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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.

“
Bangladesh became an exception among top remittance recipient countries amid the Covid-19 pandemic as expats sent USD 19.8 billion to the country in 2020, an 8% increase on the previous year’s.
”



Economy
of Bangladesh

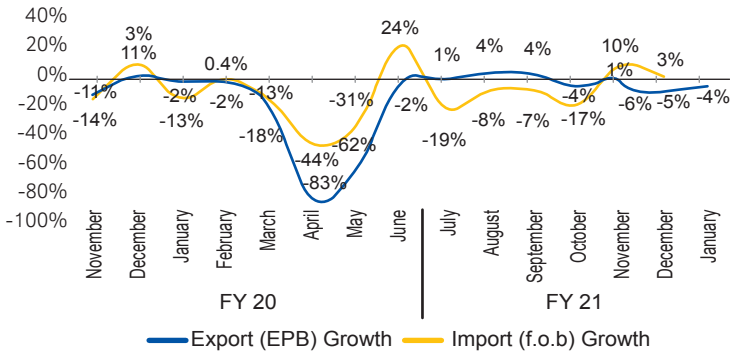
Main indicators at a glance

	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	330.1	5.24	5.02	-0.02	6.01	84.80
Emerging Economies						
India	2,935.6	-10.29	4.06	0.33	6.23	72.96
China	14,860.8	1.85	-0.30	1.30	3.28	6.47
Developed Economies						
United States	20,807.3	-4.27	1.40	-2.12	1.46	1.00
Britain	2,638.3	-9.76	0.70	-2.05	0.78	0.72

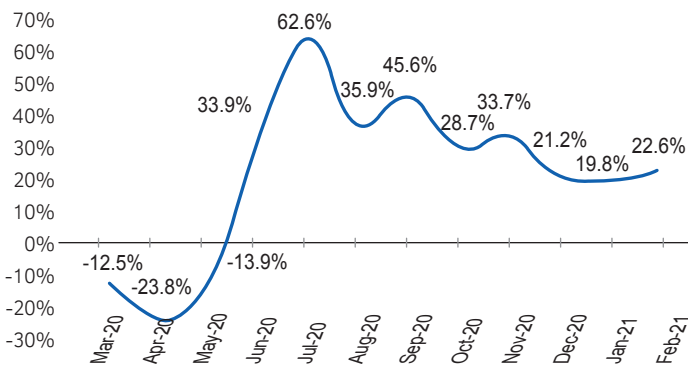
From the spectacles of the stakeholders

- ▶ The Bangladesh Bank issued a circular giving schedule banks one year to lower investments to their offshore banking units within 30 % of the banks' regulatory capital.
- ▶ Bangladesh Securities and Exchange Commission (BSEC) is working to widen the gap of corporate taxes between listed and non-listed companies in order to attract well-performing companies to the market.
- ▶ Bangladesh became an exception among top remittance recipient countries amid the Covid-19 pandemic as expats sent USD 19.8 billion to the country in 2020, an 8% increase on the previous year's.
- ▶ Revenue collection rose 4.55% year-on-year to BDT 132,165 crore in the July-January period of the current fiscal year, in line with the pace gained in economic and business activities, says the National Board of Revenue (NBR) data.
- ▶ Bangladesh Securities and Exchange Commission (BSEC) is undertaking serious initiatives to develop bond market. According to the authorities, possibility of introducing conventional and sukuk bonds are being explored as new areas of investments.
- ▶ Nine banks and five non-bank financial institutions (NBFIs) have signed deals with the central bank for loan disbursements to export-oriented industries from the technology up gradation fund.

