

AT Capital Market Outlook 2021



BD 2021 stock market outlook

- **BD capital market stages strong rebound** - Bangladesh ended 2020 as the best performing economy and the best performing stock market in the region. DSEX, the benchmark index of the Dhaka Stock Exchange, gained 21.3%, the highest among its peers, despite the 66-day recess for the countrywide general shutdown to slow the spread of coronavirus. This was quite the turnaround for DSEX, which fell 17.3 per cent in 2019 while bourses in emerging Asian countries showed healthy gains.
- **We expect the rally to continue given ongoing excess liquidity conditions, low interest rates, economic recovery and a pickup in foreign buying.** Our central scenario is for the DSE to make similar gains in 2021 with a year end target of 7000. Our favoured sectors are Pharma, Telecoms and Consumer Goods. We discuss specific stock recommendations in more details inside this report.
- **Although the GDP growth rate came down to 5.24%, it was still higher than in neighboring countries in South Asia.** The impact of the Covid pandemic was relatively less severe in Bangladesh, possibly due to the low average age of the population, with more than 60% under the age of 25.
- **Government stimulus measures, including a BDT 1.03 trillion stimulus package also helped in limiting the damage.** Our central scenario is that the rolling out of the Covid vaccine both at home and abroad will result in Bangladesh returning to its previous growth trajectory.
- **BB measures combined with strong remittance will result in ample liquidity** – Bangladesh Bank (BB) undertook a large number of measures to increase liquidity in the banking system in the aftermath of the Covid pandemic. Policy rates have been cut, loan provisioning has been relaxed, and special long-term repo instruments have been introduced. Remittances have also defied dire predictions at the start of the pandemic to increase by 18.7% in 2020, further fueling liquidity. We expect the low-interest rate regime to result in higher money flow to the capital market in 2021.
- **New BSEC Commission will lead to renewed investor confidence** – The Bangladesh Securities and Exchange Commission (BSEC) underwent a change in leadership in May 2020 upon expiry of the previous Commission's term. The new Commission, led by Professor Shibli Rubayat Ul Islam, has undertaken a number of reforms and enforced several measures which have instilled strong confidence in the Bangladesh capital market. Under the leadership of the new commission, rules calling for director's holding a minimum 30% stake in their companies have been strictly enforced, IPO procedures have been reformed and measures have been taken to revive non-compliant companies languishing in the Z-category by reconstituting their boards.

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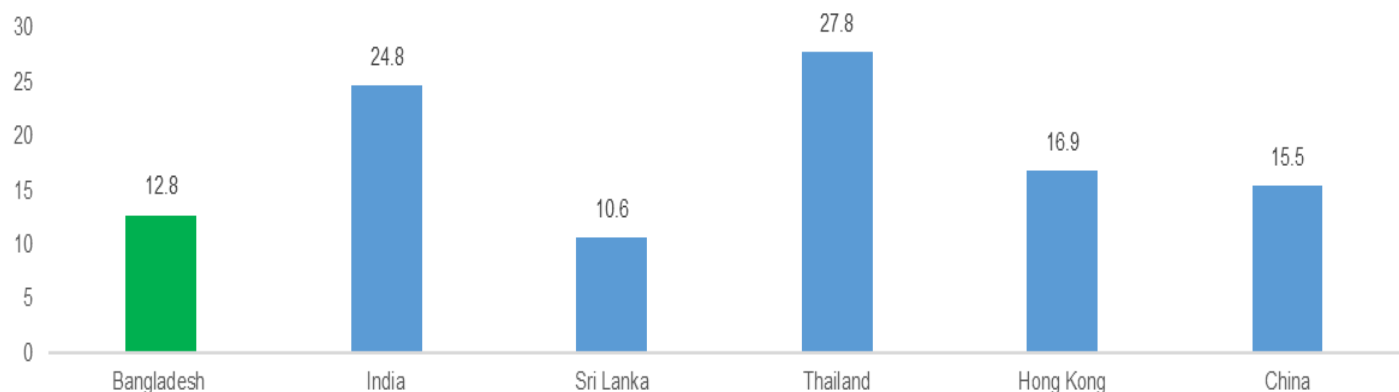
Overview

