Preference Shares

JOHANNESBURG STOCK EXCHANGE
Equity Market

Contents

What is a preference share?

- Preference shares are instruments that have debt (fixed dividends) and equity (capital appreciation) characteristics;
- Preference shareholders have a higher claim on assets (repayment of capital if company is wound up) and earnings (dividends) than ordinary shareholders;
- Preference shareholders are paid fixed-rate dividends before dividends are paid to ordinary shareholders.

Benefits of investing in preference shares

- Repayment of capital, after payment of debt holders, if the company is wound up;
- Higher level of income for preference shareholders than debt holders because of a higher risk involved, as preference shareholders are not always guaranteed a dividend payout;
- Preference shareholders have a better guarantee for a dividend payout than ordinary shareholders because dividend payments are usually fixed;
- Preference shareholders are guaranteed a specified percentage dividends if the company makes a profit.

Types of preference shares

- **Cumulative**: dividend is accumulated if the company does not earn sufficient profit to pay the dividend i.e., if the dividend is not paid in one year it will be carried forward to successive years;
- **Non-cumulative**: if the company is unable to pay the dividend on preference shares because of insufficient profits, the dividend is not accumulated. Preference shares are cumulative unless expressly stated otherwise;
- **Participating**: participating preference shares, in addition to their fixed dividend, share in the profits of a company at a certain rate;
- **Convertible**: apart from earning a fixed dividend, convertible preference shares can be converted into ordinary shares on specified terms;
- **Redeemable**: redeemable preference shares can be redeemed at the option of the company either at a fixed rate on a specified date or over a certain period of time.

Who should invest in preference shares?

- Investors looking for a hybrid debt and equity investment exposure
- Investors looking for medium risk and return (risk is higher than debt instruments but lower than ordinary shares)

Comparison between preference shares and ordinary shares

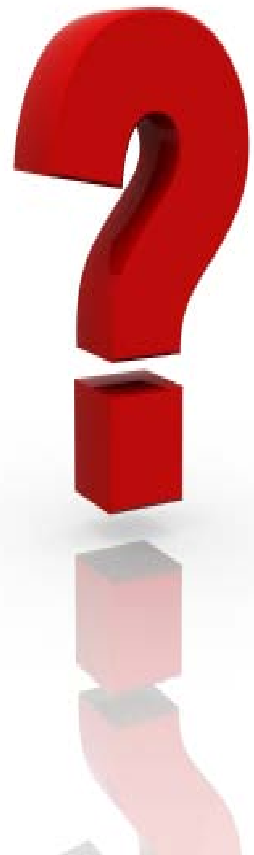
Difference between preference shares and ordinary shares

preference Shares	ordinary Shares
• Shareholders have a preferential right in terms of entitlement to receipt of dividends as well as repayment of capital in the event of the company being wound up.	• Shareholders are entitled to dividends as well as residual economic value should the company unwind (after bondholders and preference shareholders are paid).
• They offer shareholders a fixed dividend each year.	• Ordinary shareholder dividends can be higher than preference shareholder dividends as dividends for ordinary shares are not fixed.
• Shareholders have no voting rights and in the event of non-payment of dividends may have a cumulative dividend feature that requires all dividends to be paid before any payment of common share.	• Ordinary shareholders have the right to vote at Annual General Meetings and they have the ability to elect the Board of Directors of a company .

How to invest in preference shares?

- To buy or sell preference shares on the Johannesburg Stock Exchange (JSE) you need to open a brokerage account with an accredited stockbroker;
- You can find a list of the JSE accredited stockbrokers here.

Contact us



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