

## THE ANALYSIS OF PARTICIPATION OF JOINT STOCK COMPANIES IN THE INTERNATIONAL CORPORATE SECURITIES MARKET

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### Abstract

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**Keywords:** corporate issuer, international bond, Eurobond, credit rating, investment projects, group of underwriters

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*In this scientific article the activity of national corporate issuers in the international bond market is studied. International bonds placed by state-owned enterprises and commercial banks were analyzed. Problem situations in international bond placement practices of corporate issuers have been identified. Conclusions, proposals and recommendations on the effective organization of activities of issuers in the international corporate securities market have been formulated.*

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### INTRODUCTION

The development of the financial market is integral to the economic development. Economic development accelerates the development of the social sphere. Continuity ultimately ensures the rise of human dignity. The peculiarity of this is that the activity of institutional and investors in the financial market also serves the income of the population.

According to modern studies, the prospective development of the economy is directly related to the development of the financial market. According to R.King and R.Levins, "there is a stable relationship between the level of development of the financial market and the long-term rate of economic development" [1]. A. Demirgyuch-Kunt and R. Levain strongly support the same opinion and state that "on the basis of a highly developed financial system, the economy develops faster in the long-term horizon" [2].

Based on the above, the development of the securities market, which includes the most basic instruments of the financial market, is important in financing the economy. In this case, the development of the corporate securities market serves the complex socio-economic development through private business.

As a result of the rapid development of the financial market by the 20th century, the type and classification of financial instruments also expanded. The high level of demand for financial resources served the intensive development of international financial markets as well as national financial markets. As a result, the market of global instruments of the financial market also began to function.

Eurobonds are one of the main instruments of the international financial market. Eurobonds, as a special type of international bonds, are issued in a foreign currency outside the country of issue. Also, unlike Eurobonds, international bonds can be placed on the international market in national currency.

In recent years, the activity of national issuers in the international financial market has become noticeable. Both sovereign and corporate issuers are attracting capital by placing international bonds, including Eurobonds. Although the practice of attracting capital through the placement of Eurobonds is actively used, there are certain aspects that need to be clarified. In particular, the placement interest rate of Eurobonds remains relatively high. To a certain extent, this is caused by the uncertainty of the projects implemented at the expense of the funds to be attracted. On the other hand, it is also true that it is difficult to place Eurobonds at a low interest rate when the issuers have a relatively low credit rating. Based on the mentioned aspects, conducting research in this regard is important for the efficient organization of next issues and successful placement of international bonds.

### **LITERATURE REVIEW**

In industry studies, the financial market is divided into banking and non-banking financial markets. In this, "providing the economy with long-term investments is noted as the main function of the non-bank financial market, and the active role of the banking sector is questioned" [3]. However, we must note that the organization of activities of credit institutions in the financial market, that is, banks and securities market, on the basis of mutual competition, is extremely important for economic development.

Economists have explained the essence of securities based on different approaches. In particular, I.L. Butikov "Securities are a document (letterhead) or in the form of records in specialized organizations (depositories) confirmed by a special method, attracting, redistributing and are property and related non-property rights in the field of repayment" [4]. It should be noted that today there are no blank securities and securities are traded only electronically. In terms of ownership, securities have value, and this value is reflected in practice as par value and market value.

American economists Frederic S. Mishkin and Stanley G. Eakins. "A security (also called a financial instrument) is a claim on the issuer's future income or assets (any financial claim or part of property that has ownership rights)" [5] defines it. In fact, an investor who invests in a security can share in, or be entitled to, the issuer's future earnings. On the other hand, it should be noted that due to the securities, the issuer's obligation to the investor is based on the nominal value and interest income of the securities. In general, the claim on the issuer's future income or assets depends on the type of security (equity, debt, derivative).

In the researches of I.Ya.Lukasevich on the efficient organization of financial provision in the management of corporate finance, "Eurobonds (eurobonds) are bonds sold in hard currency outside the country. The addition of the word "euro" to the word "bond" is explained by the fact that US companies issued special bonds for sale on European stock exchanges" [1]. From this we can see that the first Eurobonds were issued by corporate entities. Eurobonds have been issued and placed mainly in US dollars and euros in recent years.

