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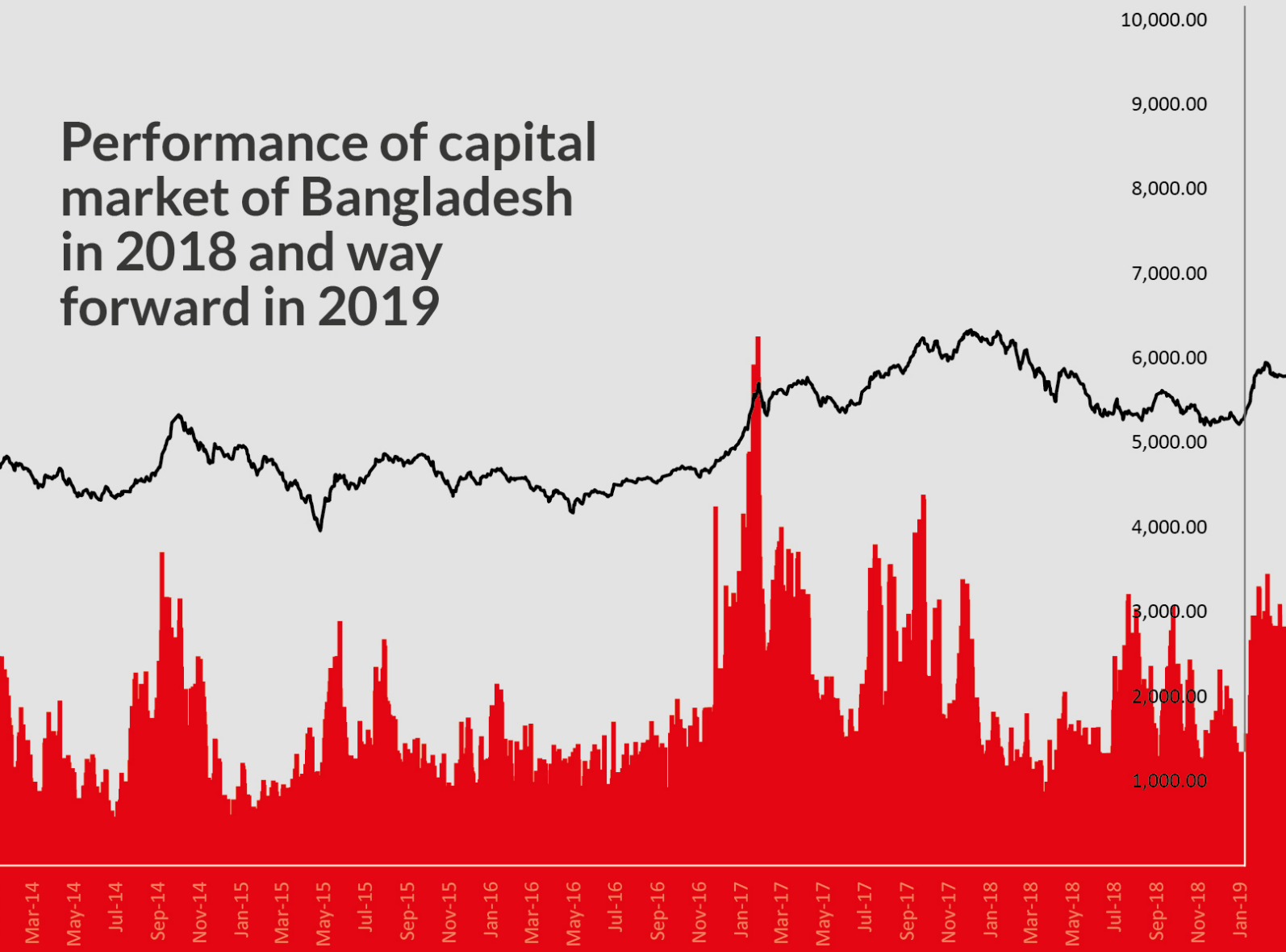
IDLC MONTHLY

BUSINESS REVIEW

Performance of capital market of Bangladesh in 2018 and way forward in 2019



IDLC

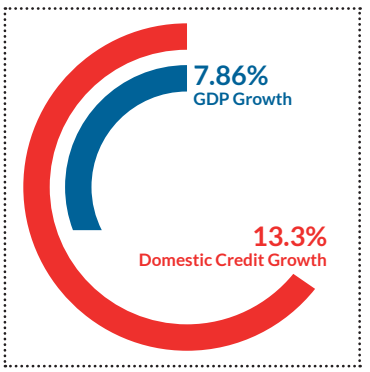
financing happiness

Monetary Policy Statement Jan-Jun 2019

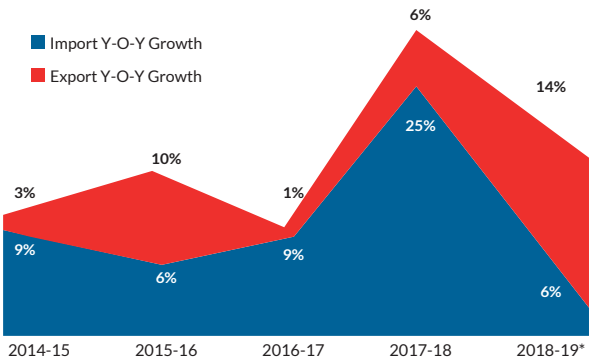
No major change in policy directives

POLICY IN FOCUS

Particulars	Dec-18 Target	Dec-18 Actual	Jun-19 Latest MPS Target
Inflation- General	Less than 5.8%	5.54%	Less than 5.6%
Reserve money growth	8.0%	8.2%	7.0%
Broad money growth (M2)	10.2%	9.4%	12.0%
Domestic credit growth	15.9%	13.3%	15.9%
Public sector credit growth	8.6%	13.3%	10.9%
Private sector credit growth	16.8%	13.3%	16.5%

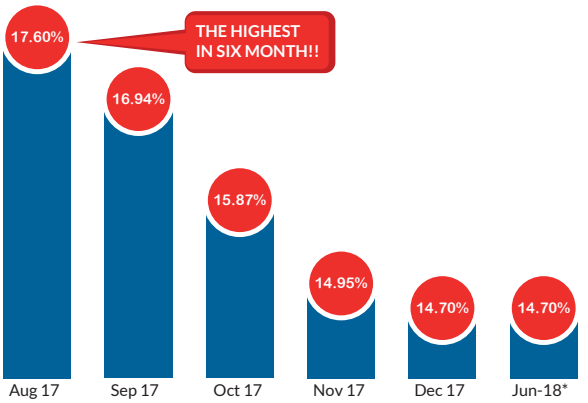


Export Import Growth (Y-O-Y%)



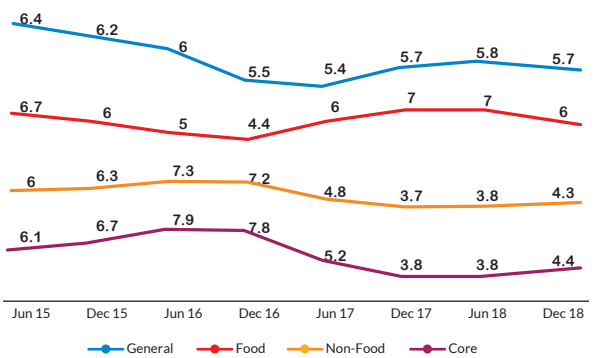
Private sector credit growth was lower than the target growth mainly because of cautious stance of business organizations ahead of national election and spike in interest rate. Now that the election is over, central bank expects the private sector credit to grow to 16.5% by June 2019.

Private Sector Credit Growth



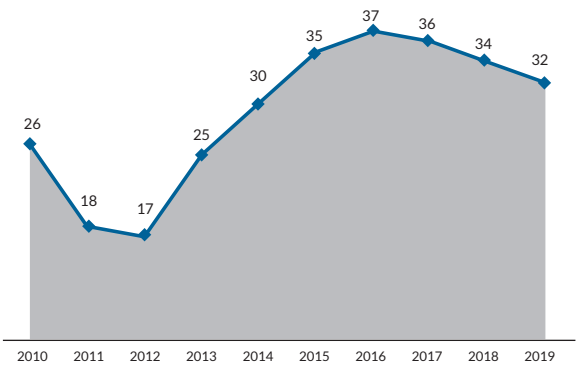
Following a very high import growth in 2017-18, export growth has been projected to overtake a sharply dipping import growth as the New Year commences with a new government on the chair.

Twelve Month Average Inflation



Inflation continued its downtrend in H1 FY19 driven by lower food inflation (due to lower rice price) though non-food inflation registered uptick. Inflation pressure is expected to remain moderate in H2 FY19 due to decreasing trend of global commodity and favorable domestic production

Foreign Exchange Reserve USD in Billion



Increased current account deficit puts pressure on foreign exchange reserve. Bangladesh Bank keeps selling USD to keep currency market stable. 5 Months of import payment can be made with USD 32.9 billion reserve

FROM THE EDITOR

Bright picture for Capital Market in 2019

After a tremendous performance in 2017, the equity market repositioned itself by a large decline mostly due to financial sector strips which were affected by rising interest rates and growing NPLs. Negative risk premium caused investors to divert funds away from capital market. Bangladesh also performed the worst among peer emerging economies for a large net outflow of portfolio investments. Current deficit reached a record high due to rising imports and modest exports and remittance, devaluing the currency.

The Market Capitalization (Mcap) /GDP ratio lowered to 17% in 2018 from 24% in 2014, whereas the peer countries mostly picked up for peer countries. One potential reason for this phenomenon is lack of listing of large corporates in the market. However, 2018 witnessed a number of developments in the form of partnerships and regulations. The strategic partnership between DSE and a Chinese consortium of Shanghai and Shenzhen Stock exchanges is expected to contribute in capital market improvement. BSEC approved the draft Qualified Investor Offer by Small Capital Companies Rules, 2018 that is expected to increase efficiency of the market by providing a separate market for small cap companies.

Future prospect of the capital market in 2019 looks bright as government expects GDP growth to be at 7.8% and inflation at 5.6%. Economic Intelligence Unit (EIU) and UN predicted Bangladesh to be one of the fastest growing economy. Provided that interest rates remain under control and liquidity conditions improve, the market is expected to perform better. Stable political environment will attract foreign investment and improvement of exports and remittance can help ease pressure on currency.

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Performance of capital market of Bangladesh in 2018 and way forward in 2019

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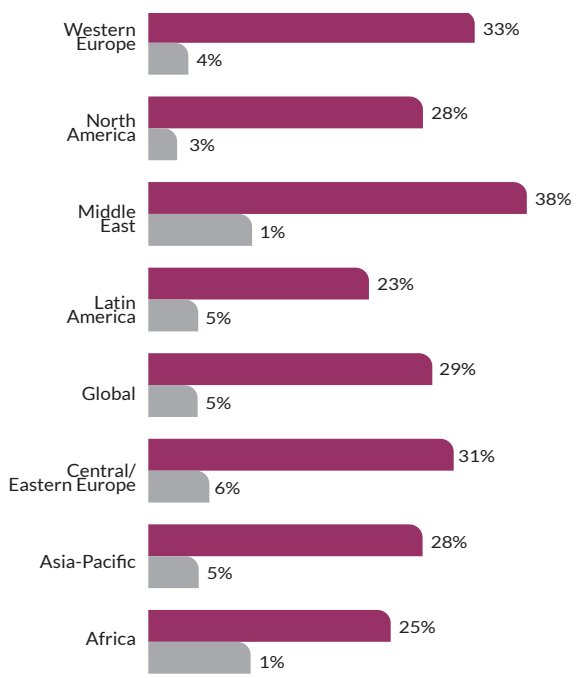
22nd Annual Global CEO Survey
CEOs' curbed confidence spells caution

RESEARCH IN FOCUS

More CEOs in every region are wary about slowdown in global economic growth this year.

The opinion was reflected in the PwC's 22nd annual global CEO Survey and the results were released on the sidelines of the official WEF proceedings. Chief executives can play a credible role in predicting the direction of the global economy. An increase or decrease in their confidence levels regarding their own revenue prospects is a leading indicator of actual global economic growth in the year ahead. Last year, we saw a record jump in optimism regarding global growth prospects in 2018,and it was shared globally. However, this year, we are seeing a record jump in pessimism, with nearly 30% of CEOs projecting a decline in global economic growth, up from 5% in last year.

The share of CEOs who expect global economic growth to slow by region



ABOUT THE RESEARCH

'Asia's digital banking race: Giving customers what they want' is an is an survey published by McKinsey & Company through PFS which provides the insight on interest and current intention of banking users toward digital banking platform.

In fact, many economists see a slowdown as overdue. This also means that we can expect less optimistic revenue growth of organizations around the world in both the short and medium term.

Given the threats in the ecosystem of the business arena, coupled with trade and policy issues, many CEOs cannot identify up to three most attractive markets for investment outside their home territory. On the flip side, governments could view this as an opportunity to remind companies their countries are open for business and also come forward to resolve trade disputes and improve the geopolitical landscape. Always the most buoyant territory in terms of CEO revenue confidence, India has also recently surpassed China as the fastest-growing large economy and the government has enacted a series of measures designed to improve the ease of doing business there. Globalization had been on a steady march over the past 40 years, but that trend is hitting some political roadblocks. What ever top executives or world leaders may feel about the future, it is only the combined effort of all parties that can pave the way for a steady and sustainable growth in the years ahead.