Bangladesh's stock market was the best performing equity market in Emerging Asia with a return of 21.3 %. This was an impressive recovery after the market shutdown for 66 days in Q2 due to Covid lockdown and the market ended 2020 28.1% off the lows for the year. Average daily turnover increased from BDT 3,864 mn in the first half year to BDT 8,233 mn. The average turnover for 2020 as a whole, of BDT 6,489 mn. We expect the rally to continue with a central target of 7,000.

The main factors that drove the 2020 rally included:

- *BD economy did better than other Asian economies most notably India...on Covid resilience and strong remittance growth (more than 40% for first 5 months of FY 2021). The latter was by a 2% cash incentive to money brought back through official channels. As a result, the current account moved back into positive territory in the first 4 months of FY 2021 after 4 years of current account deficits. Mega Infrastructure projects and RMG recovery also helped.*
- *Low interest rates initially on BB rules for 6% deposit and 9% lending cap that was followed by rate cuts from BB that saw investors seek higher returns in equities and real estate. There was a combination of policy rates cut, CRR reduction, special 364-day repo introduction, loan classification relaxation to increase the money market*
- *Massive monetary and fiscal liquidity injection. The government announced a fiscal stimulus package of BDT 1 tr (3.3% of GDP). Although private sector credit growth slowed down, liquidity in the banking system reached a high of BDT 1.7 tr.*
- *Black Money Whitening: In the last Budget, Finance Minister Mustafa Kamal announced that "...With a view to providing impetus to the stock market, a major hub of economic activity of the country, individual taxpayers can invest money in the capital market between Jul 1, 2020, and Jun 30, 2021, and show it in their tax returns by paying tax at a rate of 10% on the value of the investment"*
- *New and more pro-active BSEC restoring market confidence with stronger corporate governance rules as well specific investor initiatives such as who can invite in IPO will get mandatory allocation.*

Regional P/E Comparison As of Nov 2020





2021 outlook: DSE continues to rally with a target of 7,000 on index

- *Ongoing strong monetary and fiscal support*
- *BD P/E ratio low 12.8 times versus India 24.8x...Only Sri Lanka cheaper*
- *Expect a significant rise in international investors in part because of strong BD economy, low global rates and expensive developed markets seeing rotation to EM and also high-quality IPO like Robi and Energypac ...quality as well as quantity...will attract more foreign investors.*
- *The opening of the API by the DSE which allows brokers to offer their own mobile and PC based trading platforms will likely trigger an increase in online trading and an increase in turnover and the number of market participants.*
- *Banking sector will benefit from supportive macro policy and regulations.*
- *Telcos will be supported by strong data demand and ongoing remote working.*

2021 Bangladesh Risks and Opportunities

1. Central Scenario 2021
7 % GDP Growth

2. Global Economic
Consumer Recovery on
Vaccine Rollout Helps RMG

3. Recovery in Middle East
and other Remittance
Markets

4. Pickup in Mega
Infrastructure Projects/FDI
As Travel Normalises

5. 2021 RMG Sector
Initiative for B2C Sales After
Challenges of 2020 Buyer
Strikes

