



THE MALDIVES STOCK EXCHANGE: GROWING OR STUNTED?

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In real life, a CEO of a major PLC in Maldives is asked by a shareholder during its AGM in the second quarter of 2021 about the reasons for its sharp fall in its share market price. Its average market price on annual basis dropped 92pc over 16 years to the end of 2020.

Actual data for this company available on MSE website shows that on annual terms, this company's share price fell 61.3pc from 2006-2010, 43.4pc from 2010-2014, 13.4pc from 2014-2018, and 60pc from 2018 to 2020. Based on these time intervals, this company performed worst in annual share price growth. MSE data alone does not explain reasons for this. A CEO should be able to explain this convincingly.

The CEO responds to the question saying that the publicly traded market price is not the company's true share price, and adds that if a valuation is done now its share price will be higher.

The CEO's response is perhaps reflective of a number of PLC C-suite executives and board directors attitude towards the share market in this country. It might suggest an inherent attitude that views the company's presence in the stock exchange as symbolic and that regardless of its share market performance, it can be successful. We cannot be certain that this may or may not be the case without a more detailed study of PLC performances in the stock exchange and their actual business performances.

The CEO's response also leads to other questions, some relevant to investors and some to the wider financial sector development policies. For example, in day-to-day trading what current information is available to investors other than the market information for them to decide on investing? A company's business information relevant to an investor's investment decision is not available on a day-to-day basis. At policy level, an attitude such as that indicated above towards the stock exchange goes contrary to efforts at promoting and developing the stock market and promoting the liquidity of the market.

Composition of Masix

This also leads to a question on how the stock market has fared thus far. Beginning as an interim securities trading arrangement within Capital Market Development Authority for two years under the CMDA Act 2006, the Maldives Stock Exchange is now a private sector exchange. It was licensed by the CMDA in 2008 to establish a market mechanism for trading and settlement of securities, and to provide a regulatory framework to standardise and monitor trading in securities. At the end of 2020, a total of nine stocks remained listed in MSE in five sectors (Table 1).

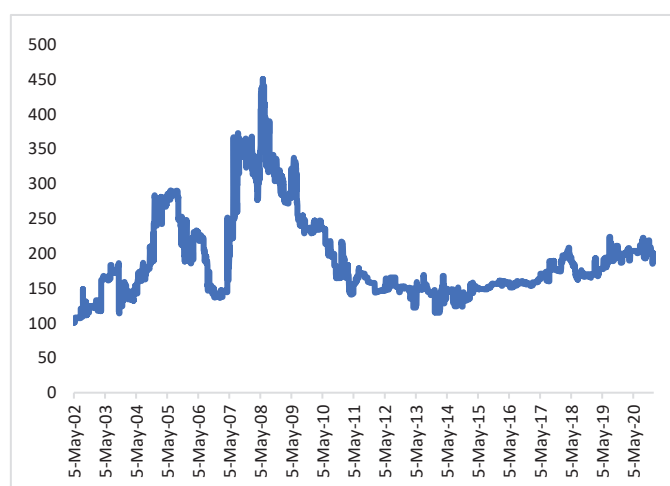
Table 1: MSE Stocks and sectors

Stock	Company	Sector	Listed
MTCC	Maldives Transport & Contracting Company	Transport, construction	1980
BML	Bank of Maldives	Financial (banking)	1993
STO	State Trading Organisation	Trading	2001
MTDC	Maldives Tourism Development Corporation	Tourism	2007
DHR	Dhiraagu	Telecom	2012
ATM	Amana Takaful Maldives	Financial (insurance)	2012
OMPL	Ooredoo Maldives	Telecom	2017
CPLC	Centurion	Transport (shipping), logistics	2017
MIB	Maldives Islamic Bank	Financial (banking)	2019

Source: MSE, 2021: table compiled by author

Among them are the domestic corporate sector powerhouses, Dhiraagu, Bank of Maldives and STO. They have been joined by more recently listed foreign companies, Ooredoo from the rich Gulf state of Qatar (listed in October 2016), and Amana Takaful (Sri Lanka). A formerly private company, Centurion – a local shipping and logistics outfit – was listed in 2017. Maldives Islamic Bank (MIB) is the latest entrant into the market having been listed in 2019.