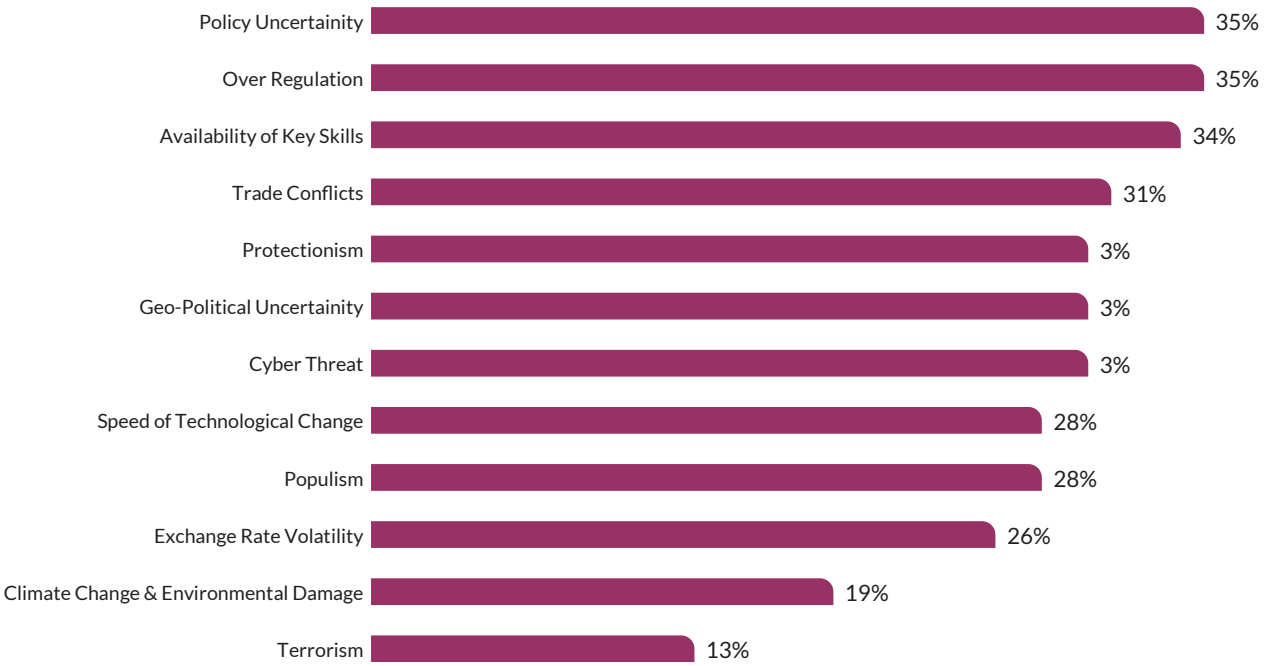
If the trend is discerned, countries around the world were experiencing synchronous growth, meaning CEOs across regions were even more aligned than usual in their optimism about the global economy. In this year's World Economic Forum, CEOs reflected that the synchrony works the other way, too. The growing bearishness is stark, as is the degree to which it is shared by business leaders regardless of their geography.

-16%

"Decrease in share of CEO's who are 'very confident' in their 12-month revenue proapects

Top 10 threats of 2019

Threats that are top-of-mind are less existential and more related to the ease of doing business



This graph shows the concern on each threat that is supposed to slow down the growth of economy. Most of the CEOs feel that policy uncertainty is the biggest threat for the business community for 2019. In general, fewer CEOs are 'extremely concerned' about any and all threats to their business, even as they demonstrate lower confidence in their own revenue prospects. CEOs are more mindful of what's going on in their immediate purview as they await greater clarity on government actions and market conditions. Of those CEOs who expressed 'extreme concern' about the trade conflicts of 2018, the one between the US and China overshadowed other protectionist moves as particularly worrisome, with 88% expressing concern. It outweighed other trade tensions not only in the minds of Asia-Pacific and North America CEOs but also those in Western Europe. Asked how they were adjusting their operating model and growth strategy to accommodate these trade conflicts, most of these 'extremely concerned' CEOs responded they are not doing much beyond 'adjusting their supply chains and sourcing strategies'. Jaime Augusto Zóbel De Ayala, Chairman and CEO, Ayala Corporation in the Philippines believes that the escalation taking place between China and the United States is actually leading to renewed opportunities within ASEAN. He thinks that supply chains are getting disrupted, and ASEAN will be a net beneficiary of this disruption

Now CEOs are turning to what they can actively control inside their organisations as they confront the cracks in their own capabilities, especially the information and skills gaps. The 'information gap' — the gap between the data CEOs need and what they get such as customer preferences and needs — has not closed in the ten years even with the advancement of technology. As for skills, there are no quick fixes when it comes to closing the skills gap that many chief executives are concerned about this year. Globally, CEOs see 'significant retraining and upskilling' as the best answer, and that will take time and money. Therefore, governments and businesses need to work together to help their people adjust to the disruptive impact of new technologies through both channels and build a culture of adaptability and lifelong learning to spreading the benefits of AI and related technologies widely through society.

WHY YOUR MEETINGS DO NOT WORK OUT AND WHAT CAN YOU DO ABOUT IT?

Outstanding leaders are often too positive on their capacity as they get consistent results from whatever they do. They lose track on the fact that they might not be good enough in the meeting as they think of themselves. This problem occurs when they become less bothered about feedback from the attendee of meetings and don't look for any improvement in meeting contents. Major issues causing an ineffective meeting are irrelevant agenda items, overly long duration, and lack of focus, ascribing to which the most important meeting loses its importance.

Ineffective meetings made an impact in corporates and drew attention of the researchers. Many surveys were carried out to find out why meetings do not work out and the results were alarming. Survey indicates that ineffective meetings are evident in every organization and managers are not concerned about working on the improvements to get more interactive meeting sessions with the peers. Effect of a bad meeting does not just end there, it includes after effect behavior of the attendee through a new concept called 'Meeting Recovery Syndrome' .

Harvard Business Review summed up four preparatory measures that can reverse the current situation:

Assessment:

Before preparing a meeting, to establish better leadership, managers must observe themselves. They need to understand if people can follow the meeting or not and try to find out the positive and negative aspects of the meeting. And finally a leader who wants to top in every aspect work with both positive and negative to make it even better or to improve the condition.

Preparation:

Preparation before conducting a meeting with the contents and agenda can significantly improve the effectiveness of the meeting. Before holding a meeting, a good leader will make deliberate choices by knowing and defining the goals to set the stage for achieving them. Then one should decide the members who'll help to achieve the goals. Too many people leads to more chaos. And finally, try to introduce a change in time and environment.

About Ineffective Meeting

- Executives spend on average **23 hours** in meetings each week
- **8 hours** of meetings are unproductive
- **90%** people daydream in the meeting
- **73%** people do other tasks at the time of meeting
- **1300** managers think **79%** of the meeting that they initiated were very productive.
- **56%** of the manager thought that meeting held by other manager was effective

Facilitation:

As the conversation gets started in a meeting adopting a stewardship mindset, asking questions, engaging others, modeling active listening, drawing out concerns, and managing conflicts- these are the things that a leader must focus on to get the best outcome from a meeting.

Reassessment:

There will be room for improvement after every meeting so a good leader will reassess the whole meeting, find out the lacking from that meeting and work on those to make it better in the following meeting that is to be conducted.

ABOUT THE RESEARCH

"Why your meetings do not work out and what can you do about it?" is based on an article published on Harvard Business Review originally titled as "Why your meeting stink- and what to do about it?" which primarily focuses on the ineffectiveness of the meeting and improvement measures based on surveys conducted on this area.

WHY SOME HIGH PERFORMERS ARE QUITTING BIG COMPANIES TO WORK FOR THEMSELVES?

Survey on Fortune 500 companies by McKinsey & Co.

Every leader wants to have a great team, so one of the trend that is stretching the top corporates of Fortune 500 is that many of the very experienced people are leaving highly recognized and respected companies to become freelancers, driven by the prospect of earning more and also to live a work life more suited to one's individual preferences, to be exact, having a balanced work life.

McKinsey has done a survey on most of the Fortune 500 companies and the findings were interesting. Most of the Fortune 500 companies have strong presence in the market, which allows the employees to get enhanced self-esteem. However, recent trend of the top performers leaving the companies made them ponder about the phenomenon.

This statistics give us an idea why the senior executives walked away from working in multi-million dollar brands to lead a startup, trade stock options for oneself or start personal consultancy practice. An interview with 'Solopreneurs' reveal that neither these people were not forced out of any company due to unsatisfactory performance nor they had to start their own businesses out of necessity. On the contrary, they chose to leave their paths even being star performers. They decided to leverage on the relevant niche skill that they were superior at. As a result, these skills could be valued more, which are now bringing the 'Solopreneurs' more autonomy, more money and greater free time.

Leaving big companies for smaller ones is backed by economic and emotional considerations. Many high-skill professionals will earn more money on their own than by working for someone. So tolerating the uncertainty associated with unstable paycheck can bring in more than enough for the 'Solopreneur'. There are cases of a junior consultant and senior level officer who excelled in freelancing and independent-practice model. It paid off more than getting an MBA or even working as the chief strategy officer at Neilsen. A good number of those who left big companies were introverts who were tired of working in a predominantly extroverted environment. And many realized that political skills were increasingly important as you get up the ladder and thus many lost their desire to play that game.

Top players quitting Fortune 500 companies

- Significant number of people who left were CEO
- Only **7%** of Fortune **500** executives believe that they hold on to high performers
- **18 million** independent workers are assumed to emerge in this process
- These people were identified as **'Solopreneurs'** in the surveys
- **70%** of Solopreneurs in the U.S. had annual incomes nearly two to four times higher than the average U.S. household
- **30%** of Solopreneurs earn more than USD **250,000** per year

Large companies do offer opportunities to bring home a large paycheck, but the general perception among 'Solopreneurs' is that those jobs have diminishing returns to their happiness. Their self-awareness repels them from jobs with extremely high stress or lack of high autonomy. Solopreneurship brings freedom. Being free from serving others or answering to an authority. Otherwise, it is the same old battle year on year without any escapes. People go solo to prioritize friends and family and enjoy work-life balance.

Technology is making it easier to break away from the corporate arena and set up a business, hence 'Solopreneurs' can come up with businesses that require fewer capital and physical assets. 'Solopreneurs' are expected to grow significantly, which may drain the resources from large companies and put them in a fix.

ABOUT THE RESEARCH

Research is done by McKinsey & Co. which was conducted on surveying senior executives of Fortune 500 companies to focus on the background of so many executives leaving secured and structured workplace to pursue freelance business.

PERFORMANCE OF CAPITAL MARKET OF BANGLADESH IN 2018 AND WAY FORWARD IN 2019

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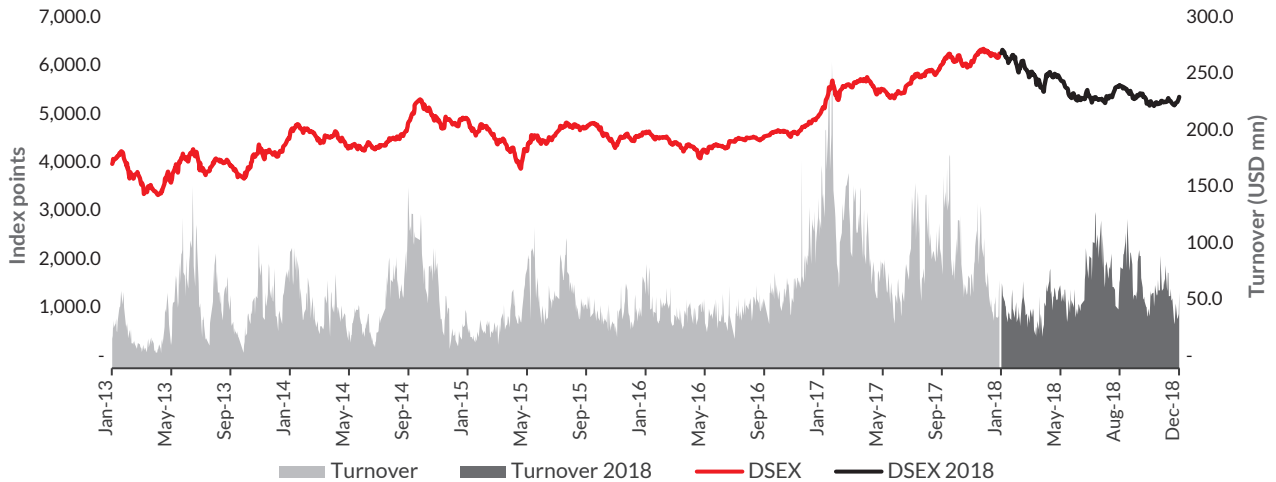
Investment Analyst, IDLC Asset Management Limited

Performance of capital market of Bangladesh in 2018 and way forward in 2019

Figure 1: DSEX vs Turnover

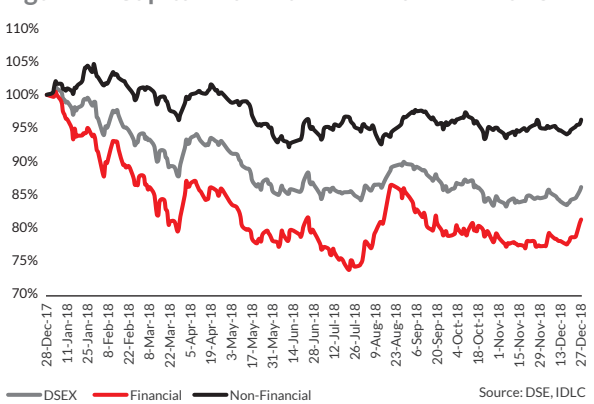


Performance of Domestic Equity Market

Capital market of Bangladesh passed a challenging year in 2018. After posting a stellar return of 24% in 2017, broad index DSEX declined by 13.8% in 2018, wiping out USD 4.3 bn of market capitalization (Mcap). Average daily turnover amounted to USD 65.6 mn, down by 37.0% than that in 2017. (Figure: 1)

The market correction was largely driven by decline in financial sector scrips. In 2018, financial sector was adversely affected by rising interest rate and growing NPL problems which dominated its stock market performance. Financial composite which includes Bank, NBFI, and Insurance declined by 18.6% against overall market decline of 13.8%. On the other hand, non-financial composite was down by only 3.7%, outperforming the market in 2018 (Figure: 2).

