FINANCIAL MARKET REVIEW

February, 2021

Endeavour Education Excellence

Contents

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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.

"Small traders, entrepreneurs and farmers who had no access to finance from banking channels will now be able to avail loans at 4% interest from a fresh BDT 1500 crore stimulus package"

Economy of Bangladesh

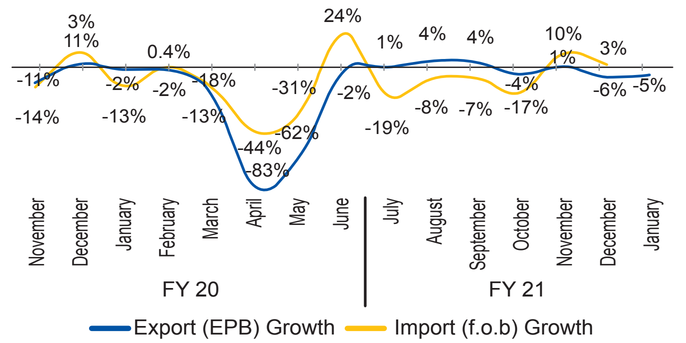
Main indicators at a glance

	Nominal GDP (as of Jan, '21) (USD in billion)	Real GDP Growth (as of Jan, '21) (yearly % Change)	Inflation Point to point (%) (as of Feb, '21)	Current Account Balance: (% of GDP)	Interest Rates (%) 10-years Treasury Bond	Currency Exchange Rates (per USD)
Bangladesh	330.2	5.24	5.02	-0.02	5.87	84.80
Emerging Economies						
India	2,935.6	-10.29	4.59	0.33	6.07	72.96
China	14,860.8	1.85	0.20	1.30	3.25	6.46
Developed Economies						
United States	20,807.3	-4.27	1.40	-2.12	1.14	1.00
Britain	2,638.3	-9.76	0.60	-2.05	0.37	0.74

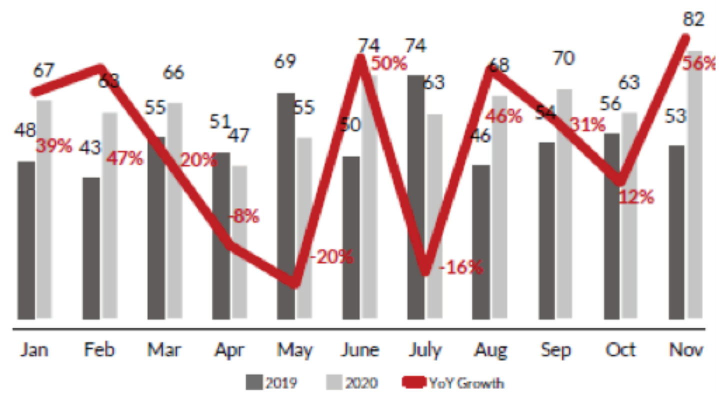
From the spectacles of the stakeholders

- The Bangladesh Securities and Exchange Commission will create a Capital Market Stabilization Fund worth more than BDT 21,000 crore with unclaimed dividends of listed companies through issuing a notification.
- Bangladesh Bank has relaxed its foreign exchange (forex) regulations further, allowing banks to remit admissible payment abroad on behalf of the companies concerned up to 1.0% of annual sales or USD 0.01 million whichever is higher.
- Net government borrowing against sales of national savings certificates reached 95.22% of the budgetary target in the first five months of the current fiscal year 2020-2021.
- Global trade may grow by 8.3% this year. Although the rise in oil prices will have some effect, non-fuel commodity prices will show a downward trend, which will have a positive impact on the economy of Bangladesh.
- The country's merchandise export earnings during the first half (H1) of current fiscal year (FY), 2020- 21, witnessed a marginal decline of 0.36% to USD 19.23 billion over that of the corresponding period of last fiscal.

