October 03, 2017

Prospects and Challenges of Bangladesh Capital Market

Presented by:
Arif Khan, CFA, FCMA
CEO & Managing Director
IDLC Finance Limited
Current State of The Market
The capital market has returned to an **upward trajectory**

While in last 3 years, market generated return of **6.7% p.a.**, it generated **21.3% return alone in 2017**
After staying in almost the same level for 4 years, Average Daily Turnover almost **doubled** in 2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Daily Turnover (BDT mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4,003</td>
</tr>
<tr>
<td>2014</td>
<td>4,994</td>
</tr>
<tr>
<td>2015</td>
<td>4,227</td>
</tr>
<tr>
<td>2016</td>
<td>4,944</td>
</tr>
<tr>
<td>2017*</td>
<td>9,384</td>
</tr>
</tbody>
</table>

* Up to September, 2017

Source: DSE, IDLC

Market capitalization of the listed Equities is now **1.7x** of what it was in 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Mcap (BDT mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2,057</td>
</tr>
<tr>
<td>2014</td>
<td>2,704</td>
</tr>
<tr>
<td>2015</td>
<td>2,574</td>
</tr>
<tr>
<td>2016</td>
<td>2,822</td>
</tr>
<tr>
<td>2017*</td>
<td>3,474</td>
</tr>
</tbody>
</table>

* Up to September, 2017

Source: DSE, IDLC
The market as a whole generated return of 15.5% p.a. during 2000-2017, despite the crash in 2010.

Value of BDT 100 invested in 2000

Capital Market delivered immense value for the patients. If anyone invested only BDT 100 in the year 2000, he/she’ll have BDT 1,260 in September, 2017.
Bangladesh Capital Market – Global Context

**Mcap to GDP Ratio**

- Bangladesh: 18%
- Sri Lanka: 23%
- Pakistan: 31%
- Vietnam: 45%
- Indonesia: 51%
- Philippines: 63%
- Malaysia: 82%
- India: 91%
- Thailand: 125%

**Market P/E**

- Thailand: 14.8x
- Bangladesh: 16.4x
- Malaysia: 18.5x
- Philippine: 20.6x
- Indonesia: 21.1x
- India: 22.8x

Source: Bloomberg

The size of capital market relative to GDP is on the **lower side**

Source: Starcapital, IDLC

Despite tremendous opportunities, Bangladeshi market is unutilized.
Bangladesh Capital Market – Global Context

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial Sector/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>77.10%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>195.40%</td>
</tr>
<tr>
<td>World</td>
<td>379.70%</td>
</tr>
</tbody>
</table>

Source: IMF, IDLC

Contribution to Financial Sector in Bangladesh

- Total Bank Assets: 77%
- Equity Market Cap of Listed Companies: 23%

Source: BB, DSE, IDLC

However, total money raised from IPO and right offer, during 2008-16 was only 1.5% of total money raised from capital market and money market.
Bangladesh Capital Market – Prospects
Bangladesh Capital Market – Prospects

<table>
<thead>
<tr>
<th>PwC Estimates</th>
<th>2016</th>
<th>2030 Est.</th>
<th>2050 Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking by the size of economy</td>
<td>31(^{st})</td>
<td>30(^{th})</td>
<td>25(^{th})</td>
</tr>
<tr>
<td>Bangladesh GDP (MER at constant 2016 USD)</td>
<td>227 bn</td>
<td>668 bn</td>
<td>2,263 bn</td>
</tr>
</tbody>
</table>

Source: PwC

- Global consulting firm PwC expects Bangladesh to be one of the **top three fastest growing economies** in next 3 decades
- The economy of Bangladesh would be larger than that of **Australia, Malaysia, Netherlands** and **Spain** in 2050 at PPP terms
- The robust growth in economy will require the capital market to grow manifolds.
Bangladesh Capital Market – Prospects

Bangladesh’s Mcap/GDP Ratio is staying stable since 2012

The ratio is at relatively lower side, compared to Asian Frontier Markets* Mcap/GDP ratio of 36.5%


Source: DSE, IDLC

*As defined by MSCI, excluding Kuwait
Bangladesh Capital Market – Prospects

Vietnam Mcap/GDP over time

- 2009: 25%
- 2010: 26%
- 2011: 16%
- 2012: 21%
- 2013: 23%
- 2014: 25%
- 2015: 27%
- 2016: 33%

Source: World Bank

Asian Frontier market*
Mcap/GDP over time

- 2009: 51%
- 2010: 53%
- 2011: 42%
- 2012: 38%
- 2013: 38%
- 2014: 40%
- 2015: 40%
- 2016: 37%

*As defined by MSCI, excluding Kuwait

Source: World Bank, IDLC
Bangladesh Capital Market – Prospects

Estimated Equity Mcap in 2030 and 2050

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2030 Est.</th>
<th>2050 Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mcap/GDP</td>
<td>19.5%^</td>
<td>19.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Mcap (USD)</td>
<td>44 bn</td>
<td>130 bn</td>
<td>440 bn</td>
</tr>
<tr>
<td>CAGR</td>
<td>-</td>
<td>8.0%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Increase (in times)</td>
<td>-</td>
<td>2.9x</td>
<td>3.4x</td>
</tr>
</tbody>
</table>

^ As per current Mcap/GDP ratio using pwc estimate of GDP
Source : Pwc, IDLC
In current low interest rate regime, individuals’ participation to the capital market is set to increase, creating new demands.

