

UPDATE ON Dhaka Stock Market

The Journal is running a series of updates on Dhaka Stock Market. In this issue of THE COST & MANAGEMENT, A K M Shahidul Kirmany ACMA(UK), CGMA, FCMA has given a reflection of relevant changes and updates on the Dhaka Stock Market. The analysis of the Dhaka Stock Market has been done considering the period from September 1, 2019 to October 31, 2019. Mr. Kirmany is presently working with the VIPB Asset Management Company Limited as Chief Operating Officer.



Macro-economy Update

- ◆ The average interest rate spread in the country's banking sector came down to 4% in July 2019 while a deposit rate rise triggered by liquidity crisis. Bangladesh Bank's instruction in January 2018 to cut down AD ratio to 83.5% pressed banks to go for deposit chasing. Meanwhile, the combination of policy pressure and cautious attitude by banks amid rising NPL took toll on private sector. Private sector credit growth remained quiet since the introduction of this instruction.
- ◆ BB restored AD ratio to previous level in September 2019 as most of the banks failed to comply with the instruction. The relaxation of regulation has given banks enough space to cut down the deposit rate. On the other hand, forced by fall in national saving certificate (NSC) sale due to tightening of sales process, government has started relying heavily on bank funds to meet budgetary expenditure. Hence, the pressure on lending rate would persist in the short run as government's borrowing from banking sector is expected to continue.
- ◆ The government borrowed nearly BDT 280.0bn from the country's banking system in more than 100 days of FY20 to meet the budget deficit. A falling trend in sales of national savings certificates along with a shortfall in revenue collection has led to higher bank borrowing by the government during the period under review. Meanwhile, the government's aggregate net bank borrowing stood at BDT 276.34bn, which was more than 58.0% of the total target, as of October 21 of FY20. Of the total, the government borrowed BDT 256.88bn from the scheduled banks using treasury bills and bonds, and the remainder BDT 19.46bn from the central bank. In 1QFY20, sales of four popular savings instruments was BDT 90.0bn, a 59.40% decline compared to that of the same period a year earlier. Revenue collection by the National Board of Revenue fell by BDT 93.17bn to BDT 296.20bn in 1QFY20 as against the target of BDT 389.37bn.
- ◆ Trade deficit of Bangladesh narrowed by 6.23% YoY to BDT 1,975mn in July-August of FY20. Export earnings dropped by 3.0% to USD 9,643mn in July-September of FY20 from USD 9,941mn in the same period of FY19; earnings from readymade garments which constitute 85% of Bangladesh's total export declined by 1.6% YoY to USD 8,058mn in 3Q'FY20. Consumption of readymade garments has been falling worldwide as US-China trade war, Brexit issue, contraction of the economies of Germany, Argentina and South Africa instilled recession fears in global consumers. Under such circumstances, government has decided to give 1.0% cash incentive to apparel export to traditional market (USA, Europe and Canada) effective on shipments from July 1 provided that they add at least 30% value and does not fall into four categories which are already enjoying cash incentives. Moreover, source tax on export proceeds for all sectors has been slashed down to 0.25% from existing 1.0%. These incentives will have positive impact on export in the short run.
- ◆ Import growth was negative 2.3% YoY in July-August of FY20. In first half of FY19, import growth was abnormally high mainly due to the capital flight from the country through import over-invoicing according to the economists. Despite the fall in import and export businesses, the private sector witnessed a 10.66% YoY credit growth in Sep'19, slightly down from 10.7% in the previous month. Private sector credit growth is yet far below the monetary target of 13.20% set for Dec'19, with total credit to the sector amounting to BDT 10.7tn

in Sep'19. Public sector credit growth saw a big jump to 44.4% in Sep'19 from 37.3% in the previous month. The growth rate also exceeded the monetary ceiling of 25.20% set for Dec'19 by the Bangladesh Bank.

- ◆ Current account balance was positive USD 313mn in July-August of FY20; during the same period last year, there was a deficit of USD 7mn. Remittance inflow increased 18.0% YoY in the first quarter of FY20. Apparently, 2% cash incentive offered by government in the budget has been encouraging expatriates to send money through legal channel.
- ◆ Capital Market is trading at a very cheap level right now. However, high interest rate and recent anti-corruption drive might take toll in the short run. Even though liquidity scenario has been improving, capital market would have to wait to get the benefit of it. On the other hand, interest rate cut in developed economies might attract some foreign fund.
- ◆ Bangladesh Bank modernized its automated clearinghouse to facilitate inter-bank electronic payments twice a day instead of one.
- ◆ Money transactions through mobile financial services grew by 13.69% or BDT 130.58bn YoY in IQFY20 as the MFS operators focused on making the service more convenient for clients. Transactions through MFS increased to BDT 1,084.23bn in IQFY20 in against BDT953.64bn in IQFY19. The number of active MFS subscribers grew by 9.34% or 2.94mn to 34.4mn.
- ◆ Feed makers urged the government to withdraw advance tax on the import of raw materials of feed and machinery of the poultry industry. The industry operators said imports of products related to livestock and fish farming are exempted from customs tariff, duties and taxes, hence the imports should not be subject to advance tax.
- ◆ The labour ministry has recently issued letters to 120 business groups in the country, asking them to share profits of their entities with the Bangladesh Labour Welfare Foundation fund as per law. Officials said the ministry asked the companies under the business groups to deposit 0.50% of their profits in the fund within one month of receiving the letter, otherwise legal action would be taken against the companies.

