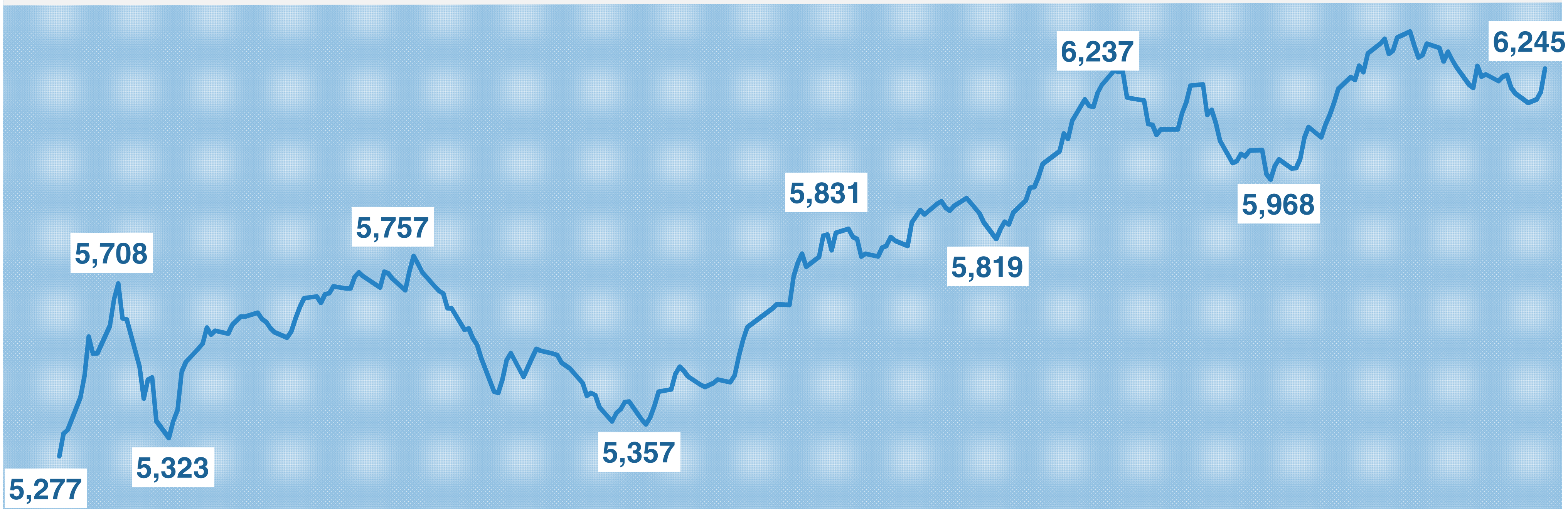
Bangladesh Capital Market Review 2017



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SECONDARY MARKET REVIEW 2017

Benchmark index advanced by 24.00%
Market Cap (BDT) increased by 23.92%
Avg. Daily Turnover stood at BDT 8,748.38 mn (USD 105.91mn)