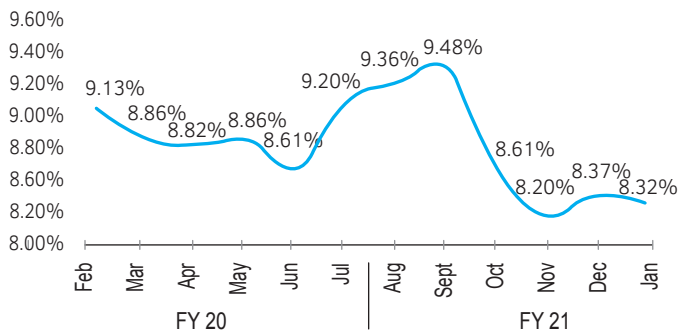
A visual tour of the key statistics



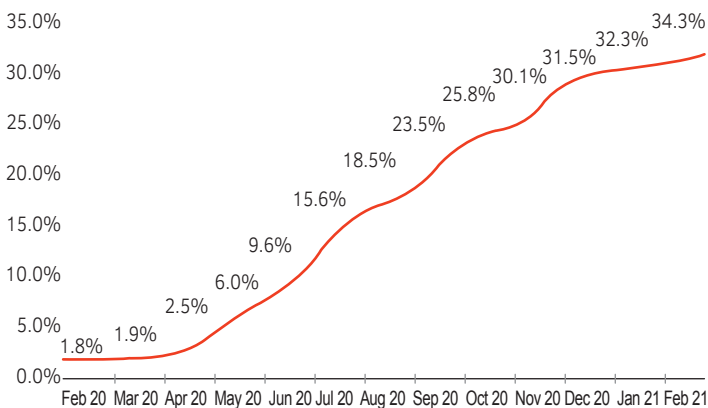
Export and Import Growth (Up to February, 2021)



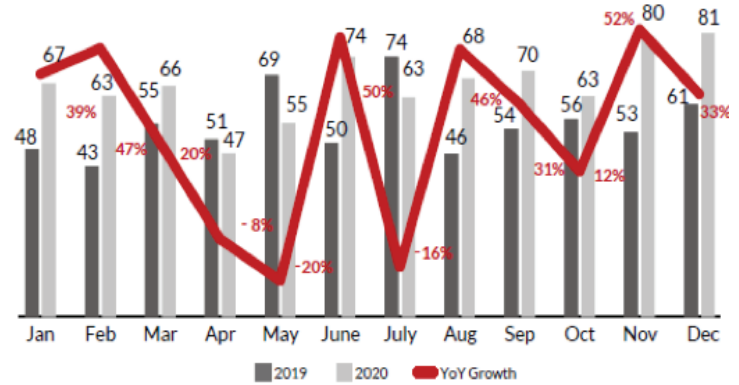
Remittance Growth (Up to February, 2021)



Private Sector Credit Growth (Up to January, 2020)



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



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

Numbers to note

- Cottage, micro and small entrepreneurs would get credit guarantee from the Bangladesh Bank's BDT 2,000-crore credit guarantee scheme against all types of loans taken by them, paving the way for borrowers to receive collateral-free term loans.
- Earnings from merchandise exports fell 4.99% year-on-year to USD 3.43 billion in January because of slower recovery of garment shipment from the pandemic induced business slowdown.
- Bangladesh's banking sector faced a provision shortfall of BDT 123.49 crore last year, primarily for a lackluster performance of 11 banks.
- The implementation of a BDT 5,000-crore special refinance scheme for the country's agricultural sector has reached 67% in eight and a half months of its launch.

Economy-wide challenges ahead

- Successful implementation of stimulus packages, coupled with critical reforms in macro, trade and investment policies
- Institutional reforms in the banking sector, along with private-investment friendly taxation regime
- Efficient public investment in social and physical infrastructure, followed by faster and quality implementation of some Specialized Economic Zones to attract Foreign Direct Investment
- Improvement in the overall governance of the macroeconomic policy environment.
- Welfare programmes and job diversification for migrant workers and business in the informal sector.
- Implementation of expansionary monetary policies such as low interest rates and control damaging speculations using forward guidance.



... April 2021, the DSE market indices demonstrated bullish nod comprising a 4% growth in the DSEX index compared to the previous month of March. The prices of the majority issues increased as there were majority investors in the buying side.



It is apparent by analyzing the capital market snapshot of April 2021, that the DSE market indices demonstrated bullish nod comprising a 4% growth in the DSEX index compared to the previous month of March. The prices of the majority issues increased as there were majority investors in the buying side. Although the countrywide lockdown scenario due to the Covid-19 pandemic made some investors somewhat cautious, the buying tendency of most of the investors boosted up the entire market during the month of April. 143 issues were advanced, 133 issues were declined where the remaining 81 issues 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 evident that the 20-trading day denoted upward trend in the market which ended at the bullish

side. 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 conspicuous in the analysis that market PE ratio was 16.97 and only six sectors out of 19 were losers whereas the remaining 13 sectors were gainers. BEXIMCO was in the top position based on turnover; DHAKAINS was the top gainer whereas MLDYEING was the top loser. Accumulatively, the average trade volume and the average trade value increased by 3.9% and 4.3% respectively along with a 2.24% fall in the average market capital compared to the previous month.