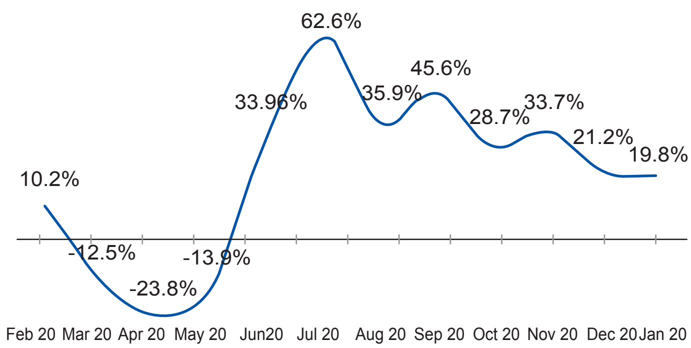
A visual tour of the key statistics



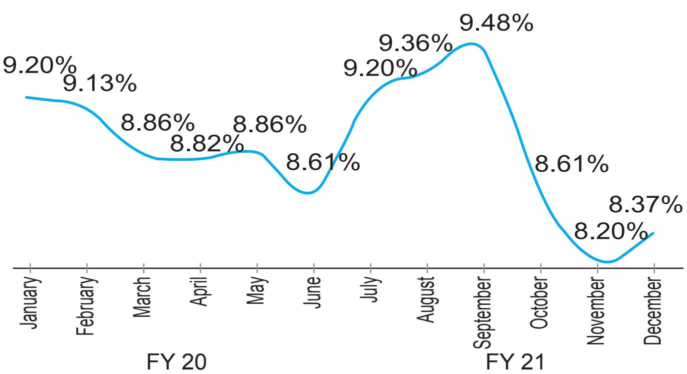
Export and Import Growth (Up to January, 2021)



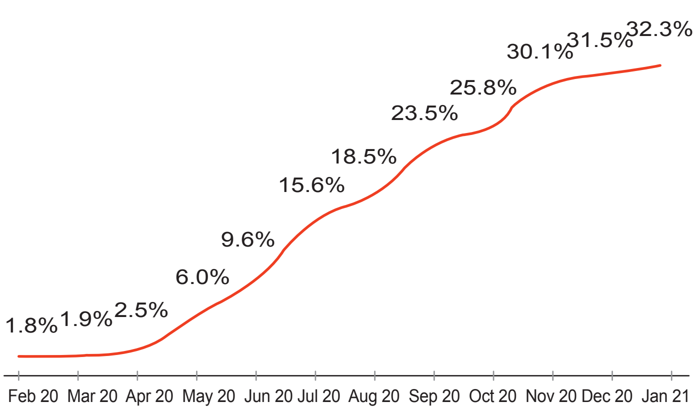
Total Amount of Internet Banking Transaction in billion BDT (Up to November, 2020)



Remittance Growth (Up to January, 2021)



Private Sector Credit Growth (Up to December, 2020)



Foreign Exchange Reserve 2020 (Up to January, 2021) (Year over year Growth)

Numbers to note

- Small traders, entrepreneurs and farmers who had no access to finance from banking channels will now be able to avail loans at 4% interest from a fresh BDT 1,500 crore stimulus package.
- Year-on-year deposit growth in the country's Islamic banks at the September-end quarter of 2020 was much higher than the growth rate in the country's overall banking sector at the end of the same quarter, reflecting a growing public interest in Shariah-based banking system.
- Businesses are still taking cautious path for expansion of their industrial units given the ongoing business slowdown. So, the increased credit growth in a true sense did not pivot towards any financial optimism at this moment.
- During the July- December period of the current fiscal year, handicraft exporters earned USD 16.58 million, up by 48.70% from the corresponding period of the last fiscal year, according to the data available from the Export Promotion Bureau (EPB).

Economy-wide challenges ahead

- Comprehensive economic partnership has to take into account the contexts and developments in the ASEAN integration process and also the Regional Comprehensive Partnership Agreement (RCEP).
- Given the extreme uncertainty in the global market for the export sectors, policies and strategies for economic recovery should have a high priority for the revival of domestic-market oriented economic activities.
- Stimulus packages from the government ought to be complemented and realigned with the Eighth Five Year Plan.
- Government can think of utilizing innovative labor-policy schemes e.g. employment guarantee scheme, for a certain period for vulnerable people.

