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IDLC MONTHLY

BUSINESS REVIEW

Development of the Bond Market

A Pressing Need for this Growing Economy

IDLC Finance Limited

financing happiness

contents

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FROM THE EDITOR

Safeguarding the steadiness of financial eco-system with a stronger bond market

"Bangladesh booms in a sluggish world economy, while economies slow for its South Asian neighbors; Bangladesh is hitting record growth rates", is the statement of *The Diplomat on the accelerating growth of our economy. However, the wheel of growth will be continuously running only if it is fueled by continuous funding.

The financial sector of Bangladesh is mostly bank dependent but the appetite for fund is not always same under all the circumstances. In order to maintain stability in the economy, it is important to ensure the presence of both long and short term sources of funds. The global infrastructure outlook estimates that, currently we have an investment gap of $192 billion*. Considering the running mega projects and upcoming long term projects, long-term nature of bonds investments with flexible structuring mechanisms & repayment structures might be the best fit to cater the capital expansions. Moreover, it is never a good idea to be largely dependent on banks since there are always risks of liquidity and mismatch. However, if countries with stable economies are considered, it can be seen that corporate bonds act as one of the most stable source of financing for the public sector, for example corporate bond market to GDP ratio is 150% in USA, 60% in China and 60% in Malaysia*. On the other hand, our government bonds outstanding would be worth about $17.2 Billion whereas corporate bonds outstanding is only $0.3 Billion*. Unfavorable policy support can be attributed for such lack of interest in this sector but absence of secondary market also plays a vital role too. A well-established bond market is not only beneficial for issuers and investors but also spreads investment risks across investors and intermediaries. Therefore, for a rapidly growing economy like ours, investment growth can play a crucial role.

Adnan Rashid
Assistant General Manager
IDLC Finance Limited

** https://thediplomat.com*
** https://outlook.gihub.org/countries/Bangladesh*
** https://www.thedailystar.net*
** https://www.adb.org/publications/asia-bond-monitor-november-2019*

INDUSTRY & EQUITY ANALYSIS TEAM

ASIF SAAD BIN SHAMS
Email: shams@idlc.com

ADNAN RASHID
Email: adnan@idlc.com

SUSHMITA SAHA
Email: sushmita@idlc.com

BONNISHIKHA CHOWDHURY
Email: shikha@idlc.com

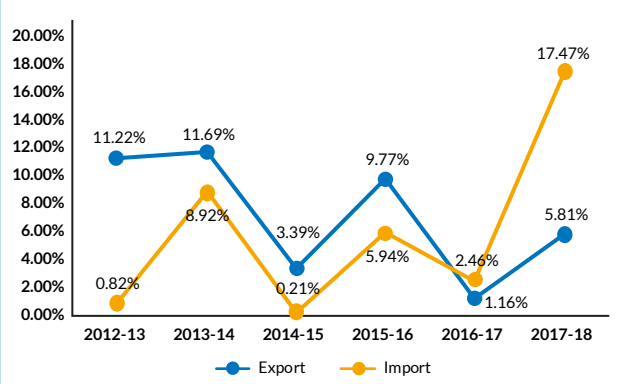
PRIMA FARHEEN
Email: primaf@idlc.com

RAIDAH MOMO IBRAHIM
Email: momo@idlc.com

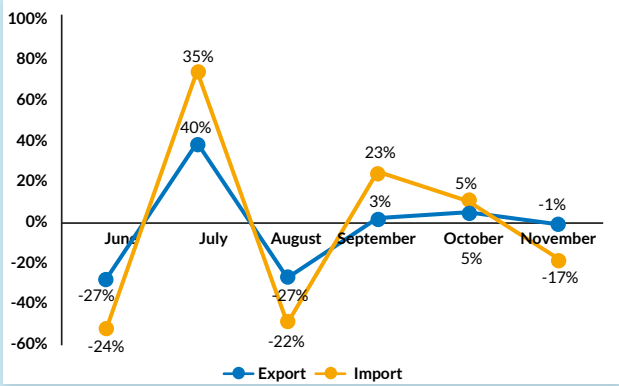
ECONOMY AT A GLANCE

EXPORT-IMPORT

Growth in Export Imort Trade (Last 5 Years)

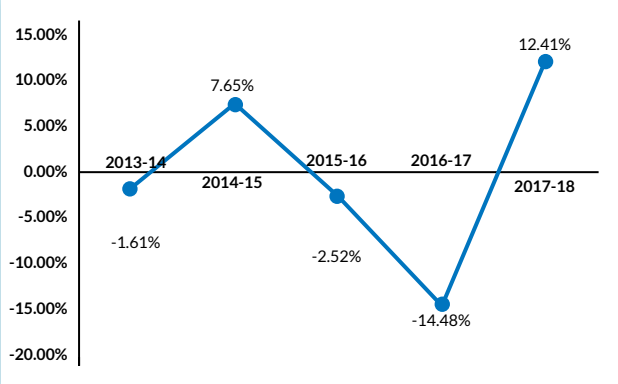


Export-Import Monthwise Growth- 2019

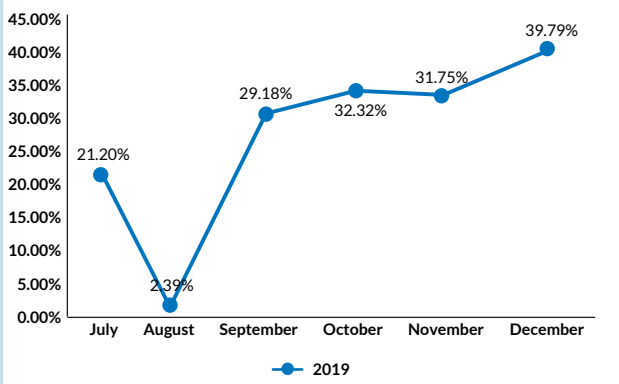


REMITTANCE

Remittance Growth of Last 5 years

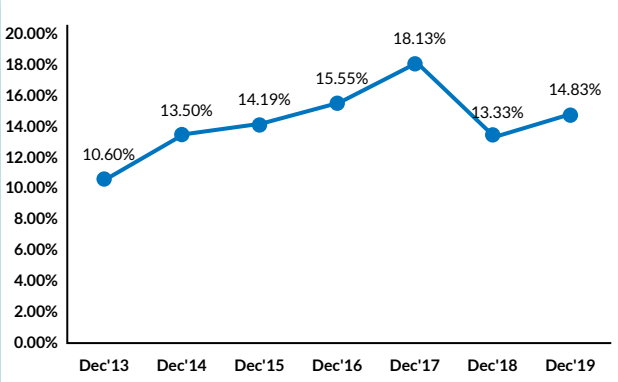


Remittance Growth-2018-19 (Y-O-Y)

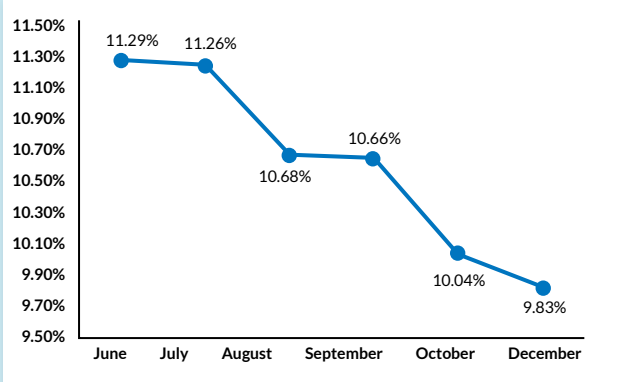


PRIVATE SECTOR CREDIT GROWTH

Private Credit Growth of last 5 years



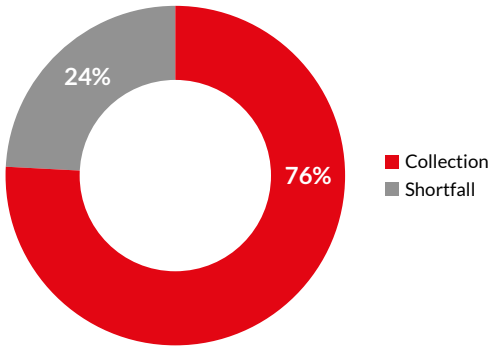
Private sector credit growth 2019



MONTH IN BRIEF

Widening revenue shortfall raises alarm

Revenue Collection Shortfall



The Dhaka Inland Container Depot (ICD), the biggest container terminal in the country, has recorded container traffic **of over 95,000 twenty-foot equivalent units (TEUs) in 2019, which is an all-time high, according to a statement of the ICD.**

Trade deficit narrowed 79.51 percent in November **to $1.06 billion from the previous month on the back of sliding imports**

The National Board of Revenue (NBR) has relaxed conditions for availing VAT waiver by the active pharmaceutical ingredient (API) industries and hence from now on, the API industries will be able to avail the VAT benefit on import of raw materials by adding 20 per cent value on their imported products.

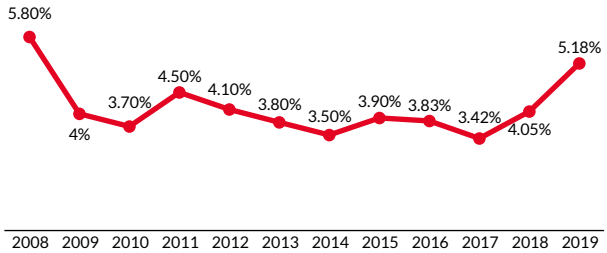
Six Small and Medium-sized Enterprise (SME) clusters and clientele groups in the country will receive loan worth BDT170 mn (USD2mn) from the Small & Medium Enterprise Foundation (SMEF) and under the Refinancing Scheme of Bangladesh Bank.

Depositors have to pay 15% source tax on their interest income of savings if they do not have the twelve-digit taxpayer's identification number or e-TIN and the e-TIN holders will pay the tax at 10%.