Figure 1: Masix index - 2006-2020



Source: MSE, 2021

Index performance

With these nine stocks, and one security (HDFCS2), how active has the market been? Figure 1 shows movements in the Masix index from May 2002 onwards. At the end of 2020 the index was at 199.25 points, showing almost no change from 199.05 at the end of 2019.

A sharp peak is seen in mid-2008 when the index reached 450.35 points on 2 June 2008. Ironically, this was during the global financial crisis (GFC), a period of extreme stress in global financial markets and banking systems, which is believed to have started sometime around the middle of 2007 and lasted to the early months of 2009. But it is also known that

MSE is not internationally connected and therefore there is no inward portfolio investment.

Since that peak though, the index continued downward and bottomed out at 114.6 points on 22 December 2013. Since then, it has risen 84.64 points to 199.25 (73.9pc) in the 17 intervening years to the end of 2020.

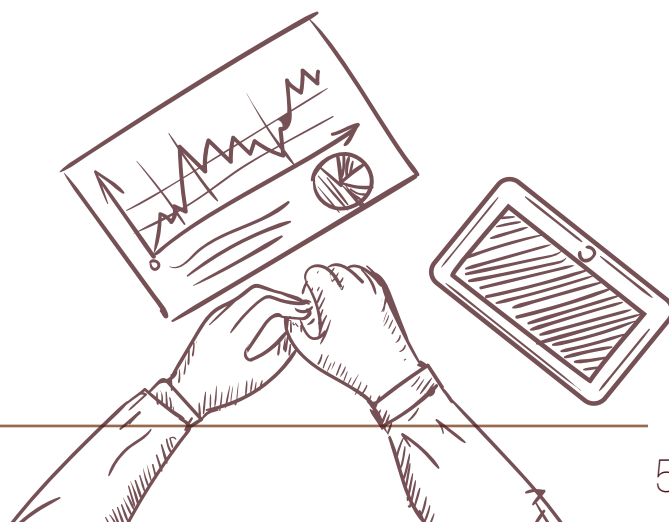
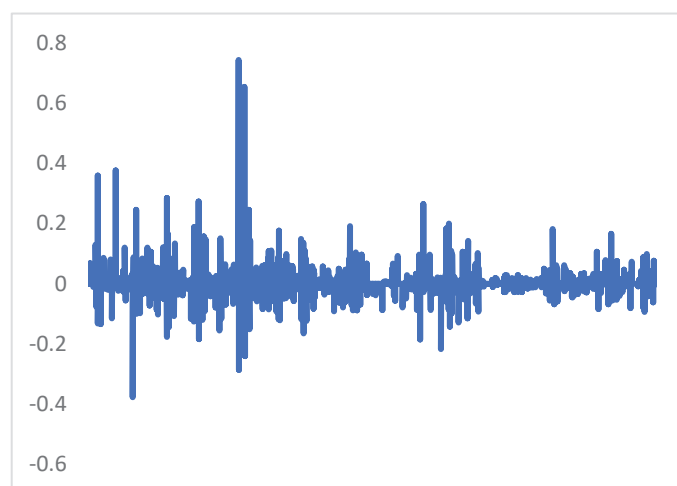


Figure 2: Masix index daily change volatility



Source: MSE, 2021.

