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Prospects and Challenges of Bangladesh Capital Market

Presented by:

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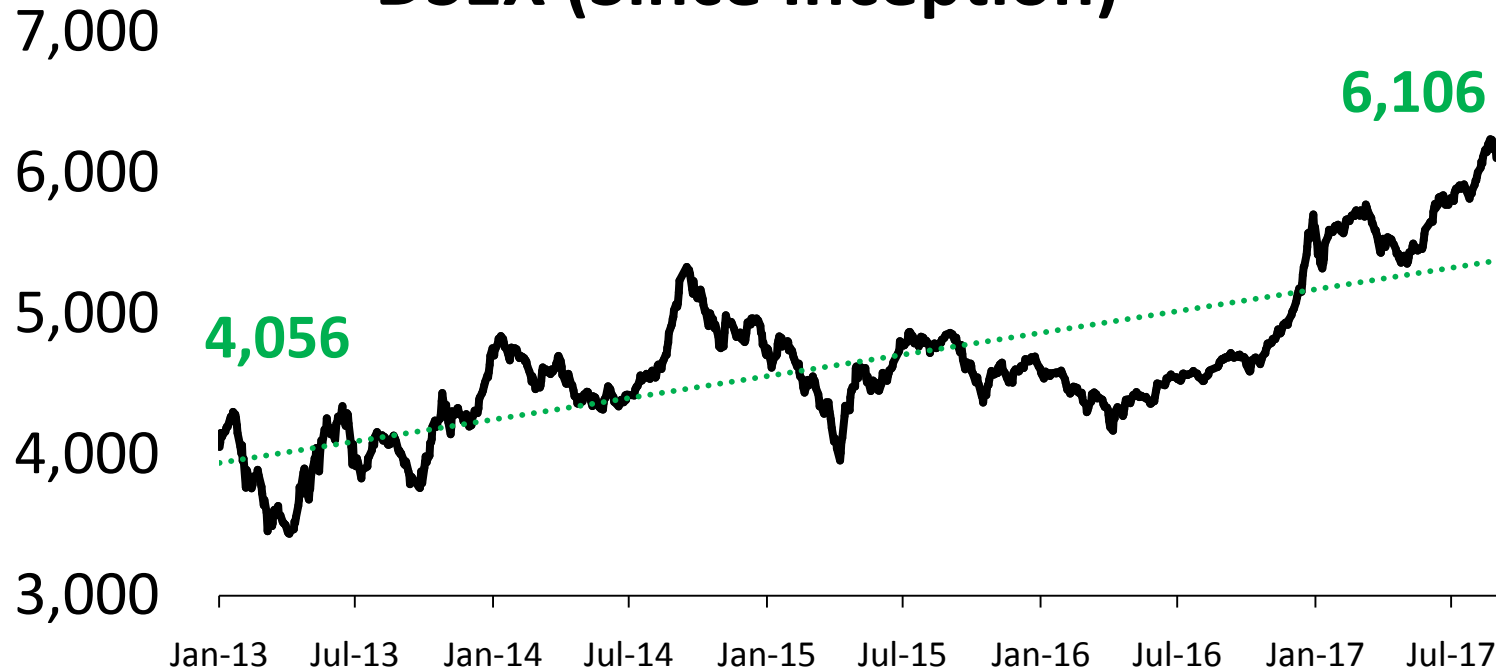
CEO & Managing Director

IDLC Finance Limited

Current State of The Market

Current State of Capital Market in Bangladesh

DSEX (Since Inception)



Source : DSE, IDLC

**3 Years'
Return**

6.7% p.a.

YTD Return

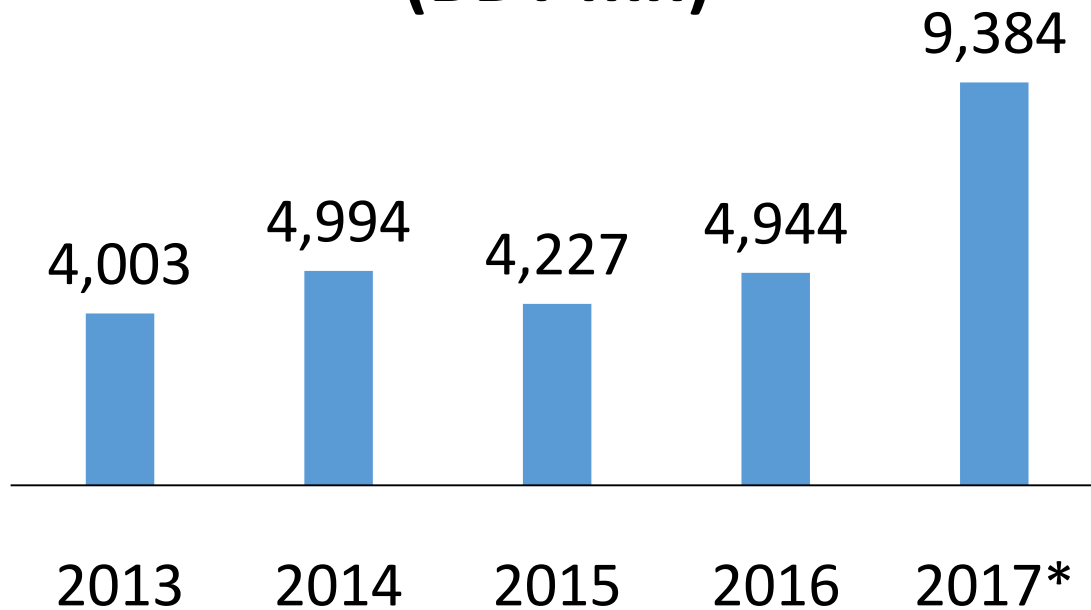
21.3%

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**

Current State of Capital Market in Bangladesh

Average Daily Turnover (BDT mn)

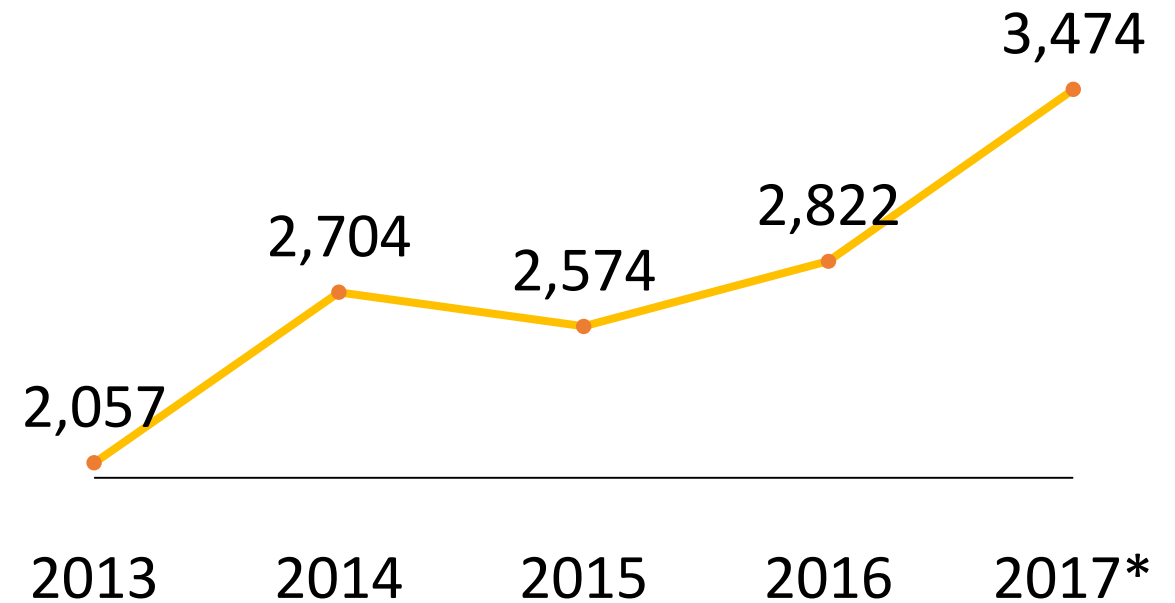


* Up to September, 2017

Source : DSE, IDLC

After staying in almost the same level for 4 years, Average Daily Turnover almost **doubled** in 2017

