MarketIQ Malawi

Interpreting the CHL IPO Outcome: Capacity Constraint or Valuation Signal?

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Executive Summary

Continental Holdings Plc's (CHL) Initial Public Offer (IPO) on the Malawi Stock Exchange (MSE) was not fully subscribed by third-party investor demand. Of the 753.3 million shares offered, public and institutional investors subscribed for 630.0 million shares (83.6 percent). National Bank of Malawi (NBM), acting as the sole underwriter, acquired its contracted commitment of 71.8 million shares (K14.0 billion), increasing total subscription to 93.2 percent. The remaining 51.5 million shares, worth approximately K10.0 billion, were not subscribed for and therefore remained with the Selling Shareholder, TransAfrica Holdings Limited (TAH).

A natural interpretation of this outcome is that investors rejected the Offer on valuation grounds. This note argues that the available evidence does not support such a conclusion. While valuation undoubtedly influenced individual investment decisions, the subscription outcome appears to have been shaped materially by institutional capacity constraints affecting the market's largest investors.

The prospectus disclosed indicative demand of approximately K130 billion from pension funds and life insurers, subject to obtaining the necessary internal approvals and regulatory clearances under the applicable investment limits. At the same time, the Reserve Bank of Malawi's (RBM) Financial Stability Report (December 2025) showed that the pension sector already held 76.9 percent of its assets in listed equities, well above the new 60 percent regulatory ceiling introduced under the Financial Services (Investment Management of Life Insurers and Pension Funds) Directive, 2025. Consequently, the largest natural buyers of listed equities were, in aggregate, expected to reduce, not expand, their equity exposure just as the first IPO in almost six years came to market.

The underwriting arrangements further reinforce this interpretation. The Offer was only partially underwritten, with NBM contractually committed to acquire up to K14.0 billion of shares. Once that commitment was fulfilled, no additional buyer of last resort existed for the remaining shares, which consequently reverted to TAH. The outcome therefore reflects the interaction of investor demand, regulatory constraints and the underwriting structure, rather than a simple market verdict on valuation.

The implications extend beyond CHL. TAH's intended sell-down was only partially completed, leaving it with a larger residual stake than originally planned, while the effective free float available for independent trading is smaller than the headline post-listing figure suggests. More broadly, the CHL IPO highlights a structural challenge for Malawi's capital market: until pension funds and life insurers rebuild capacity below the new regulatory investment limits, future equity offerings may continue to face institutional demand constraints that are not necessarily a reflection of underlying company fundamentals.

1. Did the Market Reject the CHL IPO?

The CHL IPO attracted substantial investor interest but fell short of full subscription. Of the 753.3 million shares offered, public and institutional investors subscribed for 630.0 million shares, representing 83.6 percent of the Offer. NBM, acting as the sole underwriter, acquired its contracted commitment of 71.8 million shares (K14.0 billion), increasing total subscriptions to 93.2 percent. The remaining 51.5 million shares, valued at approximately K10.0 billion, were not subscribed for and consequently remained with the Selling Shareholder, TAH.

Table 1: CHL IPO Subscription Outcome

Item	Shares	% of Offer	Value (K)
Total shares on offer	753,308,604	100.0%	146,895,177,780
Preferential allocation	76,452,257	10.1%	13,499,939,541
Allotted to public shareholders	553,587,448	73.5%	107,949,552,360
Public and institutional subscriptions	630,039,705	83.6%	121,449,491,901
Acquired by underwriter (NBM)	71,794,871	9.5%	13,999,999,845
Unsubscribed shares	51,474,028	6.8%	10,037,435,460

Source: CHL Announcement of IPO results

At first glance, the outcome appears straightforward. A common interpretation is that the Offer was not fully subscribed because investors considered the Offer price insufficiently attractive. Such conclusions are common because subscription levels are often treated as a proxy for investor confidence in the offer price. However, subscription outcomes do not always provide a clean signal of valuation. Investor demand may be constrained by factors unrelated to a company's fundamentals, including regulatory investment limits, portfolio allocation constraints or the structure of the offer itself. The central question, therefore, is not simply whether the IPO was fully subscribed, but whether the subscription outcome can legitimately be interpreted as the market's verdict on CHL's valuation.

The remainder of this note argues that the evidence points to a more nuanced conclusion. While valuation undoubtedly influenced individual investment decisions, the available evidence suggests that institutional capacity constraints, particularly those affecting pension funds and life insurers, played a material role in shaping the final subscription outcome.

2. Was Institutional Demand Constrained?

The subscription outcome becomes more nuanced when viewed alongside information contained in the prospectus and the RBM’s 2025 Financial Stability Report. While the IPO ultimately attracted genuine third-party subscriptions of K121.4 billion, the prospectus had previously disclosed indicative demand of approximately K130 billion from pension funds and life insurers. Importantly, that interest was expressly stated to be subject to internal investment mandates and regulatory approvals under the applicable investment limits. This qualification is significant. It makes clear that a substantial share of anticipated institutional demand was never unconditional. Participation by the market's largest investors depended on compliance with the prevailing regulatory investment framework, meaning that subscription outcomes could be influenced by investment capacity as much as by valuation.