> ... the DSE market indices demonstrated bearish trend along with a 2.92 % shrunk in the average market capital compared to the previous month of January. 101 issues advanced, 143 issues declined whereas the remaining issues (111) were unchanged

Capital Market

It is evident by analyzing the capital market data of February 2021 that the DSE market indices demonstrated bearish trend along with a 2.92% shrunk in the average market capital compared to the previous month of January. 101 issues advanced, 143 issues declined whereas the remaining issues (111) were unchanged. The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. By shedding light on the AD ratio of this month, it is apparent that the 19-trading day trend indicated downwards. As such, to an investor, it might signal bearish momentum. Again, the PE ratio is useful in assessing the relative attractiveness of a potential investment. A high PE could mean that a stock's price is high relative to earnings and possibly overvalued. Conversely, a low PE might indicate that the current stock price is low relative to earnings. It is lucid in the analysis that market PE ratio was 17.36 and only 4 sectors out of 19 were gainers whereas the remaining 15 sectors were losers. Furthermore, the prices of the majority issues decreased as there were majority investors in the selling side. Selling attitude of the investors dissuaded the entire market. BATBC was in the top position based on turnover; EGEN was the top gainer whereas EPGL was the top loser. Accumulatively, the average trade volume reduced by 22.3% along with 19.7% fall in average traded value.

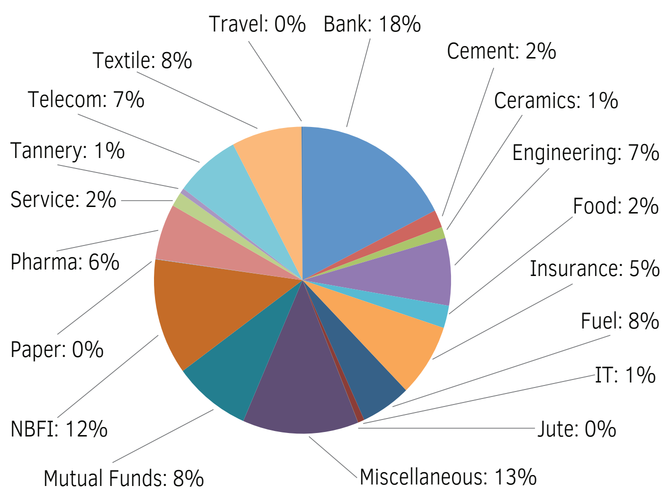
DSE Market Indices

	28-Feb-21	1-Feb-21	Change	% Change
DSEX	5,404.8	5,599.8	(195.0)	-3.5
DSES	1,222.8	1,254.1	(31.3)	-2.5
DS30	2,056.8	2,125.5	(68.7)	-3.2
CDSET	1,148.5	1,198.7	(50.3)	-4.2
Scripts Movement	Advance		Decline	Unchanged
(Monthly Average)	↑ 101		↓ 143	↔ 111

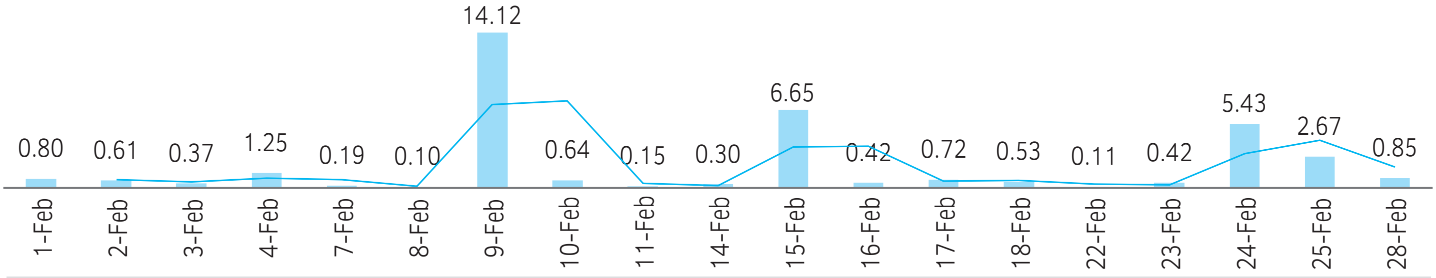
Market Aggregates

	28-Feb-21	1-Feb-21	Change	% Change
Avg. Mkt. Capital (Tk. MN)	46,87,310	48,27,923	(1,40,613)	-2.92
Avg. Traded Value (Tk. MN)	7,605	16,171	(8,566)	-53.0
Avg. Number of Trades	1,35,922	2,33,353	(97,431)	-41.8
Avg. Trade Volume	17,78,35,021	50,58,03,869	(32,79,68,848)	-64.8