According to E.D. Alimardonov, M.B. Sul-tonboeva, S.A. Abduvaliev's research work, "the nominal value is in the national currency of the country where the bond is placed, that is, for the issuer of the bond, bonds in foreign currency are Eurobonds" [2]. In this case, it is noted that Eurobonds are placed in foreign currency.

By S. Elmiraev, M. Rakhmedova, H. Kholikov, Uzbekistan's practice of distributing the proceeds from the placement of sovereign Eurobonds brings controversial cases in this regard. In particular, it is emphasized that "if the project financed by Eurobonds is evaluated accurately and prospectively, the interest rate on Eurobonds should be low, therefore, the state and corporate issuers should pay special attention to this aspect" [3].

N.Tursunova, who conducted research on the issues of financial security in corporate structures, commented on the procedures for issuing and placing Eurobonds in the attraction of foreign capital, including specific advantages and disadvantages, global organizers of entering the Eurobond market and their conditions, "Issuing Eurobonds requires certain preparatory work and requires expenses. But on the other hand, at relatively low interest rates, it allows to attract a large amount of financial resources in the long term," he says [4].

M.N. Rakhmedova researched the issues of attracting foreign investment through the issuance and placement of both corporate and sovereign Eurobonds, revealed such things as the methods of placement of Eurobonds, the relationship between credit rating and coupon rates of Eurobonds, as well as Eurobonds issued by national corporate issuers and analyzed international bonds. Also, according to the researcher's note, "the funds received from the Eurobond issue should be directed to the most promising and innovative projects of the republic in order to create further opportunities for participation in the international stock market " [5].

Although research is being carried out in our republic, there are important aspects that should be paid attention to in the practices of corporate issuers entering the international bond market.

#### RESEARCH METHODOLOGY

This article presents the results of research by using methods such as scientific abstraction, statistical analysis, comparative comparison, induction and deduction.

#### ANALYSIS AND RESULTS

Today, in the global financial market, "international bonds are generally divided into four categories: domestic bonds traded on foreign markets; foreign bonds issued by a foreign company and placed on the local market; Eurobonds not denominated in the national currency of the country of issue; global bonds traded on several markets at the same time" [6]. From this we can see that international bonds also already have a wide range of classifications. It should be noted that this classification applies directly from the point of view of issuing and placing transactions.

Joint-stock companies and limited liability companies in our country can issue corporate bonds. **We should note that international bonds have been issued by the state and joint-stock companies in recent years. We can see that corporate international bonds, especially corporate Eurobonds, are issued only by state enterprises and banks (Table 1).**

Table 1  
Corporate international bonds placed on financial markets by state enterprises and banks [7]

No	Issuer	Amount	Term	Coupon rate	Check-in date
1.	Uzsanoatkurilishbank ATB	300 million US dollars	5 years	5.75	02.12.2019
2.	Uzmilliybank JSC	300 million US dollars	5 years	4.85	14.10.2020
3.	Ipotekabank ATIB	300 million US dollars	5 years	5.5	19.11.2020
4.	Ipotekabank ATIB	785 billion soums (75 million US dollars)	3 years	16	16.04.2021
5.	UzAvtoMotors JSC	300 million US dollars	5 years	4.85	05/04/2021
6.	Uzbekneftgaz JSC	700 million US dollars	7 years	4.75	16.11.2021

It is clear from the data of the given table that 5-year Eurobonds were placed by Uz sanoat kurilish bank ATB, Uz milliy bank JSC and Ipotekabank ATIB from commercial banks. Among them, we should note that the corporate Eurobonds of Uz milliy bank JSC are placed at the lowest rate, 5.5 percent. But this coupon rate was also relatively high for the market at that time. It is also worthy of recognition that on April 16, 2021, Ipotekabank ATIB placed 785 billion soums (equivalent to 75 million US dollars) of international bonds at an annual coupon rate of 16 percent. Unlike Eurobonds, raising capital by placing international bonds in soum allows issuers to avoid currency risk.