Figure 2 : Capital Market Performance in 2018



Source: DSE, IDLC

Macro factors reigned supreme in 2018. Expectations of currency devaluation prompted foreign fund managers to book profit, partially liquidating their stakes in local blue-chips. Large cap dominated Telecommunication and Pharmaceuticals were hit the hardest by this wave and declined significantly, despite solid fundamentals. Bank and NBFI lost over 20% of Mcap in 2018, suffering from asset quality and interest rate concerns. (Table 1).

Table 1: Change in Mcap of Major Sectors in 2018

SECTORS	CHANGE IN MCAP (YOY)
Cement	-26.4%
NBFI	-23.0%
Bank	-21.8%
Telecommunication	-21.7%
Engineering	-8.1%
Pharmaceuticals	-6.4%
Food & Allied	-1.9%
Fuel & Power	15.3%
Textile	15.9%
Insurance	17.1%

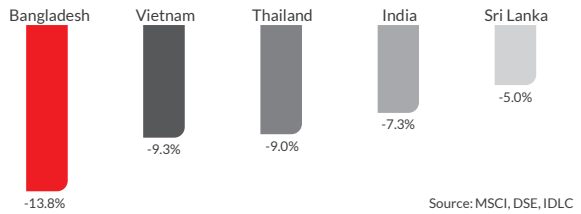
Source: IDLC

Macro factors were positive for Textile Sector, which rallied almost 16%. Textile business returned to a growth momentum after a long time, benefitting from US-China

trade war and cheaper BDT. Fuel & Power sector also surged, backed by earnings growth coming from the government's power plant binge.

Bangladesh was the worst performer among the peer emerging and frontier economies in this region (Figure 3). Rising US interest rate and currency triggered net outflow of foreign portfolio investment across the region. Regional economic power India declined by 7.3%, while Bangladesh's close competitor Vietnam shed 9.3% in 2018.

Figure 3: Equity Market Performancein 2018 in Bangladesh and Peer Countries

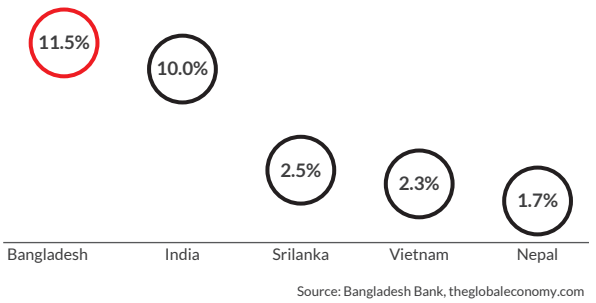


Key Highlights of the Capital Market in 2018

- **Interest Rate Hike:**

Interest rate hike was the key driver of market performance in last year. After years of gradual decline to a comfortable level, interest rate shoot up in early 2018. Difference between bank deposit rates and risk free rate offered by National Savings Certificates (NSCs) widened as the former steadily declined for a long period until 2018, and the later remained unchanged out of sync of market.

Figure 4: NPL Ratio in Bangladesh vs Peer Countries



Increasingly negative risk premium incentivized individuals and institutions to divert their funds from capital and money market to NSCs. Liquidity was thus tightening for a while and reached a critical point in early 2018. As banks scrambled for funds to maintain their AD ratio, interest rates shoot up. Regulators intervened to soothe rates with emergency measures. As long as NSCs rates are not linked with market and investment in NSCs are not monitored, and NPL issues are not addressed, market interest rates cannot remain low for the medium-long term.

- **Current Account Deficit and pressure on Exchange rate:**

Current account deficit of Bangladesh reached its historical highest at USD 9.8 bn in 2018. High import growth arising primarily from one–time surge in food grain import due to flood and sharp increase in petroleum products import exerted significant pressure on current account. Modest performance in export and remittance turned out to be insufficient to ameliorate it. As a result USD gets dearer. Central bank supported the currency throughout the year, soaking up further BDT liquidity from the market. In anticipation of currency devaluation, foreign fund managers lowered their exposure from capital market of Bangladesh. Large caps were affected the most by this and pulled index down with them. Corporate profitability was also hit as cost of imported raw material rose.

- **Banking Sector Turmoil:**

Already weakened by macro pressure, vulnerability of banks asset books were further exposed in 2018. As on September 2018, banking sector NPL stood at 11.5% , which would go up to 17%, if rescheduled and restructured loans were taken into account . NPL in Bangladesh is one of the highest in this region (Figure 4). Trouble with a fourth generation bank reached a critical point in last year, leading to a government administered management change. The weak state of its books brought fragile financials of the other fourth generation banks into limelight. Meanwhile, asset quality of public sector banks did not improve. A few of the private commercial banks also revealed to be in dire straits. Such state deterred investors causing a rout that shed almost USD 2 bn of Mcap from the sector.

1 Bangladesh Bank Quarterly, July-September, 2018
2 Bangladesh's bad loan ratio higher than India, Nepal, The Daily Star

- **Political Environment:**

Caution over political environment was a palpable catalyst of 2018's market. Market participants were defensive as election approached. However, compared to previous elections, political environment was rather calm as the election approached and passed.

Major Developments in Capital Market in 2018

- **Strategic Partnership between Dhaka Stock Exchange and Chinese Consortium:**

The most important event in capital market of Bangladesh in 2018 probably was the strategic partnership between DSE and a Chinese consortium of Shanghai and Shenzhen Stock exchanges. The consortium took 25% stake in DSE in exchange of USD 125 mn, valuing the exchange at USD 500 mn. The deal promised additional technical assistances worth USD 37 mn . The strategic partnership is expected to make significant contribution in improvement of local capital market. We look forward to the partnership delivering its promises.

- **Regulatory Developments:**

One of the biggest regulatory move in 2018 was extension of tenure of closed end mutual funds for another term of 10 years, provided that the total tenure of the mutual funds don't go beyond 20 years. On the aftermath of the decision, total market capitalization of closed end mutual funds declined by 7.1% or BDT 2.6 bn by the year end of 2018. Whereas, market capitalization of DSE declined by 0.9% during the same period.

In 2018, BSEC approved draft Bangladesh Securities and Exchange Commission (Qualified Investor Offer by Small Capital Companies) Rules, 2018. The rule is expected to facilitate a separate market for small cap companies, increasing efficiency of overall market.

- **Merger & Acquisition activities:**

Three big M&A activities took place in the local market after a long time. Earlier in 2018, global Fin-tech giant Ant Financial took 20% stake in local Mobile Financial Service provider bkash, a subsidiary of listed Brac Bank Ltd. The entrance of the global leader in the industry is promising potentials of rapid development and innovation in the local MFS industry. In late 2018, under a global transaction, local consumer business unit of GlaxoSmithKline was acquired by Unilever. In last year, privately held tobacco business of Akij group was fully acquired by Japan Tobacco International at a valuation of about USD 1.5 bn. All these big M&A activities reflect increasing interest of global giants in Bangladesh. Given the growth story of Bangladesh, we believe the interest to get even keener in coming days.

Capital Market Outlook in 2019

The government of Bangladesh expects that GDP growth would stand at 7.8% YoY in 2019, while inflation would be 5.6% YoY. Economic Intelligence Unit predicted Bangladesh to be the second best performing economy in the world in 2019, growing by 7.9% YoY. In concurrence, United Nations predicted Bangladesh to be third fastest growing economy with a growth rate of 7.4% YoY.[6] We believe post-election stable political environment will attract domestic and foreign investment and boost growth. As both export and remittance shows sign of significant improvement while import growth slowed, current account balance should also improve, easing pressure on currency. Bangladesh Bank expects Trade Deficit to be USD 17.2 bn, and Current Account Deficit to come down to USD 6.4 bn, while BOP situation to remain almost unchanged at a deficit of USD 0.6 bn [7]. However, money market may remain stressed until NSC rates rationalization, NPL buildup, such structural issues are addressed.

Outlook of Major Sectors in the Capital Market

- **Banks:**

The year 2019 is expected to be a better one for Bangladesh economy. We expect current account deficit to moderate at 2% of GDP from 3.6% of GDP (deficit) in 2018. This is likely to ease the currency devaluation pressure. Besides, political stability is expected to continue after the peaceful election of 2018. However, high NPL is still acting as the systematic risk of the industry. We are yet to see any solution of this issue although the new finance minister is optimistic about bringing down the NPL ratio. In addition, higher money flow in the NSC instruments is also a serious concern for banking industry.

3 Dhaka Stock Exchange sells 25 pct stake to Chinese consortium, Reuters
4 Ant Financial, operator of Alibaba-linked Alipay, will buy 20 percent of Bangladesh's bKash, bdnews24.com
5 EIU: Bangladesh to be second best performing economy in 2019, Dhaka Tribune
6 World Economic Situation and Prospects, United Nations
7 Monetary Policy Statement, January – June 2019
8 "Country overview: Bangladesh Mobile industry driving growth and enabling digital inclusion" report by GSMA

Telecommunication:

Overall outlook of telecommunication sector seems to be positive in 2019 with continued business growth driven by rising demand of data. Bangladesh is still lagging behind on some important parameters like internet penetration (36% as on 2017) and smartphone penetration (31%[8] as on 2017), indicating huge room for growth for MNOs. On a different note, the ongoing regulatory developments in the industry should be kept in mind which may have impact on the performance of the listed companies.

Pharmaceuticals:

Pharmaceuticals sector is expected to do well in continuation of its recent history. Though overall profitability growth was low in 2018, mid-sized players did well. As economy of Bangladesh grows, lifestyle of its people changes, so would its disease profile. We believe the current long term transition of domestic disease profile from acute to chronic, would remain in play. Pharmaceutical companies that position itself the best in changing patient needs would deliver significant value for both patients and the investors.

One of the key issues to look for in 2019 would be whether prices of essential drugs are re-fixed. A balanced re-fixation can serve customers purpose and incentivize pharmaceutical companies in investing more on such drugs. Export performance of major pharmaceutical companies are to be observed closely. While, contribution of export to total business is still low.

Fuel & Power:

Our optimistic macro expectations cannot materialize without higher output from Fuel & Power sector. The sector is vital for economic development and stays at the focal point of government's attention. We expect profit of the sector to increase in the coming years as power generation and ancillary services grows rapidly.

Consumer:

Consumer sector in Bangladesh is in a secular uptrend. As our purchasing power rises, and middle class population expands, consumer business are set to rise. Consumer staples are expected to stick to its steady growth, while discretionary may get a boost on a post-election spending surge.

Construction:

A whopping sum of USD 2.1 bn has been allotted for Annual Development Program (ADP) in budget of FY2019 out of which a total of 835.8 mn would be spent for infrastructure development in communication and energy sector. These ongoing and planned infrastructure development projects are expected to drive the business growth of the companies related with construction materials. Additionally, the housing sector has showed some sign of recovery recently, driven by factors like expanding middle class population, long-term house loan facility at low interest rates for government employees etc. However, fluctuations in price of the imported raw materials like clinker, iron ore, billets and oil may impact the bottom-line of these companies.

Figure 5: Value drivers for major sectors in 2019

BANK

- Interest rate volatility
- Rationalizing NSC rate and investment process
- Deposit mobilization
- Provisioning
- Impact of basel III implementation on dividend (cash) payment

CONSUMER

- M&A Activities
- Interest rate movements
- Exchange rate effects on raw materials

CONSTRUCTION

- The speed of ADP implementation
- Interest rate movement
- Price movement of imported raw materials

PHARMACEUTICALS

- Price reflixation of essential drugs
- Exchange rate effects on raw materials prices
- Export performance of major pharmaceuticals companies

TEXTILE

- RMG export growth
- Raw materials price
- Exchange rate
- Interest rate movements

ENGINEERING

- Economic Growth
- Interest rate movement
- Price movement of imported raw materials

FUEL & POWER

- Timely implementation of power plants
- Interest rate movements
- Global energy prices

TELECOMMUNICATION

- Date usage growth
- Smartphone & internat penetration
- Regulatory developments

- **Engineering:**

The companies under engineering sector are engaged in varieties of business. Among them, commercial vehicle industry is expected to grow with rapid industrialization and communication infrastructure development in the country.