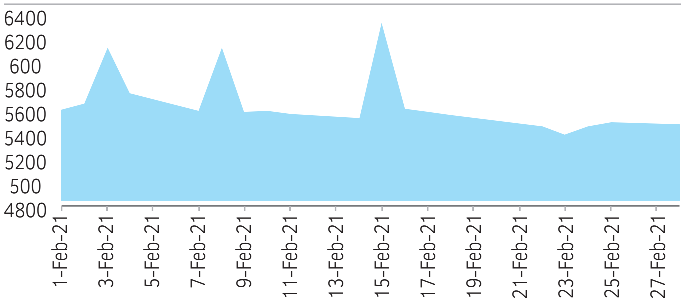
Sector Volume (%)



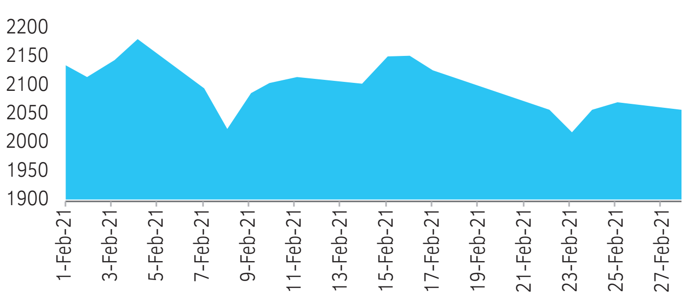
AD Ratio



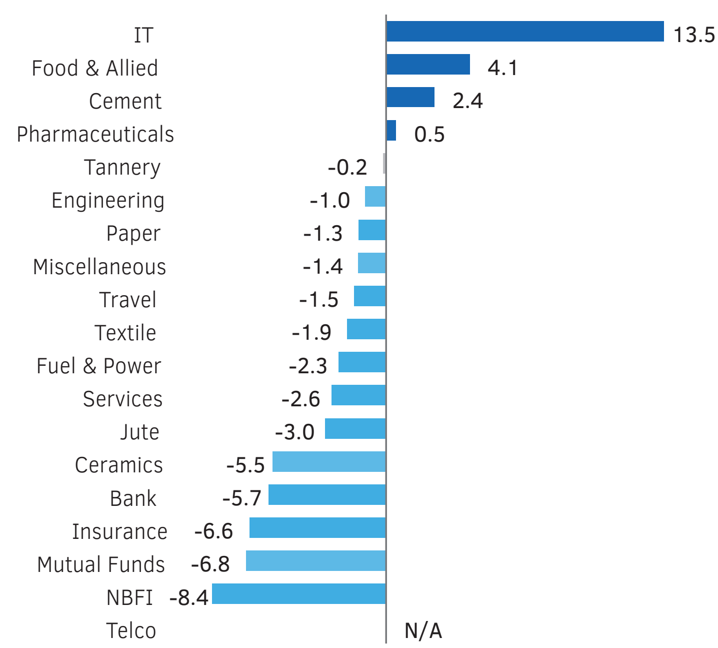
DSEX



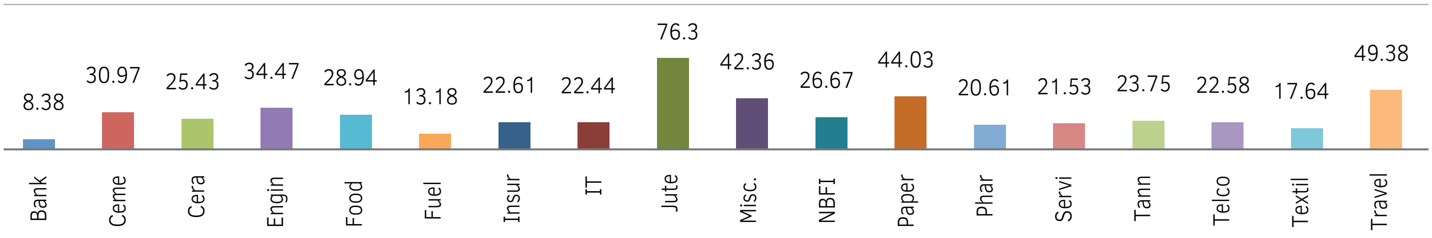
DS30



Sector Returns (%)