DSEX advanced by 24.00%, powered by financial sectors and large-cap stocks

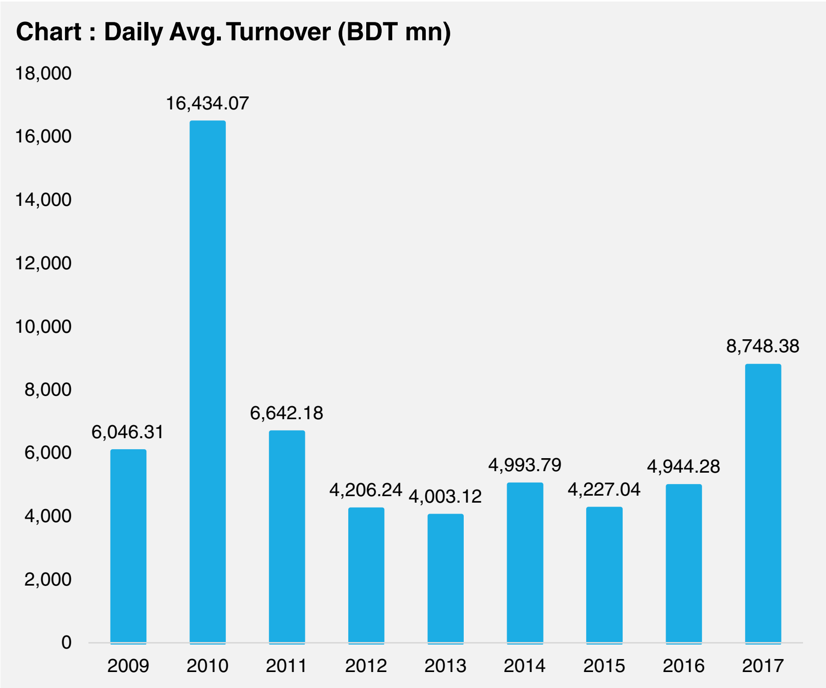
Source: DSE, LBSL Research

Market Fact Sheet

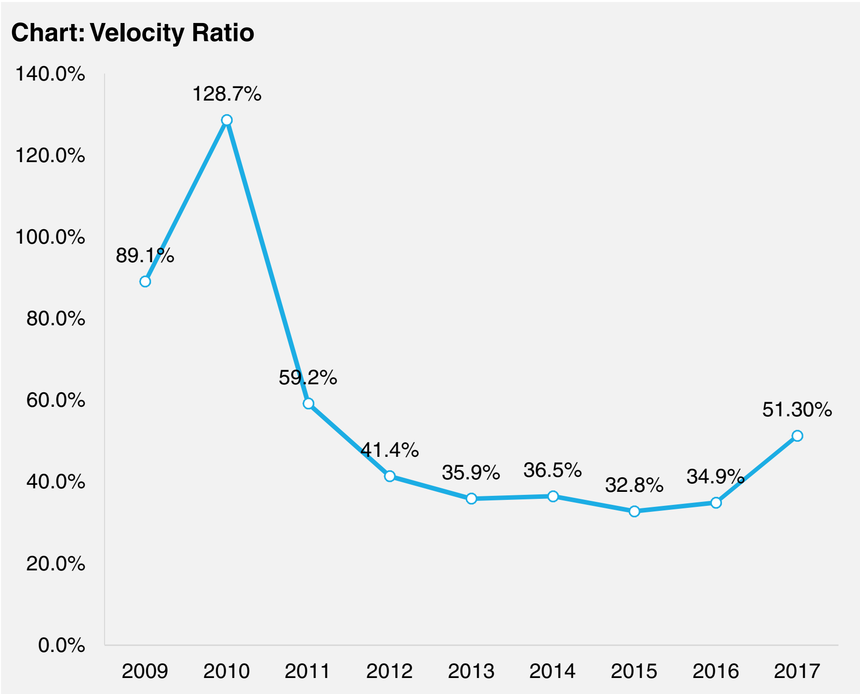
	2011	2012	2013	2014	2015	2016	2017
Trading Days	235	238	238	238	244	241	247
Index							
Closing Index (DSEX)	NA	NA	4,266.60	4,864.96	4,629.64	5,036.05	6,244.52
Highest Value	NA	NA	4,439.60	5,334.04	4,969.73	5,036.05	6,336.88
Lowest Value	NA	NA	3,438.90	4,266.55	3,959.74	4,171.41	5,083.89
Market Information							
Mkt. Cap (USD Mn)	32,914.90	30,233.40	34,055.20	42,327.88	40,215.83	43,470.59	51,135.98
Mkt. Cap to GDP Ratio	33.2%	26.3%	25.5%	24.1%	20.6%	19.7%	20.5%
Daily Avg. Turnover (BDT Mn)	6,642.18	4,206.24	4,003.12	4,993.79	4,227.04	4,994.28	8,726.76
Daily Avg. Turnover (USD Mn)	81.00	52.91	51.50	62.89	53.80	62.79	105.52
% of Change	-65.1%	-34.7%	-2.7%	22.1%	-14.4%	17.1%	74.7%
Turnover Velocity	59.2%	41.4%	35.9%	36.5%	32.8%	34.9%	51.0%
Market P/E	13.68	12.07	15.07	15.69	14.92	15.38	16.92
Securities Listed	501	515	529	546	559	560	569
No. of Listed Companies	232	242	256	274	287	294	301
No. of newly listed companies and Mutual fund(s)	14	10	14	17	14	11	9
Capital raised through IPO (BDT Mn)	19,914.15	11,866.70	8,595.00	9,498.70	9,774.72	9,093.65	3192.50
Foreign Trade							
Buy (USD Mn)	153.83	165.56	341.40	587.62	485.65	644.20	801.99
Sell (USD Mn)	143.91	68.24	91.30	248.28	462.09	473.41	594.07
Net (USD Mn)	9.91	97.31	250.10	339.34	23.56	170.79	207.92
Total (USD Mn)	297.75	233.79	432.70	835.91	947.75	1,117.62	1,396.05