The Bangladesh Securities and Exchange Commission allowed Walton Hi-Tech Industries Limited to discover the cut-off price **of its shares under the book building method for raising Tk 100 crore from the capital market through an initial public offering.**

Budget deficit crosses 5% for first time in 11 years

Budget Deficit over the Years



The government has asked the central bank and Department of National Savings to step up efforts to draw investments **by overseas Bangladeshis into foreign currency bonds hence, the non-resident Bangladeshis, or NRBs, and workers living abroad are eligible for investing now.**

Six years after coming into operation, the fourth generation banks say they are not yet prepared **to offload shares in the capital market, and have asked for a further time extension from the central bank.**

"AS THE GOVERNMENT HAS DECIDED TO GIVE 2% INCENTIVE TO THE INCOME OF EXPATRIATES, THE REMITTANCE GROWTH HAS INCREASED SIGNIFICANTLY, AND I HOPE THAT A MILESTONE WILL BE ACHIEVED IN THE SECTOR IN THE FUTURE"

AHM Mustafa Kamal, Finance Minister, on remittance growth.

"The supervision costs of SME financing are very high compared to other sectors"

Ali Reza Iftekhar, ABB Chairperson and Managing Director, at the Eastern Bank on SME loan interest.

"The outgoing year was not pleasant for manufacturers as the export earnings fell drastically at the end of the year. This is because of appreciation of the Taka against US dollar, which eroded Bangladesh's competitiveness in the global markets"

Dr Rubana Huq, President, BGMEA on challenges for 2020.

"To in rein the NPLs, the government has to identify the reasons, which encourage bad loan and should stop the spiraling trend immediately"

Zahid Hossain, Former Lead Economist, of World Bank in Dhaka on challenges for 2020.

"WITHIN THE NEXT FEW MONTHS SOME FOREIGN BRANDS WILL GO INTO PRODUCTION IN THEIR LOCAL PLANTS AND BANGLADESH WILL BE SELF-DEPENDENT IN SMARTPHONE PRODUCTION WITHIN THIS YEAR"

Mohammad Mesbah Uddin, Chief Marketing Officer of Fair Electronics and Joint Secretary, of the Bangladesh Mobile Phone Importers Association (BMPIA) on manufacturing smartphones locally

"YOU WILL NOT NEED A DEVELOPMENT PARTNER IF YOU HAVE A VERY STRONG AND EFFICIENT BANKING SECTOR"

Ilias Skamnelos, Lead Financial Sector economist, FCI , World Bank Group at a session on financial self-reliance of Bangladesh.

WORLD ECONOMIC INDICATOR-JANUARY 2020

Country	GDP size (USD in million)	Gross Domestic Product (yearly % Change)	Inflation (%)	Current Account Balance (% of GDP 2019)	Interest Rates (%), Ten years treasury bond	Currency Units (per USD)
Frontier Market						
Sri Lanka	22,597.70	5.20	6.00	-3.00	10.33	181.198
Vietnam	261,917.70	6.50	4.00	3.00	3.12	23,164.30
Kenya	23,413.60	1.80	6.00	-5.20	12.51	101.53
Thailand	137,111	2.40	0.90	6.80	1.30	31.00
Nigeria	123,378.90	2.60	9.00	2.30	13.50	306.46
Bangladesh	**302,568.44**	**8.15**	**6.50**	**-1.40**	**6.66**	**84.90**
Emerging Markets						
Brazil	469,020.00	1.20	4.30	-2.30	4.30	4.22
Saudi Arabia	198,765.20	2.40	0.30	4.80	n/a	3.75
India	704,918.80	4.50	7.40	-1.80	6.60	71.30
Indonesia	287,834.30	5.00	2.70	-2.30	6.60	13,628.00
Malaysia	91,634.90	4.40	1.00	3.10	3.20	4.08
Phillipines	86,997.20	6.40	2.50	-0.30	4.60	50.80
Turkey	201,778.70	0.90	11.80	0.20	9.90	5.96
Thailand	137,111.00	2.40	0.90	6.80	1.30	31.00
China	3,517,582.30	6.00	4.50	1.50	2.80	6.93
Russia	433,654.90	1.70	3.00	4.80	6.30	62.70
Developed Markets						
France	674,671.70	1.40	1.50	-0.90	-0.10	0.91
Germany	955,522.90	0.50	1.50	7.30	-0.40	0.91
Italy	495,695.00	0.30	0.50	2.90	1.00	0.91
Spain	346,739.20	1.90	0.80	1.00	0.30	0.91
Hong Kong	92,314.40	-2.90	2.90	4.80	1.50	7.77
Singapore	90,613.10	0.80	0.80	17.40	1.60	1.36
United States	5,385,635.00	2.10	2.30	-2.40	1.60	
Denmark	86,840.30	2.30	0.80	8.30	-0.40	6.79
Netherlands	226,511.00	1.90	2.70	9.20	-0.30	0.91
Australia	344,948.10	1.70	1.80	0.30	1.00	1.48
Switzerland	177,569.80	1.10	0.20	10.20	-0.70	0.98
Britain	553,251	1.10	1.30	-4.30	0.60	0.77

FROM FITBITS TO ROKUS, HEDGE FUNDS MINE DATA FOR CONSUMER HABITS

Data is fast becoming the new frontier whether it comes from Fitbits, Rokus and Teslas or employment websites like Glassdoor.com when it comes to the attainment of that elusive trading edge.

"There is not one major hedge fund or asset manager that doesn't have data initiatives underway or that are not using alternative data in some way," said Michael Marrale, chief executive officer of M Science, a firm that provides data and analytics to hedge funds.

A JPMorgan Chase & Co. report said, spotting trends and patterns in consumer habits is a big business, part of a global market for big data, and could reach more than $200 billion by next year. But there is still no assurance that all these information will lead to resources. Polishing, shaping and accumulation is required to make it useful.

Here's some data that funds are watching.

- **WiFi and Bluetooth-Enabled Devices**
  WiFi and Bluetooth connections are often taken for granted as they have become so global at present. But these devices which are connected to the internet are strongly tracked by hedge funds. They can show "when and where new things appear in the world," said Hugh O'Connor, director of data sourcing and partnerships at Eagle Alpha, which collects data for the finance industry. Firms can keep track of length of time and approximate locations using Roku video-streaming devices or Fitbit fitness trackers. Similarly, if you buy a Tesla Model 3 car and use its Bluetooth-enabled media, a data provider can capture when your new ride is hitting the road.

- **Location Tracking**
  The number of people carrying devices at a particular location can be known by data removed from mobile phone in real time. This can give information about how many people are visiting a retailer, supermarket or fast-food joint. Firms can also monitor app downloads and their popularity.

- **Web Scraping**
  To scrape the biggest warehouse of information, the internet hedge funds have set up internal units. They're sieving sites to create modified collections of public data. Examples include pricing trends on airline flights or hotels, inventory figures for products offered on coupon website Groupon, etc.

- **Twitter Sentiment**
  Firms have started tracking key words or phrases on social-media sites including Facebook, Instagram or even twitter to estimate what consumers are thinking. This information can help various companies, providing indications about the popularity of a product or service.

- **Credit Card Data**
  Consumer transaction data can be more expensive than other data sets. It has been widely used for years, for tracking what and how much people charge to their credit cards, receipts sent to email inboxes, or which sites accept online payment services like Venmo.

"Credit card data can range from $150,000 to over a million dollars a year, depending on certain characteristics such as the level of granularity," said Daniel Goldberg, founder of Alternative Data Analytics.

Employment Data

Information on job postings, changes in compensation and employee reviews of companies can be collected by firms scraping websites like Glassdoor or digging through the IRS notices employers file on their benefit plans. All kinds of intelligence can be gathered from this material. For example: a spike in the removal of job postings from a company's website could signal corporate distress.

ABOUT THE RESEARCH

"From Fitbits to Rokus, Hedge Funds Mine Data for Consumer Habits" – is a Bloomberg.com article by Hema Parmar on how hedge funds collect data about consumer habits.

DEVELOPMENT OF THE BOND MARKET

A PRESSING NEED FOR THIS GROWING ECONOMY

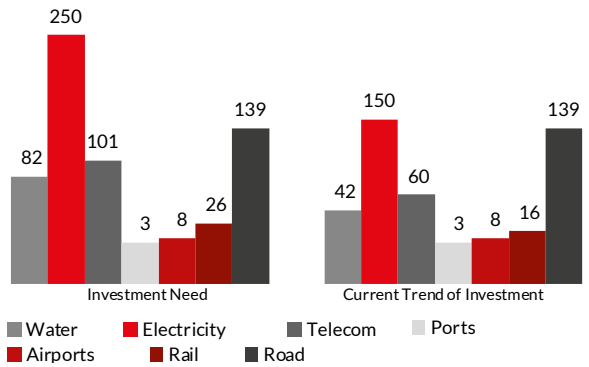
Shafkat Mahmud
Senior Manager, Corporate Advisory
IDLC Asset Management Limited

Current Status of the Domestic Bond Market

As Bangladesh aspires to be a developed nation by 2041 with success stories in infrastructural development expected to continue for years to come, a well-developed financial market with active role of corporate and government bonds has become a dire necessity. The Global Infrastructure Hub estimates that a cumulative total of USD 600 Billion of investments would be required in infrastructure sector alone from 2016 to 2040. But if you expect the current trends of actual investments to continue, a gap of USD 200 Billion long-term financing with no visible source of funding still needs to be addressed. Developing of a well-functioning and sizeable bond market that caters to the needs of both investors and issuers alike can be potential long-term fund mobilization alternative.

Moreover, even if you look at the current trends, Bangladesh has invested billions of dollars in mega infrastructure projects that are expected to start operation within a few years. But, rolling these hard infrastructures on a consistent basis is only possible when the country simultaneously pursues development of soft infrastructures like developing of financial markets such as the bond markets. The long-term nature of bonds investments with flexible structuring mechanisms & repayment structures are ideal for supporting the investment and cash-flow needs of these long-term projects and capital expansions for a fast growing economy like ours.