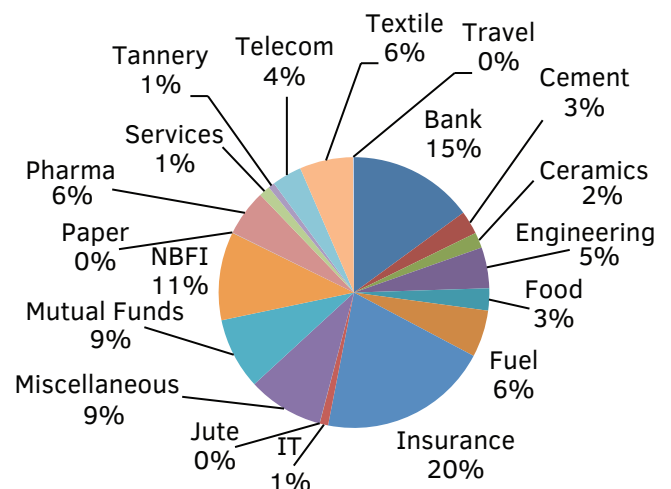
DSE Market Indices

	30-Apr-21	1-Apr-21	Change	% Change
DSEX	5,479.6	5,270.5	209.1	4.0
DSES	2,110.9	1,983.3	127.6	6.4
DS30	1,249.8	1,202.5	47.3	3.9
CDSET	1,176.1	1,112.5	53.6	4.8
Scripts Movement (Monthly Average)	Advance ↑ 143	Decline ↓ 133	Unchanged ↔ 81	

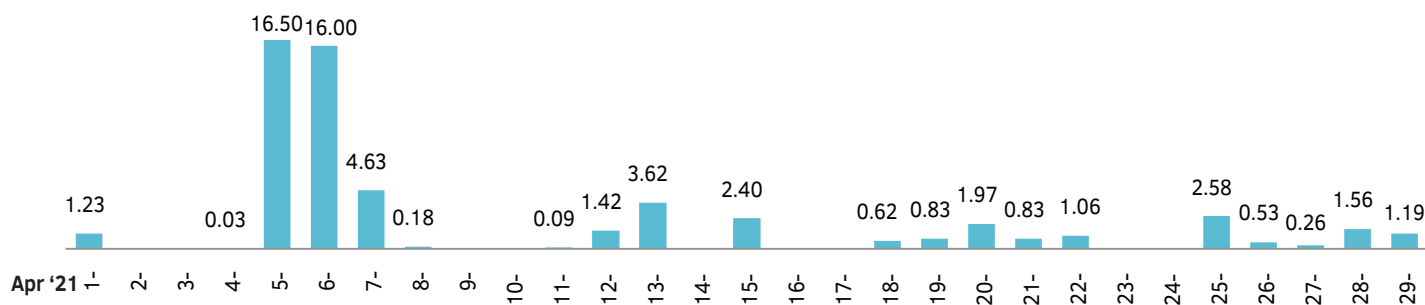
Market Aggregates

	Apr-21	Mar-21	Change	% Change
Avg. Mkt. Capital (Tk. MN)	4,625,480	4,731,289	(105,810)	-2.24
Avg. Traded Value (Tk. MN)	7,189	6,895	293	4.3
Avg. Number of Trades	122,844	142,603	(19,759)	-13.9
Avg. Trade Volume	185,325,986	178,328,660	6,997,326	3.9

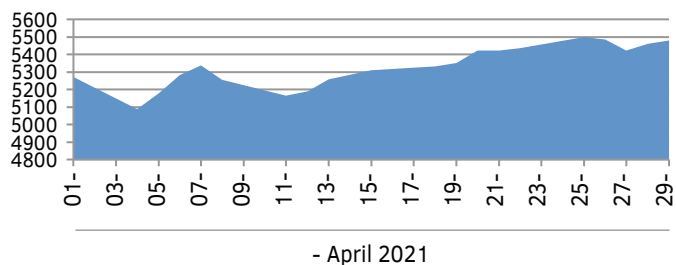
Sector Volume (%)