Source: DSE, LBSL Research

Total turnover increased by 82.08%

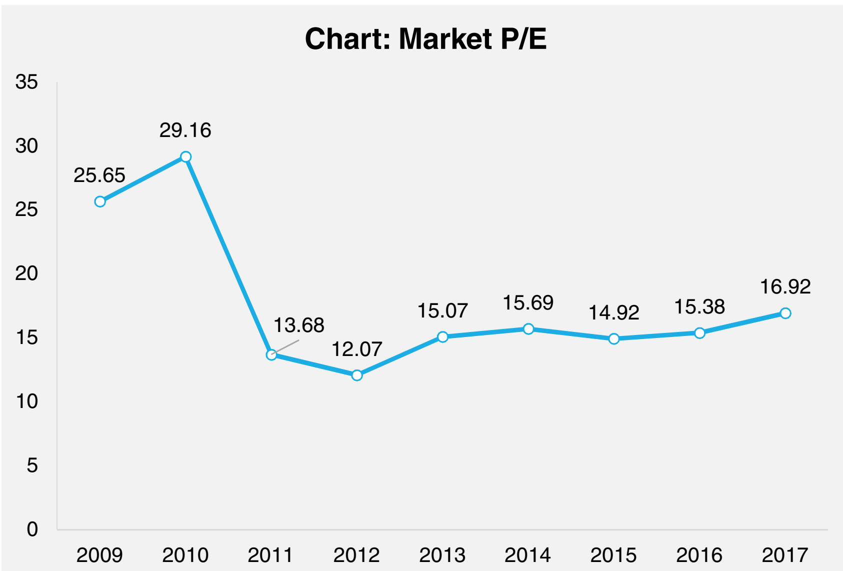


Source: LBSL Research



Source: LBSL Research

Market cap increased by 23.92%



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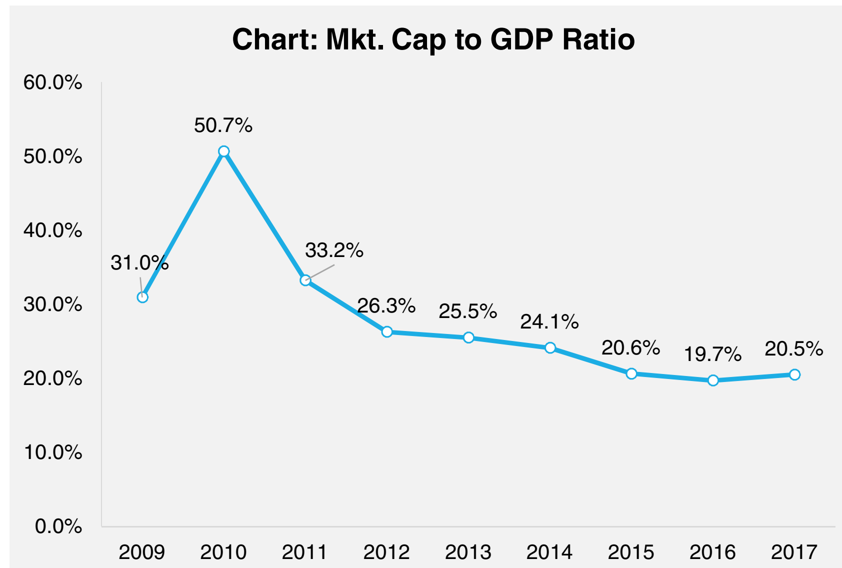