Cumulative Infrastructure Investment 2016-2040 (USD Billion)



Source: Global Infrastructure Report

The current market for bonds is Bangladesh is somewhat lop-sided as almost all outstanding bonds lie with the government bonds.

Bond outstanding of Bangladesh	
Government Bond	$17.2 Billion
Corporate Bond	$0.3 Billion

Source: Asia Bond Monitor, November 2019, Asian Development Bank

Listed companies with corporate Bond

- **APSCLBOND** (APSCL Non-Convertible and Fully Redeemable Coupon Bearing Bond)
- **IBBLPBOND** (IBBL Mudaraba Perpetual Bond)

At present, the government bonds outstanding would be worth about $17.2 Billion whereas corporate bonds outstanding is only $0.3 Billion. If we look at other countries, we shall see how corporate bonds act as one of the most stable source of financing for the public sector -being 149 % in the US, 60 % in China, 16 % in India, 60 % in Malaysia and 59 % in Thailand on GDP. The root cause of this lack of interest could possibly be some of the dent left by some of the issuer's performance in the larger number of defaults that took place in listed corporate bonds past decade in the 90's. This raised questions of the enforcement of rules and regulations. Post- 1999, a long pause too place for issuance of corporate bonds. Interestingly, from 2014 to 2016, few corporate also successfully raised commercial paper but this also did not reach scale. The private bond market is currently largely comprised of the commercial banks issuing and subscribing to each other's subordinated debt to meet their minimum capital adequacy requirements as its considered part of their Tier II Capital. Despite all the setbacks, the recent issuance of a Taka denominated bond by Pran Group in the international market and locally listed bond by Ashuganj Power Limited are showing promising signs that our private bond has already started taking a new dimension and upholding this momentum can easily translate into a vibrant bond market in the foreseeable future.

Bond Market Development in developing markets (USD Billion):

MARKET	GOVERNMENT	CORPORATE	TOTAL
Argentina	252.3	27.7	279.9
Bangladesh	17.2	0.3	17.5
Brazil	1,250.30	641.6	1,892.00
Bulgaria	11.5	1.7	13.2
Chile	34.3	72.5	106.8
China, People's Rep. of	3,363.60	2,508.90	5,872.60
Colombia	99.8	56.1	155.9
Croatia	26.9	3.9	30.8
Hungary	113.5	19.8	133.3
India	1,162.30	344	1,506.40
Indonesia	186.1	46.5	232.7
Malaysia	183.5	161.3	344.8
Mexico	523.7	278.8	802.5
Pakistan	63.2	2.5	65.7
Panama	18.7	16.6	35.3
Peru	38.2	33.5	71.7
Philippines	116.3	35.1	151.3
Poland	270.2	23.9	294
Romania	57.7	2	59.7
Russian Federation	275.8	314	589.8
Serbia	15.5	0.4	15.9
Sri Lanka	38.4	3.5	41.9
Thailand	202.5	84.1	286.6
Turkey	295.3	33.5	328.8
Ukraine	45.3	11.1	56.3
Viet Nam	46.7	3.3	50

Source: Asia Bond Monitor, November 2019, Asian Development Bank

Absence of bond markets puts excessive dependence of the banking system causing systemic risks. The absence of a sufficiently large corporate bond market has resulted in an overdependence of large corporates depending on the banking system for their long-term financing needs. Banks themselves are have capacity constraints in terms of providing long-term financings. A view of the deposit structures of banks shows most of their collections are in the form of short-term deposits (3 months to less than 1 year), accounting roughly 70% of total deposits and the rest 25% in the 5 years and above bucket. Thus, the presence of short-term liabilities and long-term assets in the banks books causes mismatch, which they tries to address by booking more and more deposits. This also leads to increases in non-performing loans (NPLs) and repeated res-scheduling requests by the corporates as corporates commits to short-term loans with high cash-flow burdens which often does not match the cash-flow requirements of these project loans. Moreover, it is also surprising how banks lend in the growing housing project for 20 years depending on the short-term deposits in the banking system.

Bond markets are part of the capital markets and hence needs corporates to take permission from the Bangladesh Securities and Exchange Commission (BSEC). As more and more corporates seek alternative debt financing to banks, they must be aware that bond is a long-term debt capital, and prior regulatory approval for the issuance is required. Bangladesh Securities & Exchange Commission (BSEC), under the "Securities and Exchange Commission (private placement of Debt Securities) Rules, 2012" provides regulatory approval to the institutions for issuance of privately placed debt securities. In case of convertible bond or publicly offered bond, Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015 is applied. In addition, the issuer also needs to take approval from its primary regulator before any such issuance. For banks and NBFIs, Bangladesh Bank acts as the primary regulator and provides approval for such issuance.

Benefits of a Robust Bond Market for Developing Economies

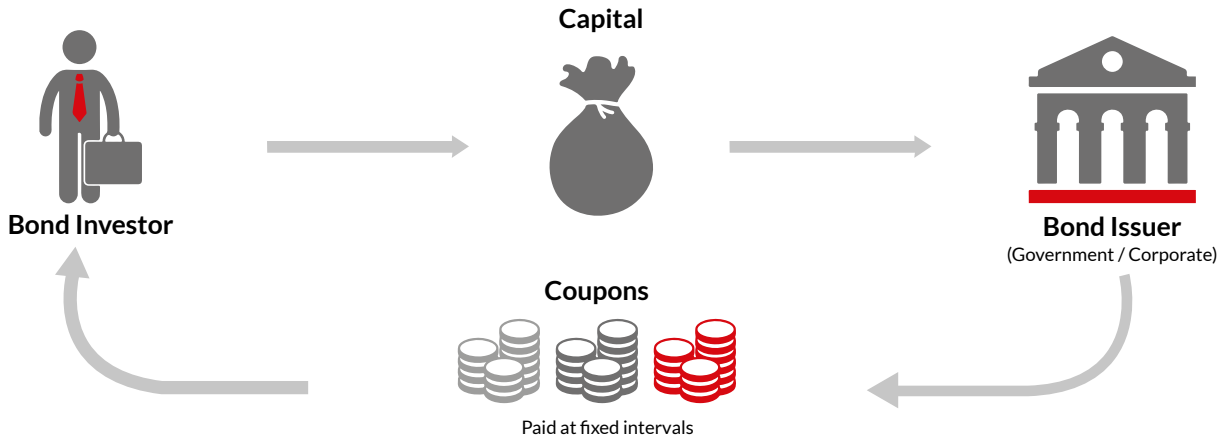
Banks dominate the financial sector in South & South-East Asian economics where bonds can effectively manage the mismatches in the economic scenario of an emerging financial market. Bonds in Asian market are either denominated in USD or local currency. All countries have their own principles for issuance of bonds. In South East Asia, bonds came into highlight after the financial break down during late 90s. It was understood by many that large dependence of financial sector in commercial/scheduled banks is not a good idea, where problems such as liquidity and mismatch always increases. The bond market in India with the liberalization has been transformed completely. The opening up of the financial market at present has influenced several foreign investors holding up-to 30% of the financial in the form of fixed income to invest in the bond market in India. The diversification of the market, has to a large extent contributed to the economic stability of the country, as it provides immense potential in raising funds to support the infrastructural development undertaken by the government and expansion plans of the companies.

Developing economies can benefit in multiple ways from a well-developed bond market as it only incentivizes financial market and its players to be more efficient and spreads risks across investors and intermediaries. Some of the key benefits are as follows:

- It can potentially supplement the existing banking system in mobilizing funds to enterprises (both government and corporates) as doing so reduces vulnerability of the financial system to external shocks by diversifying the funding basket of the economy. Looking at the previous financial crises would reveal how systematic problems in the banking sector has interrupted the flow of funds from savers to investors for a significant long period of time.
- It can provide alternative investment options for institutions such as insurance companies and pension funds, which by their very nature seeks long-term assets to match their long-term liabilities.
- It allows for the development of credit derivative products, thereby allowing efficient credit risk transmission.
- Bond financing lowers funding cost for high quality borrowers by way of credit rating based instrument pricing and advantage of lower intermediation costs compared to bank financing.
- A well-developed bond market also introduces a healthy competition to the banking sector in providing corporate financing.
- Efficient bond markets can also help spreading the risk among ultimate savers rather than getting concentrated in the intermediaries.

How Bonds can potentially be better alternatives to available instruments

The wide spectrum of fixed income securities that are currently available in our financial markets can benefit both the issuers (supply-side) and investors (demand-side) alike, depending on their investment requirements and appetite. Some of the key benefits are highlighted as below-



Supply Side Benefits:

- **Matching Funds:** Funds with long-term repayment nature can be raised for the long-term financing needs of infrastructure projects and capital expansions of government and corporates.
- **Intermediary by-passing:** Bonds can be priced at a lower rate than bank loans as bonds issued by a corporates can easily be subscribed by other corporates, easily bypassing the requirement for a financial institution as an intermediary.
- **Fixed Interest Rate:** Some bonds such as zero-coupon bonds can be offered at a fixed discount rate, i.e. similar to a fixed interest rate instrument. Hence, bond issuers can protect themselves against variable interest rates through issuance of zero-coupon bonds.
- **Flexible Repayment Structure:** Issuers can structure repayment mechanism of bond payments in whatever manner they desire as long as it matches the investors' appetite and ensures the repayments matches with the issuer's projected cash-flows. This can greatly enable the issuers from avoiding default in payments from the available off the shelf bank's long-term financings which often are constrained from being customized to borrower's requirements.
- **Convertibility Option:** The options to convert bonds to equity can enable issuers to raise debt at a lower rate in comparison to other debt instruments due to the equity sweetener, i.e. giving the investors the option of participating in any potential capital gains through converting their bonds to equity in secondary markets.