6. Bangladesh Applies to
Join RCEP Regional Trade
Platform in 2021

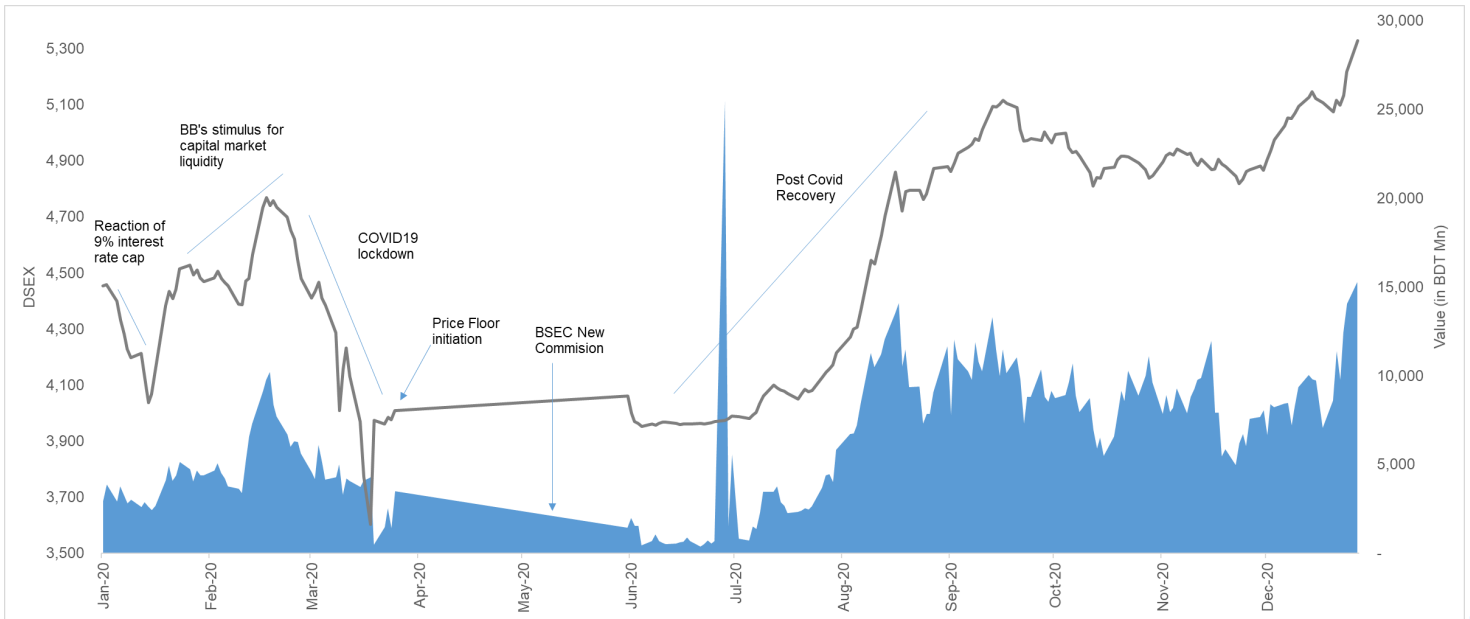
7. DSEX Target 7000 by Year-
end and Bond Yield and
Interest Rates Stay Low

