



How a Private Company Can Go Public and Trade on the Nigerian Stock Exchange (NSE): Requirements and Costs

Description

Changing the status of a private company to a public one and listing its shares on the **Nigerian Stock Exchange (NSE)** is a strategic move for many businesses seeking to raise capital, increase visibility, and improve corporate credibility.

However, the process is governed by legal frameworks, including the **Companies and Allied Matters Act (CAMA) 2020** and regulatory requirements from the **Securities and Exchange Commission (SEC)** and NSE.

This article will provide a step-by-step guide, outline the regulatory requirements (with references to CAMA 2020), and offer practical examples of companies that have undergone this transition.

It will also discuss cost implications and common misconceptions surrounding the process.

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1. Understanding the Differences Between Private and Public Companies

A **private company** is typically owned by a small group of individuals and restricts the transfer of its shares to the public.

A **public company**, on the other hand, offers its shares for sale on a stock exchange, allowing the public to become shareholders.

Key Differences:

- **Shareholders:** Public companies have an unlimited number of shareholders, while private companies are limited to a maximum of 50 shareholders under **Section 22(3), CAMA 2020**.
- **Disclosure:** Public companies are subject to more stringent disclosure and reporting requirements than private companies, in compliance with **Section 374, CAMA 2020**.

2. Benefits of Going Public in Nigeria

The decision to transition from a private company to a public company and list on the NSE offers numerous benefits:

- **Capital Raising:** A public company can raise large amounts of capital by issuing shares through an **Initial Public Offering (IPO)**.
- **Liquidity for Shareholders:** Public companies provide liquidity to their shareholders as their shares can be easily bought and sold on the stock exchange.

- **Enhanced Credibility:** Listing on the NSE boosts a company's profile and credibility, improving business relationships.

3. Step-by-Step Process of Changing a Private Company to a Public Company

A. Board and Shareholder Approval (Section 56, CAMA 2020)

The first step is obtaining approval from the company's board and shareholders. Under **Section 56 of CAMA 2020**, a special resolution must be passed by the shareholders to approve the re-registration of the company as a public company.

B. Compliance with the Corporate Affairs Commission (CAC) (Section 60, CAMA 2020)

Once the shareholders have approved the transition, the company must file an application with the **Corporate Affairs Commission (CAC)** for re-registration as a public company.

The application must include:

- The amended **Memorandum and Articles of Association (MoA)** reflecting the change.
- A special resolution from the shareholders.
- Any other documents required under **Section 60 of CAMA 2020**.

C. Restructuring the Company's Share Capital (Section 124, CAMA 2020)

According to **Section 124 of CAMA 2020**, a public company must have a minimum issued share capital of **₦2 million**.

The company may need to restructure its share capital to meet this requirement. This might involve issuing additional shares or restructuring existing shares to create more equity.

D. Appointment of Advisors and Auditors (Section 401, CAMA 2020)

To ensure a smooth transition, a company must appoint professionals to guide it through the legal, financial, and regulatory aspects of going public.

Under **Section 401 of CAMA 2020**, the company must appoint external auditors to prepare and verify its financial statements.

Professionals typically involved include:

- **Financial Advisors:** To assist with valuation and IPO structuring.
- **Legal Advisors:** To ensure compliance with CAMA, SEC, and NSE requirements.
- **Auditors:** To audit the company's financial statements.

E. Filing an Initial Public Offering (IPO)

The company must file an IPO with the **Securities and Exchange Commission (SEC)**, providing a prospectus that includes a detailed description of the company, its business model, and financial condition.

F. Applying for NSE Listing

After the IPO process is initiated, the company can apply for listing on the NSE. This involves submitting the company's financial statements, business model, and governance structure to the NSE for review.

The company must comply with NSE's listing rules, including the minimum **public float** requirement, which mandates that at least **20% of the company's shares** be held by the public.

4. Legal and Regulatory Requirements (CAMA 2020 and SEC Guidelines)

A. Compliance with CAMA 2020

CAMA 2020 provides the legal framework for company registration, share restructuring, and corporate governance. Key sections include:

- **Section 56:** Special resolution for converting a private company to a public company.
- **Section 124:** Minimum share capital requirements.
- **Section 374:** Mandatory disclosure and reporting for public companies.
- **Section 401:** Appointment of external auditors for financial verification.

B. Compliance with SEC and NSE Regulations

The company must also comply with SEC regulations, including filing a prospectus and meeting disclosure requirements.

The NSE has specific listing rules regarding corporate governance, financial performance, and public float.

5. Practical Example: MTN Nigeria's Transition to a Public Company

MTN Nigeria provides a practical example of how a large private company can go public in Nigeria. In **May 2019**, MTN Nigeria listed its shares on the NSE by way of **introduction** (a method of going public without raising capital through an IPO).