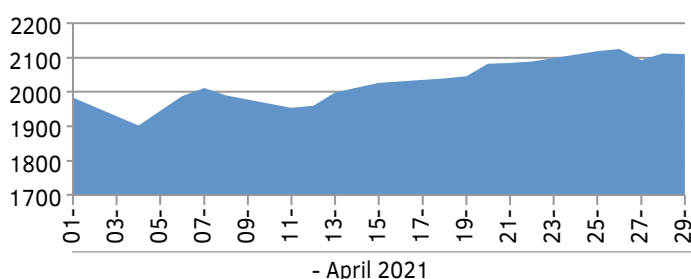
AD Ratio



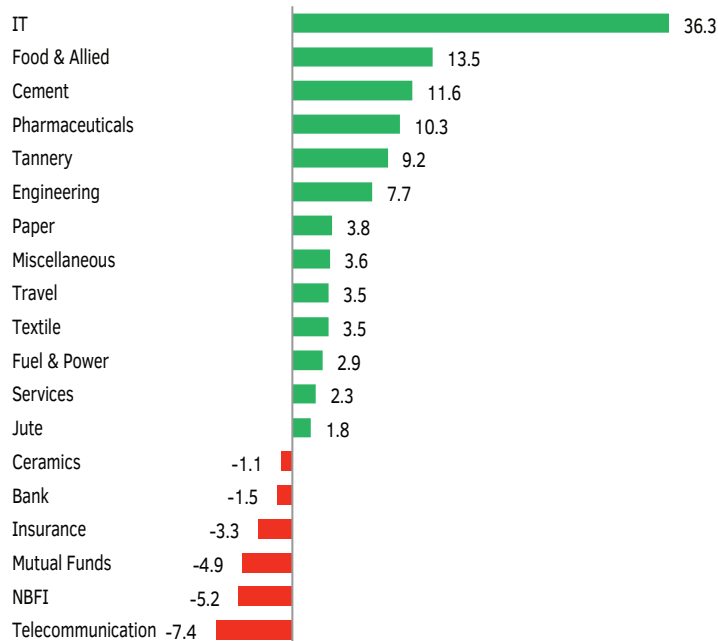
DSEX



DS30

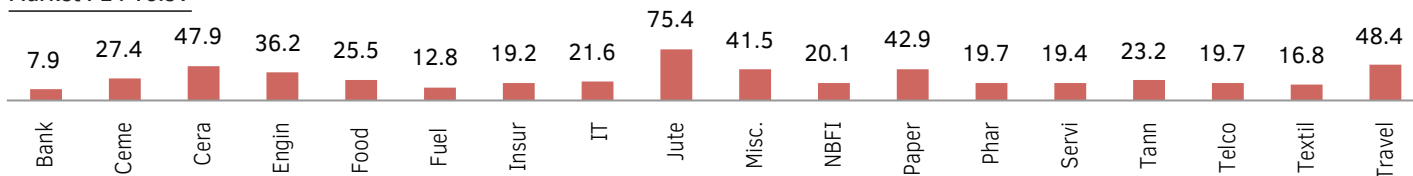


Sector Returns (%)



Sectoral PE Ratio

Market PE : 16.97



TOP 5

Turnover			Gainer		Loser	
Sl. Stock	Turnover (MN)	Total (%)	Sl. Stock	Return (%)	Sl. Stock	Return (%)
1. BEXIMCO	17,654.0	13.60	1. DHAKAINS	88.3	1. MLDYEING	-31.2
2. BXPHERMA	5,616.7	4.33	2. PROVATIINS	83.0	2. SAIHAMTEX	-29.4
3. ROBI	5,191.6	4.00	3. BNICL	68.1	3. SHURWID	-29.0
4. LHBL	4,871.4	3.75	4. AGRANINS	65.1	4. SHEPHERD	-28.5
5. LANKABAFIN	4,453.9	3.43	5. FEDERALINS	63.0	5. KPPL	-27.8



As of the latest data (February 2021) most of the e-banking and e-commerce transactions (83.76%) originate from point-of-sale.



Money Market

Deposits held in banks for February 2021 showed a positive trend compared to January 2021 and February 2020. It is apparent that bills as import and inlands bills for February 2021 showed a positive trend equated to January 2021 and a negative trend compared to February 2020. Again, Domestic credit recorded a decrease in January 2021. Focusing on the sectoral distribution of total liquid assets as of end March, 2021 in the form of cash in tills & balances with unencumbered approved securities was peak and it was 67.41%. 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.

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 (February 2021) most of the e-banking and e-commerce transactions (83.76%) originate from point-of-sale. Among the general population, male and female almost equally share the user portfolio of the Mobile Financial Services, while Agent Banking appears to be more popular in the rural areas.

Items	Taka in Millions		Percentage Change		
	Feb 2021	Jan 2021	Feb 2020	Feb '21 over Jan '21	Feb '21 over Feb '20
Deposits held in DMBs					
Demand Deposits*	1446584	1420761	1147337	1.82	26.08
Time Deposits*	11503832	11441251	10291630	0.55	11.78
Total	12950416	12862012	11438967	0.69	13.21
Bank Credit					
Advances	11334134	11211224	10361915	1.1	9.38
Bills (Import & Inlands)	235096	220640	283432	5.98	-17.05
Investments	3034277	3049149	2426380	-0.49	25.05
Total	14603507	14482195	13071727	0.84	11.72

