

Fundamental Analysis and Necessity of Implementation of Primary Stock Placement in Financial Integration Conditions

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***Annotation.** This article discloses the most frequently used method of estimating securities and forecasting their behavior on the market among institutional investors, that is, a fundamental analysis, and the necessity of IPO implementation in terms of Uzbekistan.*

The continuing growth of the stock market in Uzbekistan only increases the fears of investors who do not want to buy stocks at the peak of growth. At present, there is an urgent need to adapt the methods of fundamental analysis for national conditions. The article presents the concretized content of fundamental analysis as a method for determining the investment attractiveness of

securities in the stock market, the role of fundamental analysis in predicting the value of securities and making investment decisions, as well as the peculiarities of forming a securities portfolio based on the results of fundamental analysis of the stock market in order to make effective investment making.

An integral part of the world economy as a whole and the economies of individual countries in particular is the financial, or, in other words, stock market. Its main function is recognized as the function of the redistribution of money and capital from some economic entities with excessive funds to others in need of financing.



Today, there is a special need to study and develop a set of proposals for evaluating the effectiveness of financial instruments that adequately correspond to the financial market of Uzbekistan, taking into account the main trends in the development of the financial instruments market in the global, regional and national economies, as well as the role of individual forms of derivatives and their development prospects. positions of the developing market economy of Uzbekistan based on fundamental analysis.

The internationalization of stock markets is also manifested in the fact that the same instruments are increasingly trading in different markets. More and more issuers are listed on foreign exchanges, meaning that the shares of the largest issuers can be sold simultaneously in New York, London, Frankfurt, Tokyo and others, hence blurring the line

between domestic and international securities, creating favorable conditions for the wide use of financial instruments. on stock exchanges.

Evaluation of the effectiveness of individual financial instruments of investment, as well as real investments, is carried out on the basis of a comparison of the volume of investment costs, on the one hand, and the amounts of returnable cash flow on them, on the other. However, the formation of these indicators in terms of financial investment has significant distinctive features. In view of the above, an assessment of the effectiveness of a financial instrument of investment comes down to an assessment of its real value, which ensures the expected rate of investment profit on it. Models for evaluating the effectiveness of the functioning of bonds are based on the following initial indicators: the

nominal value of the bond; the amount of interest paid on the bond; the expected rate of gross investment profit on the bond; the number of periods to maturity of the bond.

The models for evaluating the effectiveness of shares are built on the following baseline indicators: the amount of dividends expected to be received in a specific period; the expected market value of the share at the end of its implementation period; the expected rate of gross investment returns on shares; the number of periods of use of the stock.

There is no doubt that the stock market is in demand. Pension savings, savings of the population, insurance reserves enter the market in the form of portfolio investments. One of the most commonly used methods for

assessing the value of securities and predicting their behavior in the market among institutional investors is fundamental analysis.

The effectiveness of any form of investment is calculated on the basis of a comparison of the effect (income) and the cost of its receipt. When investing in securities, the cost is the sum of the funds invested in the securities, and the income is the difference between the current value of the security and the amount of funds invested in its acquisition. Since the income on the security can only be received in the future, for comparability, it should be reduced to the present by discounting.

The basic formula for calculating the effectiveness of derivatives is as following:

$$E_f = C - I_0 / I_0 \quad (1)$$

$$\text{или, } E_f = C - D / I_0^1, \quad (2)$$

where E_f - the effectiveness of investing in securities;

¹ Sharp W. Investments: Translated edition. M.: Alpina Publishing house, 2004.

C - the current (discounted) value of the security;

I_0 - the amount of invested funds;

D - the expected return on investment.

The present value of a security is determined by two main factors: the value of the cash flow from investing in the security and the level of the interest rate used in discounting.

The calculation of the net income on financial investments has certain differences from the definition of income from real investments.

When evaluating the comparative effectiveness of financial

instruments in the stock market, the reduced net income is calculated as the difference between the present value of individual stock instruments and the cost of their acquisition.