- **Textile:**

Textile sector should continue its momentum from 2018 leveraging increased orders thanks to weaker currency and trade war. Increased minimum wage would increase labor cost for the sector, but that is likely to be offset by increased order flow. Keeping power cost in check is a critical for profitability of the sector.

Market Outlook

In the long run market always and everywhere reflects fundamentals. As we expect fundamentals to remain strong in economy and major sectors, we naturally expect market to perform better. However, it's critical that interest rates remain under control and liquidity condition in the financial markets remain conducive to business growth.

Expectations from New Government and Regulators

The ruling party has recently formed its third consecutive government. Because of the continuation of the regime, we naturally expect policy continuation and consistency. However, there are some early signs that make us anticipate major momentum in qualitative improvement of the country. The young cabinet has taken some initiatives especially in financial sector that if followed through, can instigate major changes in governance and regulatory oversight. We expect government initiatives would play a major influence in this year's market performance. Specifically, we have following broad expectations from the government.

- **Stronger Oversight in Money Market:**

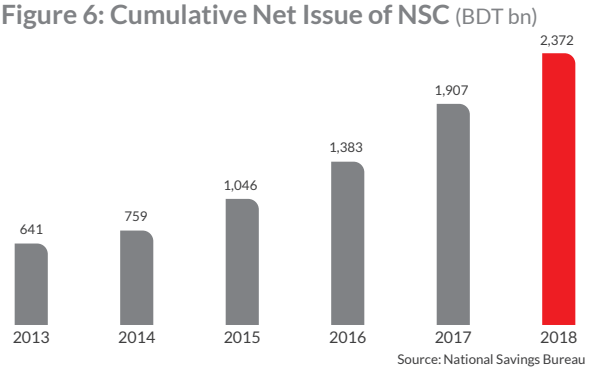
Our earnest expectation from the government is that it implements strict oversight on the economy and particularly on financial sector. Weakness in the financial sector remains a major challenge to our economic potential. As on September, 2018 overall NPL ratio stood at 11.5%, much of which comes from state owned banks . It is estimated that NPL ratio would go up to 17% if rescheduled loans are included . The NPL ratio does not include the asset quality of NBFI sector. Some NBFIs are at a precarious state and may cause significant stress on the financial system, despite their smaller sizes. With such high NPL ratios, interest rates cannot sustain at single digit. The situation should immediately be dealt with to put our economy on a strong footing.

- **Stronger Oversight in Capital Market:**

Our capital market is small in size and dominated by individual investors. Such markets are globally riddled with malpractices like insider trading, and price manipulation. Such practices inhibit long term growth of the capital market by portraying it as an unviable market of financial intermediation. The Regulator needs to invest more in surveillance activities to identify wrongdoings in capital market. Proven wrongdoer should be punished in an exemplary manner proportionate to their crime, so that potential wrongdoers are deterred.

Interest Rate rationalization: The high interest rate of National Savings Certificate has created an imbalance in the monetary system. Massive amount of savings is being diverted to National Savings Scheme,

Figure 6: Cumulative Net Issue of NSC (BDT bn)



mopping up liquidity from banking sector (Figure 6). To attract deposit, banks have to increase deposit rates which in turn increases lending rate, making investments costly. NSC rates need to be rationalized and it must be ensured that NSCs are accessible by only the intended populace at intended amount. Finance ministers recent initiatives to create database of NSC investors is a laudable improvement in this regard. We hope the new government is successful at implementing this database and take steps to rationalize the NSC rate.

9 Bangladesh Bank Quarterly, July-September, 2018
10 Bangladesh's bad loan ratio higher than India, Nepal, The Daily Star

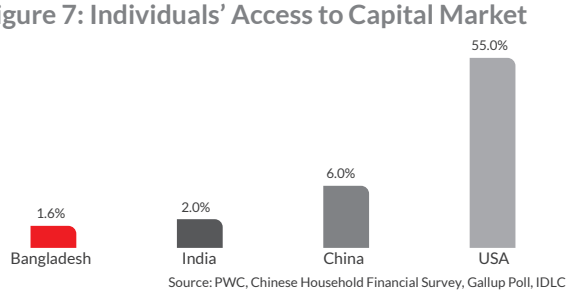
Fixed Income Market:

Development of a fixed income market has been a critical need for the capital market of Bangladesh. Banks are the disproportionately large financial intermediary in the country. As banks focus on short-medium term financing, there is no channel to mobilize savings for long term investments. A fixed income market can fulfill this gap. Development of fixed income market has to start with development of a secondary market of government bonds. If the government can establish this, pricing of related instruments becomes easier and financial system wide maturity mismatch can be tackled. A developed bond market can not only finance long term corporate projects, but also large government infrastructure projects. Only by developing a bond market, government can mobilizes domestic resources to finance infrastructure and reduce foreign currency exposure. Presently, issuance of bonds is a lengthy process, requiring approvals of the relevant regulators before issuance. But, business and interest rate environments are very dynamic and may radically change during this period so much so that the business case and the rate attractiveness of the bonds may diminish. Addressing the fast pace of modern business, Indian regulators require only notification of compliance with guidelines after issuance of bonds, scrapping previous practice of approvals before issuance. The regulators may consider adopting such international best practices to facilitate bond market development.

Promoting Professional Fund Management Services:

Mutual Funds and institutional portfolio management industry is at a nascent stage in this country However, asset management industry is a prerequisite to transforming the capital market to a stable market for wealth creation. Professional fund management services can protect individuals from the volatility of the market and deliver return to meet their investment goals. The government may consider forming policies that promote institutional fund management services to help citizens better manage their financial wealth.

Figure 7: Individuals' Access to Capital Market

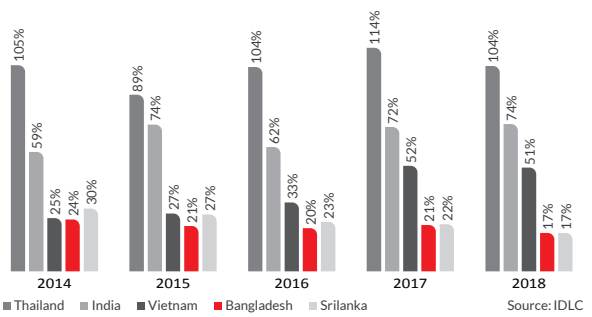


Individuals' access to capital market is less than 2% in Bangladesh (Figure 7). Professional Fund Management services is necessary to make capital market more inclusive. Additionally, Fixed Income Mutual Funds can play a significant role in developing bond market. Fixed Income Mutual funds can divert individuals' savings direct to corporate finance, bypassing banks. As a result, cost of borrowing for corporates decreases and investors return on investment increases. Globally fixed income funds herald fund management industry. In India, the asset under management of Mutual Fund industry is USD 337 bn, 54% of which is invested in fixed income securities.

Bringing Large Corporates to Capital Market:

The capital market of Bangladesh is lagging behind the economic growth of the country. In 2014, Mcap/GDP ratio of Bangladesh stood at 24%, which has come down to 17% in 2018. While the ratio improved or stayed almost flat for the peer countries (Figure 8).

Figure 8: Market Capitalization to GDP



Lack of listing of large corporates in the market is the primary reason behind our falling Mcap/GDP ratio. Government may focus on reducing the time it takes for a corporate to raise money through IPO to increase the attractiveness of IPO as a financing option. The process should be simplified following global best practices so that corporates consider it a viable alternative source for financing.

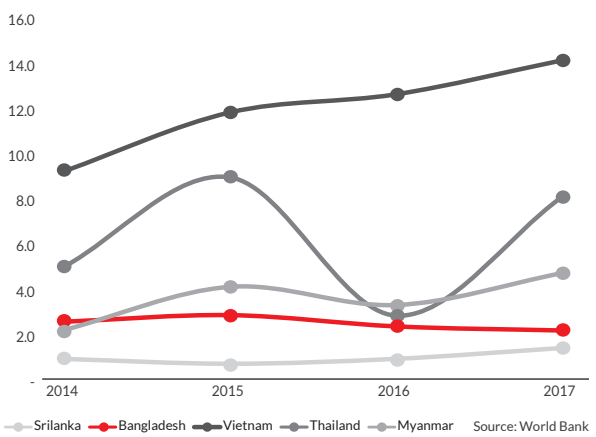
Attracting and facilitating domestic and foreign Investment:

Despite its amazing growth potential, Bangladesh lags behind in attracting foreign investment compared to its peers. Although a smaller economy, Vietnam consistently attracts substantially more FDI than

11 Ease of Doing Business: Bangladesh lowest in South Asia, Dhaka Tribune

Bangladesh does. In 2017 alone, Vietnam attracted FDI of USD 14.1 bn, 6.6x higher than that by Bangladesh. Even Myanmar attracts more FDI than Bangladesh. In 2017, Myanmar attracted twice as much FDI than Bangladesh did (Figure 9). Doing Business Index by The World bank ranks Bangladesh at 176th among 190 countries based on ease of doing business in a country. Bangladesh is ranked the lowest in South Asia, even 10 notches below Afghanistan . Bangladesh needs to improve its position in the areas covered by the Doing Business Index. This effort alone can attract significant FDI to Bangladesh.

Figure 9: FDI in Bangladesh vs peers



In line with global equity markets, capital market of Bangladesh had a rough year in 2018. However, recent developments in global economic and political arena present unique opportunities to Bangladesh. Availing these opportunities, Bangladesh can take its growth momentum to the next level. Not only government, but also supranational economic agencies expect robust economic development for Bangladesh in coming days, provided that the country can exercise fiscal and monetary prudence. If the country can keep its fundamentals right, capital market is certain to deliver amazing return.

EMERGENCE OF F-COMMERCE STARTUPS

SERVING CUSTOMERS AT THEIR DOORSTEPS

F-Commerce is one of the newest form of online business versions which got popular among the young entrepreneurs of many countries because of its wide marketing reach due to better targeting, greater interaction and higher return on investment. This form of business is really appreciated by the new generation of people who shop online. This mainly ascribes to the fact that shopping in Facebook pages is convenient for the young generation. In Bangladesh there is no difference from the global scenario, and the prospect of F-commerce in Bangladesh is even better. Growth of F-commerce community is phenomenal considering statistics.

Ease of usage plays a role behind the popularity of F-commerce stores. F-commerce emerge as one of the solution of unemployment for many as they start a small business through Facebook page and earn handsomely figure from business. Facebook pages offer diversified products which encourage customer to visit and purchase more. F-stores are able to setup their online store for free and they do not have to deal with websites or a physical space, requiring very little investment.

Globally, F-commerce comes under 'Social Commerce' that covers all social media sites including Whatsapp, Instagram, etc. In India, 79% of e-commerce sales is due to social media platforms. Due to the thriving social commerce in India, Facebook has also launched 'Facebook Marketplace' that allows people to buy and sell in their community. The global industry is much more developed with legal frameworks in place.

Major challenges of F commerce industry

- **Increased tariff on imports:** High tariff rate is felt in the F-commerce industry in Bangladesh because most of the stores are resellers or import materials which restrict the group from achieving economy of scale.
- **Logistics:** When it comes to the delivering products outside Dhaka it become tough for these small stores because outside Dhaka delivery service is poor and mostly dependent on local courier services.
- **No legal framework:** No surveillance on the F-commerce sites and no legal structure make this sector unorganized and defamation of the business is a big issue.

F-commerce facts

- Dhaka alone has **22 million** active Facebook user
- Among all the social media users, **89.62%** use Facebook
- The F-commerce market size in Bangladesh is approximately BDT **312** crore
- **72%** of F-commerce users are male
- **50%** of the Facebook stores are owned by females
- More than **300,000** Bangladeshi stores are operating in Facebook
- Only **100** of these stores are associated with E-commerce Association of Bangladesh (e-CAB)
- Page owners are able to earn anywhere between BDT **10,000** to BDT **100,000** on average per month
- Most of the users of Facebook pages are aged between **18-24**

- **Payment System:** Platforms like ShopUp, have allievated the problem to an extent by enabling bKash payment. Most stores are still highly dependent on cash on delivery or use a complicated process for mobile payment.
- **Insufficient business knowledge:** In this large pool of stores, majority of them fail to create a sustainable business in the long run due to lack of basic business knowledge such as customer management.
- **Access to financial funds:** Many of the Facebook stores are not registered and have no trade license, while others fail to maintain proper financial

statements. Thus, banks are often hesitant to provide them with loans due to the high risk of defaulting involved. Loans available to them are subject to high interest rates.