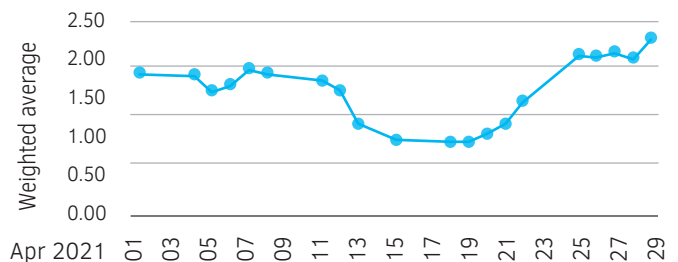
Current Bank Deposit and Credit

Source: Bangladesh Bank

Note:

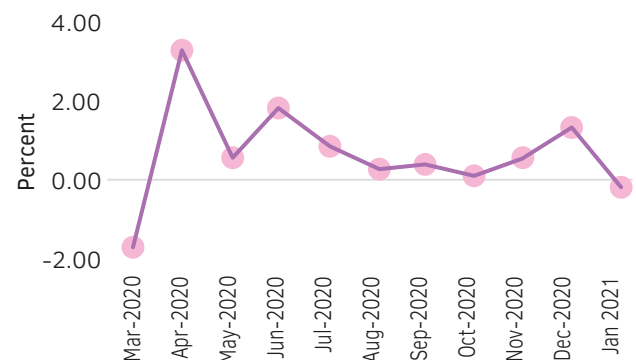
- * Excludes Inter bank Deposits and Government Deposits.
- Advances include Loans and Advance, Money at Call, Balances & R. Repo with NBFI's & Accrued Interest.
- Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

Call Money Rate



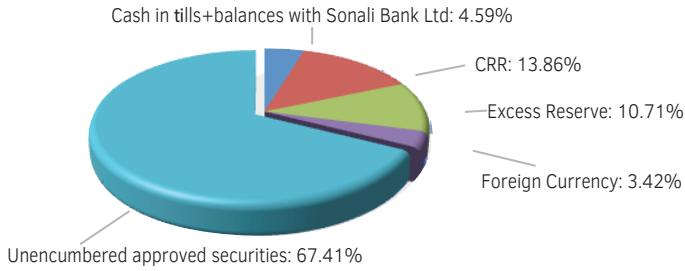
A decline in call money rate for banks makes banks to raise funds from call money procedure.

Growth of Domestic Credit



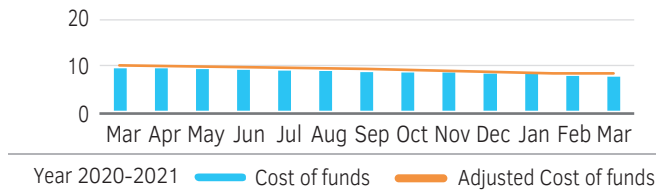
Domestic credit recorded an increase in December, 2020

Total Liquid Assets of Schedule Banks



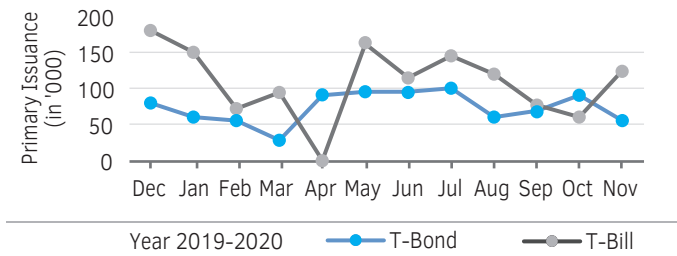
Source: Bangladesh Bank
Sectoral distribution of total liquid assets as of end March, 2021 in the form of cash in tills & balances with unencumbered approved securities was peak and it was 67.41%.

Cost of Funds Index of the Non Bank Financial Institutions



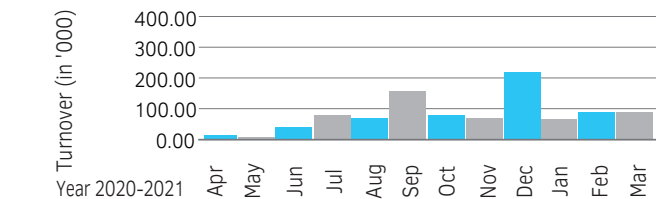
The non bank financial institutions are having a decreasing cost of funds.

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.

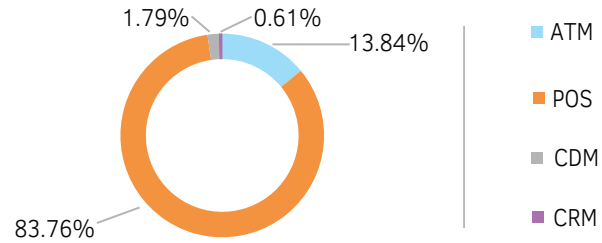
Secondary Trading of Treasury Bills and Bonds



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.