**Bangladesh Capital Market – Prospects**

**Individual’s Access to Capital Market**

- Bangladesh: 1.6%
- India: 2.0%
- China: 6.0%
- USA: 55.0%

Source: Pwc, China Household Finance Survey, Gallup Poll, IDLC

**Mutual Funds AUM/Mcap Ratio**

- Bangladesh: 2.3%
- Pakistan: 7.3%
- India: 15.1%
- USA: 68.7%

Source: IDLC, Asset Management Industry Reports

**Big opportunity for growth** in institutional penetration to the market.
Bangladesh Capital Market – Prospects

- Mutual Funds
- ETFs
- Bonds
- Derivatives
- Alternative Investments

Financial Innovations to more efficiently channel funds from surplus units to deficit units
Bangladesh Capital Market – Prospects

- **Demutualization Act, 2013**
  - A milestone development in country’s capital market, legally separating management & ownership and trading rights

- **BSEC being ‘A’ Category member of IOSCO**
  - BSEC was elevated as an ‘A’ category member of International Organization of Securities Commissions (IOSCO)

- **World class, cutting edge surveillance system**
  - In 2012, BSEC deployed a state of the art surveillance system to detect manipulative activities in the market

**Major reforms** in the market in recent times, have set up the market in a track to lift off
Bangladesh Capital Market – Prospects

Special Tribunal
- The government established a special tribunal for seedy disposal of cases related to the capital market in early 2014

Public Issue Rule, 2015
- New Public Issue Rule ensuring more disclosure and better price discovery process

Corporate Governance Guidelines (CGG)
- BSEC formulated a Corporate Governance Guidelines to establish a best practice standards for the local market

Major reforms in the market in recent times, have set up the market in a track to lift off
Bangladesh Capital Market – Challenges & Potential Remedies
Bangladesh Capital Market – Challenges & Potential Remedies

Recent Developments in this regard

- Demutualization
- Surveillance Software
- Establishment of Special Tribunal
- Corporate Governance Guidelines in 2012
- IOSCO – Category ‘A’ Regulator
Bangladesh Capital Market – Challenges & Potential Remedies

- Insufficient Disclosure
  - Timely and self-explanatory quarterly disclosure
  - Reconcile significant deviation between audited and quarterly accounts
- Regular earnings call in line with global best practices
- Dedicated Investors Relations Department

Recent Developments in this regard
- Discussion on significant deviations of P&L
- Earnings call by 5 industry leading companies
Bangladesh Capital Market – Challenges & Potential Remedies

Recent Developments in this regard

- Rapid growth in operational asset management companies in recent times

Encouraging Mutual Funds and Portfolio Management Services

Allowing provident funds to invest in the market

Government sponsored pension funds, mandated for capital market investments

Institutional Participation
Bangladesh Capital Market – Challenges & Potential Remedies

- Importance of Research based investing
- Promote professional fund management
- Understanding risk

Investors Education

Recent Developments in this regard

- Nationwide Financial literacy Campaign
Bangladesh Capital Market – Challenges & Potential Remedies

Supply of Investable scrips

- Encouraging quality companies to enlist
- Tax incentive for listing is not functioning
- Floating of govt. owned shares in govt. and pvt. companies
- Pursuing new MNCs to enlist and already listed MNCs to increase float

Recent Developments in this regard

- Government revived its initiative to enlist government owned companies and sell its share in local and foreign companies
Bangladesh Capital Market – Challenges & Potential Remedies

BSEC masterplan

Rehabilitating BSEC by securing independence of BSEC, strengthening organizational structure, enhancing staff and strengthening systems

Stronger rules and regulations

BSEC masterplan targets 5 strategic objectives, to help create a more robust capital market
Bangladesh Capital Market – Challenges & Potential Remedies

BSEC masterplan

- Upgradation of financial market infrastructure
- Develop a conducive environment for new financial products
- Develop a conducive environment to help grow institutional investors’ base

BSEC masterplan targets 5 strategic objectives, to help create a more robust capital market
Bangladesh Capital Market – Challenges & Potential Remedies

Few final thoughts

- Strong rules and regulation
- Strict enforcement
- Overall, ever watchful guardian role by the BSEC

Trust and Confidence

Individual Participation
Bangladesh Capital Market – Challenges & Potential Remedies

Few final thoughts

Dissemination of institutional research

- Individual investors and some institutional investors often invest on rumors
- Many good institutions have research backed investment ideas but no way to share it
- Like all the other capital markets over the world, there should be a comprehensive process and procedures to disseminate research recommendations

Colombo Stock Exchange hosts Research reports right in the exchange website
Bangladesh Capital Market – Challenges & Potential Remedies

Few final thoughts

- Foreign fund managers pick quality companies and lead overall market to value driven investment process
- As foreign MNCs can add significant value in the supply side of scrips, foreign fund managers can add significant value in the investors’ side
- We need favorable legal and tax regime to welcome foreign portfolio investors to the country

Increased foreign participation
THANK YOU!