Sectoral PE Ratio



TOP 5

Turnover				Gainer			Loser		
Sl.	Stock	Turnover (MN)	Total (%)	Sl.	Stock	Return (%)	Sl.	Stock	Return (%)
1	BATBC	13,524.6	9.82	1	EGEN	171.0	1	EPGL	-24.4
2	LHBL	2,599.8	1.89	2	TAUFIKA	128.0	2	CAPMIBBLMF	-23.3
3	WALTONHIL	2,309.1	1.68	3	MIRAKHTER	43.7	3	NHFIL	-19.0
4	BEACONPHAR	1,875.2	1.36	4	ARAMITCEM	40.3	4	ILFSL	-18.9
5	GBBPOWER	1,380.3	1.00	5	BEACONPHAR	19.3	5	CRYSTALINS	-17.9

> The Bangladesh money market in February took an expansionary pattern as the cost of funds seems to decline. However, increased government financing cause greater supply of treasuries

Money Market

Deposits held in banks for December 2020 showed a positive trend compared to November 2020 and December 2019. It is apparent that bills as import and inlands bills for December 2020 showed a negative trend equated to November 2020 and December 2019. Again, Domestic credit recorded an increase in November, 2020. Focusing on the sectoral distribution of total liquid assets as of end December, 2020 in the form of cash in bills & balances with unencumbered approved securities was peak and it was 67.69%. Furthermore, a decline in call money rates makes it cheaper for banks to raise funds from the inter-bank market, which is complemented by a decline in the Cost of Funds for non-bank financial institutions.

Items	Taka in Millions			Percentage Change	
	December 2020	November 2020	December 2019	Dec'20 over Nov'20	Dec'20 over Dec'19
Deposits held in DMBs					
Demand Deposits*	1481722	1401190	1184829	5.75	25.06
Time D eposits*	11423002	11278825	10184967	1.28	12.16
Total	12904724	12680015	11369796	1.77	13.5
Bank Credit					
Advances	11228433	11015830	10296783	1.93	9.05
Bills (Import & Inlands	220640	228051	290290	-3.25	-23.99
Investments	3036334	2945985	2297234	3.07	32.17
Total	14485407	14189866	12884307	2.08	12.43

Current Bank Deposit and Credit

Source: Bangladesh Bank

Note:

1.* Excludes Inter bank Deposits and Government Deposits.

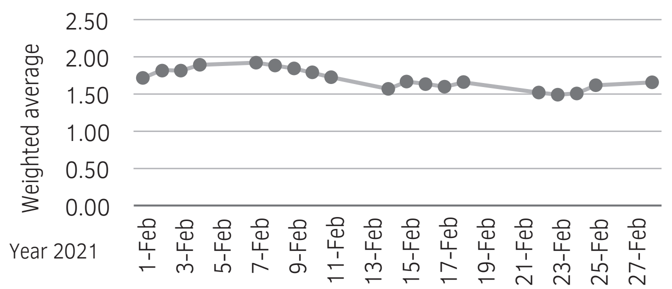
2. Advances include Loans and Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest.

3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

It is realized that treasury bills stand apart as the single most ideal alternative security to use for both debt and liquidity management of the government. As the turnover of treasury bills and bonds expand, interest rates in the economy appears to have an upward bias, since the government tends to offer higher rates to pull in auctioneers.

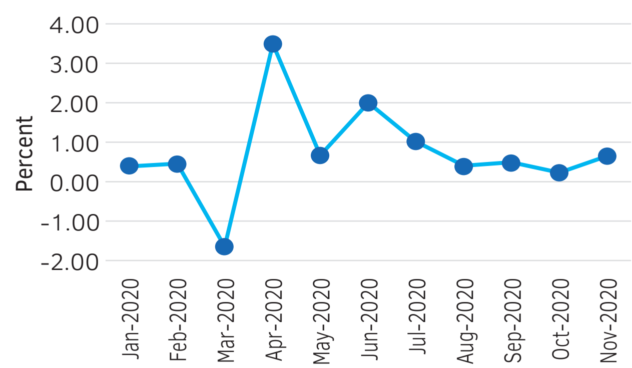
Technology plays a big role in moving the financial market. As of the latest data (December 2020) most of the e-banking and e-commerce transactions (83.64%) originate from point-of-sale. Among the general population, males constitute the majority of the Mobile Financial Services users, while Agent Bank appears to be more popular in the rural areas.