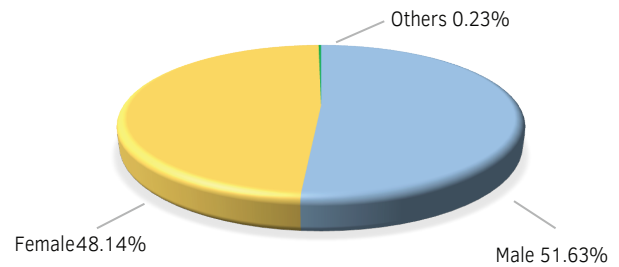
Trends in Financial Technology & Inclusion

e-Banking and e-Commerce



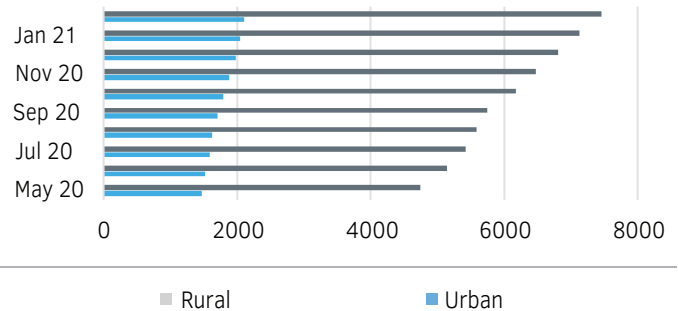
Sectoral distribution of e-banking and e-commerce as of end February, 2021 in the form of unit with POS was uppermost and it was 83.76%.

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 acronyms 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.



Md Sajib Hossain, CFA

Capital Market in Bangladesh Historical Performance and Valuation Level



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.



Insights

1. Introduction to the Stock Market in Bangladesh

Bangladesh is one of the fastest-growing economies in the world. In the last decade, the economy of Bangladesh has experienced a GDP growth rate of close to 7% with stable and moderate inflation, a low level of public debt, a sustained inflow of remittances and export earnings, political stability, and adequate foreign reserves. Before the COVID-19 pandemic hit the world economy by storm in 2020, Bangladesh recorded a GDP growth rate of 8.19% (World Bank Report).

Unfortunately, the stock market could not keep pace with the growth of the real economy as the stock market went through a bubble-burst in 2010-2011 followed by a prolonged downward trend in the stock market. From January 2011 to May 2020, DSEX, the benchmark index to measure the movement of overall stock prices, recorded a monthly annualized return of -5.07% against 12%-14% nominal GDP growth.

In fact, unlike other countries, Bangladesh's stock market does not reasonably represent the overall economy as many of the best-performing local conglomerates and export-oriented industries are not listed with the stock exchange. For example, RMG contributes more than 80% of the exports of Bangladesh but most of the profitable and big companies in the RMG sectors are still private. In June 2019, the ratio of market capitalization to GDP stood at only 14% in Bangladesh. However, from May 2020, with the new leadership of the Bangladesh Securities and Exchange Commission (BSEC) taking charge and investors' optimism therein, the stock market gradually started regaining momentum. From 31st May 2020 to June 30, 2021, DSEX increased from 4040 points to 6150 points, registering a growth of more than 50% with a market capitalization to GDP ratio crossing 20%. In June 2021, HSBC published a report on the stock market of Bangladesh where the HSBC labeled the stock market in Bangladesh as 'hidden gems' for investors". Historical Performance of Capital Market in Bangladesh Dhaka Stock Exchange, the premier stock exchange in Bangladesh, started documenting market data of

stock price and volume in 1987. It is very natural to ask what the average annual return and risk of the stock market of Bangladesh was from 1987 to 2021 over the last 35 years. The performance of the stock market in Bangladesh can be summarized as follows:

1. The average annual return of the Bangladesh Stock Market in the last 35 years (1987-June 2021) is 16.94% (a price gain of 13.64% plus an average annual dividend yield of 3.3%) against a risk of 32% (monthly annualized standard deviation).
2. During the same period, the average annual return in the Indian stock market was around 19-20% whereas the average annual return of the US market (S&P 500) was around 10% against the risk of approximately 20% in the last 100 years (from 1920 to 2020).
3. In terms of risk, the stock market in BD is way more volatile and riskier. If you look at the return generating process of the Bangladesh stock market, most of the returns were generated only in few years (1996 (June-December), 2004, 2007, 2009, 2010, 2016-2017, 2020-2021).