Effect of Facebook Algorithm Change

Facebook's algorithm change has thrown in some challenges. Sometimes businesses are unable to use hashtags, make posts public or publish videos. Boosting has become expensive as it now costs 3-4 times more to get similar reach compared to the years before 2018. Thus it is hard to acquire new customers, and posts have to be made in the pages constantly to have the same reach and relevance. The algorithm is such that the pages with frequent posts are promoted. It becomes difficult for business owners who are students or has other engagements to be regularly active on the pages. Engagement on the pages are dwindling and targeting of boosted posts are not as effective as it was before. Businesses are now considering to shift partly or completely organic methods for reaching customers. Customers may end up purchasing products but they may not share the page with their friends. So focus on product relevant content such as engaging videos is expected to rise. Nurturing loyal customer base who always recommend products to their peers, and increasing popularity of alternative channels like Instagram are allowing the businesses to cope with the algorithm change.

Shop-up facilitating F-commerce Stores

ShopUp is a Facebook features for merchants. It did not have a smooth start because customers were unwilling to use an external site for ordering. But now ShopUp has been able to incorporate all necessary features to their platform and given businesses the automated process of inventory and order management. It can also handle delivery which is very easy due to their panel system. However, there are some complaints. The payment processing at times has been delayed. But few of the stores feel that when multiple brands work under the umbrella of a larger, dominant brand, the bigger brand (ShopUp) gains greater attention than the smaller brands. Some owners would prefer a separate, customized service from ShopUp which is not available currently. The whole database of the business is exposed to ShopUp, which is yet another risk.

Future of F-commerce

There is room to make the ecosystem of F-Commerce better. It very easy for anyone and everyone to start their business over Facebook but maintaining authenticity is tough because this is an issue that can end up affecting other stores. It has been identified as one of the key reasons for the stumped growth of F-commerce in the country even though this industry has great potential ShopUp can enforce that these business should at least fulfill a certain criteria before starting their operations. Fraudulent activities and lack of business professionalism are causing the customers to lose their trust in e-businesses. Change or revision in a few of the regulations has been called for. To state an example, a passport and proof of citizenship can be considered enough for allowing someone to run the business with a trade license. Additionally, the FinTech platforms could enable businesses to make a merchant account that will help facilitate the payment mechanism. This is currently not possible because they require a physical store or a 'signboard' for proof of business.

In order to understand the F-commerce ecosystem of Bangladesh, four popular Facebook businesses of different types were interviewed by MBR in order to learn how these F-commerce stores started their journey and the hurdles that they overcame and still face.

Fouara Ferdous

POTER BIBI

Poter Bibi started out in 2015 with a small investment of and with very limited designs. Collecting few local weavers' available designs at a small scale, it was quite a challenge for them at the very beginning because handloom sarees that are available in market are not preferred by mostly young generation due to its bulkiness and high prices. Therefore, keeping quality intact and producing bit comfortable sarees in a reasonable price range to attract young consumers. Start of the journey was with Facebook community in the beginning, they got huge response. Getting motivated; with differentiated design and quality fiber they created customized designs. Poter bibi tried to put local community, Bangladesh heritage and culture through their designs. Since Bangladesh's fabric and textiles industry is flooded with Indian and Chinese products, the only way to compete in the industry was by providing unique designs while keeping the traditional aspect intact. Whole process doubles the cost but profitability is still there because customers judge quality and so price becomes a secondary concern for customer. The resources are dedicated to only Poter Bibi which is a great advantage. During last few years Poter Bibi scaled their business, and they are targeting to make it the designated solution for deshi shares in F-commerce platform. But still inventory management, maintenance of customer database and production of other statistics are real challenge to them. Funding from the bank was impossible due to lengthy and slog process of bank loan. Regulators and Government authorities can now think to update the trade regulations to help the SME to scale up more to contribute in social economy.

Sazia Hassan Izu

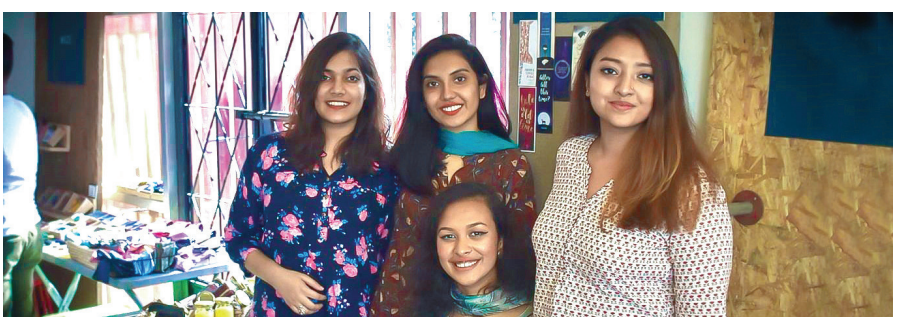
RUPANZEL'S SECRET

In 2012, Rupanzel's Secret started with the hair oil made by the owner's grandmother for the past 50-60 years which they used all the time. The hair oil started to get attention among her friends and closed groups encouraging her to start her business through her Facebook page. After a lot of process development, the brand flourished through their products and packaging and became one of the first movers in the F-commerce industry of Bangladesh. Back then, the page gained immense popularity just through their customers and word-of-mouth. Now they have to invest in strong marketing and promotions to get new customers. They got organic reach initially, now the page spends USD 10-12 to reach customers. True strength of Rupanzel's Secret lies in the fact that they have a well-established position in the minds of a strong loyal consumer base. They wish for a better F-commerce ecosystem that wouid help the whole industry to grow. Since there are tons of sellers emerging every day in Facebook and the product and service quality is deteriorating, it is a huge concern. So they hope that every businesses fulfills a certain criteria before starting the business. With increasing fraudulent activities customers tend to lose their trust in actual, authentic businesses.

From Left to Right Fahim Islam, Nahiyan Naser, Lamisa Rahman, Ali Sakhi Khan

GORUR GHASH

Gorur Ghash started out in 2014 as a partnership between two friends. Initially they used to sell posters for wall accessories and it was limited to a very small community. The business wasn't doing as well as they hoped and one of the partner decided to leave. Later in 2017 Nahiyan decided that he want to revamp the business into a clothing line. So, he reached out to two of his friends- Fahim and Ali and the three of them started Gorur Ghash as a clothing line. Their introduction of 'The Denim' campaign was really well received and that's when Gorur Ghash took off. The brand is appreciated for unique designs and great quality at low prices. And the overarching theme of their content is to make things fun and relatable. So their name, campaigns, receipt, all carry the funny and witty aspect in line with their name and positioning. Humor is now a quality that defines their clothing brand. However, to keep a constant flow of creative content running is hard at times. Facebook works in a way where they have to make sure to post relevant content everyday to keep engagement up. Additionally, it has also been a challenge to gain the trust of the consumers which they were successful to get so far. However, they feel that the online shopping scenario of Bangladesh isn't well-developed making it necessary for them to maintain a very homely, informal interaction with their customers. Many Facebook pages don't take real photos of their products and customers get delivered something entirely different from what they ordered. This is why Gorur Ghash invests their time on product photography to make customers believe in the authenticity of the products. And in order to further build their trust, they offer a trial policy where if the customers don't like the product upon delivery, they can send it back without any charge.



From Left to Right Sabrina Rahman, Ishmam Shafi, Rahnuma Ahsan, Tasnim Farah Zaman

NEWTON'S ARCHIVE

Tasnim and her friends used to run a lifestyle blog Facebook page called 'Bardots and Newton' at the beginning. Through that, they got invited to an event where they had the option to put up a stall. They wanted to give something more to their followers than just meeting them so they planned on making scented candles and canvas paintings for the event. It was very well received and they realized that the Bangladeshi market has a gap for these handmade themed merchandises. The purchasing power of Bangladeshi consumers have increased so they have the desire to spend on products for their personal gratification and so they saw an opportunity here. Popularity of movies, books and their characters have increased and people want to carry their momento or association. Moreover, scented candles found in Bangladesh are usually imported and not readily available. The ones that can be found are either of extreme high prices or of substandard quality. So seeing these opportunities, they officially launched their Facebook page called 'Newton's Archive' in 2017. The response was they received was phenomenal.From then the business has grown from a kitchen to an office space, from making 10 candles a day to 100 candles a day. Besides the quality, the idea behind every candle is unique. People are not just buying a candle, but an experience. For example, their best seller candle inspired by the show, FRIENDS, will take the customer to Central Perk. Thus a coffee and caramel scented candle called 'I'll be there for you' became an instant hit. They ignite nostalgia and warmth in people with the themes.

SHOPUP

ShopUp is a fast growing start-up which is revolutionizing the F-commerce industry of Bangladesh, through providing access to finance along with a large range of services, exclusively, to the F-commerce stores. Their platform is driven by the use of data science for credit evaluation and is growing to become a forerunner in using analytics for micro-financing.

Starting from scratch

Right after completing graduation from Institute of Business Administration (IBA, University of Dhaka), Mr. Afeef Zaman and Ms. Siffat Sarwar, along with Mr. Ataur Rahim Chowdhury - a software engineer, the founders of ShopUp came up with a unique solution to bring the micro entrepreneurs in a structured platform. The idea of building a platform for Facebook based entrepreneurs popped up in their mind when they tried to bring online a few micro-entrepreneurs from a pottery cluster in Southern Bangladesh, which was losing it glory in teeth of mounting popularity of plastic items. The scale of f-commerce is more significant in Bangladesh than any other e-commerce platform due to convenience and popularity of Facebook among Bangladeshi people.

One of the problems that the founders encountered while working with the merchants based on Facebook is lack of accessibility to finance. Facebook merchants usually do not have any track record of their transactions as these transactions are entirely messenger-based and cash-based. On the other hand, the risk appetite and operational structure of the Financial Institutions (FI) do not allow them to finance the F-commerce businesses, where the ticket size ranges from BDT 25,000- BDT 300,000. Due to having high operational cost, such small ticket-sized loans are not cost-effective for the FIs. ShopUp took advantage of this phenomenon and gained popularity among F-commerce startups by providing them the access to finance among other solutions.

Starting from left Afeef Zaman, Siffat Sarwar and Ataur Rahim Chowdhury

Banking on algorithm based credit scoring model

Entrepreneurs can apply through the mobile app of ShopUp mentioning the amount of credit they need. ShopUp determines the loan amount by using algorithm based credit scoring model, where they count on 2000 data features to assess a particular online business. After that, entrepreneurs need to sign a physical agreement and then the cash gets disbursed to their mobile wallet or to their bank accounts (in most cases). The loan processing time varies from 3 days- 7 days Currently, ShopUp is tagged with BRAC MFI as their partner FI. They get the final loan offer derived from the algorithm and conduct the final disbursement process. The repayment is done through either bKash or the amount is deducted at source. The collection is conducted by ShopUp since the borrowers are accessible to them as they enjoy other facilities provided by ShopUp.

The Chief Data Scientist of ShopUp, who is a PhD candidate of Massachusetts Institute of Technology (MIT) leads the data science team which is based in Bangladesh. ShopUp also has a credit consultant to help them look into the signals from different directions and predict the behavioral traits of the entrepreneurs; e.g. forecasting a merchant's spending behavior through the number of time he/she prefers to boost their Facebook post. ShopUp also uses psychometric data to predict a customer's repayment intent and repayment capacity.

A complete solution for F-commerce based entrepreneurs

F-commerces' basket size is much larger than that of e-commerce ventures. Words of mouth determines the fate of F-commerce business, for which chances of forgery narrows down. ShopUp is not only the financial partner of the F-commerce businesses, but also serve as a growth partner by providing them a complete business solution. The range of services encompasses inventory management, logistics services and so on. In this way, the borrowers stay on the same platform and it curbs down their probability of default.

One of ShopUp's client, Rapunzel's Secret, which is a popular F-commerce business selling haircare products, started with this platform and grew exponentially with the help of ShopUp's services. Currently, it has 45000 merchants under its belt.

Challenges forward

Facebook based micro entrepreneurs are expanding rapidly and qualifying to small business segment from micro business segment. ShopUp is trying to shift their payment mechanism from 'cash on delivery' to 'digital payment'. When a business grows, the increasing number of cash transaction becomes burdensome for each party involved, hence digitization of the payment method is the only answer to handle the heavy volume of transactions. Since 'trust' plays a big role in F-commerce businesses, shifting the payment mechanism would be a challenge for ShopUp.

Plans down the line

ShopUp raised USD 1.62 M seed round led by by Omidyar Network, the impact investment firm established by Pierre Omidyar, the founder of eBay. Other funders in this round include angel investors from Facebook, Google, Amazon, Grab, and leading global banks. ShopUp helps individuals build and grow their online business, gain access to credit, increase earnings, and become financially healthy and secure. ShopUp plans to bring offline merchants to its platform soon. ShopUp plans to acquire 100,000 merchants by Q2, 2019. It also wants to expand its horizon from f-commerce to other segments as part of its expansion plan.

The credit culture of Bangladesh credit market is yet to shift towards algorithm driven models from the traditional ones. FIs need to incorporate a new lens of lending which will be totally data driven. Information asymmetry is there; however, data-driven pipelines helps to evaluate a loan applicant more efficiently. Scopes are aplenty for the new players and emerge to maintain a healthy competition.