Demand Side Benefits:

- **Tax Exemption on Zero Coupon Bond:** The interest income derived from investment in Zero Coupon Bond is 100% tax exempted for corporates and individuals.
- **Institutional Portfolio Diversification:** Bond provides an opportunity for investors (provident fund, gratuity fund, insurance companies etc.) seeking higher return and long term investment options and enables them to diversify their portfolios.
- **Collateralized Bonds:** Bonds can be collateral or guarantee backed that can increase assurance of certain principal and interest payment from the project's income streams, collateral liquidation or repayment guarantee by a higher rated agency - such as a banks or even government.
- **Regular Income Source:** Investors with need for regular income streams can generate through the periodic coupon payments from bonds over investments in equity market which does not guarantee such payments and by nature is much more volatile as return in equity market is mostly generated through dividends and capital gains.
- **Higher Income Potential:** Coupon/Discount rates from bonds are usually higher than those from regular savings deposits offered by financial institutions, as issuers can afford to pay a higher rate due to by-passing the financial intermediaries.

Market Barriers to Sectoral Development

Despite the multi-varied ways our growing economy and its participants can benefit from a vibrant bond market, various market barriers still exist which restraints the sectoral development.

- **Lengthy issuance process & high issuance cost:** The issuance of a bond is quite lengthy compared to the alternative options (i.e. bank loans) for the issuers. In general, bond issuance takes a total of 4-6 months whereas the scenario is quite different for bank loans. Moreover, the application/ issuance process of bonds is much more complex than commercial loans. The initial cost of issuance cost for bonds is also much higher as there are several additional fees/costs (i.e. registration fee, stamp duties, consent fee, credit rating cost, audit cost, trustee fee, arrangement fee etc.) that are not required for commercial loans.
- **High return offered by government Sanchay Patras:** The Bangladesh Sanchay Patras from the Government of Bangladesh already offer lucrative rates of return, which are higher than most term deposits offered by scheduled banks. Since these instruments are risk-free, it is necessary for corporate bonds to offer higher rates of return (to compensate investors for their additional risks), which makes issuing bonds quite unfeasible. Moreover, this high cost of borrowing is also causing the government to bleed through its fiscal budget every year.

- **Absence of a vibrant & liquid secondary market:** The absence of a vibrant & liquid secondary market is partly caused by the absence of a significant number of retail bond investors that has made it difficult to properly price the bonds in the primary market and also impacting easy exit of the holdings.

- **Limited number of prospective investors due to focus on capital gains:** The investor base in the bond market is very insignificant compared to the investor base in capital market as the capital market offers higher return but at the cost of higher risk. In addition, investors are reluctant to invest in the bond market as they prefer short term deposits products offered by financial institutions over long term investment in Bonds. The majority of investors in Bangladesh prefer capital gains over regular interest income; this is reflected by their preference for stocks over bonds.

- **Lack of trust on credit rating provided by rating agencies:** The quality of the credit rating provided by the rating agencies to the issuers below standard and mostly inflated. This has happened due to existence of too many ratings agencies and price competition amongst the agencies to acquire clients. Hence, risk-based pricing of bonds on the basis of ratings provided by these rating agencies would be quite unreliable.

- **No tax incentive for Banks, NBFIs and Insurance Companies:** The Zero-Coupon Bonds, which offers tax exemptions for corporates and individuals, unfortunately puts no mercy on Banks, NBFIs and Insurance Companies.

A Road-map for development of the Bond Market

In order to develop a flourishing bond market, we must develop a clear road-map to ensure a vibrant market exists for the benefits of all market participants. The following key measures could potentially open doors for substantial fund-flow through bonds from savers to investors.

- **Prioritize development of the secondary bond market over the stock market:** Investors in the stock markets are only entitled to dividends and capital gains, which to a large extend depends on how the company performs over the period. Hence, prices of stocks shows greater volatility and by nature are riskier investments, especially for retail investors. On the other hand, when a bond issuer commits to a pre-determined cash flow to the investors through coupon and principal redemptions at maturity, it becomes a much less risky investment vehicle and hence show less volatility. Thus, for investor groups which appetite for regular cash-flow requirements and institutions such as insurance companies, provident/pension funds, endowments and other institutional investors with rigid cash flow requirements to meet their own obligations to the policy holders or beneficiaries, listed bonds can offer a much better investment matching over stocks. This is why many countries developed their bond markets before creating their stock markets. Similarly, for Bangladesh as well, this should be the case forward as retail investors are yet to develop the investment know-how to analyse stock investments. It would be better if they can get used to investing in capital market with bonds that are less risky than stocks. The bond market also helps fund managers in diversifying their portfolio and managing risk. For example, if a fund manager considers that the stock market is over-valued, he can increase his fund allocation to bonds. Other than the corporates, the secondary market for government debt securities in Bangladesh is still in a very growing stage. For example, in the DSE, 221 treasury bonds are

KEY POINTS

- Cumulative total of **USD 600 Billion** of investments would be required in infrastructure sector
- Absence of bond markets causes **systemic risks**
- Bond markets needs to take permission from the **Bangladesh Securities and Exchange Commission (BSEC)**
- Developing economies can **benefit in multiple ways** from bond market
- Indian bond market **liberalization** has attracted many foreign investors.
- **Development of the secondary bond market** has become a vital need for our economy.

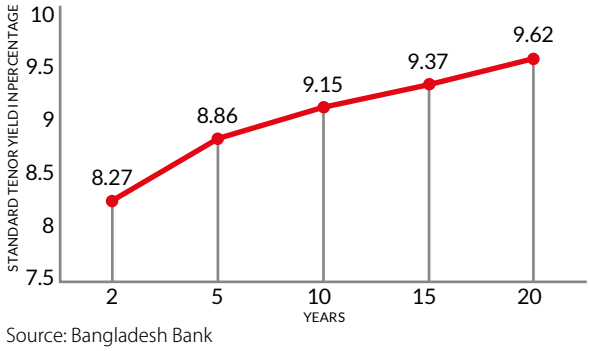
listed with a maturity of 5-20 years. The bonds are traded in the secondary market through Over the Counter (OTC) and Trader Work Station (TWS). Both the procedures are the integral parts of Bangladesh Bank initiated Market Infrastructure Module (MI Module)-the automated auction and trading platform of government securities. If the transaction is allowed in the secondary market through stock exchanges, it will increase participation by individuals and corporate houses.

- **Corporates to be made mandatory to raise bonds before raising equity in the secondary markets:** At the absence of a corporate bond market, corporates have historically relied on bank borrowing, hence finding it difficult to manage their bank borrowings and are often left with no option other than defaulting or rescheduling their loans. BSEC may take the initiative of making it mandatory for corporates to develop the track record of issuing bonds in the secondary market before seeking to raise capital through equity. This would also make it easier for BSEC to protect the interest of bond investors as bond investors are entitled to fixed cash flows from issuers and taking remedial actions to potential non-compliance or events of defaults by issuers would be quicker and more objective.

- **Government support through faster regulatory approval, credit enhancement facilities and tax incentives:** As already mentioned, the BSEC approval process of 4 -6 months for corporate bonds is too high for issuers to consider it worthy to pursue fund-raising through bonds. BSEC must do its own capacity enhancement to ensure a faster approval process is ensured. Additionally, under some government investment authority, a standard practical payment guarantee may be offered by a government agency for enhancing the rating of bonds to channelize long term funds for infrastructure projects. A budget allocation from the Government would be beneficial for such initiative. The tax incentive for zero coupon bond is currently available for the corporate houses and individuals. However, most of the investment done in this sector are by the Banks, NBFIs and Insurance Companies. Some incentive in the tax structure for these institutions shall ensure greater participation and help create depth and breadth of the market.

- **Establishment of a market reflective reference rate:** Currently, the bond market lacks a proper market reflective reference rate or reference yield. Currently, Bangladesh Bank publishes a yield curve of government securities of different tenor. However, the yield curve is not market reflective for corporate bonds. Without the proper benchmark, all other fixed -income instruments, including corporate bonds shall lack the required reference rate for pricing. Currently the structure of corporate bond in Bangladesh market uses average fixed deposit rate of Banks as reference rate. A market reflective reference rate shall ensure proper risk premium and shall attract long term investment in bonds.

Standard Tenor Yield of Govt. T-Bonds



Source: Bangladesh Bank

- **Structuring of bonds with flexible repayment and stronger recourse mechanisms:** Compared to the economies in other neighboring countries, it is essential that financial market of Bangladesh also structures innovative bond transactions through matching bond's cash-flows with issuers' requirements. There is still an untapped market where bonds like municipal bond, green bond, sukuk (Islamic Bond) etc. can be offered. Involvement of all relevant stakeholders including government authorities in this regard is essential for the development of this market. Moreover, since investor's trust in this sector is yet to be at a desired level, trustees in bonds can play a greater role by devising recourse mechanisms such as step-in rights, collateralizing bonds and holding other fiduciary responsibilities that can potentially give confidence to the investors for investing in bonds.

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Boat Ambulance Launched by IDLC for Water Dependent Rangabali Upazila

Engine and manual boats are the only means of communication for the people of the multiple Chor areas of Bangladesh. In the case of health emergencies, the incumbents of these areas have to go through different risks including the risk of life for lack of proper transportation. Empathizing with this, IDLC Finance Limited have funded a boat ambulance with the supervision of Ovijattrik foundation, to serve the people of all connecting chors of Rangabali Upazilla at Patuakhali district.

It will be dedicated to serve about one and a half lakh people of Rangabali upazila of Patuakhali. Since there is no health complex in this upazila, locals have to go by boat to the Galachipa Health Complex which is 20 km away from the chor & it takes two to three hours to reach Patuakhali district health complex, which is 40 km away. Mostly mothers in pre-mature labor and with postpartum complicacies put their lives at serious risk and some patients died after failing to reach the hospital on time.