Equity Mcap (BDT mn)

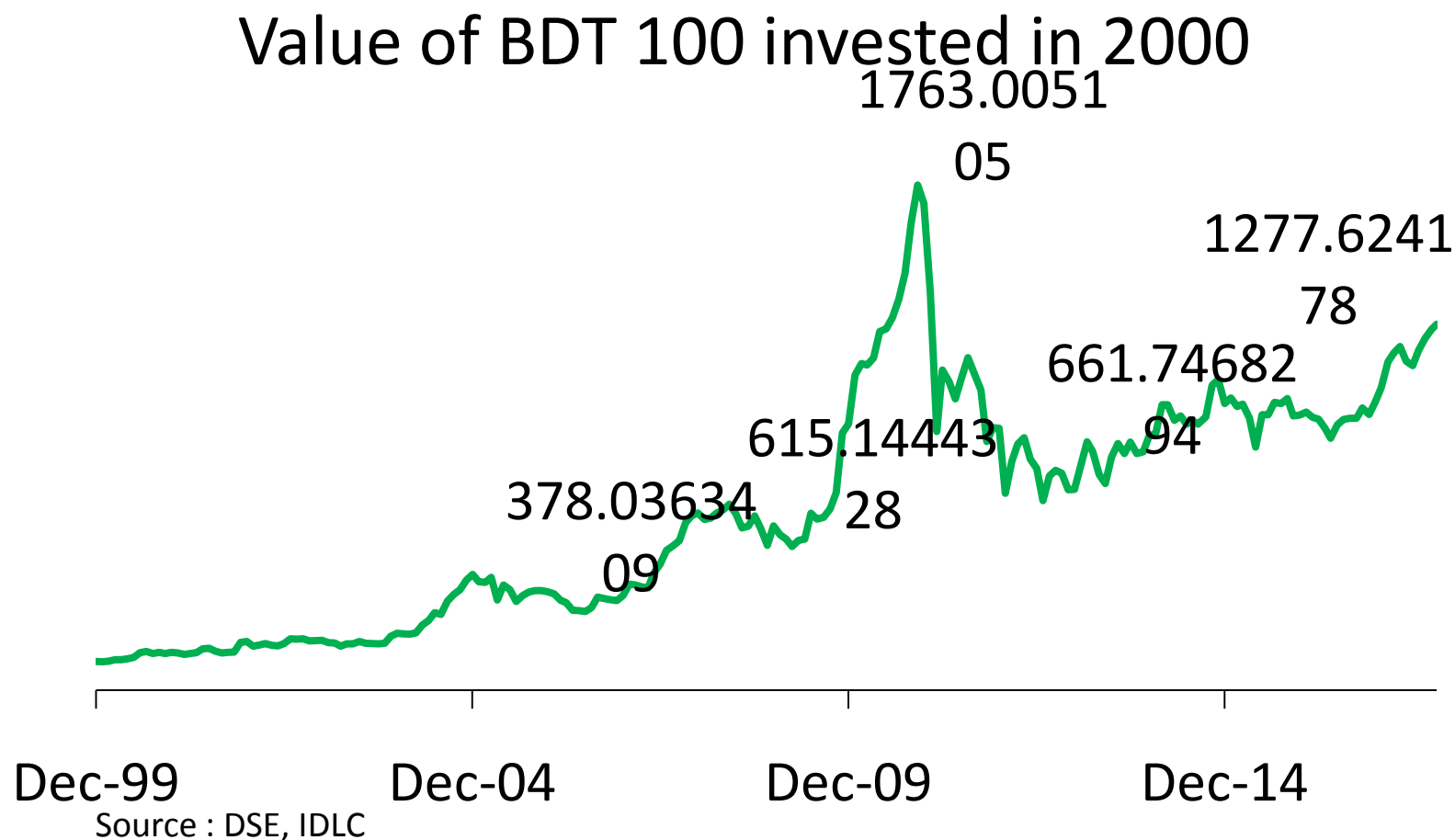


* Up to September, 2017

Source : DSE, IDLC

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

Value Creation by the Capital Market



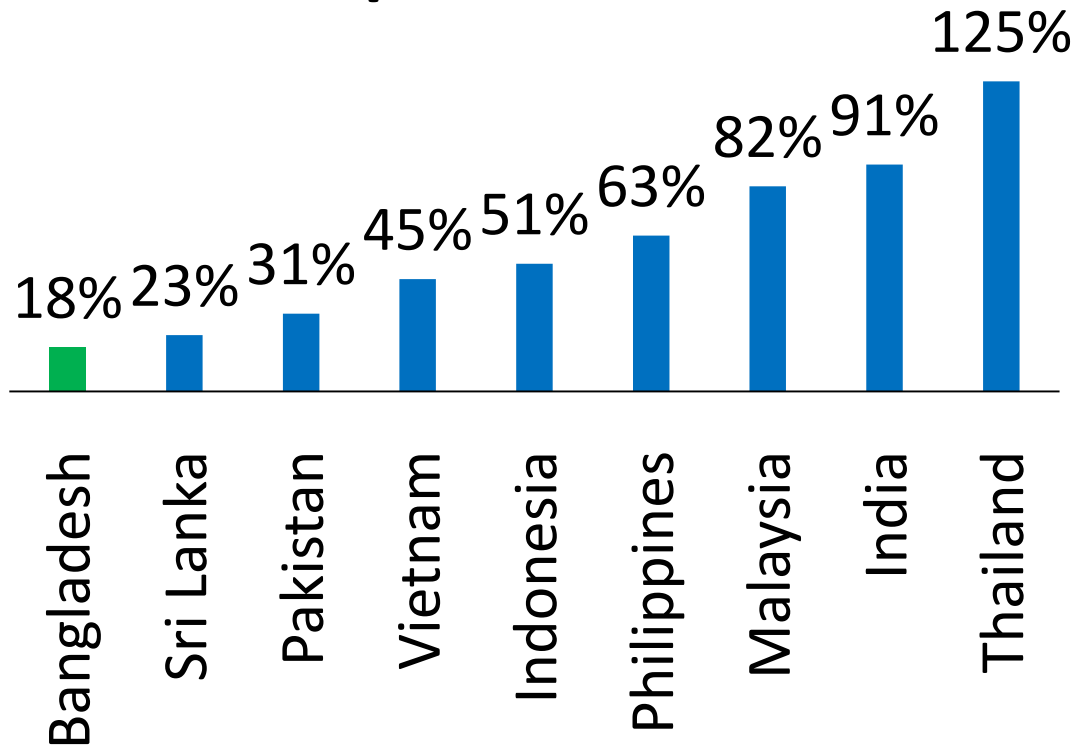
The market as a whole generated return of **15.5%** p.a. during 2000-2017, despite the crash in 2010