Call Money Rate



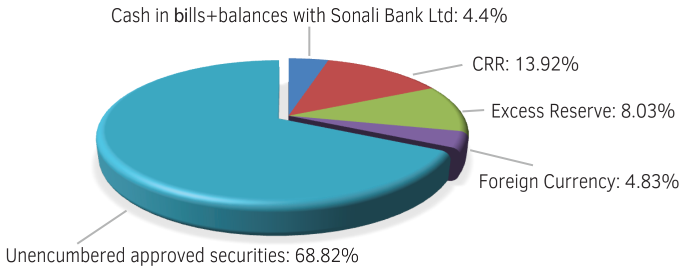
A decline in call money rate for banks makes banks to raise funds from call money procedure.

Growth of Domestic Credit



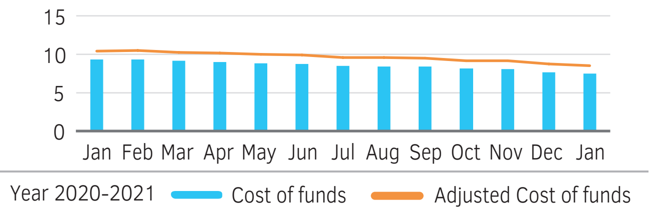
Domestic credit recorded an increase in November, 2020

Total Liquid Assets of Schedule Banks



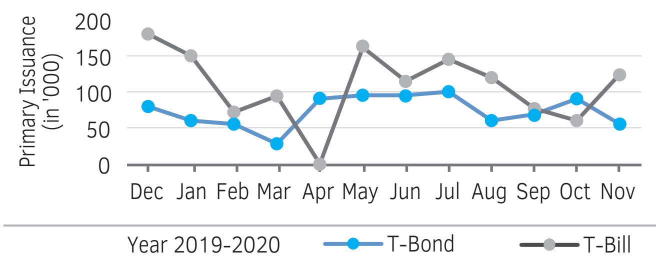
Source: Bangladesh Bank
Sectoral distribution of total liquid assets as of end December, 2020 in the form of cash in bills & balances with unencumbered approved securities was peak and it was 67.69%.

Cost of Funds Index of the Non Bank Financial Institutions



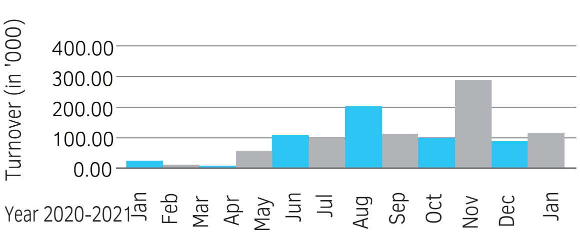
The non bank financial institutions are having a decreasing cost of funds.

Primary Issuance of Treasury Bills and Bonds



Treasury bills stand apart as the principal most ideal alternative security to use for both debt and liquidity management.

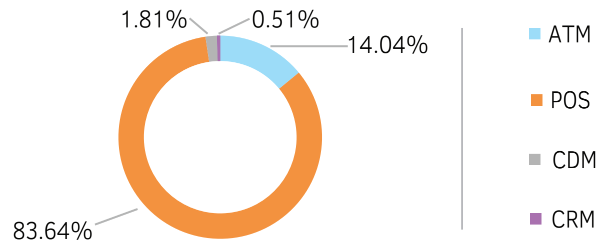
Secondary Trading of Treasury Bills and Bonds



At the point when treasury bills and bonds turnover expands, interest rates in the economy likewise increment since the government should pay higher interest rate to pull in more purchasers in future auction.