Therefore, the largest non-banking financial institution in the country IDLC Finance Limited have launched a boat ambulance with the supervision of Adjikratik Foundation, for improved health care and emergency rapid hospitalization to the people of Rangabali Upazila, with a capacity of ten people. The ambulance is 20 feet long, with 120 horsepower and can carry patients to the hospital within 20 to 25 minutes with a minimum rent. It is equipped with oxygen and emergency medicines, as well as full-time health workers and other facilities.

IDLC Finance Limited is delighted to be on the side of the people of this region, hoping that this boat ambulance will be able to provide continuous service to the people living in Rangabali upazila.

- Arif Khan
CEO & Managing Director
IDLC Finance Limited

IDLC Stands Beside Fistula Patients Along With Dr. Sayeba

Obstetric fistula is one such chronic debilitating condition for women. It is a hole in the birth canal connecting to the urinary passage and or rectum, caused by prolonged and difficult labor. Women with obstetric fistula constantly leak urine or faces or both. Due to their condition, they often face social embarrassment, insults and alienation, even from their own family.

Professor Dr. Sayeba Akhter is playing a great role by performing free surgeries of fistula patients which is very expensive and complicated. IDLC Finance Limited have decided to participate financially to help Dr. Sayeba with facilitating the patients who takes the surgery from MAMM's Institute of Fistula and women health for post-surgery health care. The surgery usually costs 80 thousands taka to 1 lakh per patients.

IDLC, as part of its commitment to improve the health and social status of marginalized women, initiated a project for patients with Obstetric Fistula in partnership with MAMM's Institute of Fistula and Women Health. Under this initiative IDLC will provide partial financial support to MAMM's Institute of Fistula and Women's Health (MIFWOH) for getting post-operative services of 50 patients after fistula surgeries.

Dr Sayeba said "I am delighted to have the leading financial institution of the country like IDLC Finance Limited stand by us and fight this cause & I hope many more organizations like IDLC will play their responsible role"

We are proud to be in agreement with such a great soul and eminent physician like Dr. Sayeba. We hope to become more involved with such initiatives in the future.

- Arif Khan
CEO & Managing Director
IDLC Finance Limited

Monetary Policy Statement 2019-20

POLICY IN FOCUS

Bangladesh bank has changed the monetary policy for the current fiscal year and this has been a big adjustment to the monetary programme for the current fiscal year. This has led to an increase in the public sector credit growth target to 37.7% but keeping the private sector credit growth target unchanged. Prior to this revised policy, the central bank had set the target of credit to private sector at 14.80% for the current 2019-20 fiscal year. This amendment in the policy by Bangladesh bank has also resulted in an increase in the broad money circulation target from 12.5% to 13%. According to Bangladesh bank this has been done to boost the stock market and credit in private sector.

The two key monetary policy inflation and targeted real GDP growth were achieved in FY19. In 2019 CPI inflation was at 5.47% which was below the targeted 5.60% ceiling, and real GDP growth of 8.13% which was higher than the targeted rate of 7.80%.

Overview of the GDP growth as per World Economic Outlook

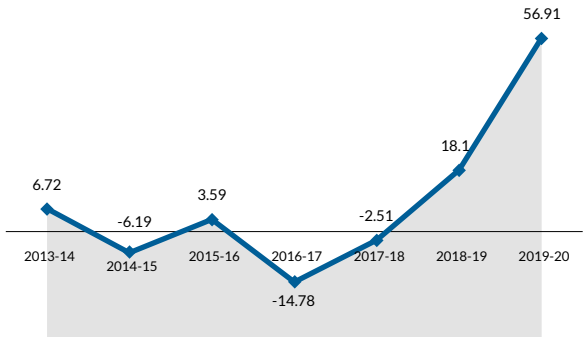
Region	Growth				Difference from April 2019 WEO projections	
	Actual		Projections			
	2017	2018	2019	2020	2019	2020
World	3.8	3.6	3.2	3.5	-0.1	-0.1
Advanced Economies	2.4	2.2	1.9	1.7	0.1	0.0
USA	2.2	2.9	2.6	1.9	0.3	0.0
Euro Area	2.4	1.9	1.3	1.6	0.0	-0.1
Other Advanced Economies	2.9	2.6	2.1	2.4	-0.1	-o.1
Emerging Market and Developing Economies	4.8	4.5	4.1	4.7	-0.3	-0.1
China	6.8	6.6	6.2	6.0	-0.1	-0.1
India	7.2	6.8	7.0	7.2	-0.3	-0.3

Source: BB, World Economic Outlook, IMF

The FY20 monetary policy and program aims to accommodate monetary and credit expansion needs in order to achieve FY20 real GDP growth target of 8.2% as well as keeping CPI inflation within the targeted ceiling of 5.5%.

The revised monetary program for FY20 has caused a growth in the public sector borrowing from 24.3 per cent in the original monetary program to 37.7 per cent in the adjusted monetary program. Hence it has been reported that public sector bank borrowing this fiscal year reached Tk 51,740 crore as on January 9, 2020. This constituted 37.8 per cent growth relative to the stock of public sector debt to the banking system as on June 30, 2019 which is larger than the total increase in public sector borrowing implied by the revised 37.7 per cent growth target. Fiscal adjustments is important to enable financing of government spending only from revenues and external sources. The increase in government borrowing can create pressure on interest rates and inflation and the risk of increasing inflation is even greater if the increased borrowing is from the BB.

Public sector credit growth over the years



Source: The Daily Star, January 20,2020

During 2019 the increased public borrowing from banks may have shrunk money available for credit to the private sector. This, along with incidence of

NPLs and high rate of interest has deteriorated the rate of increase in private sector investment at the rate of 23.54 per cent during 2019. This has also constituted to the decline in private sector credit growth from 16.9 per cent in 2017-18 to 11.3 per cent in 2018-19.

It is evident that highest level of public borrowing previously was Tk 23,300 crore in fiscal 2010-11 and the next highest was Tk 22,500 crore last year. The large increases in bank borrowing last year as well as this year, clearly highlights rapid increase in domestic public debt and this public debt can have a great impact on the economic growth. Although the short-term, aggregate output can be boosted, but in the long-run, investment is reduced, thus reducing the economic growth. However there is another view which holds that the investment and economic growth are not affected because the private sector responds appropriately to make sure that the future generations do not have to bear any unreasonable burden of public debt.

The World Bank has projected 7.2 per cent GDP growth for Bangladesh in the current fiscal year, FY 2019-20, while 7.3 per cent in the following fiscal year.

Bangladesh, the third-largest economy in the region, fared better than India and Pakistan, with the growth officially estimated at 8.1 per cent in FY2018-19, said the World Bank in its Global Economic Prospects.

It has been reported that Bangladesh Bank has implemented its monetary policy statement (MPS) for FY2019-20 with the hope to achieve the 8.2 per cent GDP growth keeping the inflation rate within 5.50 per cent.

However, significant improvement in Balance of payment was also visible.

Balance of payments highlights (In million USD)

Major Items	Actual		Provisional	Outlook
	2016-17	2017-18	2018-19	2019-20
Trade Balance	-9,472	-18,178	-15,509	-15,275
Services	-3,288	-3,609	-3,586	-4,687
Primary income	-1,870	-2,479	-3,074	-3,353
Secondary income	13,299	15,453	16,883	18,740
Of which: Workers' remittances	12,769	14,982	16,420	18,390
Current account balance	-1,331	-8,813	-5,286	-4,574
Capital account	400	331	233	300
Financial account	4,247	8,273	5,642	4,374
Errors and omissions	-147	-648	-577	0
Overall Balance	3,169	-857	12	100
Memorandum item: Gross Official reserves	33,493	32,943	32,550	3,2750

Source: Bangladesh Bank

Monetary policy stance and monetary program for FY20

The monetary policy stance and monetary program for FY20 have been implemented with the objective of maintaining price stability and aiming for sustainable growth and development. The FY20 monetary program is based on the 8.2 percent real GDP growth and 5.5 percent CPI inflation. Bangladesh bank's annual monetary program provide adequate opportunities for money and credit growth with aim of attaining the targeted nominal GDP growth.

Bangladesh bank is adopting a policy interest rate that is focused on monetary policy regime in which changes in policy interest rates will have cause a direct impact on the prices in the financial sectors. If this is properly implemented it will likely to result in increased efficiency in transmission of intentions of monetary policy.

Potential risk factors for attaining FY20 monetary program objectives

The domestic risk factor, the ongoing trade wars, geopolitical tensions and other uncertainties may fully or partly impair the attainment of FY20 monetary program objectives and outcomes.

BONGOBD

Navidul Huq

Co-Founder, BongoBD

We belong to the internet savvy generation where more and more contents are moving online which has led to the rise of Netflix, Youtube and other online services as people are consuming more contents online in the western world. When the co-founders of BongoBD, Navidul Huq and Ahad Mohammad Bhai looked into Bangladeshi media and entertainment industry in 2013, they found that no-one was working on creating a digital media platform where Bangladeshis can enjoy video contents online. So their initial idea was very simple that they wanted to take all the Bangladeshi movies, serials or any kind of shows and put it on a website and charge a subscription fee to the Bangladeshis living in Europe and America. They knew that the Bangladeshis living in middle east will not be willing to pay a subscription fee for their service as in 2013 as they were not used to watching contents online like those of the Bangladeshis living in Europe and America who were already exposed to watching contents online. This is how the idea of Bongo came into being in 2013 through the objective of bringing good quality Bangladeshi movies and shows under one platform and charging people for the service.

Bongo's initial business model was to charge Bangladeshi people living abroad a subscription fee but today they have a very different business model constituting five or six different business models that they are managing successfully and which are considered to be more prominent than their initial business model. Apart from the subscription service they have a business model where they are monetizing contents on youtube, they have a business model where they are making contents for both online and offline, they also have a business model where they are supplying technical solution and contents to various mobile telecom operators and lastly they have another business model where they still have their own portal BongBd.com. Hence these are the four distinct business model that they are currently running. According to Mr. Navidul Huq, no startups stick to their original business model because as they move forward with their business they go through a discovery process where they find scopes for changing the business model or creating a completely new business model. As for BongoBD, they too have successfully explored different scopes for expanding their business model.

