit of overcoming segmentation and improving trade liquidity is minimal compared to the cost of secondary listing.

This study also explored the consequences of seeking secondary listings on exchanges on different key continents. Secondary listings were split into continental groups, namely Africa, Europe, North America and Oceania, in order to examine the effect of secondary listing on shareholder value by continent. Companies that secondary listed in Africa experienced a positive CAR of 4.71% during the event period, while companies that secondary listed in Europe, North America, and Oceania experienced negative CAR of 18.65%, 6.41%, and 17.30%, respectively. These results suggest that during the period 1998 to 2013, secondary listings by primary-listed JSE companies in Africa enhanced shareholder value in the short term, while secondary listings by

primary-listed JSE companies in Europe, North America and Oceania diminished shareholder value in the short term.

The continental results again contradict the literature base. The literature review suggested that companies from emerging markets benefited more from secondary listings in developed markets. This would lead one to expect that because South Africa is an emerging market, South African companies should experience positive CAR when listing in developed markets; yet JSE-listed companies experienced negative CAR when they sought secondary listings in the developed markets of Europe, North America and Oceania. South Africa is considered to be more developed than the rest of Africa, which would lead one to expect that South African companies should experience negative CAR when listing in less-developed African markets; yet JSE-listed companies that sought secondary listings in Africa experienced positive CAR.

The positive CAR experienced by JSE listed companies that secondary listed in Africa could be explained by regional integration. Regional integration leads to synergies, increased efficiency, increased competition, economies of scale, reduced financial instability and the promotion of economic growth.

It is important to note that the results of the secondary listed non-resource JSE companies and the results of the JSE listed companies that secondary listed in Africa are linked. This is due to (1) 9 of the 13 secondary listings, by non-resource companies, having occurred in Africa, and (2) 9 out of the 13 secondary listings that

occurred in Africa having been by non-resource companies. Thus, the results of the analyses are not mutually exclusive, and the factors affecting the CAR could overlap.

The benefit to corporate governance from secondary listing in a developed market is not as significant as it was in the past. This, together with the high disclosure cost associated with secondary listing, could explain the negative CAR experienced by JSE listed companies when they secondary listed in North America and Europe. Another factor contributing to the negative CAR associated with secondary listing in North America is the introduction of the Sarbanes Oxley Act (2003), which has increased the cost of secondary listing in the U.S.

The findings of this study have the following implications for JSE listed companies that are seeking secondary listings: (1) managers need to consider the sector their company operates in, since the valuation effects from secondary listing differ for resource and non-resource companies; and (2) managers need to consider the market in which they intend to secondary list, since the valuation impact from secondary listing varies across different exchanges.

This study shows that South African companies do not experience an increase in share prices on the cautionary announcement date. The market reaction is generally driven by a number of factors, as discussed above. Due to the lower share prices associated with the event, secondary listings by South African companies that are primary-listed on the JSE may not enhance shareholder value in the short term.

## **5.1 Limitations of study**

The results of this study may be limited due the following factors: (1) the share price movement may reflect responses to information beyond the secondary listing announcement; (2) the sample of companies used may not be representative of the population with regards to the impact a secondary listing has on shareholder value, and (3) the research study only assesses the valuation impact from secondary listing using the share price.

## **5.2 Recommendations for further research**

This research study investigated the short-term valuation impact of secondary listings during the period 1998 to 2013. An event study methodology was used to determine the valuation impact of secondary listing. The date of the cautionary announcement of the decision to secondary list was used as the event date in this study. The analysis did not find significant abnormal returns on or around the cautionary announcement date (event date). This is possibly due to the time period between the date of the cautionary announcement to secondary list and the actual secondary listing ranging from a few days to over a year. It is possible that due to the large time lag in certain cases the market would react to the secondary listing event rather than the cautionary announcement to secondary list. For future research, the use of the actual listing date as the event date could possibly provide more meaningful results.

This research study investigated the short-term valuation impact of secondary listings during the period 1998 to 2013. The results were not split into yearly intervals, thus this study was unable determine whether the negative abnormal returns were consistent throughout the period investigated. This is a question for further research.



There has been no research performed from a South African perspective on the long-term impact of secondary listing on shareholder value by primary listed JSE companies. Research in this area will have a significant contribution, as it will outline whether secondary listing enhances long-term shareholder value for primary-listed JSE companies.

No research has been performed from a South African perspective to identify determinates for share price movement associated with secondary listings by JSE companies. Research in this area will make a significant contribution to the literature, as it will provide a better understanding of the benefits and costs to JSE companies of secondary listing.

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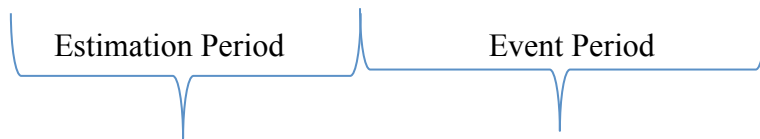
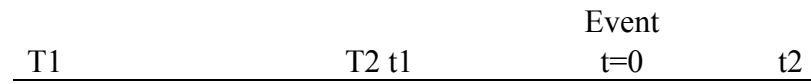
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## Appendix A

### 1. Observation period



#### Key:

T1= -120

T2= -30

t1= -30

t2= +30



## 2. Sample of secondary listings

<b>Company</b>	<b>Secondary listing exchange</b>	<b>Sector</b>
Anglogold Ashanti Ltd	Ghana Stock Exchange	Resource
Anglogold Ashanti Ltd	Australian Stock Exchange	Resource
BettaBeta Equity	Botswana Stock Exchange	Non resource
Datatec Ltd	London Stock Exchange	Non resource
DRD Gold Ltd	Australian Stock Exchange	Resource
DRD Gold Ltd	New York Stock Exchange	Resource
DRD Gold Ltd	Port Moresby Stock Exchange	Resource
Elerine Holding Ltd	Namibian Stock Exchange	Non resource
Elerine Holding Ltd	Botswana Stock Exchange	Non resource
Gold Fields Ltd	New York Stock Exchange	Resource
Gold Fields Ltd	Dubai Stock Exchange	Resource
Harmony Gold Mining Ltd	Nasdaq	Resource
Harmony Gold Mining Ltd	New York Stock Exchange	Resource
JD Group Ltd	Namibian Stock Exchange	Non resource
Mix Telematics Ltd	New York Stock Exchange	Non resource
Naspers Ltd	Nasdaq	Non resource
Naspers Ltd	London Stock Exchange	Non resource
Nedbank Ltd	Namibian Stock Exchange	Non resource
Oceana Group Ltd	Namibian Stock Exchange	Resource
Petmin Ltd	London Stock Exchange	Resource
Sacoil Holdings Ltd	London Stock Exchange	Resource
Santam Ltd	Namibian Stock Exchange	Non resource
Sappi Ltd	Namibian Stock Exchange	Resource
Sasol Ltd	New York Stock Exchange	Resource
Shoprite Holding Ltd	Lusaka Stock Exchange	Non resource
Trans Hex Group Ltd	Namibian Stock Exchange	Resource
Vukile Property Fund Ltd	Namibian Stock Exchange	Non resource
Wits Con Gold Resources Ltd	Toronto Stock Exchange	Resource
Woolthru Ltd	Namibian Stock Exchange	Non resource