Uz AvtoMotors joint-stock company from the enterprises of the real sector placed 300 million dollars worth of Eurobonds on May 4, 2021, the circulation period was 5 years, and the coupon rate was 4.85 percent. On November 16, 2021, Uzbekneftgaz joint-stock company also successfully placed corporate Eurobonds in the amount of 700 million US dollars for a period of 7 years with a coupon rate of 4.75. The success of Uzbekneftgaz JSC compared to Uz AvtoMotors JSC lies in the relatively low coupon rate and long-term placement of its corporate Eurobonds.

If we pay attention to the term of Eurobonds placed by national corporate issuers, issuers other than Uzbekneftgaz JSC are placed for a period of 5 years. This term is considered the most widely used term in international practice. It should be noted here that there are long-term capital raising practices by placing Eurobonds with a term of up to 30 years. Therefore, national issuers should also start placing Eurobonds for a period of 10 years and more, and for this, long-term perspective projects should be started. In this regard, we believe that giant companies such as Navoi Mining and Metallurgical Combine and Almalyk Mining and Metallurgical Combine should start initial operations. Because the potential of these companies is several tens of times higher than other corporate issuers.

On April 16, 2021, Ipotekabank ATIB placed international bonds worth 785 billion soums in national currency soums for a period of 3 years. It should be noted here that due to expectations related to the inflation of the soum, the period is relatively short.

It is worth noting that the projects issued by corporate issuers and implemented at the expense of the funds received as a result of the placement of international bonds remain uncertain. "Eurobonds are a source of financing for large and long-term investments. Eurobond serves to attract medium and long-term funds (up to 30 years) in a large volume and in foreign currency. For example, for sovereign issuers such as Uzbekistan, the size of each Eurobond can be 500 million or more in US dollars. These funds can be directed to necessary projects in any field in Uzbekistan" [ 8]. In most cases, Eurobonds are placed by banks in order to support business activities and finance investment projects. Uzbekneftgaz and Uzavtomotors joint-stock companies do not have any specific information about which project is being financed by Eurobonds, and how effective the project is. Because a decision is made on the issuance and placement of Eurobonds based on the efficiency of the project. In this case, decision-making on the placement of Eurobonds in conditions of uncertainty or relatively low efficiency of the project works only and only to the detriment. It should be noted here that placement of Eurobonds is a very expensive practice when the national financial market is at a low level. It is the development of the national financial market that is undoubtedly reflected in the ratings of corporate issuers' influence in the market and the trust of investors. A high credit rating is a kind of guarantee for the confidence of international underwriters and investors. As a result, a decrease in the capital price for placing Eurobonds is achieved (Table 2).

**Table 2**

**Credit rating analysis of national corporate issuers when they issue international bonds<sup>1</sup>**

N o	Issuer	Rating agency	Credit rating
1.	Uzsanoatkurilishbank ATB	Fitch Ratings	BB-
2.	Uzmilliybank JSC	Fitch Ratings	BB-
3.	Ipotekabank ATIB	Fitch Ratings	BB-
4.	Ipotekabank ATIB	Fitch Ratings	BB-
5.	UzAvtoMotors JSC	S&P Global Ratings	B+/B
6.	Uzbekneftgaz JSC	Fitch Ratings, S&P Global Ratings	BB-

An analysis of the credit rating of national corporate issuers when they issue international bonds shows that the rating value is almost the same. This aspect, on the other hand, corporate ratings were not higher than sovereign credit ratings. In this regard, the national stock market must be at a high level for corporate ratings to be high.

The participation of Deutsche Bank, ABN Amro Bank, JPMorgan, UBS Group, Dresdner Kleinwort Wasserstein (DrKW), Citigroup as underwriters in the guaranteed placement of Eurobonds in the international financial market also acts as a specific signal for the market.

The group of underwriters for Eurobonds placed by national corporate issuers was as follows ( Table 3).