8. Accelerated Growth in
Digital Economy – Led by E-
Commerce; Fintech ; Tech
Manufacturing

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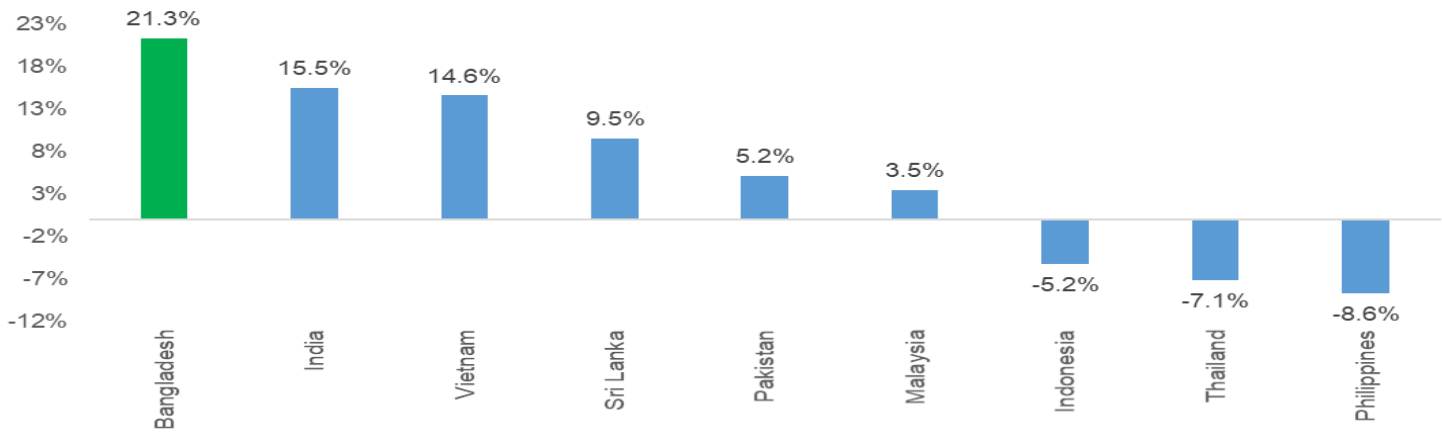


DSEX Vs Value Movement for 2020



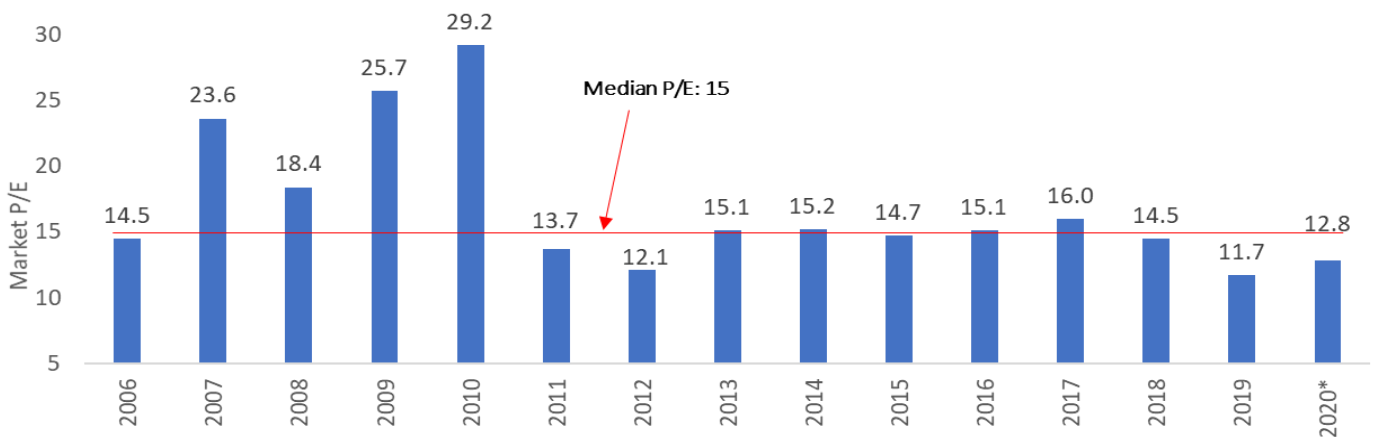
Source: DSE, AT Capital

Bangladesh stock market saw the highest return in 2020 among its peers



Source: DSE, AT Capital

Historic P/E Trend of DSE



Source: DSE, AT Capital; 2020 data is as of Nov

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Recommended Stocks Fundamental Summary