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

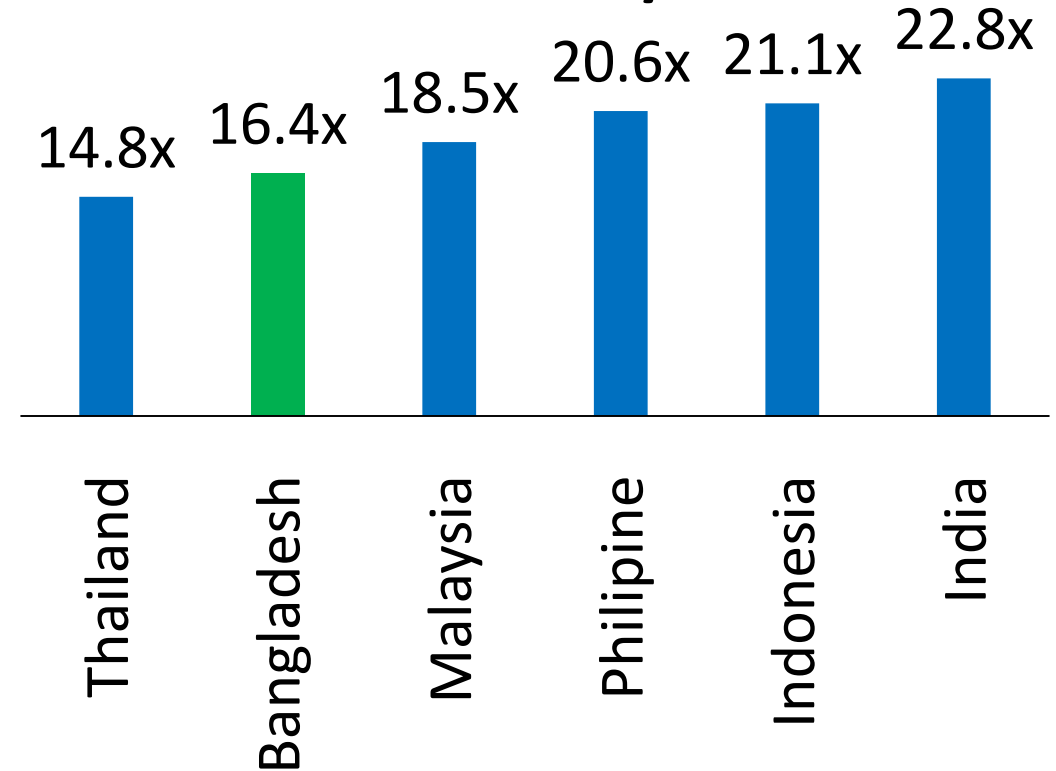
Mcap to GDP Ratio



Source: Bloomberg

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

Market P/E



Source : Starcapital, IDLC

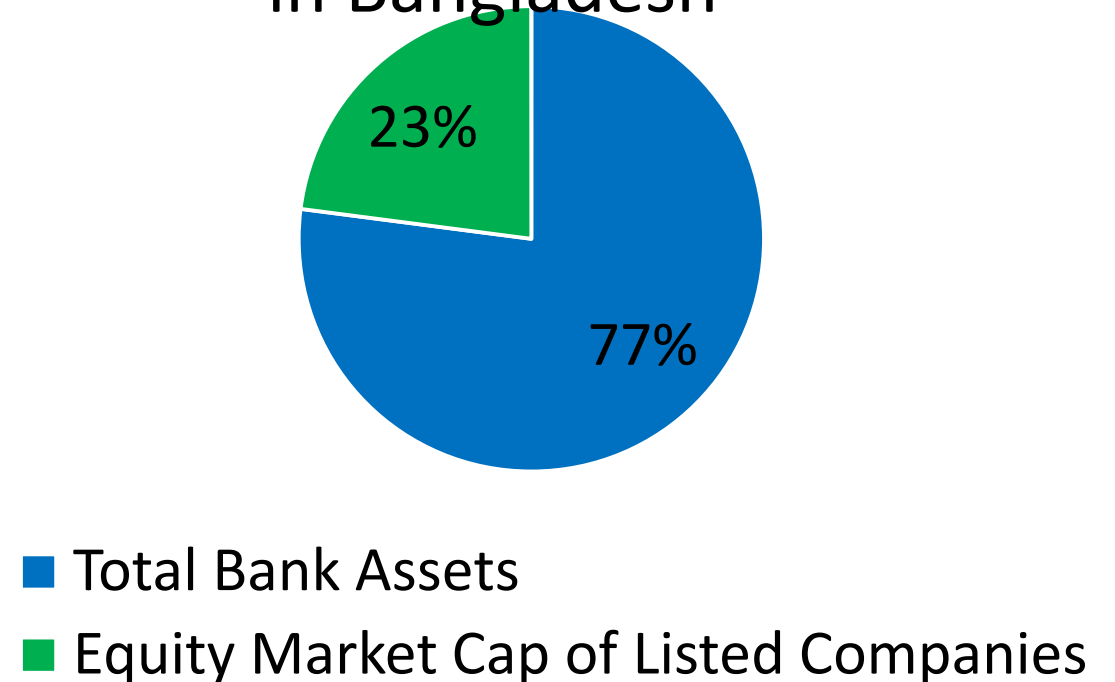
Despite tremendous opportunities, Bangladeshi market is

Bangladesh Capital Market – Global Context

Country	Financial Sector/GDP
Bangladesh	77.10%
Emerging Markets	195.40%
World	379.70%

Source: IMF, IDLC

Contribution to Financial Sector in Bangladesh



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

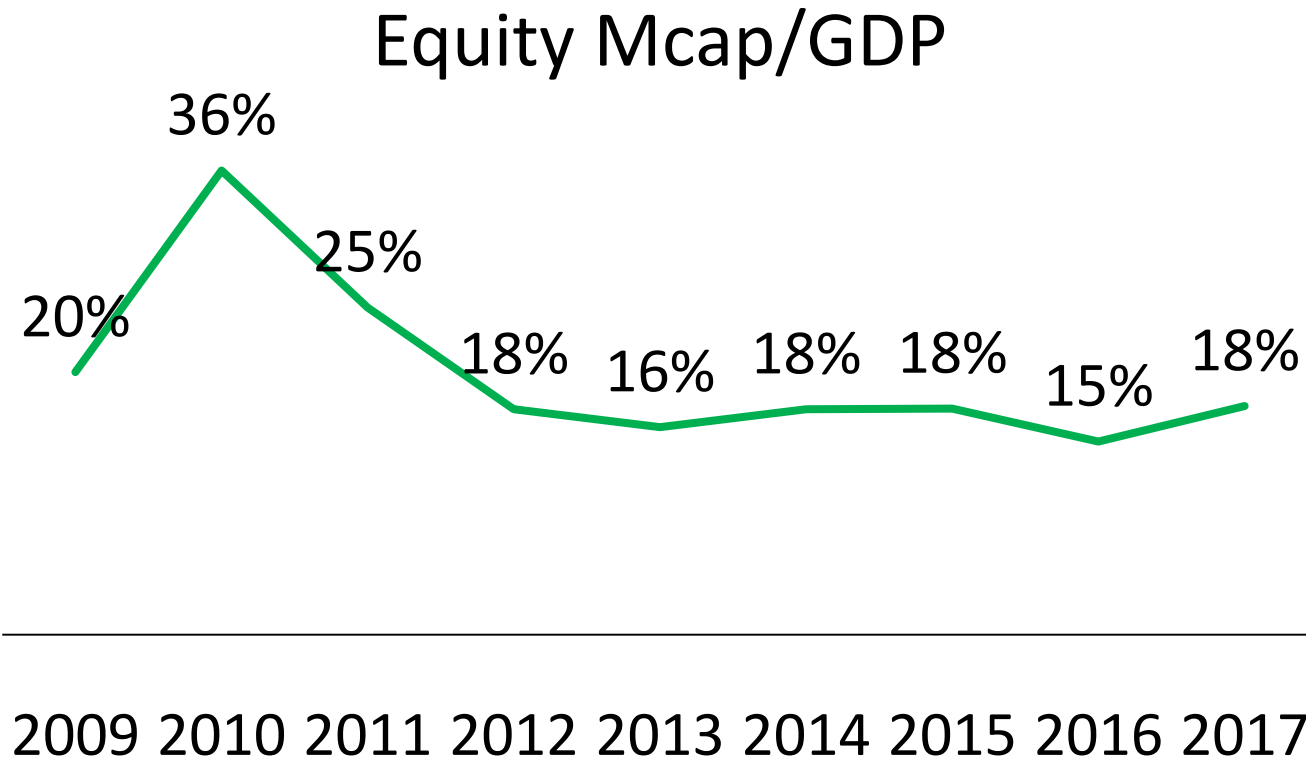
Bangladesh Capital Market – Prospects

Pwc Estimates	2016	2030 Est.	2050 Est.
Ranking by the size of economy	31 st	30 th	25 th
Bangladesh GDP (MER at constant 2016 USD)	227 bn	668 bn	2,263 bn