Key steps included:

- **Share Restructuring:** MTN Nigeria restructured its shares to comply with NSE listing rules.
- **Compliance with SEC:** The company filed its prospectus and adhered to the SEC's stringent disclosure requirements.
- **Corporate Governance Overhaul:** MTN strengthened its governance structure by appointing independent directors and adopting international best practices.

MTN Nigeria's listing increased its visibility and allowed Nigerian investors to own shares in the company, boosting the company's credibility and market presence.

6. Cost Implications of Going Public in Nigeria

Going public involves significant costs, which can be categorised as follows:

A. CAC Filing Fees

Filing the necessary amendments with the CAC for re-registration as a public company incurs fees, which vary depending on the company's share capital.

B. Professional Fees

Companies typically hire financial advisors, legal consultants, and auditors to guide them through the IPO process. Professional fees can range from typically 1.5-3.5% of funds

raised, depending on the complexity of the process.

C. Regulatory Fees

Companies must pay filing fees to the SEC and NSE, which can vary based on the size of the IPO and the company's financials.

D. Marketing and Promotional Costs

Public companies must market their IPO to attract investors, which can cost anywhere from **₦10 million to ₦50 million** depending on the scale of the campaign.

Fees Breakdown

Share Capital Increase	Cost (Naira)	Stamp Duty	SEC Fees	NSE Listing Fees	Professional Fees (Estimated)
Up to N500 million	₦5,000 per million	₦7,500 or 0.75% of increase	Approx. ₦100,000	₦450,000 (Growth Board)	1.5-3.5% of funds raised
Above N500 million	₦7,500 per million	₦7,500 or 0.75% of increase	Approx. ₦200,000	Based on market capitalisation	1.5-3.5% of funds raised

Explanation of Fees:

1. Cost for Share Capital Increase:

- For increases up to N500 million, the cost is N5,000 for each additional million. Above this threshold, the cost rises to N7,500 for each additional million.

2. Stamp Duty:

- A flat rate of N7,500 or 0.75% of the share capital increase, whichever is higher.

3. SEC Fees:

- These fees vary based on the size of the offering. Typically, they start around N100,000 for smaller offerings and can go up to N200,000 or more for larger offerings.

4. NSE Listing Fees:

- The NSE charges a flat fee of N450,000 for new listings on the Growth Board, while fees for listings on other boards are based on market capitalisation.

5. Professional Fees:

- These fees for financial advisory and legal services typically range from 1.5-3.5% of the funds raised during the IPO, depending on the complexity and scale of the offering.

Notes:

- SEC Fees vary based on offering size.
- NSE Listing Fees for companies above N500 million are based on market capitalization.
- Professional Fees are competitive and typically range from 1.5-3.5% of funds raised.

Example Calculations:

- Share capital increase of ₦200 million: ₦1,000,000 ($₦5,000 \times 200$) + ₦1,500,000 (stamp duty at 0.75%) + ₦100,000 (SEC fees) + ₦450,000 (NSE listing fees) = ₦3,050,000
- Share capital increase of ₦1 billion: ₦7,500,000 ($₦7,500 \times 1,000$) + ₦7,500,000 (stamp duty at 0.75%) + ₦200,000 (SEC fees) + (market capitalization-based NSE listing fees) = ₦15,200,000 + NSE listing fees

7. Common Misconceptions

- **Misconception 1: Going Public Solves All Financial Problems** While going public can raise significant capital, it also introduces new responsibilities, including increased scrutiny and the need for consistent financial performance.
- **Misconception 2: Any Company Can Go Public** Only companies that meet the NSE's minimum requirements for share capital and public float can go public.
- **Misconception 3: The Process Is Quick and Easy** Going public is a lengthy and complex process that can take anywhere from **6 months to 2 years**, depending on the company's readiness.

8. Frequently Asked Questions (FAQs)

Q1: What is the minimum share capital required for listing on the NSE?

The minimum share capital required to list on the NSE is **₦3 billion** for the Main Board and **₦500 million** for the Growth Board.

Q2: How long does it take to go public in Nigeria?

The process can take anywhere from **6 months to 2 years**, depending on the company's size and complexity.

Q3: Can foreign companies list on the NSE?

Yes, foreign companies can list on the NSE provided they meet Nigerian regulatory standards and comply with SEC and NSE rules.

Q4: Are there ongoing costs after going public?

Yes, public companies must comply with ongoing disclosure and governance requirements, which involve regular filings with the SEC and NSE, as well as costs related to maintaining investor relations.

9. Conclusion

Going public in Nigeria is a strategic move for companies looking to raise capital, expand their market presence, and enhance their credibility.

However, the process is complex, requiring compliance with CAMA 2020, SEC, and NSE regulations. By following the steps outlined above and learning from practical examples like MTN Nigeria, companies can successfully navigate this transition and unlock the full potential of becoming publicly listed.

Category

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