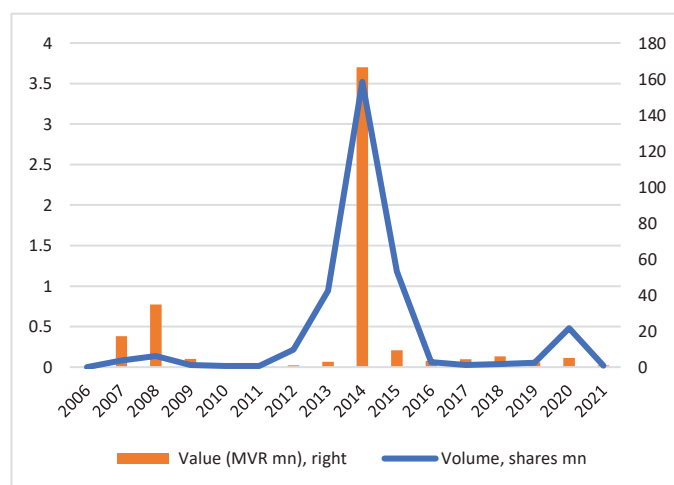
An analysis of volatility of the index is somewhat problematic mainly because trading is very infrequent, but also because MSE gives data for every single day of the year including days on which the market is closed. This makes it difficult to determine the actual number of trading days in a month or year by analysing data on trading alone. But a random page on the MSE website does provide a calendar of the year in which weekends and public holidays are marked.

Figure 2 shows an indication of market volatility in the index for the same period as in Figure 1.

For risk takers, a more volatile market may be more attractive since higher volatility in stocks indicate higher risks, and therefore, as the old saying goes, high risk – high return (albeit this may not always turn out to be true). They buy for short term and sell when the stock shows a profit they desire. A lower volatility, on the other hand, may be more attractive

to investors who are risk-averse, who buy a stock to hold for dividends.

Figure 3: Volume and value of trading



Source: MSE, 2021

Trading volume, liquidity and value

Another indicator of market activity is the volume of trade. This is the number of shares sold in market trading.

As Figure 3 shows, volumes were thin during most of the years from 2006 to 2020. The years 2013-2015 are outliers compared to the rest of the years.

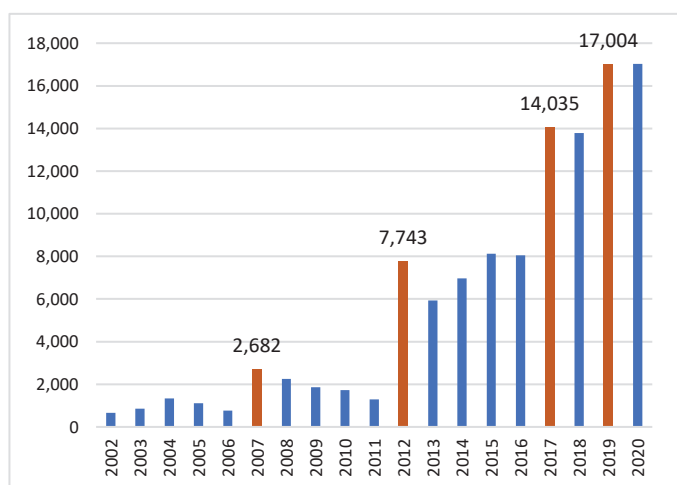
2014 was particularly extraordinary: 3.5 million shares were traded during that year. The following year, volume dropped to 1 million and to just 61,907 the next year.

The year 2020 ended with a higher volume, 482,453 shares, from 52,863 shares the previous year, and 39,525 shares the year before.

Volume is also an indicator of liquidity of the market. Liquidity refers to how swiftly a stock or security can be bought or sold in the market for its market price. The low volumes and infrequency of trades suggest that liquidity of the market is also very thin.

Figure 3 also shows that movements in trading values, which is the total value of shares traded, were quite similar to that of the volume. The peak in 2014 was MVR 166.6 million. The second highest for the analysis period was 34.8 mn in 2008.

Figure 4: Annual market capitalisation



Source: MSE, 2021

Market capitalisation

Market capitalisation is the total Market value of all shares of all companies listed in the stock exchange. A measly MVR 663 million in 2002 has expanded 25-fold to MVR 17 billion at the end of 2020 (Figure 4).