Stock	Year end	Market Cap (BDT Mn)	Price	EPS		NAVPS	PE	PB
				2019	2020*			
BRACBANK	December	61,653	47	4.0	2.7	32.9	17.4x	1.4x
GP	December	502,717	372	25.6	26.5	28.4	14.0x	13.1x
RECKITT BEN	December	19,132	4,049	131.1	121.9	142.6	33.2x	28.4x
BATBC	December	220,968	1,228	51.4	64.6	198.9	19.0x	6.2x
SINGERBD	December	17,737	178	10.4	8.7	32.0	20.5x	5.6x
CITYBANK	December	27,138	27	2.6	4.1	24.1	6.6x	1.1x
IDLC	December	28,015	74	4.5	5.7	37.2	13.1x	2.0x
BERGERPBL	March	66,144	1,426	44.1	52.2	204.2	27.3x	7.0x
SQRPHARMA	June	195,462	221	16.0	15.8	91.6	13.9x	2.4x
RENATA	June	109,961	1,128	46.6	45.3	245.7	24.9x	4.6x
IBNSINA	June	7,539	241	10.8	12.6	56.9	19.2x	4.2x
OLYMPIC	June	38,928	195	9.4	10.1	41.2	19.2x	4.7x
BSCCL	June	27,077	164	3.6	5.8	40.9	28.3x	4.0x
MARICO	June	69,703	2,213	64.2	84.0	44.1	26.3x	50.2x

* For December ending company, data is 9M annualized
Source: Company Financials, AT Capital

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Investment rationale for our favorite stocks

Stock Name	Sector	Investment Rationale
BATBC	Food & Allied	Industry growth (~3%) is driven by demographics, consumers spending power, the company's distinctive price pass through ability, strong distribution channels, superior cash-generating capacity and sound financials are the key driving factors for the stock. Currently BATBC is the market leader with around 60% market share.
BRACBANK	Bank	BRAC Bank is one of the best governed banks in Bangladesh, with a SME-focused lending portfolio and a strong position in deposit accounts allowing it to consistently earn higher interest spread than other banks. Besides, It also owns 51% of bKash, the biggest beneficiary of the country's digitalization journey.
CITYBANK	Bank	The City Bank is 1st generation bank holding about 3.1% market share of deposits. It strategically positioned itself as number 1 in cards segment. The bank's strong foothold in customer service and digitalization, particularly defined by state of the art app, City Touch app, rated highest in Android, targets a younger age group, that is expected to garner strong deposit, CASA and retail loan growths.
GP	Telecommunication	GP is the largest mobile operator in Bangladesh with market share of 46.4%. Strong data growth and network expansion through tower management companies are 2 major growth drivers. Immediate payment for regulatory reasons is less likely hence 8% dividend yield is expected.
IDLC	Financial Institutions	The fundamental drivers for IDLC are Organic growth in lending business, stronger positioning in the capital market with its three subsidiaries and Compliant & better management in financial services industry.
MARICO	Pharmaceuticals & Chemicals	Positive economic demography paving the trail for growth. Consumer spending in Bangladesh increased to an all time high of BDT 25 trillion in 2020 from BDT 16 trillion in 2017 indicating the future spending spree. Concentration on a single product—PCHO—is decreasing with the introduction of new product lines.
RECKITTBEN	Pharmaceuticals & Chemicals	The underpenetrated market for hygiene products and the potential introduction of new products with an increase in earnings level and MAC (Middle and Affluent Class) population are the next major growth drivers
SQURPHARMA	Pharmaceuticals & Chemicals	Square is the largest pharmaceutical with market share of ~16.5%. Its sales growth is to get high trajectory in FY21 driven by a focus on marketing activities and promotion of Nexum, theesomeprazole brand.
RENATA	Pharmaceuticals & Chemicals	Renata has been maintaining a robust c15% CAGR in sales and impressive net profit growth CAGR of c17.0% for last 5 years. We expect Renata to maintain this consistent growth trajectory with its focus on high growth segments such as cardiovascular. Also, an increased cash pay-out as the company moves to a debt-less structure.
SINGERBD	Engineering	Consistent demand growth backed by the country's increasing MAC population and growing demand for home appliances and consumer electronics due to higher disposable income level are 2 major drivers for SINGERBD. Moreover, Production efficiency is likely to make its product prices more attractive to customers.