The 2025 Financial Stability Report provides important context. As at December 2025, the pension sector held 76.9 percent of its assets in listed equities, well above the 60 percent regulatory ceiling introduced under the Financial Services (Investment Management of Life Insurers and Pension Funds) Directive, 2025. Although institutions were granted a 36-month transition period to comply, the sector, in aggregate, was expected to reduce rather than increase its listed-equity exposure. The regulatory backdrop also distinguishes the CHL IPO from the MSE's two most recent public offerings. Airtel Malawi's 2020 IPO was oversubscribed by 34 percent, while FDH Bank's 2020 IPO was oversubscribed by 2.1 percent.

The comparison does not imply that the three IPOs were directly comparable in terms of valuation or issuer characteristics. Rather, it illustrates that the institutional environment in which the CHL IPO was launched differed materially from that of the preceding MSE listings.

This timing is noteworthy. The first IPO on the MSE in almost six years came to market while the largest domestic institutional investors were already above the new regulatory equity limit and were therefore expected to progressively rebalance their portfolios. While individual pension funds and life insurers may have had differing levels of capacity, the sector as a whole faced a regulatory incentive to reduce listed-equity concentration rather than expand it. This does not imply that the regulatory framework is inappropriate. Rather, it illustrates that prudential regulation and capital-market development may temporarily pull in different directions during periods of regulatory transition.

The underwriting structure reinforces this interpretation. The Offer was only partially underwritten, with NBM's commitment capped at K14.0 billion (71.8 million shares). Once that commitment was fulfilled, the remaining unsubscribed shares reverted to TAH, meaning the final allocation reflected not only investor demand but also the limited scope of the underwriting arrangement.

Taken together, the evidence suggests that institutional capacity constraints were an important influence on the subscription outcome. This does not imply that valuation was irrelevant; investors ultimately decide whether an offer represents attractive value. However, it does suggest that the final subscription level cannot be interpreted solely as the market's verdict on CHL's valuation. Rather, the outcome appears to reflect the combined effects of investor appetite, regulatory investment constraints and the underwriting structure.

3. Implications for Investors and the Market

The IPO outcome has several implications for investors and the broader market:

TAH's intended exit was only partially completed. The prospectus envisaged a sale of a 25 percent stake, which would have reduced TAH’s shareholding from 57.64 percent to 32.64 percent. Instead, TAH emerged from the Offer holding 34.35 percent of CHL, approximately 1.71 percentage points above the intended post-Offer position. The difference corresponds almost exactly to the 51.5 million shares that remained unsubscribed. As a result, TAH did not fully exit the stake it intended to sell and received no proceeds for the unsubscribed shares**.**

The effective free float is smaller than the headline figures suggest. Although the Offer increased CHL's public shareholding, part of that increase reflects NBM's underwriting commitment rather than independent investor demand. From a market-liquidity perspective, this distinction is important because NBM's holding arose from a contractual obligation rather than a long-term investment decision. Consequently, the proportion of shares initially available for genuine price discovery is likely to be closer to 20.9 percent than the headline post-listing figure suggests.

The final allocation also leaves a potential supply overhang. NBM's underwriting position of 71.8 million shares represents a holding that the bank has no obvious strategic reason to retain indefinitely, while TAH's larger-than-planned residual stake provides a second potential source of future supply. Although there is no indication that either shareholder intends to dispose of shares immediately, both positions are likely to influence investor expectations regarding the stock's medium-term trading dynamics.

The implications extend beyond CHL itself. The first IPO on the MSE in almost six years came to market at a time when the country's largest institutional investors were operating under new regulatory investment limits requiring a gradual reduction in listed-equity concentration. This does not imply that the regulatory framework is inappropriate. Rather, the episode illustrates that prudential regulation and capital-market development can temporarily pull in different directions during periods of regulatory transition. Until pension funds and life insurers rebuild meaningful capacity below the new regulatory ceiling, future IPOs and secondary offerings may continue to face institutional demand constraints that are not necessarily a reflection of issuer quality or valuation.

Taken together, these factors suggest that the conditions for a post-listing rally are less favourable than those observed in the MSE's two most recent IPOs. The combination of constrained institutional demand, a potential supply overhang and the absence of significant excess subscription may temper upward price pressure in the near to medium term. Beyond that initial period, the counter's performance is likely to depend increasingly on CHL's financial performance, dividend policy and the market's assessment of its intrinsic value rather than on the mechanics of the IPO itself.

4. Conclusion

The CHL IPO results should not be interpreted as a straightforward market verdict on the Offer's valuation. While valuation undoubtedly influenced investor decisions, the available evidence suggests that the subscription outcome was shaped by more than investor appetite alone. The prospectus disclosed that a substantial share of institutional interest was conditional on regulatory approval, while the RBM's 2025 Financial Stability Report showed that the pension sector was already operating above the new regulatory limit for listed-equity exposure. The Offer's partial underwriting structure further explains how these institutional constraints translated into the final allocation. Against that backdrop, the subscription outcome is more appropriately interpreted in the context of both valuation and institutional investment capacity More broadly, the CHL IPO illustrates how prudential regulation, while serving important financial stability objectives, can influence the timing and absorption capacity of the equity market during periods of regulatory transition. As Malawi seeks to deepen its capital market and encourage new listings, the investment capacity of domestic institutional investors will remain an important determinant of IPO outcomes. Until pension funds and life insurers rebuild meaningful headroom below the new regulatory investment limits, future equity offerings may continue to face demand constraints that are not necessarily a reflection of issuer quality or valuation. Investors should therefore be cautious about interpreting IPO subscription statistics as standalone indicators of valuation.

References:

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