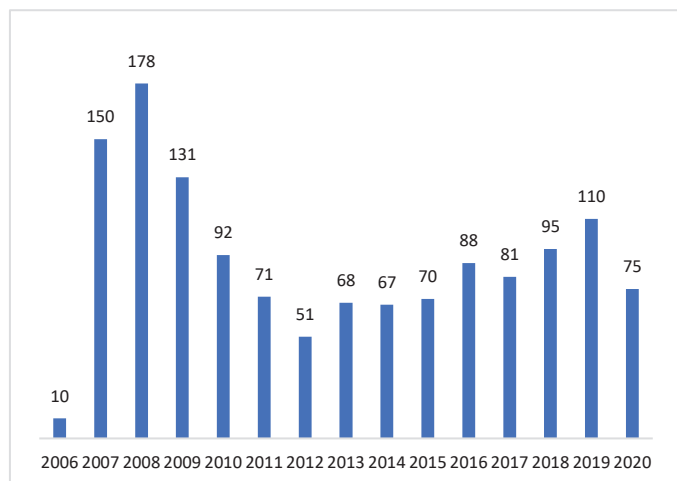
But this increase is not due to gains in market prices of shares of existing companies; rather it is principally

due to the entry of new companies into the market. This is indicated in Figure 4 by the orange-coloured bars.

In 2007, MTDC was listed in the second quarter with an additional capitalisation to the market of MVR 534.3 million at the end of that year. Total market capitalisation at the end of that year was MVR 2.7 billion. Two more companies were listed in 2012, both in the first quarter. One of them, Dhiraagu added MVR 6 billion and the other, Amana Takaful MVR 40.5 million at the end of that year, and the year-end total market capitalisation was MVR 7.7 billion. In 2017, two additional stocks were listed, Centurion (first quarter) adding MVR 214 million and Ooredoo Maldives (third quarter) MVR 5 billion at the end of that year. Total capitalisation of the market at the end of that year was MVR 17 billion. In 2019, Maldives Islamic Bank entered the market in the third quarter, adding MVR 877.5 million taking the total market capitalisation at the end of that year to MVR 17 billion. At the end of 2020, total market capitalisation remained little changed at MVR 17 billion (USD 1.1 billion, equivalent to 29.4pc of 2020 GDP). For comparison, the total market capitalisation of Colombo Stock Exchange at the time of writing was SLR 3.4 trillion (USD 17.2 billion, equivalent to 20.5pc of 2019 GDP).



Figure 5: Number of active trading days

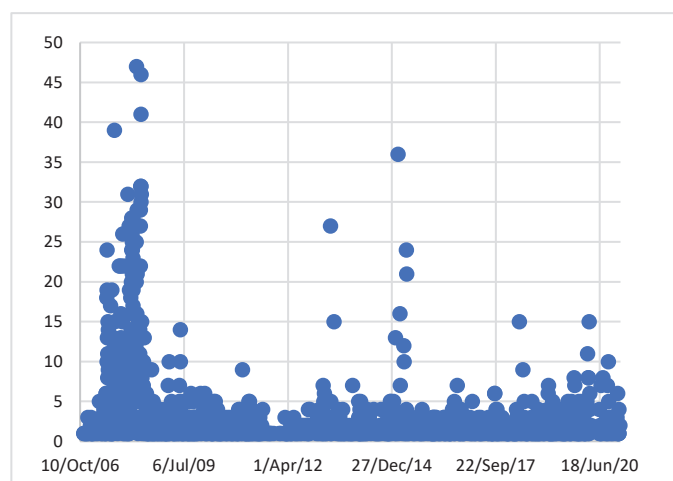


Source: MSE, 2021

Active trading days and frequency

The number of active trading days and the frequency of trades each day reflect the level of intensity of trading and therefore may also be indicative of the level of liquidity of the market. Active trading days are not the same as trading days. A trading day is a day on which the market is open, whether a trading takes place or not. An active trading day is a day on which an active trading of a stock takes place. Figure 5 shows the number of active trading days. The most number of active trading took place in 2008, and the least in 2006. It is difficult to see a consistent pattern of trading days from Figure 5. For the whole period analysed, the average number of active trading days is only 89 a year. A market is generally expected to actively trade for 240-250 days a year