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

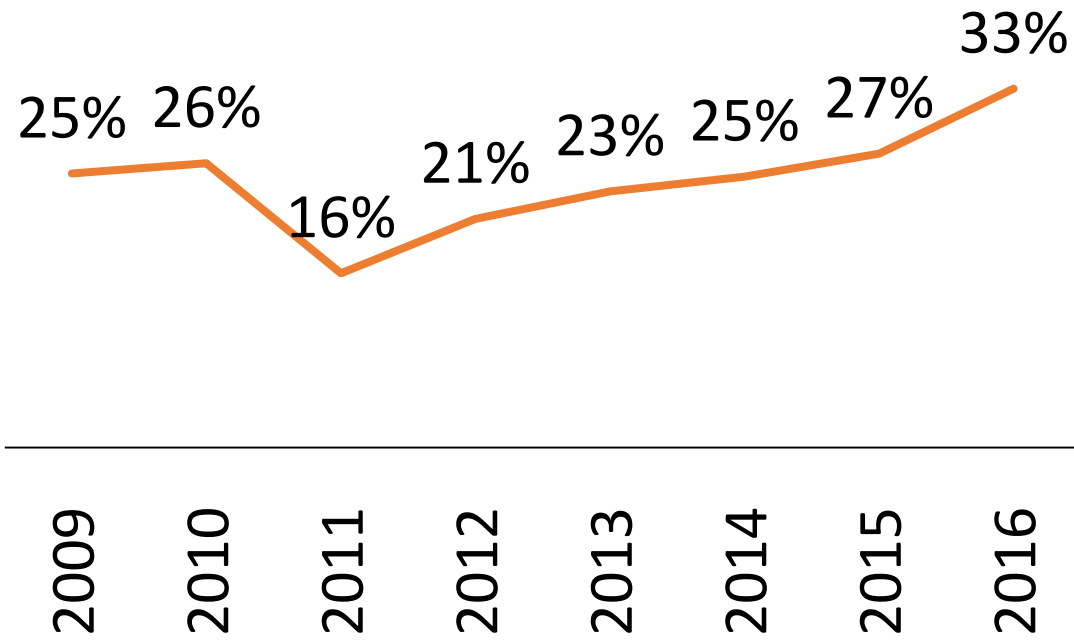
The ratio is at **relatively lower side**, compared to Asian Frontier Markets* Mcap/GDP ratio of 36.5%

