

HOW THE SHAREMARKET WORKS: THE PRIMARY MARKET

WHAT IS THE SHAREMARKET

Shares are bought and sold on the sharemarket.

The sharemarket is like any other market where buyers and sellers come together for the purposes of exchange. Fruit is bought and sold in a fruit market and shares are bought and sold in the sharemarket.

But shares need to be created before they can be bought or sold – so where do they come from?



THE PRIMARY MARKET: PRIMARY MEANS FIRST

The primary market is like a launch pad because it is usually used by companies to launch themselves on a new path of growth. They do this by raising capital (cash) by publicly issuing shares for the first time.

By listing on the sharemarket the company is saying, “if you give us some cash, we will give you part ownership in our company and as proof of your ownership we will provide you with shares”.

LEARN ABOUT ...

- The primary sharemarket
- Becoming a listed company
- Buying shares in a float

FAMOUS QUOTE

“One of the funny things about the stock market is that every time one man buys, another sells, and both think they are astute.” - William Feather

DID YOU KNOW?

There are over 2,000 companies listed on the Australian Securities Exchange (ASX).

KEY DEFINITION

THE PRIMARY MARKET:

Shares are first issued on the primary market. That’s the starting point and from then on shares are traded on the secondary market. It’s just like someone buying a new car and selling it a year later to someone else second hand.



BECOMING A LISTED COMPANY

Not every company can have its shares traded on the sharemarket.

The company must be large enough and have been operating successfully for a period of time to qualify. This is to give people some confidence but not a guarantee that the company is not a bad investment. Of course being listed on the sharemarket doesn't mean the company WILL be successful in the future.

Once a company is listed it has to obey certain rules.

One of these rules is to immediately tell the public about anything that would influence their decision to buy or sell shares in the company. Some examples include a change in the profits they expect, or buying a new business. Another example is the news that a mining company has discovered a new deposit of gold. This would certainly affect the share price as company profits are likely to rise in future and all investors would want to know about this.

ACTIVITY ONE

Can you think of 3 examples of things that a company might need to tell everyone about? Write them below and explain how it might affect a company's share price.

3 things a company might need to tell everyone about

1. _____
2. _____
3. _____

BUYING SHARES IN A FLOAT

A float is when a company issues shares to the public for the first time. Think of a ship beginning to set sail for the first time. Another term you might hear is Initial Public Offering (IPO).

A company issuing shares for the first time must issue a Product Disclosure document (also known as a prospectus) describing its business and financial situation. A Product Disclosure document is an official document that has been lodged with and registered by the Australian Securities and Investments Commission (ASIC).

DO YOUR HOMEWORK

1. Below is a list of some companies that have floated with the issue price for each of their shares. Look at the sharemarket tables in the newspaper or go to www.asx.com.au to find the latest share price for each of these companies.
2. If you had invested \$1000 in each of the companies below, how much money would you have gained or lost since the company floated?

COMPANY / ISSUE PRICE

1. The Reject Shop \$2.00
2. QR National \$2.55
3. Hot Chilli Limited \$0.20
4. Myer Holdings \$4.10

WEBSITE/S TO VISIT

Visit ASX's website www.asx.com.au for a list of recent and upcoming floats.

You can find them by clicking on Prices & Research > Company research > Upcoming floats



People apply for shares using a form included with the offer document. If there are many investors interested in the float, investors may receive only some of the shares they applied for (or even none at all). If this is the case then the investment money will be refunded to those who missed out.

Once the shares have been issued the shares begin trading on the secondary market. This is when those shares issued by the company can be sold to other investors. Some shares go up quickly after they are available for trading – especially if a lot of people wanted shares and missed out on the float. Other shares don't do so well immediately.

ACTIVITY TWO

The first column in the table below lists some hypothetical quotes by four companies about to list on ASX. The quotes have been adapted from the Company's Product Disclosure document, and explain the reason why the company wishes to raise capital by listing on ASX. Match the reason for becoming a listed company (in the second column) with the quote in the first column.

The first answer has been done for you.

| Quote | Answers ↓ | Explanation |
|--|-----------|--|
| 1. "Our company has funds under management of approximately \$300 million as at December 2011, which will increase to \$400 million with the successful capital raising for our new Property Securities fund." | C | A. Company involved in gold, nickel and diamond exploration requires funds to finance more drilling projects. |
| 2. "Growth opportunities exist to produce new and complementary specialty steel products..." | | B. Singapore civil engineering and construction company, whose main business is land reclamation, seeks to list on ASX to continue developing this side of the business. |
| 3. There are a number of priority targets ready for immediate drilling | | C. Investment Property Fund Company wishes to raise money to launch a new project. |
| 4. "The company is seeking a listing as a way to invest some of the capital raised by this offer in quarries. This will strengthen the company's position as a premier reclamation and shore protection specialist." | | D. Metals and Mining Company wishes to produce new steel products with the capital raised from the float. |

ACTIVITY THREE

The table below shows some companies that were floated on ASX in 2011. Write in the space provided whether the company’s share price closed higher or lower or no change on their first day’s trading.

| Company name | ASX Code | Listing date | 1st day’s trading | |
|---------------|----------|--------------|-------------------|-------|
| | | | Open | Close |
| Collins Foods | CKF | 4-8-11 | 2.48 | 2.32 |
| Bega Cheese | BGA | 19-8-11 | 1.90 | 1.84 |
| Potash West | PWN | 13-5-11 | 0.21 | 0.21 |
| Royal Wolf | RWH | 31-5-11 | 1.98 | 2.06 |
| Blackgold | BGG | 22-2-11 | 0.26 | 0.25 |

1. _____ 2. _____
 3. _____ 4. _____
 5. _____

ACTIVITY FOUR

Go to the Upcoming Floats page on the ASX website and complete the activity below.

- i. Go to www.asx.com.au
- ii. Click on the ‘Prices & Research’ heading on the left-hand side of the ASX homepage
- iii. Select ‘Company Research’
- iv. Click on ‘Upcoming Floats’

List some companies that are scheduled to float on ASX.

1. _____
2. _____
3. _____
4. _____
5. _____