Source: LBSL Research

Sector Performance: Return & Turnover

Table: Sector-wise Price Return

Sector	Market Cap Dec'16 (BDT mn)	Market Cap Dec'17 (BDT mn)	% Change	Sector Contribution in Market Cap (Dec'17)
Bank	491,001.02	747,217.60	52.2%	17.7%
Cement	156,993.90	138,562.96	-11.7%	3.3%
Ceramic	25,726.84	28,691.72	11.5%	0.7%
Engineering	198,984.97	207,831.88	4.4%	4.9%
Food & Allied	234,076.41	285,606.62	22.0%	6.8%
Fuel & Power	360,831.15	375,138.50	4.0%	8.9%
Gen. Insurance	36,523.25	42,668.96	16.8%	1.0%
IT Sector	19,099.27	16,370.21	-14.3%	0.4%
Jute	983.99	1,959.69	99.2%	0.0%
Life Insurance	48,098.82	50,632.70	5.3%	1.2%
Miscellaneous	97,927.37	94,925.50	-3.1%	2.2%
NBFI	171,190.12	251,022.74	46.6%	5.9%
Paper & Printing	1,621.08	1,938.75	19.6%	0.0%
Pharmaceuticals	433,734.76	530,816.84	22.4%	12.6%
Service & Real-estate	22,663.65	17,681.00	-22.0%	0.4%
Tannery	26,895.48	27,595.98	2.6%	0.7%
Telecommunication	403,178.03	652,723.01	61.9%	15.4%
Textile	116,699.34	115,348.04	-1.2%	2.7%
Travel & Leisure	26,273.20	25,106.15	-4.4%	0.6%

Source: LBSL Research

Table: Sector-wise Change in Turnover

Sector	Total Turnover in 2016 (BDT mn)	Total Turnover in 2017 (BDT mn)	% Change	Sector Share in Total Turnover (2017)
Engineering	198,515.62	271,071.16	36.5%	12.5%
Fuel & Power	156,620.61	184,472.76	17.8%	8.5%
Pharmaceuticals	156,433.71	229,973.99	47.0%	10.6%
Textile	128,004.34	256,427.78	100.3%	11.8%
Bank	94,166.08	461,256.36	389.8%	21.3%
NBFI	71,692.44	220,699.08	207.8%	10.2%
Miscellaneous	65,585.92	90,810.17	38.5%	4.2%
Food & Allied	53,448.46	61,487.35	15.0%	2.8%
Cement	43,941.61	48,598.46	10.6%	2.2%
IT Sector	28,136.36	49,303.51	75.2%	2.3%
Service & Real-estate	25,262.64	37,842.74	49.8%	1.7%
Telecommunication	19,887.90	30,729.21	54.5%	1.4%
Travel & Leisure	16,598.09	21,306.07	28.4%	1.0%
Tannery	14,888.17	25,952.95	74.3%	1.2%
Ceramic	14,466.70	25,342.20	75.2%	1.2%
Life Insurance	13,358.68	15,299.79	14.5%	0.7%
Gen. Insurance	13,057.78	23,235.80	77.9%	1.1%
Jute	2,831.98	5,248.04	85.3%	0.2%
Paper & Printing	2,370.80	4,030.67	70.0%	0.2%

Source: LBSL Research

Table: Top Sectors by Price Return

Sector	Market Cap Dec'16 (BDT mn)	Market Cap Dec'17 (BDT mn)	% Change	Sector Contribution in Market Cap (Dec'17)
Jute	983.99	1,959.69	99.2%	0.05%
Telecommunication	403,178.03	652,723.01	61.9%	15.4%
Bank	491,001.02	747,217.60	52.2%	17.7%
NBFI	171,190.12	251,022.74	46.6%	5.9%
Pharmaceuticals	433,734.76	530,816.84	22.4%	12.6%