*As defined by MSCI, excluding Kuwait

Source: DSE, IDLC

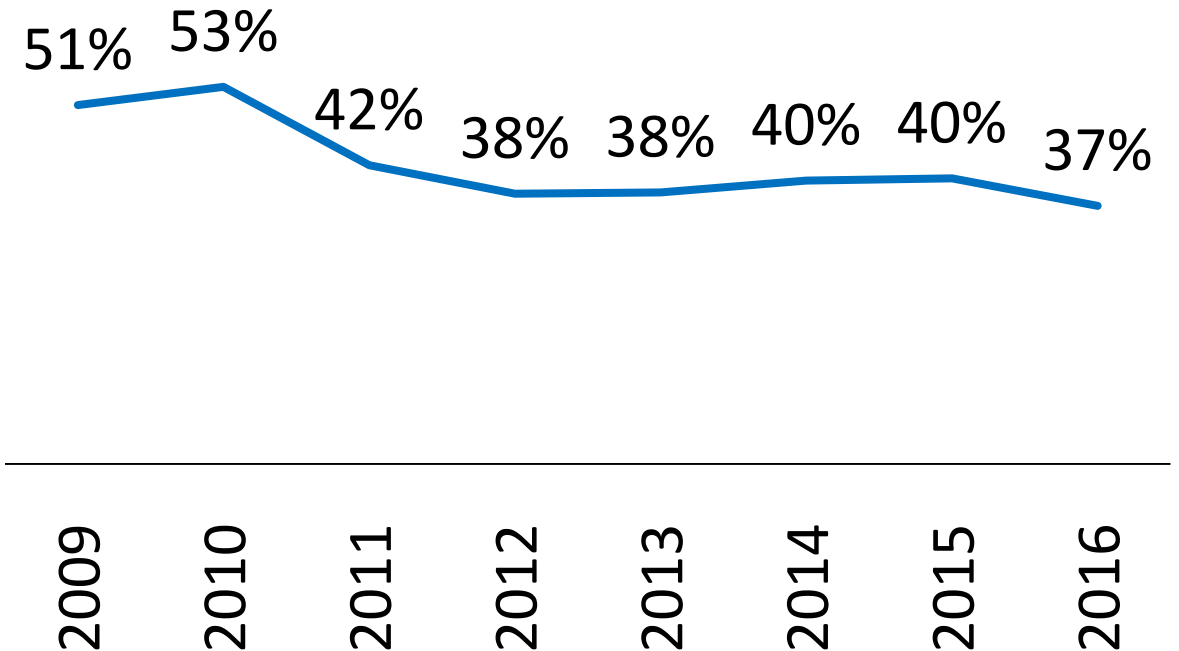
Bangladesh Capital Market – Prospects

Vietnam Mcap/GDP over time



Source: World Bank

Asian Frontier market* Mcap/GDP over time

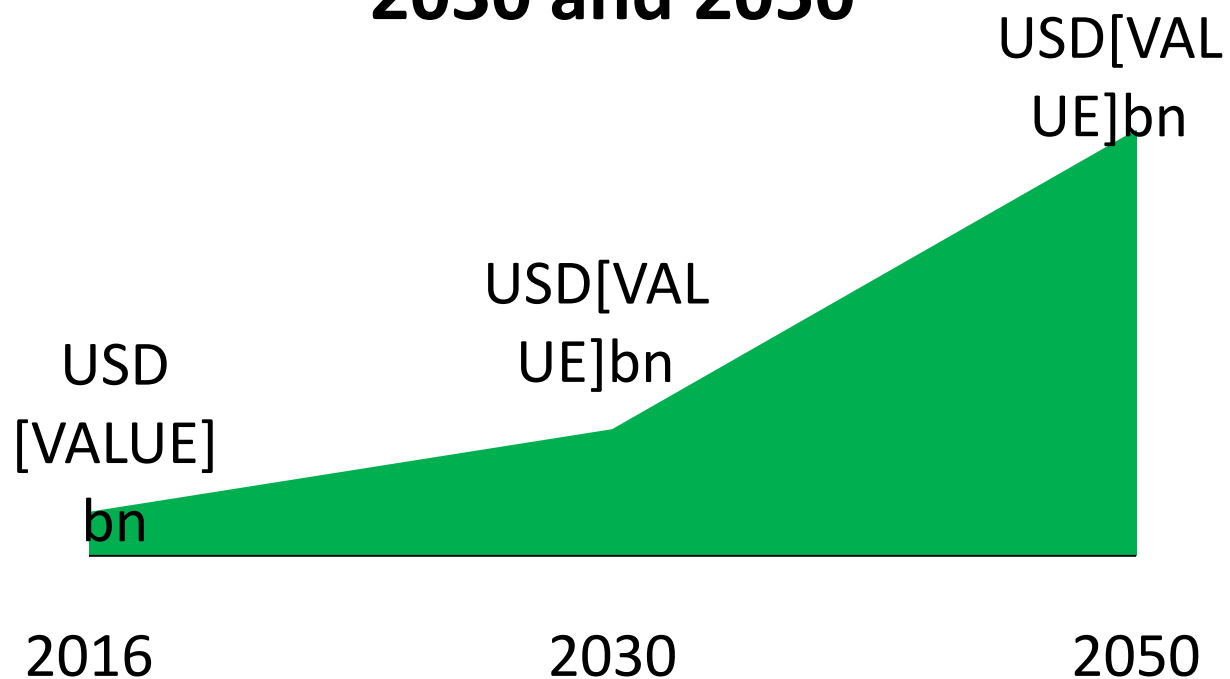


*As defined by MSCI, excluding Kuwait

Source: World Bank, IDLC

Bangladesh Capital Market – Prospects

Estimated Equity Mcap in 2030 and 2050



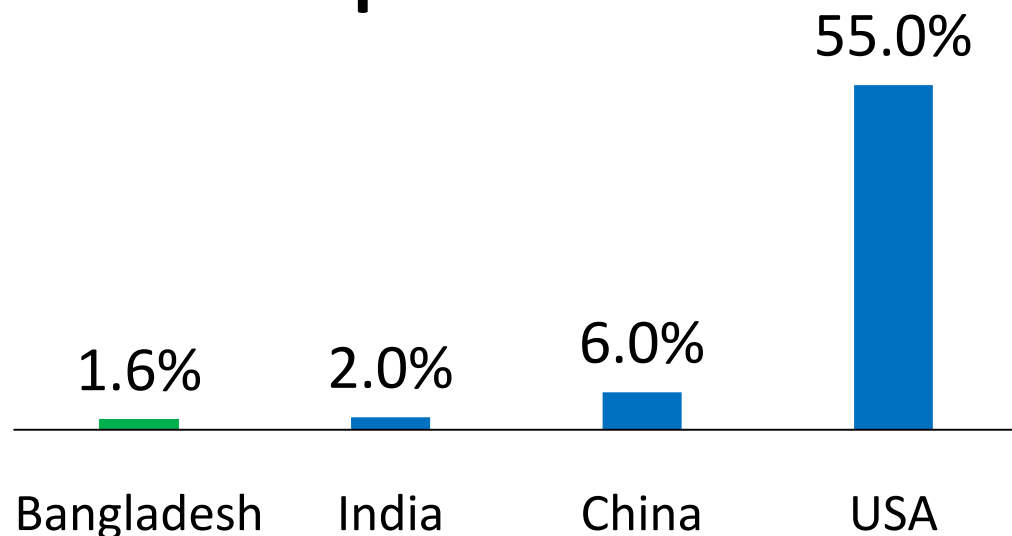
	2016	2030 Est.	2050 Est.
Mcap/GDP	19.5%^	19.5%	19.5%
Mcap (USD)	44 bn	130 bn	440 bn
CAGR	-	8.0%	6.3%
Increase (in times)	-	2.9x	3.4x

^ As per current Mcap/GDP ratio using pwc estimate of GDP

Source : Pwc, IDLC

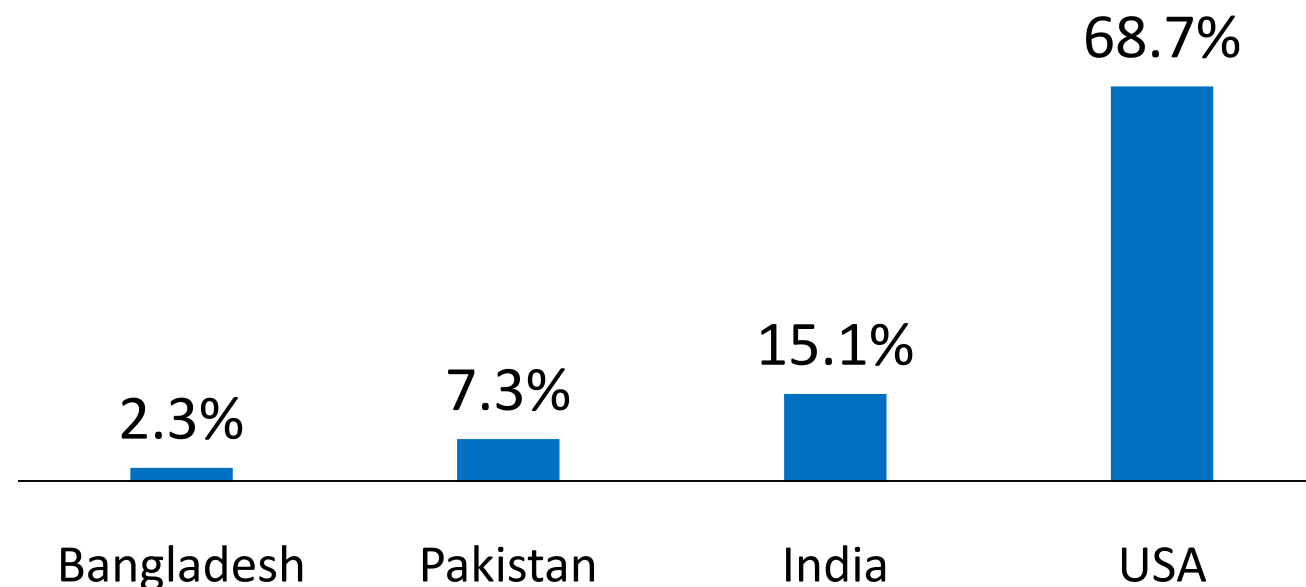
Bangladesh Capital Market – Prospects

Individual's Access to Capital Market



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

Mutual Funds AUM/Mcap Ratio



Source : IDLC, Asset Management Industry Reports

In current low interest rate regime, **individuals' participation to the capital market is set to increase**, creating new demands.

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 speedy 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