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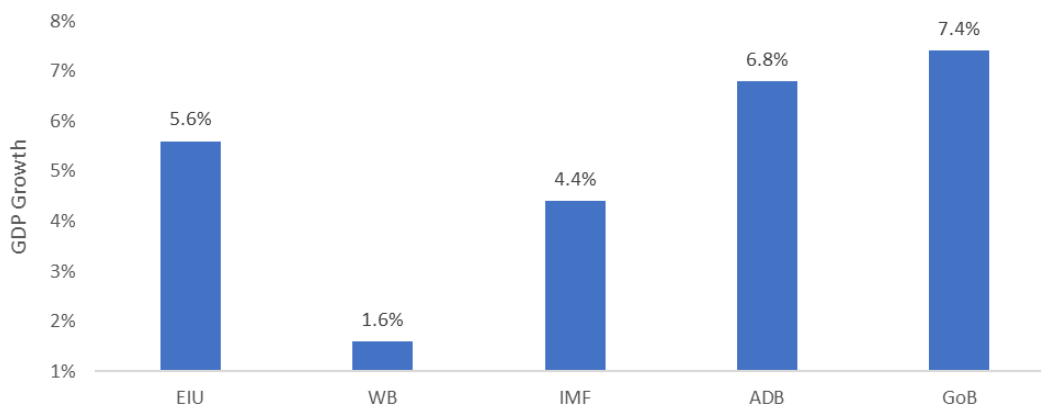


Macro backdrop

Government revised the growth target for 2021

In December, as per the eighth five-year plan, the Bangladesh government set a target to achieve 7.4% economic growth in 2020-21 fiscal year, while the annual budgetary target remains unchanged at 8.2%. The World Bank has kept its projection of Bangladesh's economic growth unchanged at only 1.6% for the fiscal year 2020-21 in the latest report released in Jan 2021. The World Bank, however, forecasts 3.4% growth in the next fiscal year 2021-22, expecting a widespread rollout of Covid vaccines. IMF and Economist Intelligence Unit have 4.40% and 5.60% forecast respectively. The Bangladesh Government and Center for Policy Dialogue have high hopes of 8.20%. While Asian Development Bank is cautiously optimistic at 6.80%. Increased demand for RMG products globally, government increase in domestic infrastructure investment, domestic consumption are likely to contribute to the increased GDP growth. The exchequer's tax revenue collection dropped by 2.5% in FY20 amid the pandemic. However, with the quick turnaround of the economy, the government's tax revenue increase by c5.47% YoY during July-Oct 2020.

GDP growth comparison



Source: Published source, AT Capital

Domestic activities reached pre-pandemic level

After the initial hit of the COVID-19 pandemic, the economic activities in both rural and urban areas have reached the pre-COVID level from a near standstill situation prevailing in April-May 2020. Factory activity in Bangladesh rose 4.4% YoY in August 2020.

Vaccine to be available in Bangladesh by February 2021

Bangladesh's death rate as the percentage of total positive cases is 1.5% lower than the global average of 2.2%. Besides, Bangladesh ranked 20th in the world and 1st in South-Asia in Covid Resilience ranking (according to Bloomberg). Moreover, the Bangladesh government has taken a proactive measure to secure vaccines and already inked a deal with Serum Institute of India for 30 million doses of Oxford–AstraZeneca vaccines. The government expects vaccination will be available by late January or early February. We expect that private companies will bring vaccines adding to the government's effort. Unless another fatal strain of the virus emerges for which there is no cure, we do not see any severe impact on the economy in 2021.