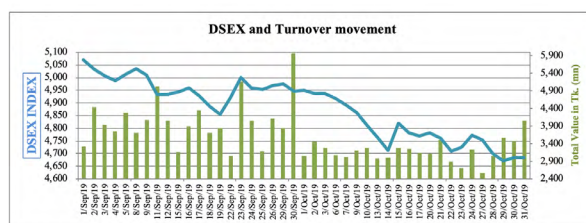
Stock Market Updates (September 1, 2019 to October 31, 2019)

- ◆ The benchmark index of Dhaka Stock Exchange (DSEX) was down by 7.65% during the period. The daily turnover was highest on September 30, 2019.

Changes in Indices (September 1, 2019 to October 31, 2019)

Index	Open	Close	Point Change	% Change
DSEX	5,070.69	4,682.90	(387.78)	-7.65%
DSES	1,178.37	1,075.48	(102.88)	-8.73%
DS30	1,791.43	1,627.75	(163.69)	-9.14%

DSE Performance (September 1, 2019 to October 31, 2019)



- ◆ **Top ten gainers and losers in terms of market price from September 1, 2019 to October 31, 2019**

Top ten gainer		Top ten loser	
TICKER	GAIN (%) (())(%)	TICKER	LOSS (%)
SONARBAINS	45.32%	AL-HAJTEX	-54.96%
EMERALDOIL	39.02%	MITHUNKNIT	-50.39%
STANCERAM	34.04%	KBPPWBIL	-49.57%
PROVATIINS	33.80%	ZAHINTEX	-49.30%
AGRANINS	29.03%	INTECH	-48.34%
CAPMBDBLMF	25.35%	RNSPIN	-43.40%
KPPL	25.20%	HAKKANIPUL	-43.07%
NTLTUBES	24.71%	USMANIAGL	-42.89%
EASTERNINS	24.54%	BDTHAI	-42.86%
CAPMIBBLMF	22.89%	TOSRIFA	-41.95%

- ◆ 27 non-listed insurance companies have been instructed to submit their planned roadmap to the stock market within November 15 this year. Among them, 18 are life insurers and 9 are non-life insurance companies. Of the life insurers, Sonali Life Insurance Company, and from the non-life sector, Express Insurance, Crystal General Insurance and Dosh General Insurance, have already filed for IPO. Bangladesh Co-operative Insurance, as a local co-operative non-life entity, and Metlife Insurance, as a branch of a foreign company, are excluded from the list of the 27 companies. State owned non-life reinsurer Shadharan Bima Corporation and life insurer Jiban Bima Corporation are also excluded, as these two are run under specific acts or ordinances.
- ◆ Bangladesh Securities and Exchange Commission (BSEC) has advised the country's premier bourse to form an expert panel to scrutinize the upcoming initial public offerings (IPO) prospectus properly. The securities regulator also assured that the commission will give approval to the IPO of a company if the Dhaka Stock Exchange (DSE) expert panel would be satisfied with the company's financial statements.
- ◆ The net profit of Grameenphone dropped for the second consecutive quarter in the July-September period in FY19 as the CEO of GP mentioned the halt on NOCs from the regulator has impacted GP's earnings. GP's total revenues stood at BDT 107.5bn in 9MCY19, a 9.5% YoY growth. The operator's subscriber base grew by 6.0% to 75.7mn with 53.7% of them were using internet services.
- ◆ The number of merchant banks has flourished in recent years despite criticisms from different quarters about their role in the capital market and weak activities for years. The Bangladesh Securities and Exchange Commission under the leadership of its chairman approved around 23 merchant banks in its eight years tenure and eight merchant banks were approved in last three years. Currently 62 institutions are acting as full-fledged merchant banks with functions of underwriting initial public offerings, managing new issues, right issue, corporate advisory, structured finance and portfolio management.
- ◆ Stock brokers are seeking a BDT 100.0bn fund from the government to inject new life into the moribund capital market. Stock brokers said they want the fund for a period of six years at a flat interest rate of 3.0%. After 2010-11 stock market crash, the government provided BDT 9.0 billion under the capital market refinancing scheme. The fund was handed over to the corporation in three equal installments to reduce the sufferings of small investors affected during the market debacle. Initially, merchant banks and brokerage firms disbursed the funds against the portfolios of affected investors at an interest of 9.0%. Later, the interest rate was reduced following the request from merchant banks and brokerage firms. The borrowers received funds at an interest of 5.0% and they disbursed the fund against investors' portfolios at an interest of 7.0%.
- ◆ The Appellate Division directed mobile operator Grameenphone to inform the court by October 31 how much money GP could pay as deposit to the Bangladesh Telecommunication Regulatory Commission out of its BDT 125.79bn dues to the BTRC in the form of audit claim. As the court wanted that GP should deposit 50.0% of the total dues during the pendency of the hearing, GP's lawyers prayed for one week time to consult with their client about how much money it could pay to the BTRC. The GP lawyers told the court that 73.0% of the dues were interest money.
- ◆ The Dhaka Stock Exchange will launch cross-border match-making platform V-Next, a one-stop pitching mechanism among qualified investors, intermediaries and start-ups to promote its small and medium enterprise board. Any public limited company is eligible to raise fund and get listed on the small capital platform. After listing on the platform, the company's paid-up-capital must stand at least BDT 50.0mn and below BDT 300.0mn. Earlier the DSE had set target to enlist 20 SMEs CY19 and 30 SMEs in CY20.

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Sources of the information:

- ◆ Website of Dhaka Stock Exchange
- ◆ Website of Ministry of Finance
- ◆ Website of Bangladesh Bank
- ◆ The Daily Financial Express
- ◆ The Daily Star
- ◆ The Daily New Age
- ◆ Research reports of Brokerages