Bongo have managed to bring a good amount of quality contents and they have also managed to build the largest library of Bangladeshi contents in the world. As a result they have been able to build a brand and a reputation which is why anyone in the content industry are well aware of Bongo and would often come to them with their contents for their guidance to help them bring their contents to the digital ecosystem. Navidul Huq believes

Key Info

- The idea of Bongo came into being in **2013**
- Bongo targets mass general and youth
- Has **five or six** different business models
- **Largest library** of Bangladeshi contents in the world
- Bongo has **15000** hours of contents
- In **2014** they first launched a website
- First version of the app launched in **2016**
- Close to a **100 million** subscribers across all their platforms
- Bangladeshi company with **Bangla contents** for the Bangladeshis.

that there are a mixture of few elements that have helped them to survive in this industry. The mixture of timing because they were the first mover in the industry, the mixture of luck and most importantly the mixture of hard work and good reputation which have contributed to their success. Bongo has 15000 hours of contents available in their platform and the reason for why they measure the number of contents by hours because different contents have different size and this 15000 hours of contents gives the idea that Bongo is providing thousands of contents. Their differentiation is that, unlike other similar service providers they are exclusively working with the Bangladeshi contents only.

Bongo initially did not have any app. In 2014 they have first launched a website which did not work well for the business but soon they figured that building a website and trying to sell subscription through it is going to be a difficult task and they might not be able to survive in the business. Hence they took the initiative to launch their first version of the app in 2016.

They are mainly targeting the mass general people and the youth and hence their target age group is between 15-35 years old. Therefore they are targeting more of a younger population both male and female but the mass general people and not any specialized group or higher income group of people. The aim is to be in the bracket of the mass by providing an affordable service where everyone can enjoy the good quality entertainment as there is a lack of good quality entertainment in Bangladesh.

Some of the contents provided by Bongo are available by subscription while some are available by app support as a lot of people will not be able to afford subscription so they don't want to keep those people away from the contents that they are offering. Hence apart from earning money through subscription they also have the app supported model and that is how they intend to grab the market by focusing on bringing great contents to their consumers.

Bongo is always at the edge of technology, they use the latest app technologies that are there, they follow all the best practices, they have their own internal software development R&D team and it is a team comprised of some of the best software developers in Bangladesh, they also have expert foreigners in their team to work together with the Bangladeshi engineers that they have. They are constantly trying to improve their service by focusing on better looking field of the app with faster response.

Team Bongo believes that if you have a good product and a good service then people will be willing to pay for it and Netflix is the ultimate example of it because even in the world of free YouTube and others Netflix is the premium service that people are paying to watch and recently a lot of competition has come in this field as many similar platforms have been launched making it a highly competitive

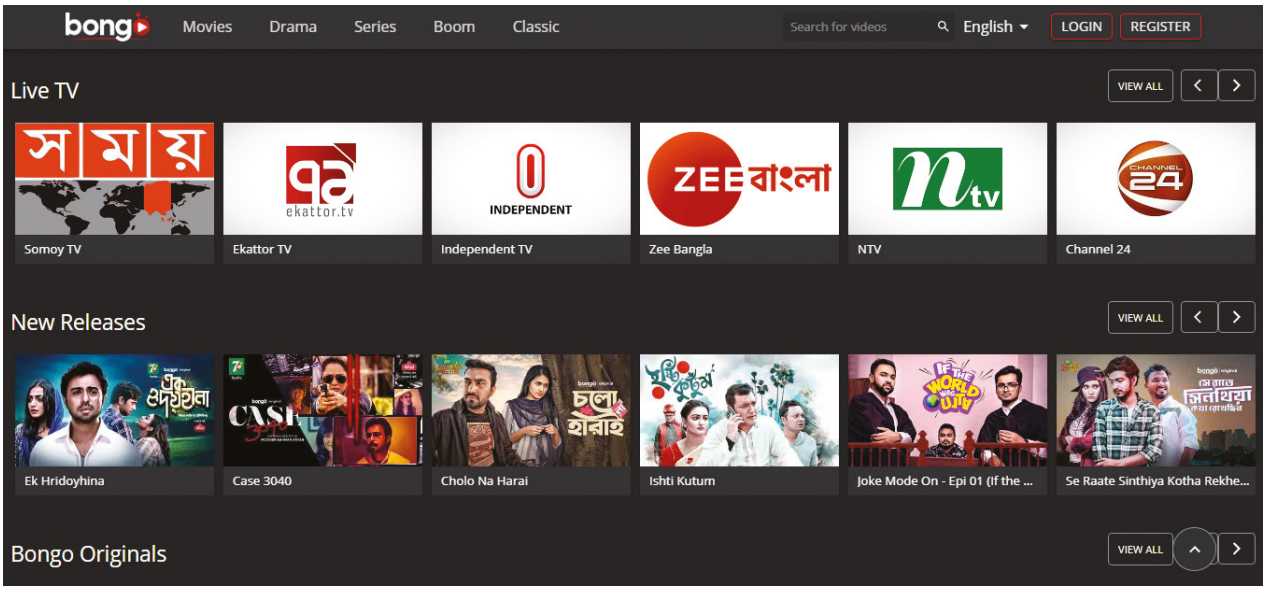
industry. But if you can bring a good content and a good service at good price people will eventually accept the product and this is how Bongo intends to make a profitable venture by bringing good contents at an affordable price with a good service.

Bongo currently has reached close to a 100million subscribers across all their platforms. Majority of their subscribers are on YouTube network. Bongo is the largest YouTube management company in Bangladesh and they also have a good amount of subscribers in the other platforms that they have.

The biggest challenge that bongo face is the international competition. If Netflix, YouTube and others are operating in Bangladesh they are not adhering to local laws, they are not paying local taxes, they are not playing in same level as the local companies and they are much bigger companies with a huge amount of money so if they are to play with them in Bangladesh they need the help and support of the government. They expect the government to make it harder for the international companies to come and do business in Bangladesh and the government and the local regulations should be on the local company's favor. Therefore they expect a level playing field and if only they get some advantages from the government they too can become international players. Bongo's strategies to fight the international players are to be efficient, to be nimble and to have the good content to show the users that they are Bangladeshi company for the Bangladeshis. Hence they intend to work in the niche market where they would connect to the root that some other service won't be offering to the Bangladeshis.

Their future plan is to focus on their own portal BongoBd.com and take it to worldwide and make it the number one destination for premium Bangladeshi content and they also want to develop themselves into a platform where they bring together content creators with the viewers. Moreover, bongo itself creates contents but at the same time they welcome other content creators to put their contents on their website. Bongo is lucky to host a lot of young talents in Bangladesh in their YouTube network. Many of the upcoming talents are connected with them like Salmon the brownfish, Choto Azad and many other young talents are already working with them and Bongo is playing an important role in taking these talented people to the next level.

Photo Credit: The Daily Star



Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market closed the month of January in positive territory. During the month, the broad index DSEX rose by 0.4%, gaining 16.7 points. The blue chip index DS30 and the Shariah index DSES also increased by 0.7% and 2.8% respectively.

Among the regional peers, Pakistan's index also rose by 2.2%, while Sri Lanka and Vietnam yielded a negative return of 3.3% and 2.5% during the month of January. Meanwhile, the MSCI Frontier Markets Index also gained a meager 0.2%. Over the long term, Vietnam showed the most encouraging track record with a 5 years' return of 62.6%.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, January, 2020	Return*					
		1M	3M	YTD	12M	3Y	5Y
Bangladesh							
DSEX	4,469.7	0.4%	-4.6%	0.4%	-23.2%	-18.3%	-5.4%
DS30	1,524.0	0.7%	-6.4%	0.7%	-24.1%	-23.5%	-12.8%
DSES	1,028.3	2.8%	-4.4%	2.8%	-21.5%	-18.9%	N/A
Peer Countries							
Pakistan (KSE 100)	41,630.9	2.2%	21.7%	2.2%	2.0%	-14.6%	20.9%
Sri Lanka (CSE - All Share)	5,929.8	-3.3%	-1.0%	-3.3%	-1.0%	-3.3%	-17.4%
Vietnam (VNI)	936.6	-2.5%	-6.2%	-2.5%	2.9%	34.3%	62.6%
MSCI Frontier Markets Index	**768.5**	**0.2%**	**5.6%**	**0.2%**	**9.0%**	**12.2%**	**10.7%**

* 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 0.4%, while free float market capitalization also increased by 0.6%. The daily average turnover of January 2019 was BDT 3.6 bn (USD 43.2 mn), increasing by 9.5% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market increased to 28.4% in January compared to 23.7% of last month. In 2019, turnover velocity of Bangladesh equity market was 33.5%, in comparison to 34.4% in 2018.

Table 2: Market capitalization and turnover statistics

Particulars	31-Jan-20	31-Dec-19	% change
Total market capitalization (USD* mn)	40,129	39,971	0.4%
Total equity market capitalization (USD mn)	33,260	33,111	0.5%
Total free float market capitalization (USD mn)	13,533	13,456	0.6%
Daily Avg. Turnover (USD mn)	43.2	39.5	9.5%
Turnover Velocity~	28.4%	23.7%	N/A

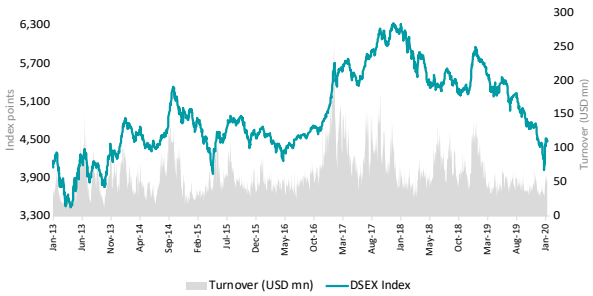
*All USD figures are converted using an exchange rate of 84.95 as of January 31, 2020 as per Bangladesh Bank website.