Source: LBSL Research

Table: Top Sectors by Turnover

Sector	Total Turnover in 2016 (BDT mn)	Total Turnover in 2017 (BDT mn)	% Change	Sector Share in Total Turnover (2017)
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Engineering	198,515.62	271,071.16	36.5%	12.5%
Textile	128,004.34	256,427.78	100.3%	11.8%
Pharmaceuticals	156,433.71	229,973.99	47.0%	10.6%
NBFI	71,692.44	220,699.08	207.8%	10.2%

Source: LBSL Research

Note: Market cap of newly listed companies in 2017 are included as opening market cap to calculate return.

The Leaders & The Losers

Top Loser	Price Return
EMERALDOIL	-53.81%
MITHUNKNIT	-51.87%
GOLDENSON	-43.61%
SEMLIBBLSF	-42.19%
SHEPHERD	-40.96%
CAPMBDBLMF	-35.71%
OIMEX	-35.68%
SAIFPOWER	-34.39%
SAPORTL	-33.40%
PDL	-31.09%

Source: LBSL Research

Top Performer	Price Return
KAY&QUE	293.64%
DULAMIACOT	223.17%
NORTHERN	203.90%
SAVAREFR	193.66%
LEGACYFOOT	168.30%
RUPALIBANK	153.69%
PTL	139.06%
MONNOCERA	133.71%
AZIZPIPES	123.50%
SHYAMPSUG	122.38%

Source: LBSL Research

Company	Total Turnover (BDT mn)
LANKABAFIN	73,332.01
CITYBANK	41,326.45
BEXIMCO	41,106.95
IFADAUTOS	40,900.04
ISLAMIBANK	29,971.66
NBL	29,677.76
SQURPHARMA	28,151.93
BRACBANK	27,617.62
RSRMSTEEL	27,017.07
IDLC	26,638.93

Source: LBSL Research

The top losers of the year consist almost entirely of small-cap and mid-cap stocks. Collectively, the ten largest losing stocks hold only 0.6% of total market cap of Dhaka Stock Exchange (DSE). SAPORTAL alone stands at 0.18% of total market cap and the other nine stocks together make up 0.45%. The price performance of all these top losing companies suffered as they experienced decline in their earnings, financial inefficiency or have regulatory issues. EMERALDOIL, the top losing company, has been facing financial problem in meeting the bank loan and operating in he commercial operation in small scale due to shortage of sufficient working capital. In 89 months operation (July'16 to March'17) the posted EPS of BDT 0.09, which is 97.0% down compare to same period of previous year.

Like the top losers, top gainers of the year also consist of small-cap stocks that collectively hold merely 0.7% of total market capital and 1.2% of total trade volume in DSE. 2017 has seen high levels of activity in mid and small-cap stocks, with the market's upward movement in the second half of the year being powered by increased fund flow in mid-cap and newly traded stock. Growth in price of some of the companies (such as KAY&QUE, RUPALIBANK, MONNOCERA) attributed to their growth in earnings and dividend declaration. However, the rest of the companies have mixed performance in earnings and had price movement due to increased trading volume in market. Overall, majority of the companies are being traded at high P/E ratio.

The top ten turnover leaders are large-cap companies, collectively holding 13.3% of total market cap. The top turnover list is mostly populated by large-cap stocks. Large-cap stocks (such as ISLAMIBANK, BRACK, SQURPHARMA) collectively holds 12.0% of market capitalization. In 2017, top ten highly traded stocks accounted for 16.9% of the total market turnover compared to 17.5% in 2016 which indicates that large-cap stocks upheld there position in market demand in terms of turnover value. Looking at the price return of the top turnover generating companies, diverse patterns could be found. Stocks like LANKABAFIN, CITYBANK, IFADAUTO gave price returns in line with strong earning growths. The year also saw high amounts of event driven turnover, CITYBANK and BRACBANK for example.