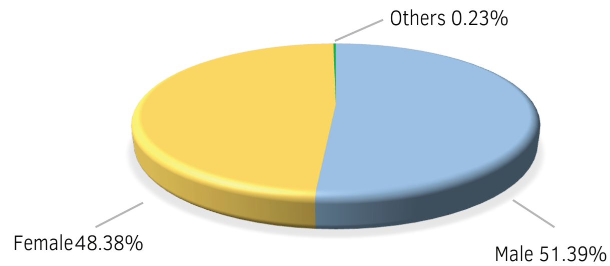
Trends in Financial Technology & Inclusion

e-Banking and e-Commerce



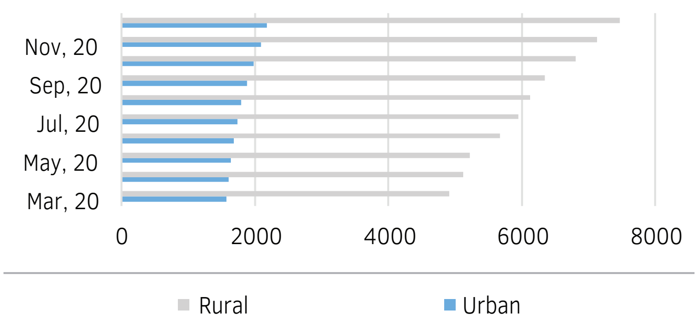
Sectoral distribution of e-banking and e-commerce as of end December, 2020 in the form of unit with POS was uppermost and it was 83.64%.

Mobile Financial Services



Male and Female almost equally share the user portfolio of Mobile Based Financial services.

Agent Banking



Agent banking is far more popular in rural areas.

* The following acronymes have been used in this report:
ATM- Automated Teller Machine
POS- Point of Sale,
CDM- Cash Deposit Machine
CRM- Cash Recycling Machine

Data source: Bangladesh Bank website.

Akramul Alam

Equity Valuation Pitfalls and the Possible Remedies

Insights

> Analysts and investors should consider rational level of perpetual growth rate with utmost professional care and due diligence as sensitivity to valuation is very high.

Equity valuation is a blanket term and is used to refer to all tools and techniques used by investors to find out the true value of a company's equity. The objective of equity valuation is to find a value for a business or its security. A key assumption of any fundamental value technique is that the value of the security is driven by the fundamentals of the company's underlying business at the end of the day. According to the International Financial Reporting Standards (IFRS) 13: Fair Value Measurement, a valuation technique estimates the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants and the measurement date under current market conditions. Three widely used valuation techniques are:

Market approach: uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g., a business)

Cost approach: reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost)

Income approach: converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

Like many other countries, equity valuation is an integral part for Bangladeshi capital markets where investors pump money with an aim to generate financial returns. Value investors always seek undervalued equities which they found after performing fundamental analysis and valuation study. In Bangladesh there are many local and foreign capital market intermediaries whoever are providing research services to their clients.

Analysts perform valuation from standard practices and self-developed acumen which act as catalysts to drive returns, to close investment banking deals etc. Though the institutions perform due diligence and professional ethics while valuing any business, there might appear several pitfalls which make the valuation output irrelevant and questionable as per particular events. For example, in the near past equity valuation of Walton High-tech Limited under the country's book-building system jeopardized investors to take their bold investment decision as the valuation range of the bidders went between Tk. 765 and Tk. 12 per share.

There are some basic pitfalls of the valuation process as follows:

Fabricated Financial Statements: Not recognizing the quality of financial statements is the most important mistake for any analyst to generate valuation analysis. If we consider valuation is the art and process of finding true value from a given level of inputs i.e., industry data, financial statements etc., checking the data quality is the key to ensure the quality of the research. If there is a lack of reliability and relevance of the input data, the output would be extremely nonsense!

In that case, analysts should perform a basic forensic analysis on a company's financial statements to adjust fictitious items and to make decisions about whether they should trust the numbers for their valuation study. A very good understanding about corporate governance, financial statements and financial reporting standards are required before jumping into valuation analysis.

Making the Same Styled Growth Assumptions for All the Companies: It's not always appropriate to assume growth rates of revenue and income streams with only historic trends i.e., arithmetic mean of past several years growth rates or compound annual growth rate (CAGR) etc. The companies that go for expansion drive future revenues exponentially and the companies that fall to industry rivalry & higher competition drive future revenues at much slower pace. Some large cap companies, especially the market leaders grow organically. And most importantly the revenue and cash flows growth of some cyclical companies like banks is mostly influenced by the countries' macroeconomic and industry outlook. So, there are a wider variety of the nature of business prospects and risks across companies and industries.