ECONOMY AT A GLANCE

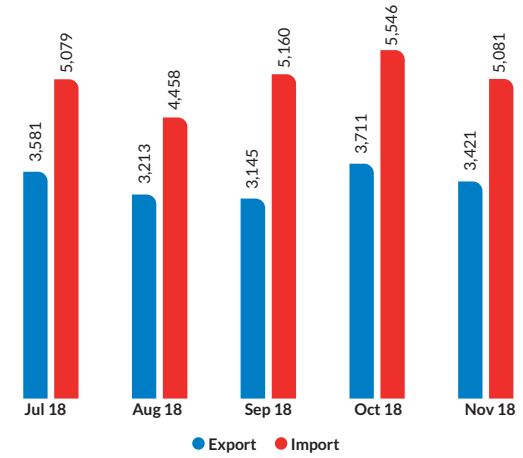
Private credit growth slumps
at 13.33%
in December '18

Remittance inflow up
8.06%
y-o-y in July-December 2018

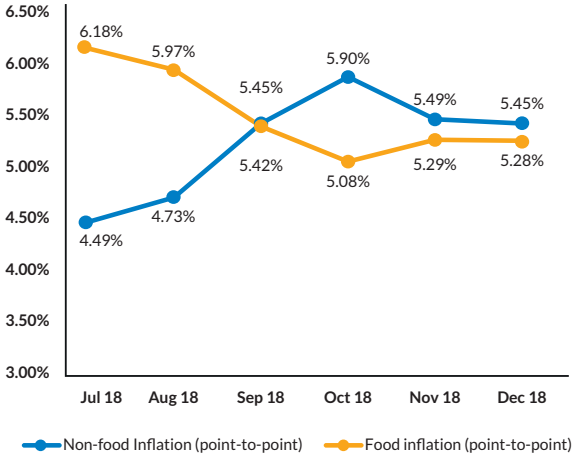
Inflation rate Down
General inflation
5.35%
in December '18

EXPORT-IMPORT

(USD in million)

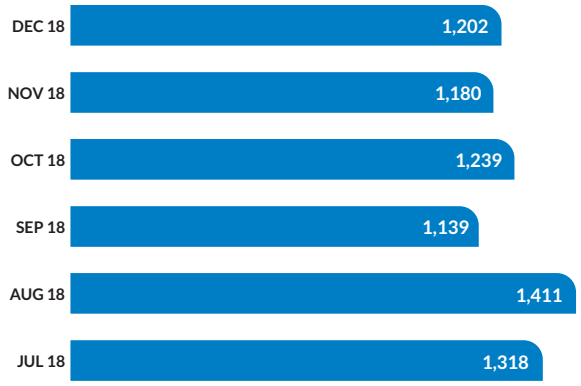


INFLATION

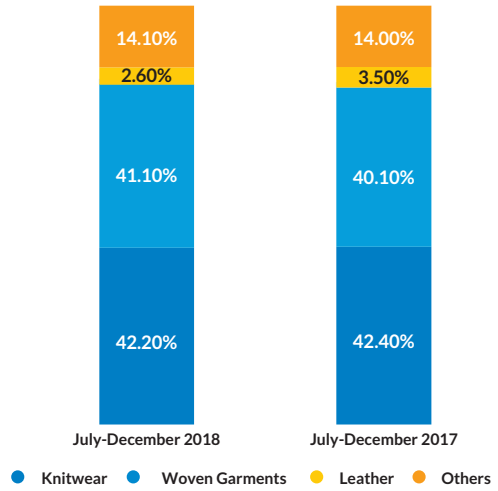


REMITTANCE

(USD in million)



SECTOR-WISE EXPORT



IDLC Awarded as Overall Category Winner among all SAARC Countries by SAFA (South Asian Federation of Accountants)

IDLC Finance Limited has been honored with the "Overall Winner of South Asian Federation of Accountants (SAFA) Award 2017" among eight SAARC countries. IDLC also achieved success in securing three category winner awards in Financial Services Sector, SAARC Anniversary Award for Corporate Governance and Integrated Reporting.

Each year SAFA Awards under different categories are conferred on the basis of evaluation administered by SAFA's Committee for Improvement in Transparency, Accountability & Governance among the SAARC nations – Bangladesh, India, Sri Lanka, Pakistan, Nepal, the Maldives, Bhutan and Afghanistan.

The Awards have been handed to Aziz Al Mahmud, Chairman of IDLC Finance Limited and Arif Khan, CEO and Managing Director of IDLC Finance Limited in a grand ceremony on January 22, 2019 at 4.30 pm in the premises of Pune Chapter of the Institute of Cost Accountants of India, CMA Bhawan, Pune, India.

MONTH IN BRIEF

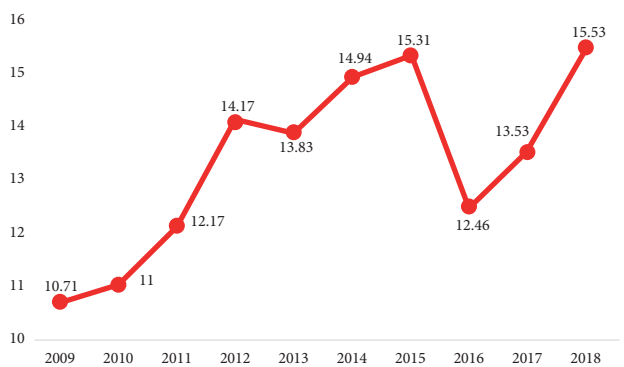
- **Average inflation was at 5.55%** in the 2018 due to stable commodity markets at home and abroad

- **Overall export earnings grew by 14.42%** to USD 20.49 billion – 9.13% higher than the period's target

- **Garment shipment -** which typically contributes over 82% of the country's export earnings - grew by 15.65%

- **Country's trade deficit eased** by 12.46% or USD 0.95 billion in July-November due to rise in export earnings

Remittance Inflow in USD Billions



- **Remittance inflow at USD15.53 billion** – an all-time high in 2018 due to depreciation of Taka against US Dollars

- **Data consumption increased by** 34% due to usage among individuals, businesses and flourishing local contents and online-centric services

- **NBR faces BDT 280 billion deficit** in tax collection posting a slower growth of 6.36% in corresponding period

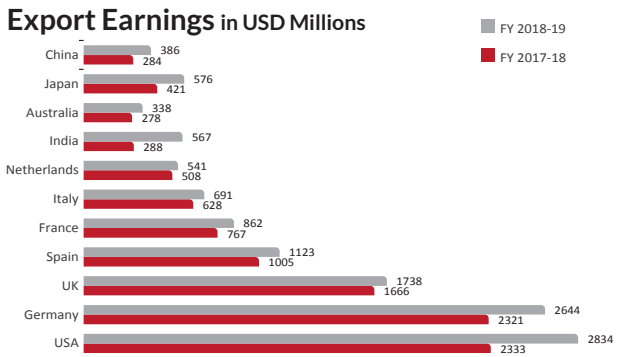
- **Transactions through mobile financial services (MFS)** grew 20.41% year-on-year to BDT 378,885 crore in 2018

- **Tea production hit 82.13 million kg,** a two-year high in 2018 which is 13.45% higher than target

- **Net inflow of FDI was USD 2.26 billion** in January-September period of 2018 due to large Chinese investment in power sector

MONTH IN BRIEF

● **Growth of country's export earnings** was 19% from the United States due to US-China Trade War.



● **Mobile phone assembly picks up** momentum as Local handset plants churned out 23 lakh units in 2018

● **Household debt makes up almost 50%** of non-banks' total portfolio making the sector vulnerable to shocks

● **Bangladesh's per capital external debt stands at USD 204.85** due to large loans taken by government for transformational projects

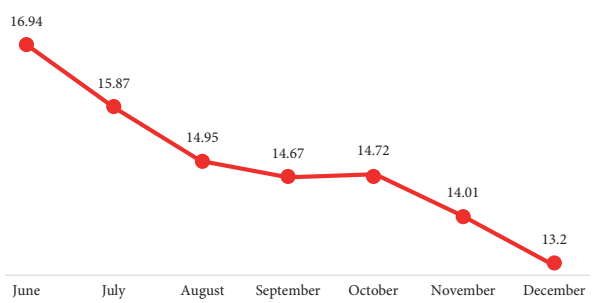
● **VAT on internet infrastructure services cut down to 5%** from existing 15% as demand was high in 2018

● **Export earnings from jute and jute goods fall 26%** in H1 at USD 421 million

● **Government borrowing shoots up** amid sluggish revenue as government borrowed BDT 3,901 in less than a month

● **Private sector credit growth fell to a 39-month low** in December as businesses went on a cautious mode for elections

Private Sector Credit Growth in %



● **Annual Development Programme (ADP) spending rises** in to 27.4% to upgrade rural road network

● **Living costs in Dhaka rose by 6% in 2018** due to high imports tariff of 25.64% - highest in South and Southeast Asia

THINGS TO KNOW FOR FIRST TIME HOME BUYERS

Even when affordability is a limitation, people dream of owning their own house or apartment one day. Now with rising purchasing power, people can attempt to turn their dream into reality, thanks to many institutions offering home loans throughout the country. Therefore, one must educate oneself to make an informed decision.

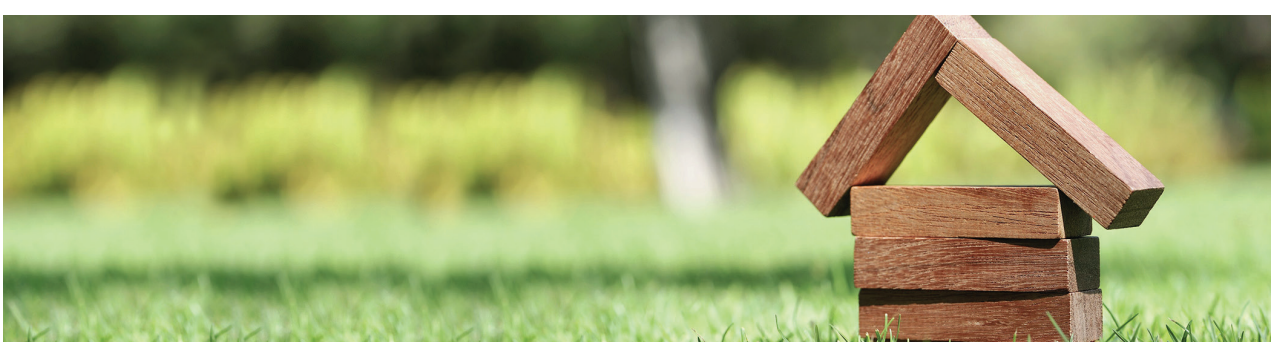
Myths

- **Existing customers are charged higher interest rates** – This is not really true, when the interest rate is fixed and the market rate has reduced after customer takes on the loan. So naturally, new customers will get lower interest rate.
- **You end up paying more interest than the loan amount** – This is not always true, as the EMI paid every month has a principal component as well as interest. As the principal gets paid, the loan outstanding also reduces, which brings down the interest payment on it. But the longer the tenure, the higher will be the interest paid to the bank.
- **Fixed interest rate cannot be changed** - Not true. Most of the fixed rate home loan does have a reset clause stating that the rate is subject to revision. So interest rate can be changed for fixed product if required.

Top things to consider before taking home loan

- **Variable vs Fixed vs Split** - Each of the interest rate types has its own merit and demerits. Depending on situation each type can serve better for customer. As fixed rate is a win when interest rate is low but variable rate can be benefiting when the rate is high and is expected to go down in future.
- **Time value of your money** - Long term will reduce the monthly payment. If monthly payment is low, you are saving a portion of your money that has more value now from being given away to the lender. Also, the customer then should consider increasing the term to reduce monthly payment burden. Paying less but for long is better than not being able to make payment at all.
- **Loans can be disbursed in full or in installments. In case of an under construction property, the disbursement can be made in instalments based on the progress of construction and not according to an agreed upon time** - based schedule. This can potentially prevent the developer from slacking since his cash inflow would be withheld, and customers can expect a timely handover of property.

Interest on housing loans has come down to single digits. With so many financial institutions around us, eligible potential loaners now have comparatively more bargaining power than ever before. Loan providers can make the entire loan application and disbursement process simpler to cater to this growing market.



Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market rejuvenated during the first month of 2019 amid post-election stable political scenario. During the month the broad index DSEX advanced by 8.1%, adding up 435.4 points. Blue chip index DS30 and Shariah index DSES also gained 6.8% and 6.3%, respectively.

Among the regional peers, Pakistan and Vietnam gained 10.1% and 2.0%, respectively during the month, while Sri Lanka lost 1.0%. Vietnam showed the most encouraging longer term track record with a 5 years' return of 63.6%, while Bangladesh had 22.5% during the same period. Meanwhile, MSCI Frontier Markets Index ended the month with 4.8% return.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, January, 2018	Return*				
		1M	3M	12M	3Y	5Y
Bangladesh						
DSEX	5,821.0	8.1%	10.2%	-3.6%	28.2%	22.5%
DS30	2,008.0	6.8%	6.9%	-10.3%	16.8%	20.9%
DSES	1,310.6	6.3%	7.2%	-6.3%	19.7%	N/A
Peer Countries						
Pakistan (KSE 100)	40,799.5	10.1%	-2.0%	-7.4%	30.4%	52.3%
Sri Lanka (CSE - All Share)	5,989.9	-1.0%	0.6%	-7.5%	-5.5%	-4.1%
Vietnam (VNI)	910.7	2.0%	-0.4%	-18.0%	67.0%	63.6%
MSCI Frontier Markets Index	**540.6**	**4.8%**	**3.8%**	**-19.8%**	**14.7%**	**-9.8%**

* All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During January, the total market capitalization increased by 7.5%, while free float market capitalization increased by 8.7%. Meanwhile, average turnover of January 2019 was BDT 9.7 bn (USD 115.7 mn), increasing by 100.9% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market increased to 64.4% in January compared to 27.0% of last month.