**Table 3**

**Group of underwriters for placement of international bonds of national corporate issuers<sup>2</sup>**

N o	Issuer	Type of bond	Group of underwriters
1.	Uzsanoatkurilishbank ATB	Eurobond	JP Morgan, Citigroup, Commerzbank, Raiffeisen Bank
2.	Uzmilliybank JSC	Eurobond	Citibank, Natixis, SMBC Nikko, Gazprombank
3.	Ipotekabank ATIB	Eurobond	JP Morgan, Raiffeisen Bank International AG, MUFG, Societe Generale
4.	Ipotekabank ATIB	International bond in soums	JP Morgan Chase
5.	UzAvtoMotors JSC	Eurobond	Citigroup, MUFG, Natixis, Raiffeisen Bank International
6.	Uzbekneftgaz JSC	Eurobond	Bank GPB International, Citigroup Global Markets, JP Morgan Securities and Mitsubishi UFG Securities EMEA

It should be noted that national corporate issuers were most involved in the group of

<sup>1</sup>Compiled based on information from issuers' sites.

<sup>2</sup>Compiled based on information from issuers' sites.

underwriters JP Morgan and Citigroup during their practice in the international financial market. Although the selection of such brand underwriters is relatively expensive, as we noted above, it serves as a kind of advertisement for global investors. "The debut issue of Eurobonds was carried out by Uzmillybank together with internationally recognized underwriting banks such as Citibank (USA), Natixis (France), SMBC Nikko (Japan) and Gazprombank (Russia)" [9]. From this we can see that Uzmillybank JSC formed a group of underwriters of four state financial institutions when placing Eurobonds. This aspect in itself serves to increase underwriting costs.

In general, we believe that the ability of corporate issuers to place their international bonds at low interest rates with high investment attractiveness, focusing on the above, will serve as a basis for their future global public placement of shares.

### **CONCLUSIONS**

Based on the analysis of the activity of national corporate issuers in the international bond market, the following conclusions, suggestions and recommendations were formed.

- In order for corporate issuers to have a high credit rating, the national stock market must first be developed. In a developed stock market, corporate issuers must increase their reputation and gain the confidence of investors. This aspect serves as a basis for corporate issuers to succeed in the international market.
- Priority should be given to long-term Eurobonds in attracting capital through placement of international bonds. For this, it is important to be able to present long-term projects.
- Investors pay priority attention to the prospects of projects financed by Eurobonds. This aspect also has the effect of reducing the cost of capital. Therefore, it is necessary to give priority to the openness of information about promising projects and their effectiveness.
- In order to prevent foreign exchange risk when attracting foreign capital by corporate issuers, it is advisable to pay attention to the placement of international bonds in the national currency. But for this, it is necessary to drastically reduce the level of inflation at the macroeconomic level.
- The value of capital attracted by the placement of international bonds of corporate issuers with state participation should be disclosed. This aspect serves as a barometer for other private corporate issuers.

The following conclusions were formed on the basis of research on the theoretical aspects of the circulation of corporate securities:

First, the provision of mutual competition of banks and securities market in the financial market serves to accelerate economic development. Because both sides strive for innovative development.

Second, government securities are issued primarily to cover the state budget deficit, and they are also issued in a long-term manner to finance infrastructure projects. Corporate securities are issued for financing and implementation of long-term projects.

Thirdly, the corporate securities market is the most important part of the financial market due to the fact that the primary link of the economy is microeconomics, and the basis of the financial system is corporate finance. Macroeconomic development accelerates only when the corporate stock market is based on continuous development.

Fourth, the corporate stock market must provide investors and the public with the opportunity to invest in a wide range of projects. In this case, the business environment under normal conditions, the prospects of projects serve to reduce the capital price of corporate securities.

Fifth, the diversification of investments in stocks and corporate bonds based on issuers, sectors and industries makes it easier for investors to manage risks. On the other hand, the use of all types of shares and bonds by corporate issuers serves diversification in capital attraction.

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