~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 10.2% till January, 2019. During the same period, daily average turnover of the market amounted to BDT 5.4 bn (USD 63.0 mn) (Figure 1).

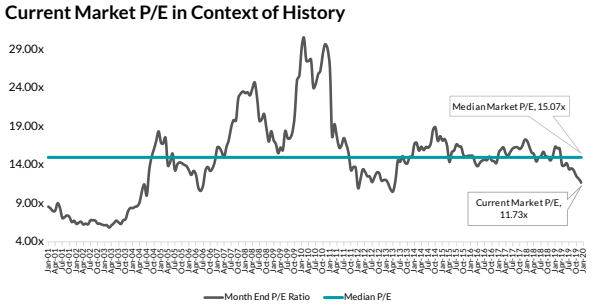
Figure 1: DSEX since inception along with market turnover



Market Valuation Level - P/E Ratio

The market P/E decreased to 11.73x in January compared to last month's 11.84x. It is also way lower than the 19 years' median market P/E of 15.07x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is the cheapest among its regional peers. (Figure 3).

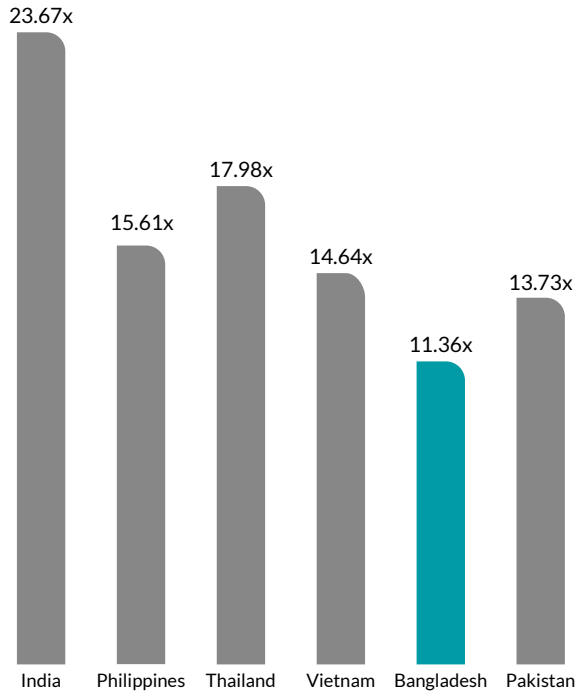
Figure 2: Historical market P/E* and it's median



*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 November 30, 2019. Source: IDLC, Bloomberg

Sector Performance

During January, among the major sectors yielded mixed returns, Food & Allied, Fuel & Power and Pharmaceuticals yielded positive returns of 11.0%, 3.1% and 1.6% respectively, while Telecommunications, Life Insurance and Bank yielded the most negative returns of -9.4%, -4.1%, -3.7% respectively.

The largest sector in terms of market capitalization, Bank is relatively undervalued in terms of P/E ratio. On the other hand, Fuel & Power sector has the highest dividend yield of 5.8% among all sectors.

Table 3: Sector performance snapshot

Sector	Market capitalization (USD mn)		Return*						P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	YTD	12M	3Y	5Y			
Bank	6,073	3,422	-3.7%	-7.9%	-9.4%	-9.4%	15.1%	49.2%	7.8	0.8	2.4%
Pharmaceuticals & Chemicals	5,624	2,959	1.6%	-5.5%	-2.6%	-2.6%	18.4%	53.7%	10.4	9.2	2.1%
Telecommunication	4,297	462	-9.4%	-26.6%	-24.4%	-24.4%	4.7%	-9.0%	13.9	2.3	4.8%
Fuel & Power	4,625	1,211	3.1%	-6.3%	-7.3%	-7.3%	15.8%	30.4%	10.9	1.3	5.8%
Food & Allied	2,907	1,044	11.0%	-6.6%	-9.0%	-9.0%	17.9%	28.7%	21.6	7.0	1.7%
Engineering	1,704	877	-1.8%	-17.3%	-21.3%	-21.3%	-12.7%	35.5%	13.9	1.2	2.2%
NBFI	1,649	503	-1.1%	-8.5%	-23.1%	-23.1%	-8.1%	-9.5%	11.9	1.4	2.6%
Textile	1,223	692	-2.9%	-3.2%	-26.1%	-26.1%	8.5%	36.6%	11.9	0.7	2.6%
Miscellaneous	1,170	291	1.2%	-10.2%	-6.6%	-6.6%	7.5%	60.4%	21.9	1.1	2.1%
Cement	1,038	416	23.6%	7.5%	-17.4%	-17.4%	-43.1%	-50.9%	32.7	2.4	2.2%
Life Insurance	692	305	-4.1%	-2.3%	-5.6%	-5.6%	28.5%	8.2%	13.5	5.7	1.8%
Non-Life Insurance	609	346	-0.9%	-2.6%	30.7%	30.7%	52.9%	56.5%	14.0	1.2	2.6%
Ceramics	269	113	-0.7%	-9.5%	-15.0%	-15.0%	-11.9%	0.7%	20.7	1.5	1.9%
Tannery	234	115	2.0%	-16.6%	-27.5%	-27.5%	-22.9%	-10.9%	22.1	1.8	3.3%
Travel & Leisure	293	158	11.4%	19.4%	17.5%	17.5%	19.3%	12.6%	25.6	0.7	2.7%
IT	263	163	-2.9%	-0.6%	-1.5%	-1.5%	46.6%	217.7%	26.5	1.1	1.3%
Services & Real Estate	173	89	7.1%	-1.4%	-16.2%	-16.2%	-38.6%	-45.2%	12.3	0.9	3.2%
Paper & Printing	118	40	-0.1%	-8.6%	-40.7%	-40.7%	457.6%	381.4%	18.7	2.3	2.7%
Jute	25	16	-17.2%	-38.4%	-55.4%	-55.4%	117.5%	143.4%	42.3	7.6	1.1%
Market	**32,706**	**13,053**	**0.4%**	**-4.6%**	**0.4%**	**-23.2%**	**-18.3%**	**-5.4%**	**11.8**	**1.5**	**3.1%**

*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, all expect large cap classes yielded negative returns. Among them, the large cap was also the highest dividend yielding (3.6%) class.

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	YTD	12M	3Y	5Y			
Large	≥120	81.9%	0.2%	-12.7%	-13.0%	-13.0%	13.2%	16.9%	11.6	1.6	3.6%
Mid	36-119	11.3%	-1.3%	-6.3%	-6.9%	-6.9%	2.1%	19.8%	11.3	0.8	2.3%
Small	12-35	5.0%	-0.9%	-9.9%	-22.5%	-22.5%	-10.9%	17.0%	18.3	0.7	2.6%
Micro	<12	1.7%	-2.4%	-9.0%	-17.0%	-17.0%	-8.8%	16.8%	18.3	0.9	1.8%
Market	**-**	**-**	**0.4%**	**-4.6%**	**0.4%**	**-23.2%**	**-18.3%**	**-5.4%**	**11.8**	**1.5**	**3.1%**

*All returns are Holding Period Returns

Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization, LHBL (+49.7%) advanced the most in January, followed by OLYMPIC (+18.2%), MJLBD (+16.9%), BATBC (+10.7%). BXPHARMA (-12.4%) faced the highest selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+161.6%), RENATA (+132.3%), EBL (+123.7%) and BERGERPBL (+111.8%).

Among the scrips, SUMITPOWER, TITASGAS, MJLBD, ISLAMIBANK, EBL, GP, UPGDCL, PUBALIBANK and MARICO recorded a higher dividend yield compared to that of market.

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

DSE Code	Sector	Market capitalization (USD mn)		Daily Avg. Turnover (USD mn)	Return*						P/E (x)	P/ BV (X)	Dividend Yield
		Total	Free Float		1M	3M	YTD	12M	3Y	5Y			
GP	Telecommunication	4,098	410	0.74	-9.8%	-26.8%	-25.0%	-25.0%	5.2%	-9.0%	10.09	10.39	5.0%
BATBC	Food & Allied	2,274	602	0.53	10.7%	-6.7%	-8.1%	-8.1%	36.6%	31.8%	22.39	7.06	1.6%
SQURPHARMA	Pharmaceuticals & Chemicals	1,970	1,292	1.13	4.3%	-8.5%	-15.0%	-15.0%	2.2%	25.1%	12.14	2.74	2.0%
UPGDCL	Fuel & Power	1,610	161	0.36	5.8%	-13.4%	-10.7%	-10.7%	159.8%	N/A	21.20	5.01	4.6%
RENATA	Pharmaceuticals & Chemicals	1,141	557	0.08	-0.2%	-3.9%	6.2%	6.2%	50.5%	132.3%	24.37	6.06	0.8%
BERGERPBL	Miscellaneous	769	38	0.17	2.0%	-8.0%	6.6%	6.6%	27.9%	111.8%	34.15	10.48	1.8%
BRACBANK	Bank	726	404	0.32	-12.4%	-18.7%	-20.9%	-20.9%	36.0%	161.6%	13.59	1.90	0.0%
ICB	NBFI	714	23	0.07	2.9%	-10.0%	-25.2%	-25.2%	-4.5%	-22.8%	(34.05)	1.70	0.0%
LHBL	Cement	688	243	5.89	49.7%	40.5%	18.4%	18.4%	-36.3%	-56.3%	37.35	3.93	2.0%
MARICO	Pharmaceuticals & Chemicals	630	63	0.03	1.6%	-0.1%	45.8%	45.8%	107.6%	83.4%	18.78	30.74	3.8%
SUMITPOWER	Fuel & Power	493	181	0.35	8.0%	1.9%	8.7%	8.7%	34.2%	53.3%	7.00	0.99	8.9%
OLYMPIC	Food & Allied	459	332	0.13	18.2%	-1.8%	-7.2%	-7.2%	-31.2%	20.2%	18.55	5.75	2.5%
DUTCHBANGL	Bank	406	53	0.16	-3.4%	-0.4%	19.3%	19.3%	55.7%	87.7%	7.68	1.60	0.0%
TITASGAS	Fuel & Power	363	91	0.03	1.0%	-8.0%	-8.0%	-8.0%	-24.0%	-49.4%	9.63	0.46	8.3%
ISLAMIBANK	Bank	353	180	0.03	-2.6%	-13.9%	-20.0%	-20.0%	-29.9%	-3.4%	6.37	0.57	5.4%
BXPHARMA	Pharmaceuticals & Chemicals	352	305	0.14	6.2%	-10.7%	-5.1%	-5.1%	-4.0%	51.1%	8.65	1.07	2.0%
NATLIFEINS	Life Insurance	341	78	0.01	-4.5%	6.3%	24.9%	24.9%	82.7%	88.4%		30.67	0.7%
EBL	Bank	325	222	0.11	2.4%	-2.6%	9.3%	9.3%	59.9%	123.7%	9.01	1.23	5.3%
PUBALIBANK	Bank	298	208	0.11	2.5%	0.4%	1.2%	1.2%	33.0%	38.9%	6.78	0.96	3.9%
MJLBD	Fuel & Power	276	79	0.17	16.9%	-2.9%	-21.2%	-21.2%	-25.3%	-4.1%	11.90	1.90	6.1%
Market		**32,706**	**13,053**	**43.19**	**0.4%**	**-4.6%**	**0.4%**	**-23.2%**	**-18.3%**	**-5.4%**	**11.84**	**1.48**	**3.1%**