Analysts should have a very clear idea about how a particular company is making money, what it offers to its customers, how it comes up with immense competition, how it responds to the risks associated with the cash flows and how its management is making their strategies for revenue enhancement and cost reduction etc.

Not Considering the Companies' Capital Structure and Financing Requirements: It's always a wrong approach to forecast income statements without considering company's capital structure and the finance requirements to fund growth prospects. Sometimes with full production capacity, it's quite difficult for companies to grow faster. In that case, the companies seek for capital expenditure which is to be financed by retained earnings or debt or equity or a mix of the financing options depending on the companies' current financial position, cash level and gearing ratio. Without considering the factors mentioned here, will make the forecast irrelevant and full of forecasting errors.

Analysts should go through the companies' production status, existing financial statements and most importantly the capital structure very carefully to have a better picture of its strengths and weaknesses.

Not Considering the Group Consolidation for Valuing Any Parent Company: When it's about valuing the business of holding companies, making projections of financials without considering the consolidation approach would be a great mistake as it doesn't talk about performance, intra-group balances, impairment of purchased goodwill and non-controlling interest. Sometimes these would make the forecast extremely deviated from the right approach and deviation in intrinsic value in result. Moreover, without considering associate undertaking and joint-venture projects in proper ways would make the valuation in dark.

Analysts and finance providers should first analyze the group structure as per the theory of accounting boundary, make the individual subsidiaries' projections and then they should follow the group consolidation approach as per the of IFRS-3: Business Combination, IFRS-10: Consolidated Financial Statements, and IAS-28: Investments in Associates and Joint Ventures.

To Analyze the Nature of Incremental Capex to Support Growth: Capital expenditure don't always show the production capacity expansion for any business. Sometimes there recur some incremental capex replacement of old machineries & equipment which do not increase the capacity in true term. In that case, there would appear no linear relationship between the capex and revenue growth

Analyzing the schedule of fixed assets sometimes helps investors to find out the position of the fixed assets, capital expenditures and depreciation expenses as well.

Considering Treasury Bill Rate as Risk-free Rate for Long-term Investment Analysis: Fixing rate is the risk-free rate. But when investors consider the short-term treasury bill rate for valuing any company with an intention to long-term investment activities, it drags down the reliability of the valuation as a whole. Short-term treasury bill rate as a risk-free rate can't be consistent with converting the longer-term future cash flows to present value. This approach misguides investors to find the true value of the companies.

Solving the problem one should take long term treasury bond rate as risk-free rate which would make the process of discounting the long-term future cash flows in consistent manner.

Considering Very Low Level of Beta Coefficient: Low level of Beta Coefficient pulls down the cost of equity to low level which sometimes misguides investors. Specially when the estimated cost of equity is lower than the cost of debt due to considering very low level of beta coefficient, it doesn't make any sense. Normally, of equity should be always higher than the cost of debt due to the investors' perceived risk. If the mentioned situation arises while estimating the cost of capital, level of beta coefficient to make the estimate relevant.

Considering Higher Perpetual Growth Rate: If the estimated or assumed perpetual or terminal growth rate is higher than the country's long term economic growth rate, it makes the estimate completely questionable. Normally, companies can't grow faster than the economy. Considering perpetual growth rate makes any valuation extremely inflated which would be harmful for the investors ultimately.

Analysts and investors should consider rational level of perpetual growth rate with utmost professional care and due diligence as the sensitivity to valuation is very high.

Avoiding Peer Companies and Taking the Sector Average in Relative Valuation: When its all about relative valuation, picking the right peer is the key to make the valuation effective. Avoiding the right peers and taking the whole sector might be a wrong approach as different nature of companies may be taken to a particular sector which would lead the estimated value meaningless. For example, the engineering sector of the Dhaka Stock Exchange nature of companies i.e., steel, automobiles, construction etc. If investors mess up all the companies which have different business nature, products and operating model, their valuation would be misleading.

Selecting peer companies ideally look into same nature of business, approximately same size of business and same operating model.

There are many other factors which be before developing any valuation model. Investors, analysts and other relevant stakeholders should be very careful dealing with the given scenarios as it is supposed to be case sensitive. Though valuation is a combination of art and science, one should go through proper procedures by using common sense and business acumen. Otherwise, there be an unfortunate adversity in the investment returns. □

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