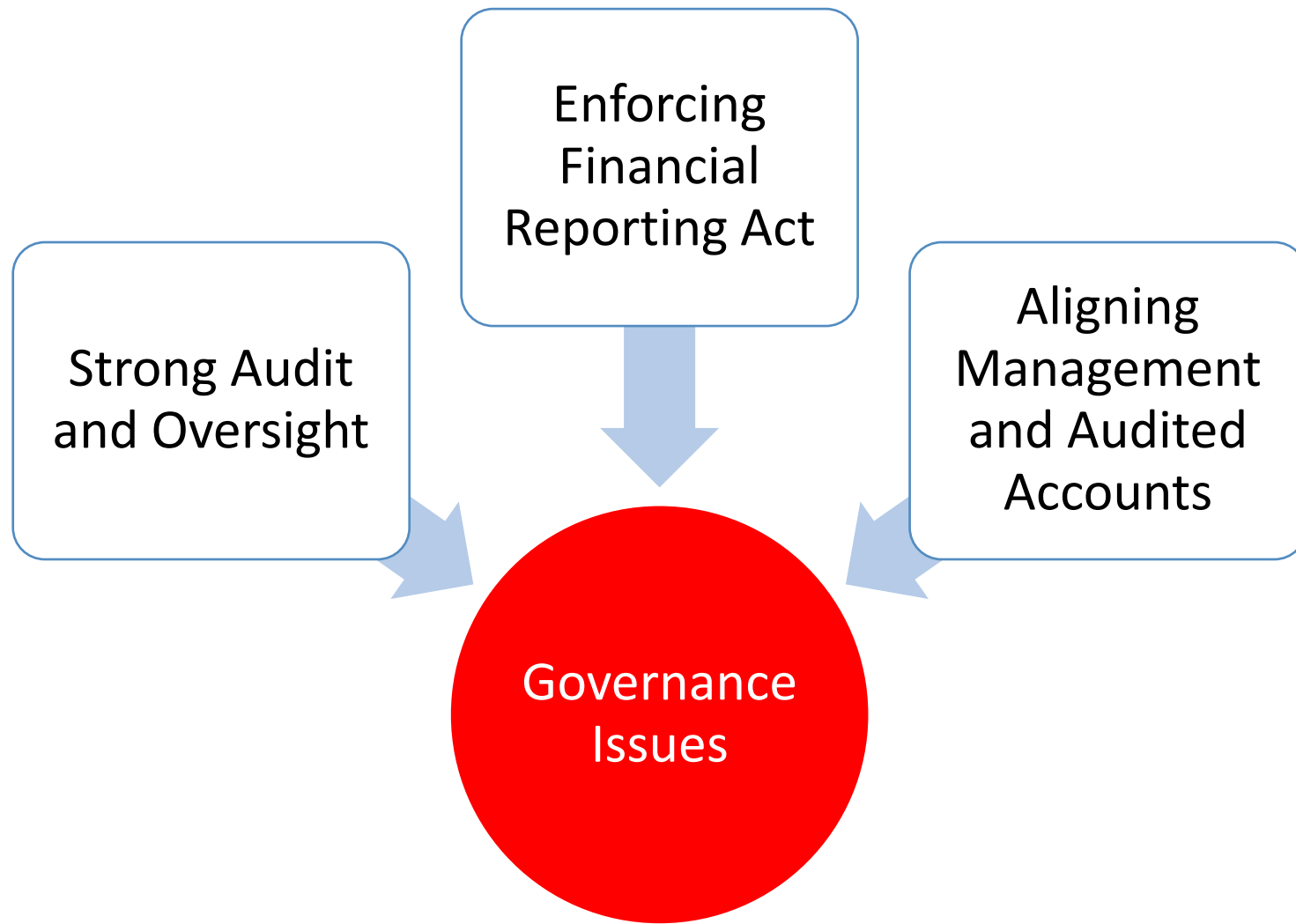
Corporate Governance Guidelines (CGG)

- 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

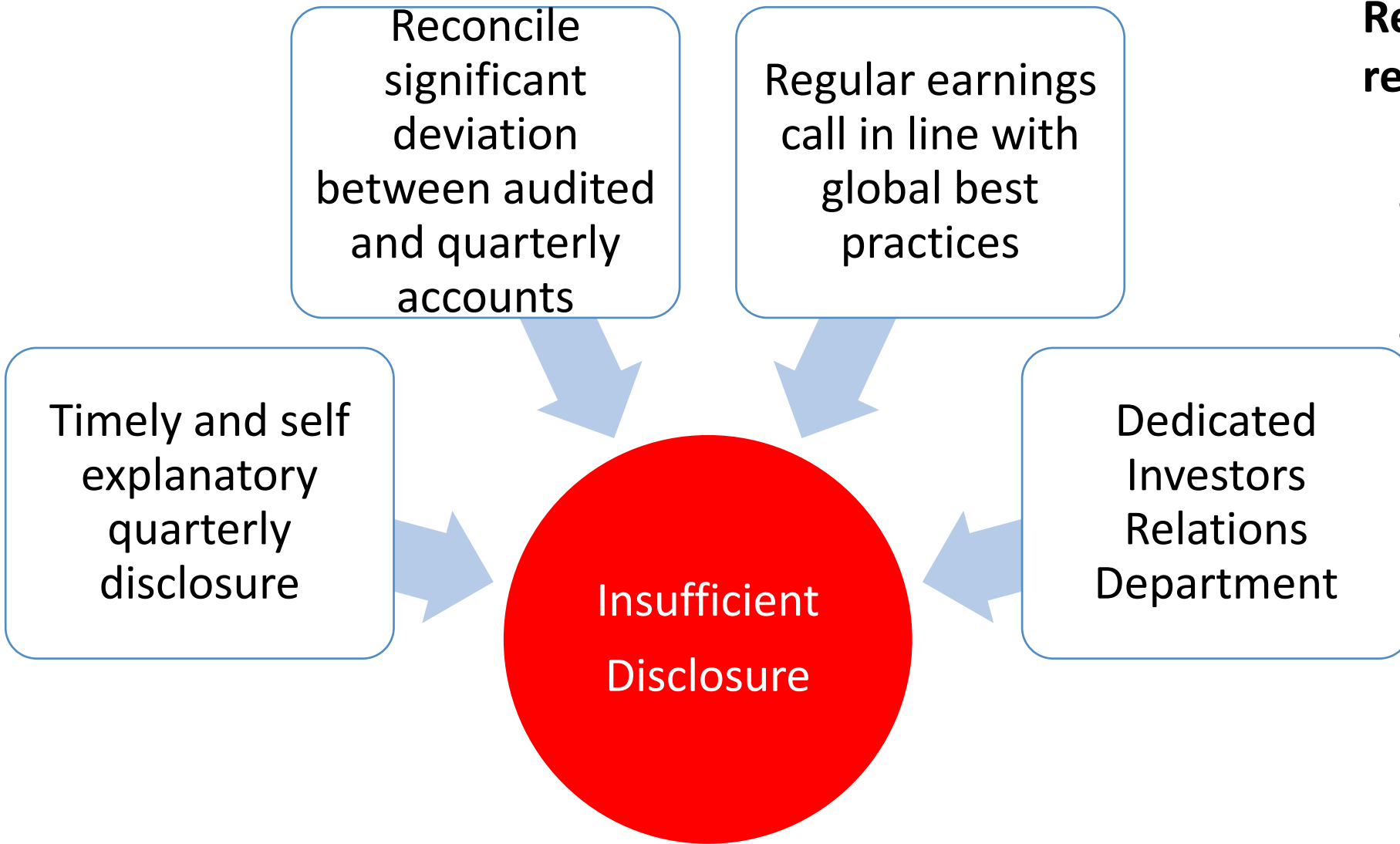
Bangladesh Capital Market – Challenges & Potential Remedies



Recent Developments in this regard

- Enactment of Financial Reporting Act, 2015
- Demutualization
- Surveillance Software
- Establishment of Special Tribunal
- Corporate Governance Guidelines in 2012
- IOSCO – Category 'A' Regulator

