Ordinary Shares
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What is a share?

- If you own a share, you **own a portion of a company**. In the same way you can see your ownership of a company as a slice of pie, cut out of a bigger pie.
- Someone who owns one or more shares is called a **shareholder**.
- Shareholders may receive cash flows (**dividends**) if a company’s board of directors declare that the company has performed well and has enough profit to distribute to its shareholders.
- A share in the company gives you the **right to vote** on decisions affecting the company.
- You can also call a share, ‘**equity**’ or ‘**stock**’.
What is an ordinary share?

• An ordinary share is the **most common class of share** representing the shareholder’s **proportional interest/ownership** in a company.

• These shares **do not have preferential rights**, as is the case with preference shares.
What are dividends?

- A dividend is a payment of **company's earnings**, decided by the company's board of directors, to a class of its shareholders.
- The dividend is usually quoted in **Rand amounts** in terms each share i.e. Dividends Per Share (DPS) e.g. R0.3 dividend per share.
- It can also be quoted in terms of a **percent** of the current market share price, referred to as the Dividend Yield (DY).
- Dividends may be in the form of **cash** or **shares**.
- The company is required to make money for its shareholders, therefore a dividend is paid to its shareholders.
- A company that pays regular dividends can be very attractive to investors.

Source: Investopedia
What are dividends?

- A company with a profit at the end of its financial year, can make one or a combination of the following choices to distribute these funds:
  - Reinvest in the business to fund future growth and expansion plans
  - Buy its own shares through share repurchases and buyback agreements
  - Make a dividend payout which puts cash back in the hands of its shareholders
- Dividends can be paid out on a quarterly, semi annual or annual basis, depending on the company’s policy. These dividends to ordinary shareholders are however never guaranteed.
What is the share price?

- The share price is the price at which a particular share can be bought or sold. The share price is determined by the **supply** and **demand** for a particular company’s shares.

- **Factors affecting the share price**
  - When you have more buyers than sellers for a particular company’s shares, share prices **usually rise** because these shares are in demand.
  - When you have more sellers than buyers for a particular company’s shares, share prices **usually fall** because there are more of these shares available.
  - If a company is very profitable, a share in that company will become **more valuable** because more people think that it is a good investment.
  - Factors such as **economic** and **political events** also influence share prices.
The benefits of investing in ordinary shares

- It gives the shareholder the **right to vote** at the company's annual general meeting (AGM) therefore being involved in the **decision making** of the business.

- Ordinary shareholders may receive dividends if any are available and after dividends on preferred shares are paid to the **preference shareholders**.

- Besides **cash flow**, shareholders can also obtain **capital growth** i.e. selling the share at a price higher than what it was purchased at.
Some things to consider when investing in ordinary shares

• Investing on the stock market is riskier than some other investments. The reason for this is that share prices rise and fall all the time as economic and market forces change.

• However, the higher risk involved also means that you have an opportunity to make a greater profit. Usually, higher risk means a higher return (profit).

• It is important to realize that share trading normally does not make you rich overnight, but that it should be treated as a long term investment.

• Should the company cease to exist, the ordinary shareholders might receive a dividend after the company’s debt had been paid and the preference shareholders’ dividend had been paid.

• An ordinary share dividend is never guaranteed.
How do I invest in ordinary shares?

- To buy or sell ordinary shares on the Johannesburg Stock Exchange (JSE) you need to open a brokerage account with a stockbroker.
- To find out what a brokerage account is and how to open one, click here.
Contact us

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