Note: Annual Returns for newly listed stocks have been calculated based on the closing price of the first trading day

FOREIGN TURNOVER IN 2017

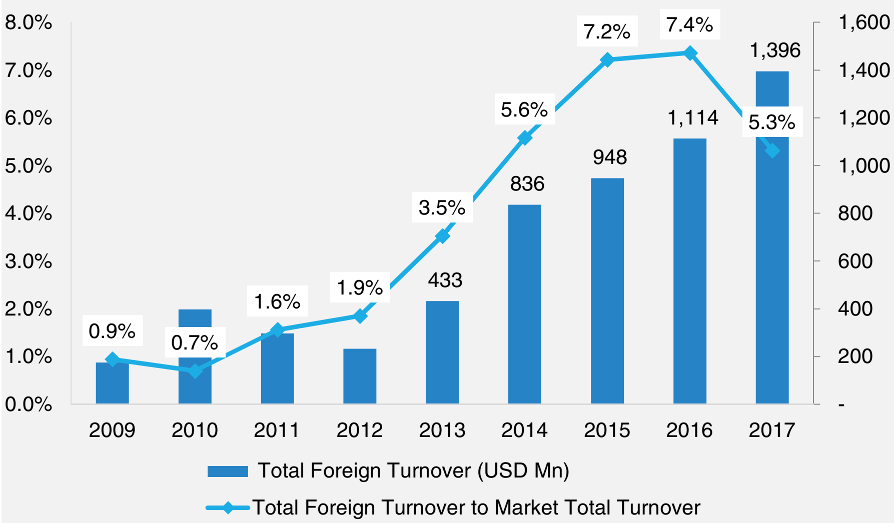
Foreign turnover increased by 25.3%

Net investment for the year stood at USD 207.92 mn

Foreign Investment focused in Pharmaceuticals, Food & Allied and Bank sectors

Foreign turnover increased by 25.3%

Chart: Foregn Turnover in Bangladesh (USD mn)



Source: DSE, LBSL Research

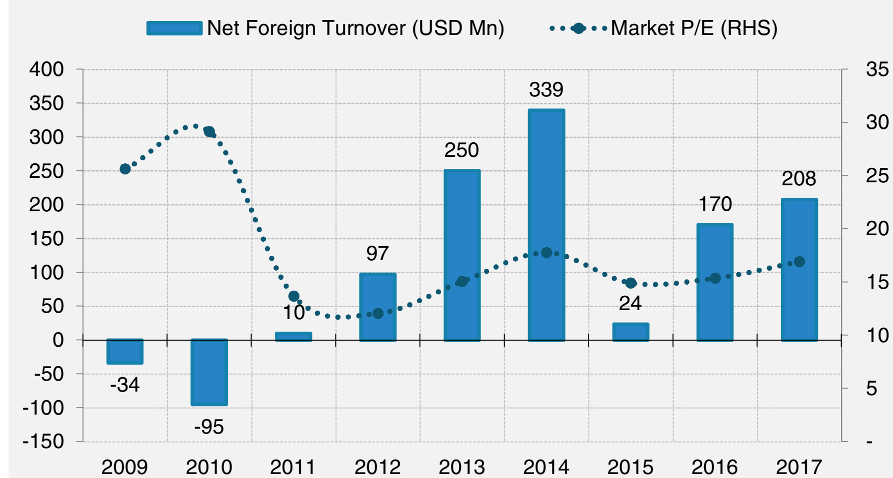
- For the fifth consecutive year, 2017 brought to Bangladesh the highest amount of foreign trade in history. Total foreign turnover stood at USD 1,396.05 mn in 2017 registering 25.3% growth YoY. The growth was even higher in BDT terms(30.5%). The increased turnover came equally from from increased foreign buys and sells, with total buy in foreign holdings increasing by 24.9% YoY compared to a 25.9% increase in total sells.
- Total buy and sell by the foreign investors hit the all time highs in 2016. As well taking fresh positions, there was some profit taking too as the bullish market saw a lot of the large cap stocks give a significant price return..
- In 2017, net foreign investment saw a good 22.1% YOY increase, from USD 170.3mn to USD 207.9mn. The increase is largely due to high level of activity and price return among the large cap, good fundamental stocks during the year. In the historical context, fresh foreign fund flow was at a moderate level as overall net investment is still lower compared to 2013 and 2014.
- Turnover from foreign sources amounted to 5.3% of the total market turnover in 2017,dippng by ~300bps from the 2016 figure, 7.4%. Foreign turnover contribution in the total market turnover increased between 2010 and 2016, as market turnover levels remained mostly static and foreign turnover improved. 2017 saw turnover levels increase by ~75% amidst bullish market sentiment. The degree of increase in foreign turnover was lower than the increase in overall market turnover and so, the foreign turnover share decreased.