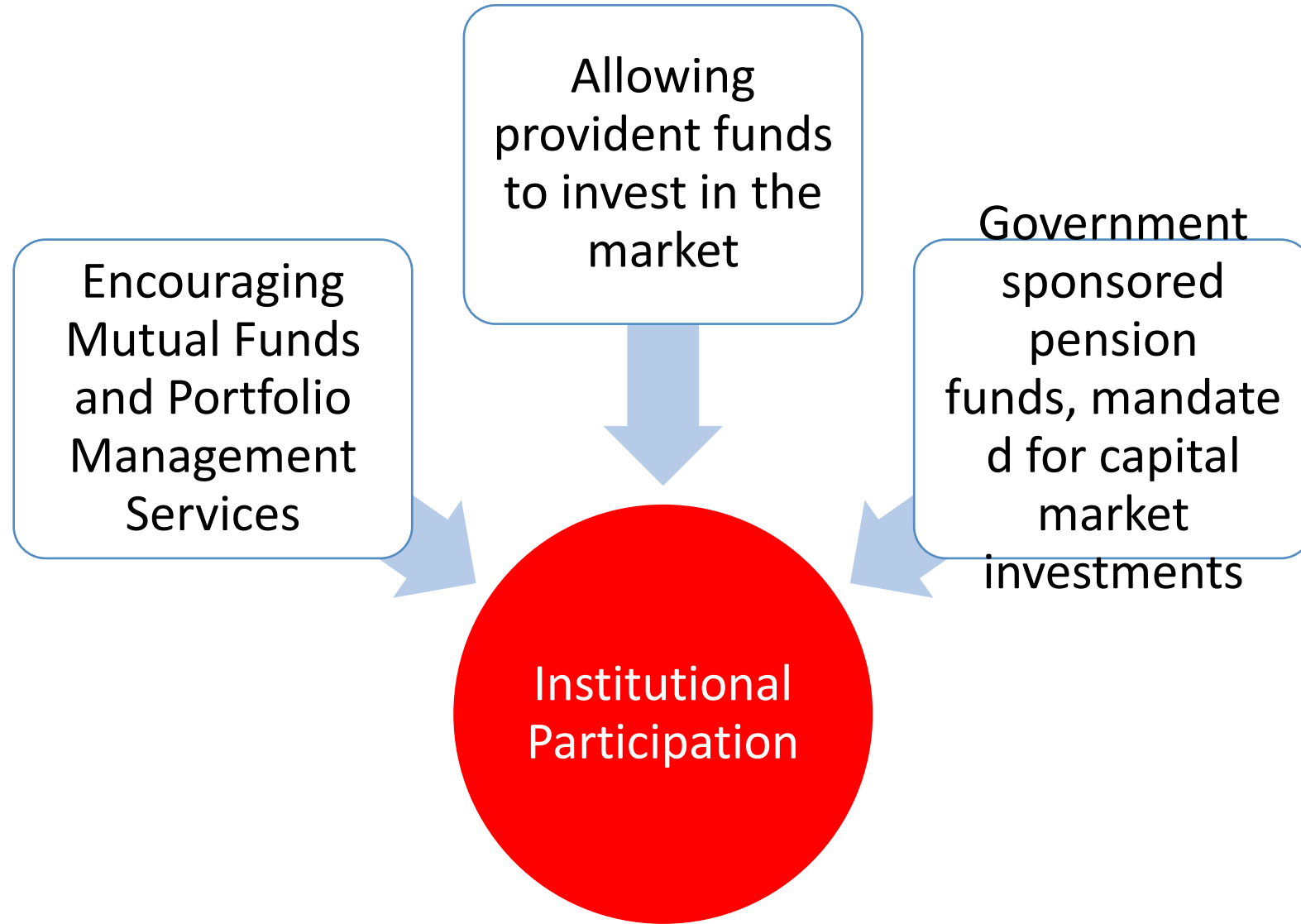
Bangladesh Capital Market – Challenges & Potential Remedies



Recent Developments in this regard

- Discussion on significant deviations of P&L
- Earnings call by 5 industry leading companies

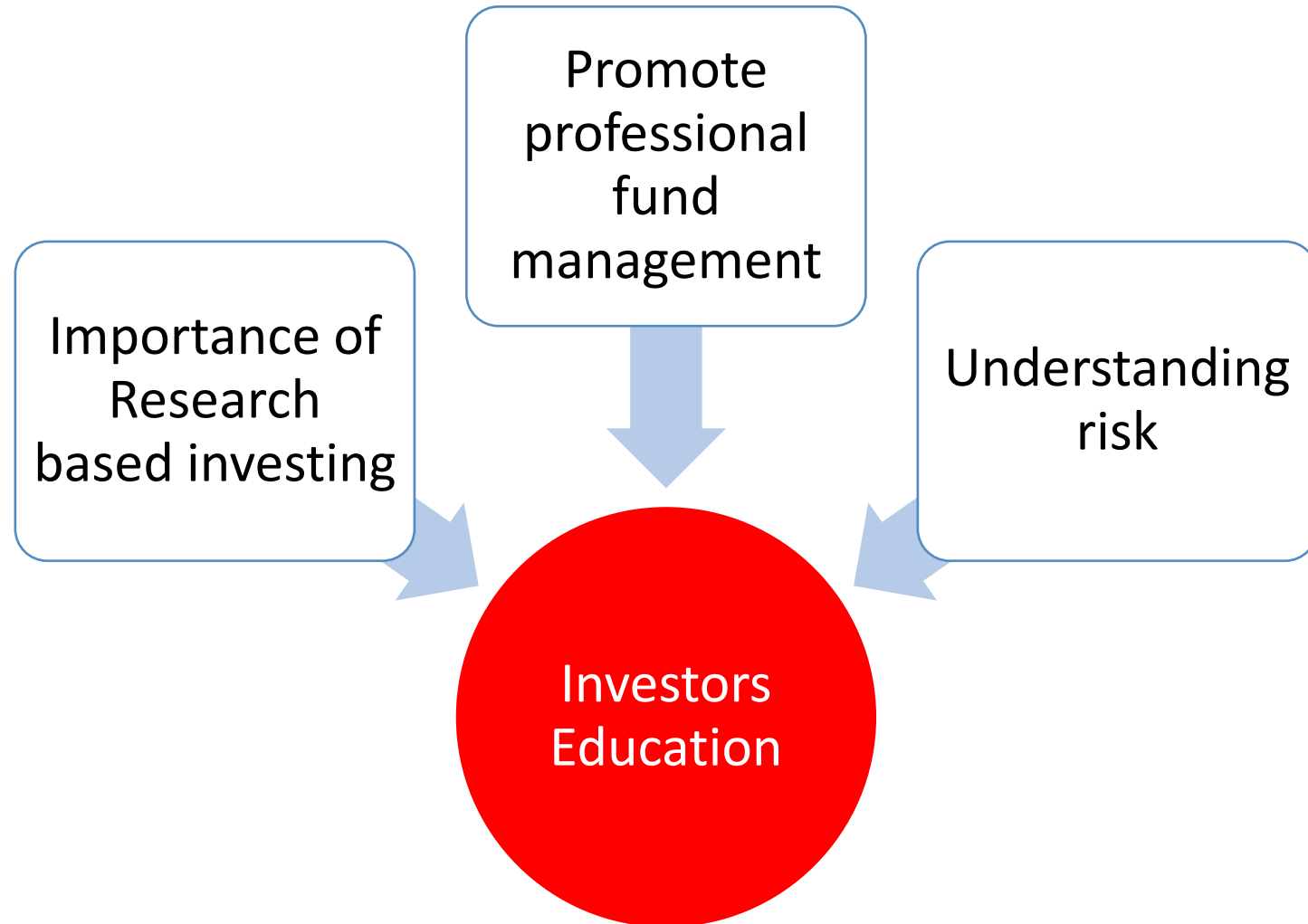
Bangladesh Capital Market – Challenges & Potential Remedies