Consequently, stock instruments are characterized by a variety of models for assessing their present value when comparing the effectiveness of various financial investments.

One way to assess the effectiveness of the securities market is to determine the level of liquidity. Considered indicator of total liquidity.

$$LA = \frac{N_{bid} \times N_{ask}}{\left(\frac{P_{ask}}{P_{bid}} - 1\right)^2} \quad (3)$$

Where:

LA - an aggregate indicator of securities liquidity;

N_{bid} - the number of purchase orders, units;

N_{ask} – the number of sales orders, units;

P_{bid} - the average purchase price of securities, soums;

P_{ask} - average selling price of securities, soums.²

² Lieffland A. Century Of Stocks And Bonds. The Securities Of Imperial Russia. - M.: IP Media, 2014.

An important role in evaluating the effectiveness of investment is played by the magnitude of the discount rate used in bringing the amounts of future cash flows to the present. The need to choose the rate of discount corresponding to a particular investment object is due to significant fluctuations in the level of risk.

In foreign practice, the determination of the discount rate used in estimating the present value of financial instruments is carried out in accordance with the capital asset price model.

In the stock market of Uzbekistan, taking into account the specifics of its operation, when evaluating the comparative effectiveness of financial instruments, it is advisable to use not the current rate of return on risk-free investments, but the average cost of the estimated sources of investment as the basis for

comparison. The results of the evaluation of the comparative effectiveness of financial instruments of various investment objects are used in their selection and formation of the investment portfolio of the bank.

This method is based on determining the fair intrinsic value of a company's stock based on a study of a particular enterprise's activities, taking into account the peculiarities of its development, analysis of strengths and weaknesses, which implies a thorough analysis of various indicators of financial and economic activities at different management levels to determine the investment attractiveness of shares and calculate their fair intrinsic value in order to find undervalued and overvalued securities.

The fundamental method involves the following directions:

- determining the fair intrinsic value of a company's stock based on a

study of the activities of a particular enterprise, taking into account the characteristics of its development;

- analysis of strengths and weaknesses, implying a full-fledged analysis of various indicators of financial and economic activity at different levels of management to determine the investment attractiveness of shares;

- calculation of the fair intrinsic value of the shares in order to find undervalued and overvalued securities.

Most scientists consider fundamental analysis as a study of factors affecting the activities of the issuing company, or as an assessment of the company. At the same time, fundamental analysis deals with “paper” assets circulating on the stock market.

Thus, at present there is an urgent need to adapt the methods of fundamental analysis in relation to the

conditions of the Uzbek market and to develop appropriate scientific research on the problems arising in this process.

To date, the development of the financial sector, in particular, the attraction of foreign funds is associated with the use of IPO, which is the primary placement of the company's shares on the stock market.

From this point on, stocks begin to openly trade in one of the stock markets, the company receives financial resources from the sale of shares, a reputation as a serious player in the business world, and a lot of expenses associated with the need to regularly provide financial statements. It is also important that a company through an IPO gets a market assessment of itself (in other words, the size of capitalization), and this, as a rule, allows the founders of the company to become very rich people.



The largest stock exchanges where stocks are traded are located in New York: NYSE and NASDAQ. The North American stock market has been and still remains central on a global scale, but the second place in terms of the size of the exchange market has already moved from Europe to Asia. Hong Kong, Shanghai, Tokyo and Osaka are the main Asian stock exchange trading centers. More details about the stock exchanges are written in the following article. It has a market capitalization rating of stock exchanges in December 2017, lists reporting standards that are required to enter the stock exchange, and lists Russian companies listed on foreign stock markets.

If a company decides to issue its shares to the stock exchange, then it cannot do without the services of so-called underwriters. An underwriter is an intermediary firm

between a company putting its securities on the market and potential investors. In the United States (and elsewhere), large investment banks and brokerage companies act as underwriters. They set the initial price of the shares, attract selected investors for the initial purchase, and request considerable fees from the issuing company for their services, which reach 7% of the placement cost.