3.1 Historical Statistics: Number of Listed Companies, Average Turnover, and Market Cap

It is interesting to see that turnover to market cap (sum of the daily turnover during the year divided by market cap at the end of the year) reached 114% in 2010 (see figure 2). This indicates that trading in shares significantly outpaced the market value of all the listed securities. Apparently, demand for securities outpaced the supply of available securities that ultimately lead to the stock market bubble in 2010. The ratio of turnover to market cap in neighboring countries was much lower: less than 60%. From 2020, after a long downward trend, market cap, turnover, and turnover to market cap ratio have significantly increased compared to the number of securities listed. This might be an indication that BSEC might need to increase the number of quality securities in the market.

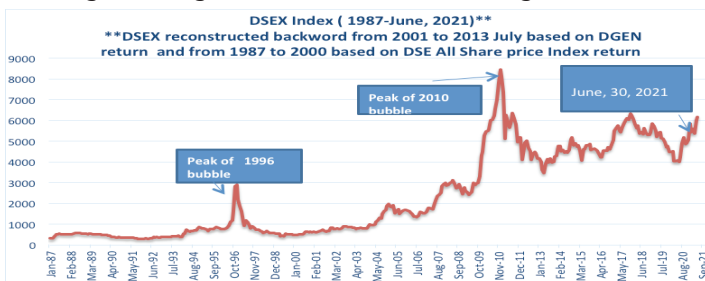


Figure 1: DSE Index Performance from 1987 to June 2021

Year	No. of Companies	Number of Securities	Avg. Daily Turnover (BDT in Mn)	Market Cap (BDT in Mn)	Turnover to Market Cap
2001	211	249	149	63,530	63%
2002	226	260	122	68,680	61%
2003	240	267	87	97,440	20%
2004	226	256	201	224,160	24%
2005	241	286	251	228,670	28%
2006	267	310	286	315,446	21%
2007	273	350	1,992	742,196	43%
2008	292	412	2,818	1,045,769	63%
2009	292	415	6,046	1,803,228	78%
2010	251	445	16,434	3,508,006	114%
2011	272	501	9,642	2,816,731	60%
2012	286	515	4,306	2,403,566	42%
2013	303	529	4,003	2,647,791	36%
2014	317	546	4,994	3,269,247	36%
2015	331	560	4,227	3,169,758	33%
2016	342	571	5,089	3,412,441	36%
2017	352	581	6,665	4,226,945	50%
2018	311	578	5,510	3,872,953	34%
2019	320	587	4,803	3,395,511	34%
2020	329	597	6,489	4,482,301	30%
2021	341	609	12,431	5,142,821	58%

Figure 2: Historical Statistics: Number of Listed Companies, Average Turnover and Market Cap (2001 to 2021)

3.2 Historical Valuation Level of Stock Market in Bangladesh: Market P/E

Often, we want to assess the valuation level of the overall market, i.e., whether the market is overvalued, fairly valued, or undervalued. One way to assess the overall valuation level of the market is to look at the P/E ratio of the overall market. Historically, a P/E ratio of above 20/22 is considered bullish, or P/E above 25 times indicates that the market might be in the process of a bubble. For example, both in 1996 and 2010 when the market was at its peak, the P/E of the overall market was above 30 times. Similarly, in March 2020, when the stock market was at its historically lowest point (DSEX was below 4,000 points), the P/E ratio of the overall market was around 11 times.

The average market P/E in the last 17 years (from 2004 to 2021) in Bangladesh was 16.8 times. Around 80% of the time, the market P/E ratio fluctuated around 14 times to 18 times.

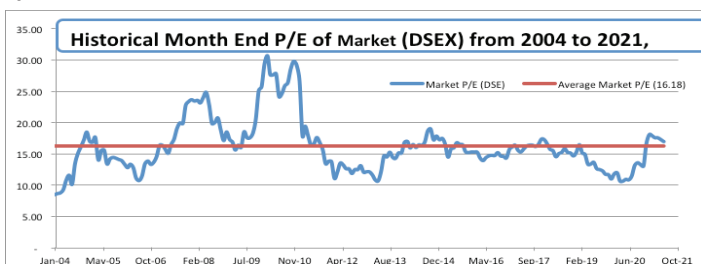


Figure 3: Historical P/E Ratio of Capital market in Bangladesh (2004-June, 2021)

Another way to assess the overall market price level or valuation level is to look at the market dividend yield. The dividend yield is calculated as cash dividend/market price. For the overall market, the dividend yield is the average dividend yield of all the companies. The average dividend yield of the capital market in Bangladesh is around 3.3% with a current dividend yield of 3.54% as of June 2021 (See Figure 5).