Table 2: Market capitalization and turnover statistics

Particulars	31-Jan 2019	31-Dec 2018	% change
Total market capitalization (USD* mn)	49,596	46,134	7.5%
Total equity market capitalization (USD mn)	42,573	39,148	8.7%
Total free float market capitalization (USD mn)	17,365	15,868	9.4%
Daily Avg. Turnover (USD mn)	115.7	57.6	100.9%
Turnover Velocity~	64.4%	27.0%	N/A

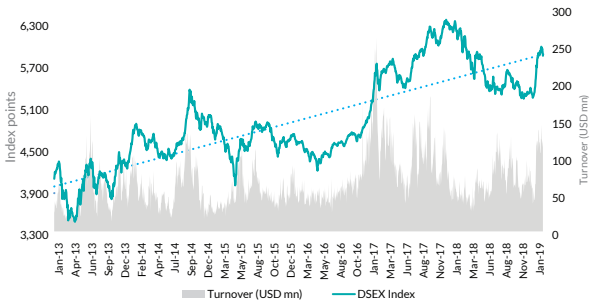
*All USD figures are converted using an exchange rate of 83.95 as of January 31, 2018 as per Bangladesh Bank website.

~Turnover velocity is calculated by dividing monthly total turnover with month-end market capitalization. The figures are annualized.

Historical Index Points and Market Participation Data

Since its inception on January 27, 2013, DSEX yielded a holding period return of 43.5% till January, 2019. During the same period, daily average turnover of the market amounted to BDT 5.5 bn (USD 66.0 mn) (Figure 1).

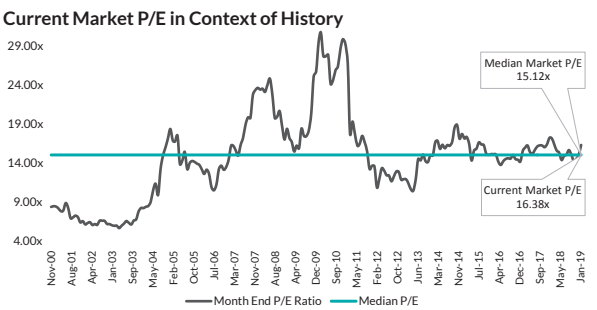
Figure 1: DSEX since inception along with market turnover



Market Valuation Level - P/E Ratio

Increasing for the last three months, the market P/E as of January, 2019 was 16.38x, which is greater than 18 years' median market P/E of 15.12x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is still relatively undervalued than that of India and Philippines (Figure 3).

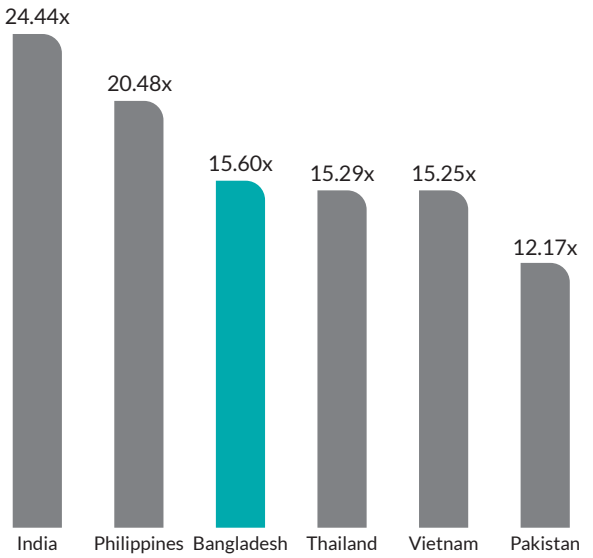
Figure 2: Historical market P/E* and it's median



*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their total audited annual earnings.

Source: CEIC, DSE

Figure 3: Current market P/E* of Bangladesh and peer countries



*Trailing 12 month P/E as of January 31, 2018

Source: IDLC, Bloomberg

Sector Performance

Among the major sectors, Non-Life Insurance yielded the highest return, appreciating by 40.1% in January. Fuel & Power followed next, advancing by 16.7%. Besides, Textile and Bank increased by 10.2% and 9.8%, respectively during the month. On the contrary, Life Insurance faced the highest selling pressure during the month, declining by 1.2%.

Despite good performance in January, the largest sector in terms of market capitalization, Bank is still relatively undervalued in terms of P/E ratio due to correction in previous year.

Table 3: Sector performance snapshot

Sector	Market capitalization (USD mn)		Return*					P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	12M	3Y	5Y			
Bank	7,653	4,361	9.8%	12.8%	-4.1%	77.8%	60.7%	10.9	1.0	2.6%
Telecommunication	6,683	713	9.1%	5.8%	-15.6%	76.5%	127.4%	15.9	14.2	4.9%
Pharmaceuticals & Chemicals	6,266	3,493	3.2%	8.5%	-5.5%	29.9%	111.5%	17.3	2.5	1.7%
Fuel & Power	6,060	1,588	16.7%	12.9%	36.4%	68.3%	78.3%	13.2	1.7	3.6%
Food & Allied	3,442	1,266	2.5%	8.9%	-4.4%	19.6%	102.9%	21.2	8.1	1.6%
NBFI	2,445	790	9.1%	9.7%	-9.2%	48.5%	27.2%	19.4	2.0	2.5%
Engineering	2,509	1,287	4.5%	9.4%	3.6%	33.9%	96.4%	15.8	1.9	1.2%
Textile	1,797	1,008	10.2%	19.8%	30.9%	72.2%	70.4%	16.4	1.1	1.8%
Miscellaneous	1,393	412	8.3%	14.6%	22.8%	42.1%	155.2%	26.9	1.3	1.2%
Cement	1,254	513	3.6%	2.9%	-13.9%	-20.2%	8.8%	41.7	2.9	2.3%
Non-Life Insurance	679	388	40.1%	52.0%	37.9%	101.4%	20.2%	17.1	1.3	2.4%
Ceramics	377	145	12.3%	13.0%	6.4%	5.1%	41.7%	20.6	2.1	1.1%
Tannery	331	157	0.8%	5.5%	4.9%	20.0%	56.0%	15.4	2.5	2.1%
Travel & Leisure	261	150	0.1%	2.4%	4.3%	28.0%	-13.1%	21.4	0.6	3.2%
Services & Real Estate	240	124	12.9%	17.2%	-3.7%	-7.7%	68.0%	18.3	1.2	3.7%
IT	216	143	5.0%	20.6%	16.4%	63.0%	240.0%	20.8	2.3	1.3%
Paper & Printing	202	67	2.1%	27.6%	56.0%	51.5%	328.2%	30.8	1.8	2.1%
Life Insurance	743	352	-1.2%	11.2%	30.2%	41.6%	-12.6%	19.1	6.1	1.7%
Jute	56	39	-0.1%	99.0%	165.4%	510.0%	718.9%	58.0	17.0	0.1%
Market	**42,607**	**16,995**	**8.1%**	**10.2%**	**-3.6%**	**28.2%**	**22.5%**	**15.4**	**1.9**	**2.7%**

* All returns are Holding Period Return.

** Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their annualized earnings excluding companies trading at an annualized P/E greater than 80.0x.

^P/BV is calculated by dividing total market capitalization of listed companies with their total book values excluding companies with negative book values.

~Dividend yield is calculated by dividing last year's declared cash dividend with market capitalization.

Cap Class Performance

During the month of January, Micro Cap Class outperformed the market, yielding 13.4% return. While Large Cap Class paced with the market with 8.1% return, both Mid Cap Class and Small Cap Class increased by 7.8%

Table 4: Performance of different market cap classes

Cap Class	Market Capitalization of Constituent Companies (USD mn)	% of Total Equity Market Capitalization	Return*					P/E (x)	P/BV (x)	Dividend Yield
			1M	3M	12M	3Y	5Y			
Large	≥121	80.7%	8.1%	7.6%	-2.1%	53.6%	97.7%	15.1	2.0	3.2%
Mid	36-120	11.6%	7.8%	12.3%	-0.8%	37.7%	43.6%	15.8	1.2	1.7%
Small	12-35	5.9%	7.8%	18.6%	11.3%	54.8%	81.4%	19.4	0.8	1.6%
Micro	<12	1.8%	13.4%	21.6%	13.5%	50.4%	73.5%	18.7	0.8	2.3%
Market	**-**	**-**	**8.1%**	**10.2%**	**-3.6%**	**28.2%**	**22.5%**	**15.4**	**1.9**	**2.7%**

* All returns are Holding Period Return.

Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization UPGDCL (+34.6%), NBL (+18.3%), ISLAMIBANK (+12.4%), TITASGAS (+11.8%) and OLYMPIC (+11.2%) posted significant return. On the contrary, only RENATA (-0.2%) faced selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+416.5%), BERGERPBL (+269.9%), RENATA (+230.8%), CITYBANK (149.2%) and OLYMPIC (+146.4%).

Among the scrips SUMITPOWER, TITASGAS, CITYBANK, GP, EBL, MARICO, and MJLBD recorded a higher dividend yield compared to that of market. Moreover, SUMITPOWER has the highest dividend yield (7.1%) and lowest P/E (8.3x) among the 20 largest companies.

Table 5: Snapshot of 20 largest companies in terms of market capitalization

DSE Code	Sector	Market capitalization (USD mn)		Dividend Yield (%)	Return*					P/E (x)	P/ BV (x)	Dividend Yield
		Total	Free Float		1M	3M	12M	3Y	5Y			
GP	Telecommunication	6,405	640	0.46	8.4%	4.8%	-16.4%	77.6%	136.7%	15.5	16.0	5.1%
BATBC	Food & Allied	2,550	674	0.28	0.7%	7.2%	-3.9%	20.6%	104.1%	20.4	7.8	1.7%
SQURPHARMA	Pharmaceuticals & Chemicals	2,475	1,623	1.40	3.6%	6.8%	-12.5%	33.8%	100.6%	16.5	3.4	1.3%
UPGDCL	Fuel & Power	2,233	223	1.59	34.6%	22.5%	208.3%	295.7%	N/A	25.4	6.9	1.9%
RENATA	Pharmaceuticals & Chemicals	1,093	534	0.33	-0.2%	3.6%	7.3%	43.5%	230.8%	27.0	5.7	0.7%
BRACBANK	Bank	1,003	559	1.09	8.0%	11.5%	1.4%	164.6%	416.5%	16.6	2.6	0.0%
ICB	NBFI	972	31	0.04	5.7%	4.3%	-12.9%	44.4%	27.5%	97.5	2.3	2.3%
BERGERPBL	Miscellaneous	813	41	0.23	9.5%	19.8%	39.2%	56.7%	269.9%	41.4	11.0	0.7%
LHBL	Cement	610	215	0.45	1.4%	-1.1%	-27.0%	-36.9%	14.5%	78.2	3.4	2.3%
OLYMPIC	Food & Allied	573	414	0.30	11.2%	12.5%	-13.7%	3.3%	146.4%	26.1	7.1	2.0%
SUMITPOWER	Fuel & Power	536	197	0.25	6.9%	3.6%	24.6%	34.7%	40.7%	8.3	1.1	7.1%
ISLAMIBANK	Bank	522	272	0.06	12.4%	15.7%	-16.8%	22.6%	1.7%	9.5	0.8	3.7%
TITASGAS	Fuel & Power	480	120	0.07	11.8%	13.8%	1.1%	5.3%	-37.3%	9.5	0.6	6.1%
MARICO	Pharmaceuticals & Chemicals	465	46	0.04	3.2%	6.3%	10.0%	5.9%	80.3%	18.8	22.4	4.8%
BXPHARMA	Pharmaceuticals & Chemicals	420	365	0.18	10.0%	16.4%	-16.9%	11.9%	105.5%	11.9	1.3	1.4%
MJLBD	Fuel & Power	378	108	0.19	0.9%	6.3%	1.0%	49.4%	98.7%	17.7	2.6	4.3%
CITYBANK	Bank	377	263	0.27	8.3%	2.8%	-23.1%	71.9%	149.2%	10.6	1.3	5.5%
DUTCHBANGL	Bank	355	46	0.18	3.3%	11.7%	7.8%	55.2%	48.2%	8.4	1.4	2.0%
NBL	Bank	348	236	0.18	18.3%	23.6%	-5.2%	80.9%	46.9%	9.2	0.7	0.0%
EBL	Bank	347	238	0.06	9.7%	12.9%	-9.8%	86.9%	98.0%	10.3	1.3	5.1%
Market		**42,607**	**16,995**	**115.74**	**8.1%**	**10.2%**	**-3.6%**	**28.2%**	**22.5%**	**15.4**	**1.9**	**2.7%**

* All returns are Holding Period Return

^Five years' return is not available for UPGDCL as it was not listed then.