Recent Developments in this regard

- Rapid growth in operational asset management companies in recent times

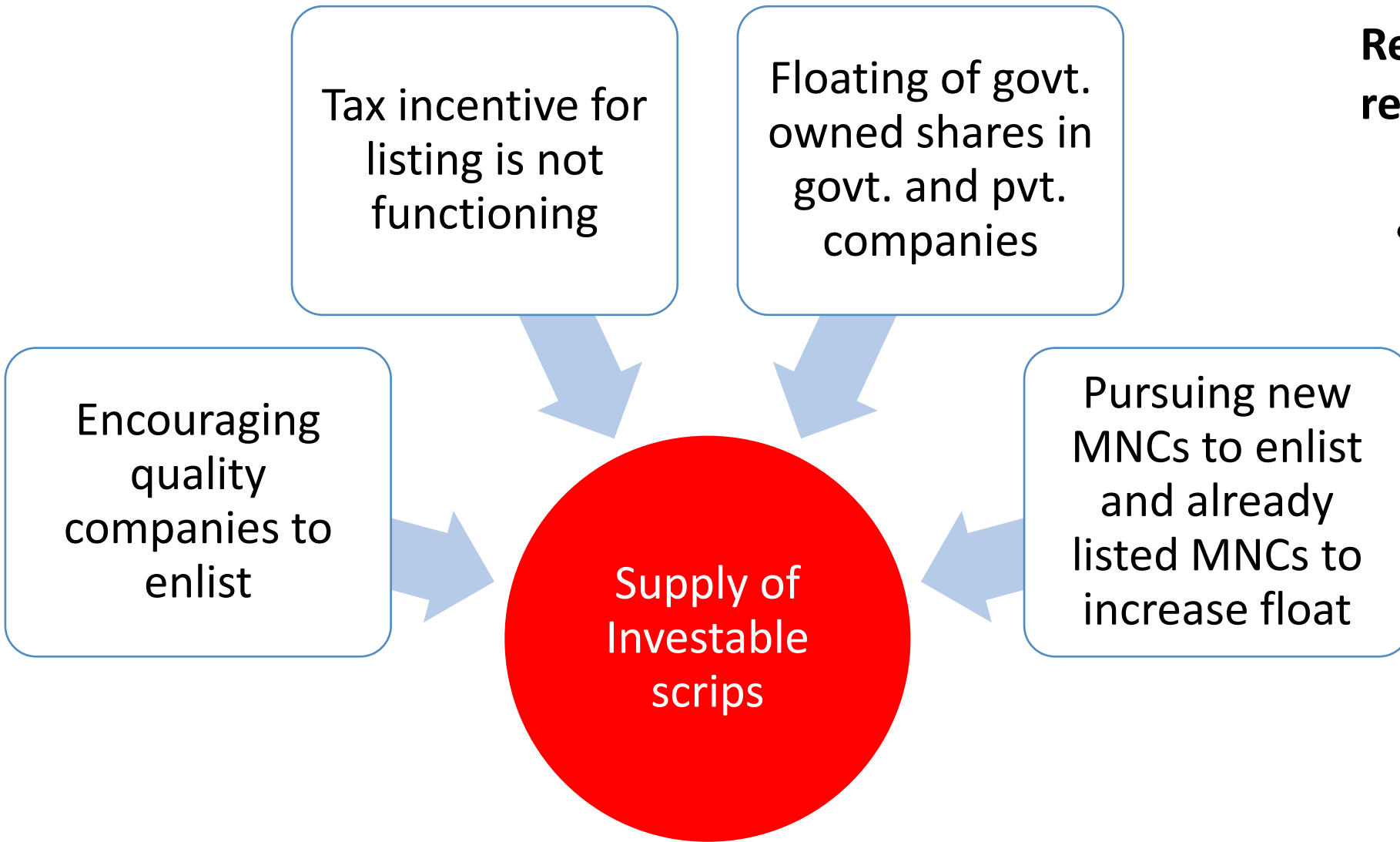
Bangladesh Capital Market – Challenges & Potential Remedies



Recent Developments in this regard

- **Nationwide Financial literacy Campaign**

Bangladesh Capital Market – Challenges & Potential Remedies



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

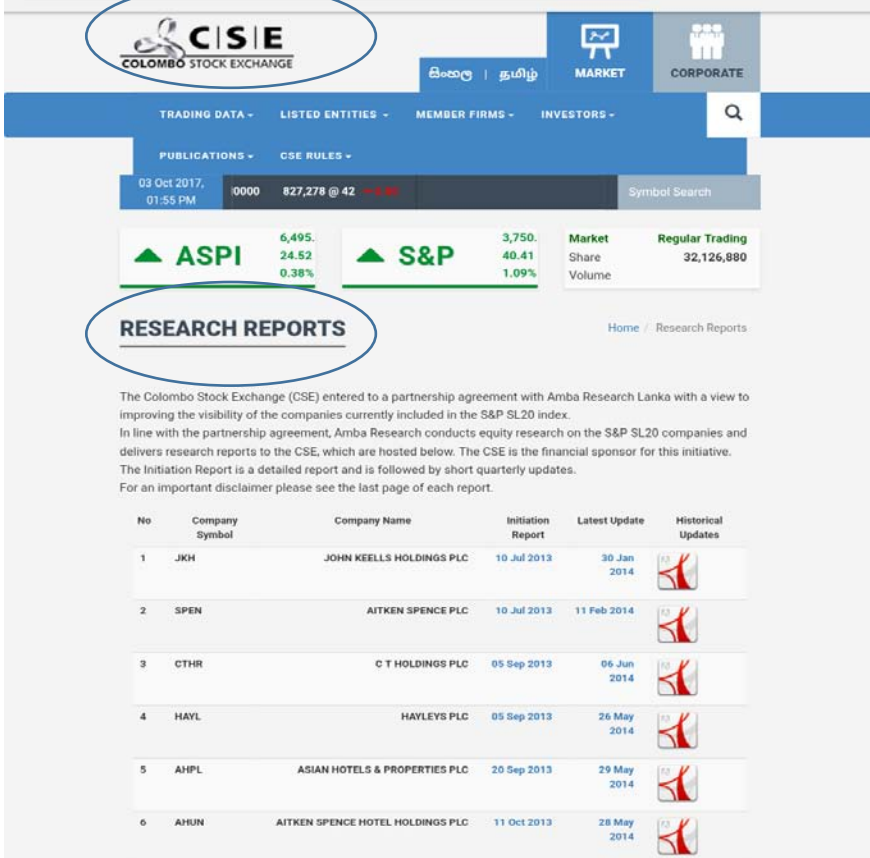
Individual Participation

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



The screenshot displays the Colombo Stock Exchange (CSE) website. The header includes the CSE logo and navigation menus for 'MARKET' and 'CORPORATE'. Below the header, there are sections for 'TRADING DATA', 'LISTED ENTITIES', 'MEMBER FIRMS', and 'INVESTORS'. A search bar is visible on the right. The main content area shows market data for 'ASPI' and 'S&P' indices, along with 'Market Share' and 'Regular Trading Volume'. A section titled 'RESEARCH REPORTS' is highlighted with a red circle. Below this section, there is a table listing research reports for various companies, including John Keells Holdings PLC, Aitken Spence PLC, C T Holdings PLC, Hayleys PLC, Asian Hotels & Properties PLC, and Aitken Spence Hotel Holdings PLC. The table columns include 'No', 'Company Symbol', 'Company Name', 'Initiation Report', 'Latest Update', and 'Historical Updates'.

No	Company Symbol	Company Name	Initiation Report	Latest Update	Historical Updates
1	JKH	JOHN KEELLS HOLDINGS PLC	10 Jul 2013	30 Jan 2014	
2	SPEN	AITKEN SPENCE PLC	10 Jul 2013	11 Feb 2014	
3	CTHR	C T HOLDINGS PLC	05 Sep 2013	06 Jun 2014	
4	HAYL	HAYLEYS PLC	05 Sep 2013	26 May 2014	
5	AHPL	ASIAN HOTELS & PROPERTIES PLC	20 Sep 2013	29 May 2014	
6	AHUN	AITKEN SPENCE HOTEL HOLDINGS PLC	11 Oct 2013	28 May 2014	

Colombo Stock Exchange hosts Research reports right in the exchange website

Bangladesh Capital Market – Challenges & Potential Remedies

Few final thoughts

Increased foreign participation

- 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

**THANK
YOU!**