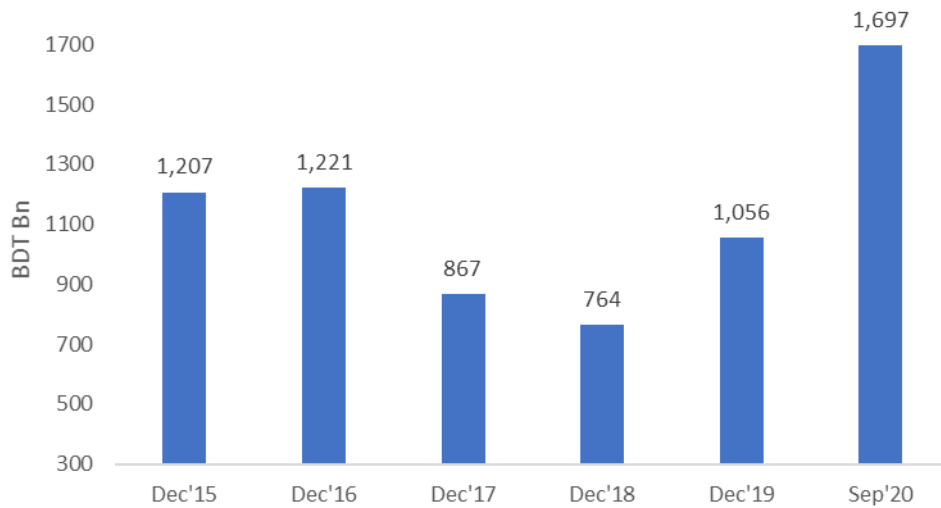
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Domestic liquidity to prevail in the money market in 2021:

With the expansionary monetary policy by BB amidst pandemic, enough liquidity prevails in the money market. Moreover, surprising growth in remittance earnings (c41.3% YoY in 5 months of FY21) helped to improve the overall liquidity situation. However, the private sector credit growth slowed down amid the pandemic. Because of the intertwined impact of the above-mentioned catalysts, excess liquidity of the country's banking system increased to an all-time high of BDT1.7tn. In 2021 we expect no pressure on the money market.

Excess Liquidity in BDT Bn

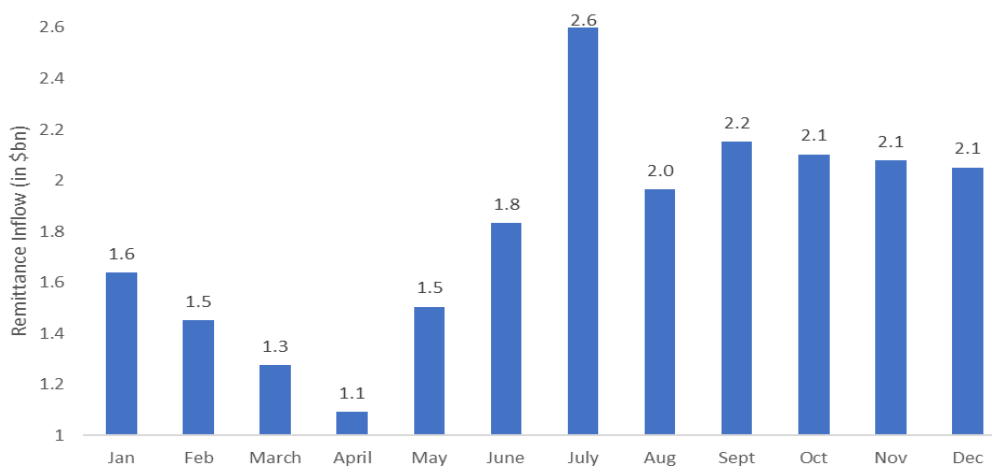


Source: Bangladesh Bank, AT Capital

Sustainable remittance growth—

One of the areas that defied all expectations is Remittance. Despite the initial fear for a significant dent in inbound remittance because of restricted mobility and slowdown in the global economy, Bangladesh's remittance earnings made a quick turnaround with surprising growth. It grew by c41.3% YoY in the first five months of the current fiscal year (Jul-Nov 2020). The government's 2% cash incentive and expats' remittance mobilization through formal channels facilitated the surprising growth.

2020 Remittance Inflow (in \$Bn)



Source: Bangladesh Bank, AT Capital

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