Top Performing Mutual Funds

Top ten open end mutual funds based on 3 year CAGR outperformed the market during the same period. Among them VIPB Accelerated Income Unit Fund (12.0%) and UFS-Popular Life Unit Fund (10.5%) made significant return. However, based on available data of 2019, Peninsula AMCL BDBL Unit Fund One made the highest return.

Table 6: Top ten open end funds based on 3Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	Return		
			2019 YTD	2018	2016-2018 ~
VIPB Accelerated Income Unit Fund~	VIPB	12.7	5.8%	-7.8%	12.0%
UFS-Popular Life Unit Fund~	UFS	9.4	N/A*	-4.6%	10.5%
MTB Unit Fund	Alliance	9.5	2.8%	-4.2%	9.2%
Sixth ICB Unit Fund	ICB	3.9	N/A*	-9.3%	8.9%
Third ICB Unit Fund	ICB	4.1	N/A*	-7.0%	8.6%
Seventh ICB Unit Fund	ICB	5.5	N/A*	-11.9%	8.4%
Fifth ICB Unit Fund	ICB	4.6	N/A*	-7.0%	8.1%
Second ICB Unit Fund	ICB	1.7	N/A*	-7.1%	7.2%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.7	8.9%	-14.3%	7.1%
LankaBangla 1st Balanced Unit Fund	LankaBangla	5.0	0.7%	-2.0%	7.1%
Market			**8.1%**	**-13.8%**	**5.2%**

~ 2016-18 returns are calculated from inception date in 2016.
*Due to book closing latest NAV is not available for these funds

The top ten closed end mutual funds on the basis of 5 years (2014-2018) performance yielded positive return in January, 2019 yet underperformed the market. Among these funds, PRIME1ICBA (11.0%) and RELIANCE1 (8.3%) gained the most.

Despite strong performance in January, 2019, the funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market except for EBL1STMF. (Table 7).

Table 7: Top ten close end funds based on 5Y return (CAGR) performance

DSE Code	Fund Manager	Fund Size (USD mn)	Price[1] (BDT)	NAV[1] (BDT)	Price/ NAV	Dividend Yield2 (%)	NAV Return[3]				Redemption Year[4]
							2018	2017	2015-17	2013-17	
NLI1STMF	VIPB	9.24	13.6	15.41	88.3%	10.3%	6.3%	-8.0%	13.3%	14.6%	2023
SEBL1STMF	VIPB	17.07	12.5	14.36	87.0%	10.4%	6.1%	-8.3%	12.8%	13.7%	2020
GRAMEENS2	AIMS	42.88	13.7	20.12	68.1%	8.8%	8.3%	-1.6%	12.2%	12.4%	2020
1JANATAMF	RACE	39.48	5.3	11.42	46.4%	3.8%	5.7%	-4.5%	7.1%	10.3%	2020
RELIANCE1	AIMS	10.24	10.4	14.21	73.2%	10.6%	8.3%	-1.1%	12.0%	10.2%	2027
PHPMF1	RACE	34.82	5.6	11.17	50.1%	5.4%	5.2%	-4.9%	8.5%	10.2%	2020
EBL1STMF	VIPB	19.62	7.8	11.35	68.7%	2.6%	5.3%	-3.5%	9.5%	10.0%	2021
POPULAR1MF	RACE	40.23	5.0	11.29	44.3%	4.0%	4.0%	-4.4%	8.3%	10.0%	2021
PRIME1ICBA	ICB AMCL	10.58	6.4	8.88	72.1%	10.9%	11.0%	-8.6%	7.6%	9.4%	2022
ABB1STMF	RACE	33.78	5.4	11.84	45.6%	3.7%	5.0%	-5.0%	8.5%	9.2%	2020
Market						**2.7%**	**8.1%**	**-13.8%**	**5.2%**	**4.8%**	

1 Price and NAV published on January 31, 2019.

2 On last cash dividend declared.

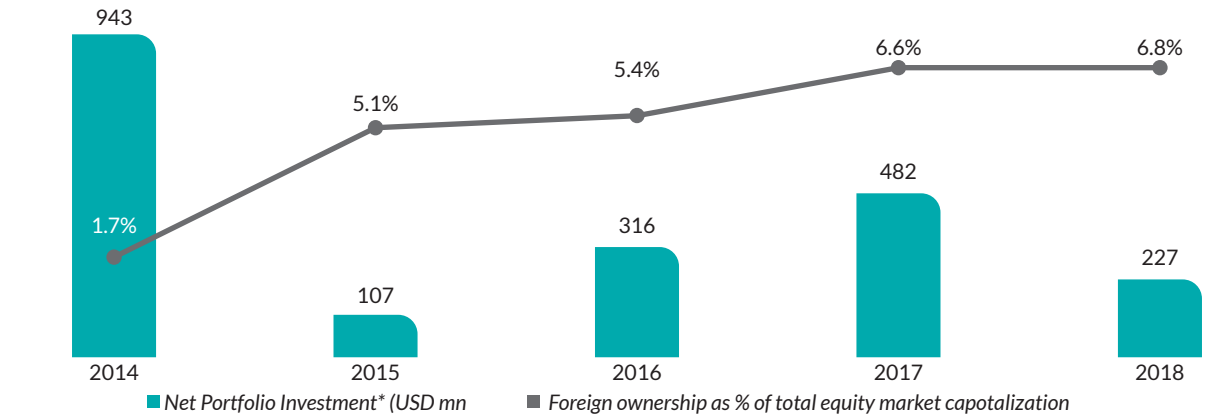
33CAGR computed for respected periods, except for 2018 and 2019 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4In reference to BSEC Press Release বিএসইবস/মুখপাত্র (৩য় খন্ড)/২০১১/২৫ ppublished on September 16, 2018, tenure of existing listed closed end mutual funds can be extended by another tenure equal to maximum 10 years, provided that the full tenure of the subject fund does not exceed 20 years in total. However, the mutual funds those are not willing to extend their tenure will still have the option to convert or wind up as per rules and regulations.

Foreign Participation in Equity Market of Bangladesh

Over last 5 years, Bangladesh equity market has seen a surge of foreign investment. As of December, 2018 total foreign ownership stood at 6.6% of the total equity market capitalization, which was only 1.7% in 2014.

Figure 4: Net foreign portfolio investment and foreign ownership as % of total equity market capitalization



Source: DSE and Bangladesh Bank
*Net portfolio investment data are as of December of the respective years.
~% of foreign ownership of equity market capitalization data are as of December of the respective years.

Among all the companies with foreign ownership, DBH had the highest foreign shareholding of 43.3% as of December 2018, followed by OLYMPIC with 41.1%.

Table: Top ten companies with highest foreign shareholding as of November

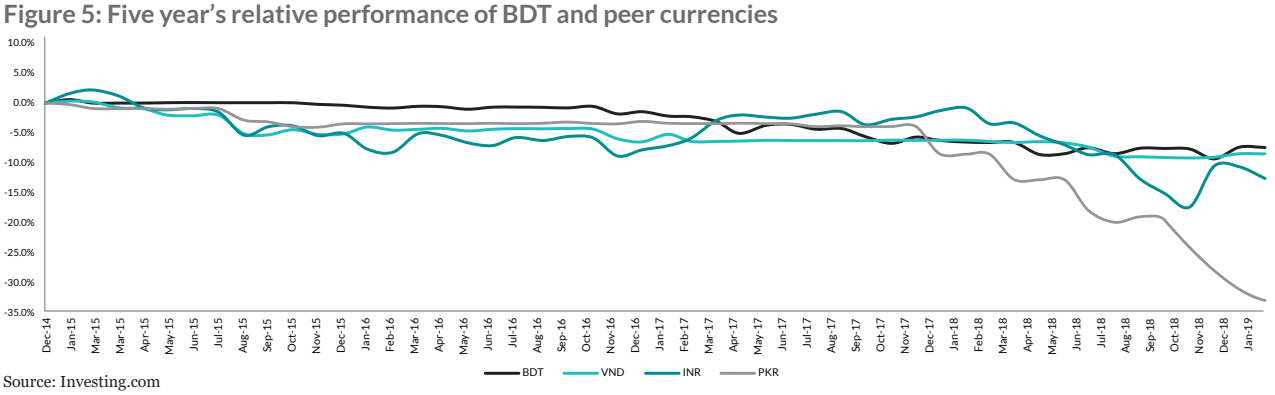
Ticker	Sector	Foreign Shareholding
DBH	NBFI	43.3%
OLYMPIC	Food & Allied	41.1%
BRACBANK	Bank	40.6%
BXPHARMA	Pharmaceuticals & Chemicals	38.1%
ISLAMIBANK	Bank	24.0%
RENATA	Pharmaceuticals & Chemicals	22.4%
MLDYEING	Textile	21.9%
SHEPHERD	Textile	21.1%
BSRMLTD	Engineering	19.4%
VFSTDL	Textile	18.3%

*Source: DSE

Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than the currencies of peer countries. While BDT depreciated by 7.4% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.5%, 12.6% and 38.2%, respectively..

Figure 5: Five year's relative performance of BDT and peer currencies



Source: Investing.com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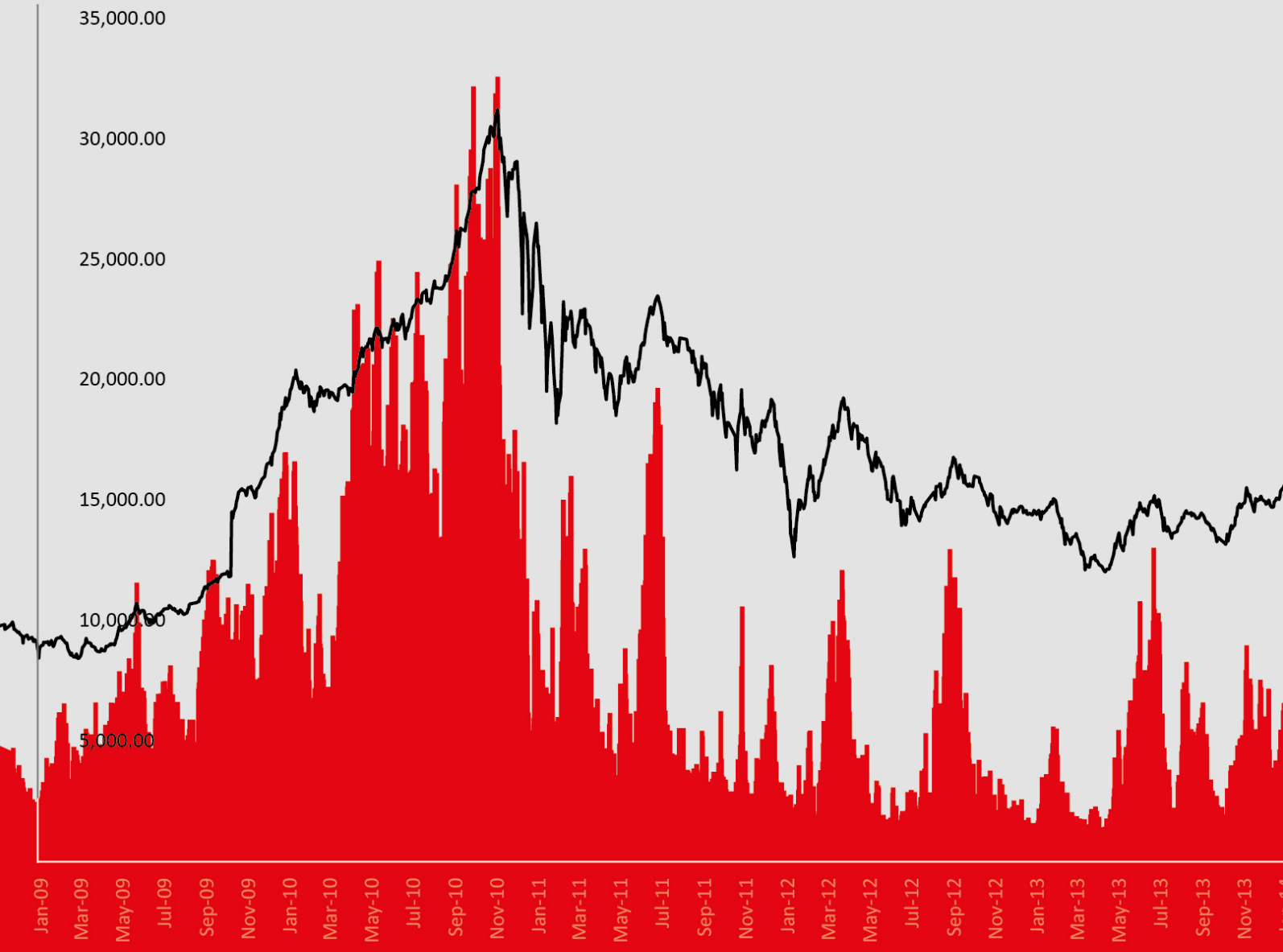
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