*All returns are Holding Period Return.

^Five years' return is not available for UPGDCL as they were not listed then.

Top Performing Mutual Funds

The top ten open end mutual funds based on 3 year CAGR outperformed the market during the same period. Among them, CAPM Unit Fund (+5.7%) yielded the highest return. On YTD 2020 basis, MTB Unit Fund, Third ICB Unit Fund, and CAPM Unit Fund generated the most positive returns of +3.6%, +3.3% and +3.1% respectively.

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

Name	Asset Management Company	Fund Size (USD mn)	Return		
			2020 YTD*	2019	2017-2019
CAPM Unit Fund	CAPM	1.4	3.1%	-7.3%	5.7%
VIPB Accelerated Income Unit Fund	VIPB	9.0	-7.5%	-4.6%	5.4%
Seventh ICB Unit Fund	ICB	5.9	-2.9%	-7.8%	3.8%
ATC Shariah Unit Fund	ATCP AML	1.4	2.7%	-10.8%	3.2%
LankaBangla 1st Balanced Unit Fund	LankaBangla	4.7	-0.3%	-8.0%	2.6%
Sixth ICB Unit Fund	ICB	3.9	-3.8%	-8.4%	2.4%
MTB Unit Fund	Alliance	9.4	3.6%	-0.9%	1.7%
UFS-Popular Life Unit Fund	UFS	8.8	-0.3%	-9.0%	1.6%
Third ICB Unit Fund	ICB	4.4	3.3%	-8.2%	1.1%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.3	-1.1%	-7.7%	0.9%
Market (Broad Index) Return (%)			**1.2%**	**-18.0%**	**-4.3%**

*Based on published NAV and DSEX point of January 30, 2019

The top ten closed end mutual funds on the basis of 5 years (2015-2019) performance yielded mixed return on YTD basis. While, PHPMF1 (+0.3%), POPULAR1MF (+0.3%), AIBL1STIMF (+0.3%) and RELIANCE1 (+0.1%) posted positive returns, the rest yielded negative returns. All these funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market (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 Yield[2] (%)	NAV Return[3]				Redemption Year[4]
							2020 YTD	2019	2017-19	2015-19	
NLI1STMF	VIPB	7.2	10.8	12.2	88.6%	12.0%	-2.9%	-4.5%	5.0%	9.7%	2022
SEBL1STMF	VIPB	13.4	10.6	11.4	93.0%	11.3%	-2.8%	-4.4%	4.7%	8.7%	2021
ATCSLGF	ATC AML	7.8	7.3	10.7	68.0%	10.3%	-0.5%	-8.1%	4.1%	7.5%	2025
EBL1STMF	RACE	16.7	4.3	9.8	43.8%	7.0%	-1.2%	-5.0%	4.4%	6.8%	2029
PHPMF1	RACE	33.1	4.3	10.0	43.1%	7.0%	0.3%	-3.5%	4.7%	6.2%	2030
RELIANCE1	AIMS	8.0	7.9	11.3	70.1%	12.7%	0.1%	-6.6%	3.8%	6.2%	2021
GRAMEENS2	AIMS	35.1	11.4	16.4	69.7%	7.9%	-0.1%	-7.1%	4.5%	6.0%	2023
1JANATAMF	RACE	34.0	4.4	10.0	44.1%	6.8%	-1.0%	-4.0%	3.5%	5.8%	2030
POPULAR1MF	RACE	35.5	4.5	10.1	44.6%	6.7%	0.3%	-4.6%	3.8%	5.8%	2030
AIBL1STIMF	RACE	11.1	6.7	9.5	70.7%	11.9%	0.3%	-6.4%	2.1%	5.3%	2031
Market						**3.1%**	**1.2%**	**-18.0%**	**-4.3%**	**-1.9%**	

1 Price as of February 02, 2020, and NAV published on January 30, 2020.

2 On last cash dividend declared.

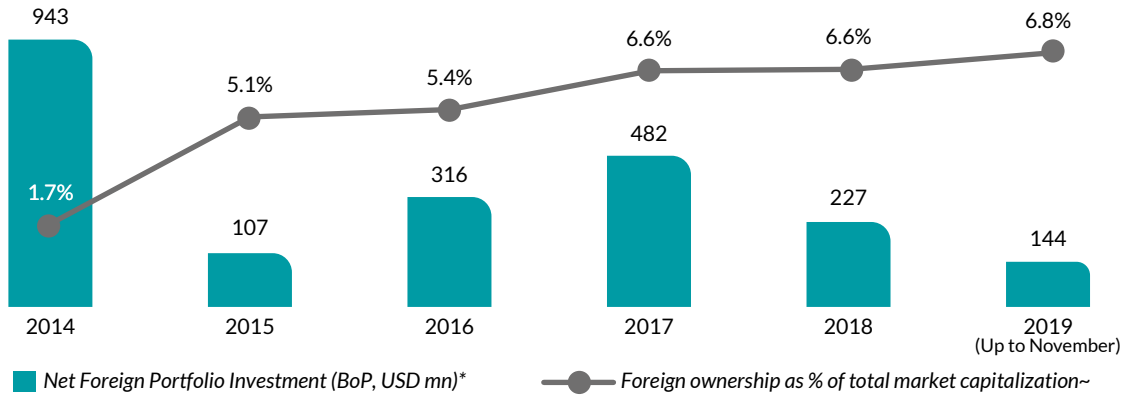
3 CAGR computed for respected periods, except for 2019 and 2020 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4 In reference to BSEC Press Release বিএসইবস/মুখপাত্র (৩য় খন্ড)/২০১১/২৫ published on January 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, 2019 total foreign ownership stood at 6.8% 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, except 2019.
~% of foreign ownership of equity market capitalization data are as of December of the respective years.

Among all the companies with foreign ownership, BRACBANK had the highest foreign shareholding of 43.5% as of December 2019, followed by DBH with 42.1%.

Table 8: Top ten companies with highest foreign shareholding as of December 2019

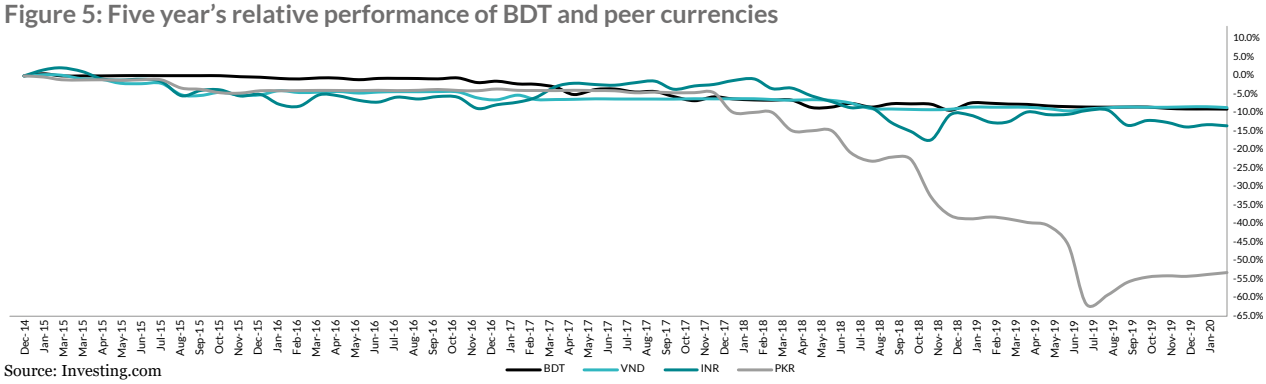
Ticker	Sector	Foreign Shareholding
BRACBANK	Bank	43.5%
DBH	NBFI	42.1%
OLYMPIC	Food & Allied	40.1%
BXPHARMA	Pharmaceuticals & Chemicals	36.7%
ISLAMIBANK	Bank	23.6%
RENATA	Pharmaceuticals & Chemicals	22.7%
MLDYEING	Textile	21.9%
SQURPHARMA	Pharmaceuticals & Chemicals	19.6%
SHEPHERD	Textile	19.5%
VFSTDL	Textile	18.3%

*Source: DSE

Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than majority of the currencies of peer countries. While BDT depreciated by 9.0% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.6%, 13.5% and 53.2%, respectively.

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



Source: Investing.com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