Figure 6: Trading frequency



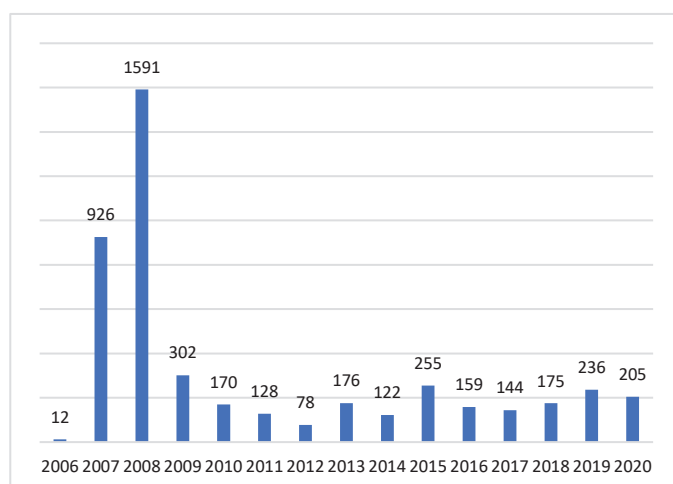
Source: MSE, 2021

Frequency of trading on daily basis is similarly irregular and does not appear to show a pattern. This is depicted in Figure 6.

A higher frequency of daily trading activities is preferred by traders, dealers, and investors since it gives them more opportunities to trade on a given day as stocks move up or down in their market prices.

An active market, therefore, is more attractive to investors, especially to short-term profit seekers, but also to those who invest in stocks to hold for dividends.

Figure 7: Annual frequency of trading



Source: MSE, 2021.

Figure 7 sheds more light on frequency of trading. It shows the total annual number of trades. 2007 and 2008 appear outliers with 926 and 1,591 trades respectively.

Excluding these two years, average trades per year for the rest of the years is 166. Based on the average of 89 active trading days per year for the analysis period, it works out to be just 1.9 trades per active day.

A more precise analysis could have been possible if not for the way data is made available. While it is possible to identify weekends and assume that no trading takes during weekends, it is cumbersome for an analyst to go through nearly two decades of data date-by-date to identify public holidays.

Assessment and conclusion

This analysis deliberately excluded the examination of the performance of individual stocks. That must be for later or for others. This article only analysed the institutional performance of MSE in whole. The idea was to shed some light on market activities or lack of them, so that more thoughts could be expended on addressing the weak areas through further study, policy action and promotional activities at all levels.

Trading of Maldivian stocks has been open to the market for nearly two decades. The analysis above,

however, showed that trading is few and far between, and therefore liquidity of the market is extremely thin. As a matter of opinion, this may be described as under performance among other factors that contribute to it.

... trading is few and far between, and therefore liquidity is extremely thin. ... Market capitalisation, ... compares quite well with the market capitalisation of the Colombo Stock Exchange

Market capitalisation, on the other hand, appears to be quite encouraging for a market of the size that MSE has. As shown above, it was MVR 17 billion at the end of 2020, equivalent to over 29pc of the GDP, which compares quite well with the market capitalisation of the Colombo Stock Exchange which was equivalent to about 21pc of Sri Lanka's GDP at the time of writing.

For MSE to be made a major financial sector institution, much remains to be done, including at regulatory and development policy level, at institutional level at MSE, at corporate level of the stock companies as well as dealership level. The anecdote at the beginning of this article also highlights the need for C-suite executives and board directors attention on market activities.

Unfortunately, the government's Strategic Action Plan

(2019-2023) does not have any strategies for the development of this important part of the financial sector.

Given the status quo, one may be forgiven for thinking that MSE is stunted rather than growing.

The author thanks Ibrahim Athif Shakoore and Mohamed Ahmed, both erstwhile CEOs of PLCs, for their comments on this article.