But underwriters are not only commissions. They earn the most from the price difference between the initial offering price and the market price, which is established later on the stock exchange. The traditional IPO assumes that the firm-underwriter conducts a comprehensive financial analysis of the issuing company, on its basis establishes the initial offering price and offers to buy out shares of its own, one might say, “lured” pool of investors. It includes the so-called institutional investors: large pension



funds, hedge funds, mutual funds (mutual funds). This is profitable for them, since after the start of trading on the stock exchange (in the first hours and days) the price of a share usually shows growth, and this allows the first buyers and the underwriter to make good money on the resale of shares.

Therefore, underwriting firms have a vested interest in setting the price of the initial public offering below the market. The issuing company, on the contrary, is interested in the highest possible initial price of its shares, because it depends on how much money it will receive from entering the stock exchange.

You can consider examples of IPOs of famous American companies, such as Twitter. Prior to the company's IPO, the capital consisted of 475 million shares (exact figure 473,839,475, Form S-1), of which

approximately 25% of the shares were owned by the founders and directors of Twitter. It was decided to market 70 million shares or 13% of the total capital of the company. From the initial public offering of shares it was planned to attract \$ 1 billion. On September 13, 2013, Twitter announced that it had applied for an IPO of its shares on the New York Stock Exchange (NYSE).

Investment banks Goldman Sachs (principal), Morgan Stanley and Morgan Chase acted as underwriters for the placement of the entire issue. Initially, Twitter was planning to place shares at a price of \$ 17-20 per share, then, due to the large number of people willing, the boundaries of the price corridor were raised to \$ 23-25.

Market participants rated the IPO as successful, which is not surprising, since the initial investors and underwriters were able to make good money on the resale of shares.

The commission of underwriters as a whole amounted to 3.25% of the cost of placement or 59.2 million dollars. In addition, they had the right to purchase 10.5 million shares (in addition to 70 million) at a discount on the offering price. It can be assumed (as they say in English-speaking sources) that if the option was used, they earned about \$ 200 million.

In accordance with the resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated May 10, 2017, from December 5, 2017 to April 3, 2018, a subscription campaign is held and applications are collected for the purchase of shares of the Kverts Joint-Stock Company placed through an open subscription among an unlimited number of investors by conducting a public stock offerings (IPO).

Last year, the first IPO was launched in Uzbekistan. As a pioneer,

was Quartz JSC (Fergana region, Kuvasay city), one of the leading industrial enterprises in the Republic of Uzbekistan. JSC Quartz is the largest enterprise for the production of sheet glass, glass for the automotive industry, glass jars, bottles and refractory materials. The financial position of Quartz JSC is stable. The following dividends are declared (paid) for each ordinary share to face value: for 2014 - 31%, for 2015 - 34%, for 2016 - 68%.

Starting from December 5, 2017, 4,574,934 shares of the Kverts Joint Stock Company (the initiator of the IPO) were put on the platform of the Republican Stock Exchange "Toshkent". This issue of additional shares was registered on October 2, 2017 No. P0413-8 and is the eighth. The nominal value of shares is 1,715 soums. The total amount of shares at par is 7,846,011,810 soums (10% of previously placed shares). The

placement of shares is carried out with the involvement of the underwriter - the National Bank for Foreign Economic Activity of the Republic of Uzbekistan (the organizer of the IPO). The investment intermediary for the underwriter is the member of the RSE “Toshkent” - LLC “Dalal standard”.

As of March 24, 2018, according to the website of the RSE “Toshkent”, 1,747 applications were submitted for the purchase of 652,211 pieces. 3.42 billion soums deposited. When carrying out IPO campaigns to improve their performance, it is advisable to provide for a longer period and quality of informing the public about the campaign, including conducting a large-scale road show, as well as to ensure the liquidity of the shares being placed, attracting a market maker.

In the near future, the activity of joint-stock companies, initiating an

IPO, will increase in the country, since it is an effective way to raise capital for the development and modernization of a joint-stock company, increases capitalization growth and business reputation.

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