About

Rights Issue

البورصة المصرية

The Egyptian Exchange

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Rights Issue

Guiding Information about Rights Issue:

A Rights issue is a financial tool, derived from the original security, which has a validity period. It is important to use the “rights” before its expiration date to avoid any decrease in the value of owned shares or even entire loss of the rights if the shareholder didn’t use it.

Hence, it is important that investors learn all about rights, the way to trade them, as well as all the factors affecting them to guarantee rational investment decision.

What is Rights Issue?

A rights issue is an invitation to existing shareholders to purchase additional new shares in the company.
When a company wants to raise more funds by issuing additional securities, it may give its current stockholders the opportunity, or option ahead of others, to buy the new securities in proportion to the number of shares each owns. At an exercise price which is usually lower than the current market price. In most cases they must be exercised within a relatively short period. Failure to exercise or sell rights may result in monetary loss to the holder.

Reference price of the rights issue when traded separately:

It’s the difference between the stock price adjusted by rights issue and the theoretical ex-rights price (The theoretical ex-rights price is based on the company’s market capitalization and the number of shares outstanding).

How to calculate theoretical ex-rights price?

[(Closing price on the end date of subscription to rights issue * number of listed shares before the rights issue) + (subscription price * number of new shares pursuant the rights issue)] / total number of shares after the rights issue

How to calculate reference price when traded separately?

(Closing price on the end date of subscription to rights issue – theoretical ex-rights price)

The subscription period:

It's the determined period for subscribing in the company's capital increase shares to be issued. This period is stated in the announcement to invite the existing shareholders to subscribe in the company's capital increase, published in the newspapers for a period of at least ten days and a maximum of 2 months effective the beginning of the subscription period.

Re-subscribing in the uncovered shares of the rights issue (when the subscription is not fully subscribed):

It's a determined period to re-subscribe in the unsubscribed shares of the company's capital increase. During this period there is no need to abide by the allocation ratio.

Who is the rights holder?

He's the shareholder till the ending date of the subscription to rights issue at the original subscription period and the buyer of the rights.

How to exercise the rights issue?

To determine what to do with the rights issue you have to know its type. There are two types of rights issue, renounceable rights and non-renounceable rights.

Non-renounceable rights:

An offer issued by a company to shareholders to purchase more shares of the company at a discount but unlike a renounceable right, a non-renounceable right is not transferable, and therefore cannot be bought or sold.

The shareholder can sell the original shares adjusted by rights issue during the subscription period to any investor who can then subscribe in the company's capital increase.

However, shareholders who do not take exercise the rights by buying the discounted stock will lose money as their existing holdings will suffer from the dilution.

Renounceable rights:

An offer issued by a company to shareholders to purchase more shares of the company at a discount.

Stockholders that have received renounceable rights have two choices of what to do with the rights. They can act on the rights and buy more shares or they can sell them on the market.

The Options available for shareholders when considering what to do in response to the rights issue:

- Take up the rights to purchase in full, thus retain the shareholders proportional ownership in the company.
- Sell all or part of your rights to other investors "renounceable rights": the shareholder has the option to sell all or part of his rights to other investors through entering sell orders via a brokerage firm. This allows the shareholder to receive a financial reimbursement for the partial or total sale of his right.
- Buy extra rights through the market, by entering buy orders via a brokerage firm during the listing of the rights. Owners of the rights are entitled to subscribe in the offering.

Opportunity to subscribe in additional shares:

Existing shareholders can subscribe for additional shares through purchasing traded rights from the market taking in consideration the restrictions under law number 95 for the year 1992 and the executive regulations regarding the increase of ownership for large block holders.

Listing Rights

Listing the renounceable rights takes place separately upon the issuing company's request in accordance with the official authority decision, after announcing this in the Subscription prospectus for capital increase. The renounceable rights are traded on a separate market.

Time for listing rights on the stock market:

The listed company must attain the approval of the Central Depository and Registry to list the rights. In addition the company must submit a request to the stock exchange management for listing the rights at least 5 working days prior to the subscription date according to the Egyptian Financial Supervisory Authority BOD decision no. 23 for the year 2012.

Time for trading renounceable rights in the stock market

The shareholders are allowed to trade the rights separate from the original shares during the listing period of the rights.

Trading hours for renounceable rights

Rights trading take place during the same time of the daily trading session from 10.30 am to 2.30 pm. This shall be during the period determined for trading the rights.

Allowed price limits for trading the renounceable rights

The price limits on the right is linked to the price limits of the original share, yet, the magnitude of change in the rights price may vary from that of the share as the price limit of the right is calculated using the following formula:

[(Price limit of the original share * the reference price when traded separately) + (The price limit of the original share x Subscription price)] / The reference price when traded separately

The opening price of the renounceable rights

The opening price of the rights is the difference between the last closing price of the share adjusted by the rights and the theoretical ex-rights price.

The rights of the buyer of the renounceable rights

All rights holders are allowed to subscribe in the new shares, whether they are old shareholders retaining their subscription rights or buyers of the rights during its trading period.

Possibility of reselling rights issue

The shareholder is allowed to resell the rights that he bought earlier during the period of listing the rights after the settlement of the purchase of the rights

Traded rights after the end of the listing period

EGX clarifies that if the new investor did not sell the rights he owns before the end of the trading period for those rights he will be enforced to use it. This is because it will neither remain listed nor traded thereafter and will be priceless following the subscription period.

Can the rights' holder sell or transfer the right after the end of its trading period?

No, he cannot. Post the trading period the owner only has the right to subscribe or not to subscribe in the capital increase.

In case of not subscribing, the investor may be subject for losses equal to the value of those rights as they'll be extinguished.

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