Table : DSE Foreign Trade Statistics

Particulars	2010	2011	2012	2013	2014	2015	2016	2017
Buy(USD mn)	151.6	153.8	165.6	341.4	587.6	485.7	642.2	802.0
Sell(USD mn)	246.7	143.9	68.2	91.3	248.3	462.1	472.0	594.1
Total(USD mn)	398.3	297.7	233.8	432.7	835.9	947.8	1114.2	1396.1
Net(USD mn)	-95.1	9.9	97.4	250.1	339.3	23.6	170.3	207.9
Market PE	29.2	13.7	12.1	15.1	17.8	14.9	15.4	16.9

Source: DSE, LBSL Research

Chart : Foreign Net Position Vs. Market PE



Source: DSE, LBSL Research

Foreign investments focused in large-cap stocks from Pharma, Food & Allied, Bank sectors

- Total foreign exposure in Bangladesh equity market stands at **BDT 163,363.93 mn**, accounting for 7.4% of the market capitalization.
- In terms of sector exposure, the largest amount of foreign investment are seen in stocks from the Pharmaceuticals and Chemicals sector with BDT 82.11 bilion worth of foreign holding. ~30% of total foreign exposure can be seen in this sector. SQURPHARMA, RENATA and BXPHARMA occupy three of the top seven spots in terms of stocks with largest foreign investment, indicating foreign interest in established pharma manufacturers. Banks and Food & Allied are the two next largest sectors attracting foreign investment. Among the large cap sectors, Bank sector saw its foreign holdings go up by ~380bp, and pharmaceuticals by ~290bps.
- Adjusting for size, the most lucrative sector for foreign investment in Bangladesh capital market seems to be the Food & Allied sector. Foreign investors hold 19.7% of the sector's total market cap and 50.6% of the sector's free float. High foreign ownership in OLYMPIC and BATBC mostly accounts for the large investments. BRACBANK has the largest foreign ownership of free float shares, with 72.3% of the free float being owned by foreign investors. BRACBANK also accounts for more than 70% of foreign holdings in the Bank sector.
- Looking at most preferred stocks for foreign investment, we see mostly large-cap stocks. An abundance of manufacturing stocks can also be observed.

Table : Foreign Holdings in Different Sectors

Sector	Market Capitalization of Foreign Holdings (BDT mn)	Total Market Capitalization (BDT mn)	Foreign ownership	Foreign ownership in Free Float
Pharmaceuticals	82,113.20	530,816.84	15.5%	27.3%
Bank	72,172.21	747,217.60	9.7%	16.7%
Food&Allied	56,305.95	285,606.62	19.7%	50.6%
Telecommunication	22,591.98	652,723.01	3.5%	33.2%
NBFI	12,565.98	251,022.74	5.0%	15.8%
Engineering	8,408.39	207,831.88	4.0%	8.0%
Fuel&Power	4,598.82	375,138.50	1.2%	3.9%
Miscellaneous	3,317.50	94,925.50	3.5%	10.5%
Textile	2,668.93	115,348.04	2.3%	4.1%
Cement	1,374.00	138,562.96	1.0%	2.5%
ITSector	860.74	16,370.21	5.3%	8.0%
Travel&Leisure	769.44	25,106.15	3.1%	5.8%
Gen. Insurance	432.53	42,668.96	1.0%	1.8%
Tannery	329.20	27,595.98	1.2%	2.6%
Service&RealEstate	300.33	17,681.00	1.7%	3.4%
MutualFund	208.05	42,724.97	0.5%	0.6%
Life Insurance	138.27	50,632.70	0.3%	0.5%
Ceramic	27.78	28,691.72	0.1%	0.3%
Jute	-	1,959.69	0.0%	0.0%
Paper&Printing	-	1,938.75	0.0%	0.0%