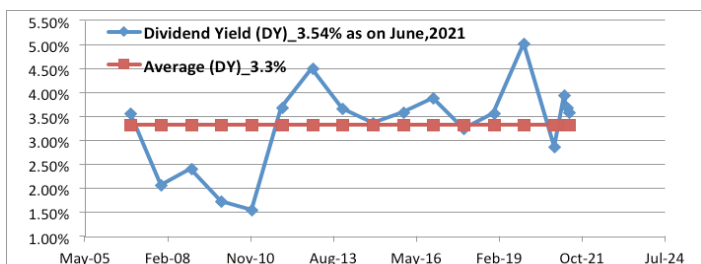


Figure 4: Historical Dividend Yield of Capital market in Bangladesh (2005-June 2021)

4. Historical Performance of Major Industries in DSE: Return, Risk and Sharpe Ratio

When investors consider investing in different industry stocks in the capital market of Bangladesh, it is quite natural to ask which industry performed best or worst in the last 20 years or so in Bangladesh. Figure 6 shows the compounded annual return (only capital gain or price appreciation) in different industries from 2001 to 2020.

* Until 2008, Financial Institutions (NBFIs) were included in the Banking Industry. Telecommunication Industry was launched in November, 2009 with the listing of Grameen Phone.

**Miscellaneous includes IT-Sector, Tannery, Ceramic, Travel & Corporate bond. In terms of return generation, Food and Allied, Fuel and Power, Pharmaceuticals, and General Insurance sectors outperformed the broad market during the period from 2001 to 2020. However,

if you adjust the risk and find the Sharpe ratio (excess return over risk-free rate divided by standard deviation), you will see that only pharmaceuticals, Foods, and Allied outperformed the market on a risk-adjusted basis with general insurance sectors almost at par with the market.

Major Industry	Annualized Return (Geometric Mean)	Annualized Standard Deviation	Sharpe Ratio
Banks	16%	31%	0.3256
NBFIs (From Jan,2010)*	0%	35%	-0.1725
Mutual Funds	6%	48%	0.0084
Engineering	11%	33%	0.1456
Food and Allied Products	19%	29%	0.4454
Fuel and Power	17%	60%	0.1886
Jute Industries	16%	138%	0.0703
Textile Industries	6%	36%	0.0077
Pharma & Chemical	17%	29%	0.3964
Paper and Printing	-3%	244%	-0.0368
Services and Real Estate	6%	60%	0.0059
Cement Industries	10%	63%	0.0583
Insurance	17%	33%	0.3365
Telecom (From Nov,2009)	4%	43%	-0.0474
Miscellaneous**	12%	88%	0.0698
Market	15%	24%	0.3809

Figure 5: Historical Performance of Major Industries in DSE: Return, Risk and Sharpe Ratio (2001-2020)

To put the industry performance into perspective, figure 7 shows the ending value of a 100-BDT investment in major industries in DSE during the period from 2001 to May 2021. For example, if someone invests 100 BDT in Food and Allied industries at the beginning of 2001, with the appreciation of price, that 100 BDT would have been around 4,500 BDT at the end of May 2021. The same would have been around 2,200 in case overall market and 3,400 in the case of investment in the pharmaceutical industry during the period from 2001 to May 2021.

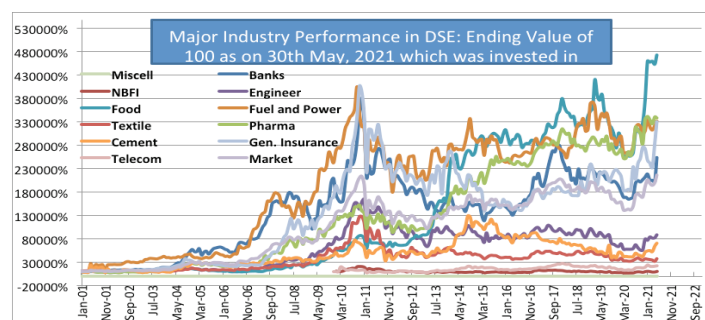


Figure 6: Major Industry Performance in DSE-Ending Value of 100 as of 30 May 2021, which was invested in January 2001

5. Conclusion

Although the capital market of Bangladesh has great potentials to stimulate the economic growth of the country, the market is still dominated by high volatility, excessive trading by retail investors, lack of corporate governance among the listed companies, and lack of confidence from many large perspectives institutional investors. The stock exchanges need to diversify their products especially fixed income products and ETFs, improve IT infrastructure, update their market surveillance system and encourage big and profitable local conglomerates to get listed with the exchanges. The new leadership at BSEC has already started working on the above issues and the expectation is that soon we would be able to develop a capital market as a stable source of long-term financing in the days to come.

Md Sajib Hossain, CFA
Assistant Professor, Department of Finance, DU

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