Source: DSE, LBSL Research

Table :Stocks with largest foreign investment

	Stock	Market Capitalization of Foreign Holdings (BDT mn)	Foreign ownership	Foreign ownership in Free Float	2017 price return
1.	SQURPHARMA	42,884.35	19.27%	29.39%	30.24%
2.	BRACBANK	37,220.95	40.15%	72.26%	103.57%
3.	BATBC	31,287.92	15.33%	57.96%	37.00%
4.	OLYMPIC	24,786.22	43.00%	60.50%	-6.37%
5.	GP	22,250.24	3.50%	35.00%	65.72%
6.	BXPHARMA	17,781.67	42.24%	48.67%	28.47%
7.	RENATA	17,147.15	21.78%	44.59%	19.10%
8.	ISLAMIBANK	15,786.18	26.79%	48.38%	23.23%
9.	CITYBANK	7,179.90	15.41%	22.09%	95.59%
10.	DBH	6,820.97	41.16%	84.55%	33.07%
11.	BSRMLTD	5,803.32	27.37%	46.34%	-14.83%
12.	IDLC	3,676.17	11.43%	26.37%	49.65%
13.	BEXIMCO	2,230.86	9.90%	12.40%	9.04%
14.	MARICO	2,142.79	6.15%	61.50%	19.81%
15.	MERCANBANK	1,674.28	8.58%	13.72%	74.83%
16.	SOUTHEASTB	1,414.76	6.95%	10.26%	18.72%
17.	SUMITPOWER	1,399.29	3.65%	8.41%	-2.97%
18.	SINGERBD	1,290.96	8.61%	20.02%	1.56%
19.	ONEBANKLTD	1,243.97	7.10%	10.15%	44.26%
20.	NBL	1,100.13	3.57%	4.95%	52.94%

Source: DSE, LBSL Research

Note: All figures based on latest available shareholding pattern (November 30) and market capitalization data (December 28)

PRIMARY MARKET PERFORMANCE 2017

9 new securities got listed with total offer size of BDT 3192.50 mn
Only one stock listed through book building process
73.2% of the fund raised to be spent on BMRE and other operating activities
Newly listed companies performed poorly in the market after opening high

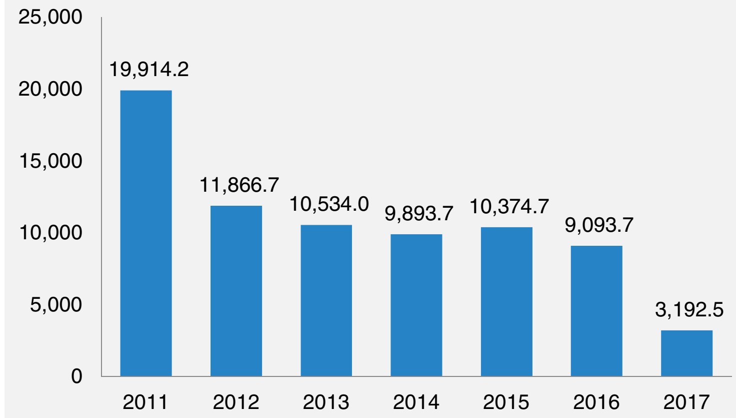
9 new securities got listed with total offer size of BDT 3,192.50 mn

Table: Companies listed in 2017

Company	Sector	Public Offer Size (BDT mn)
Nahee Aluminum Composite Panel Ltd. (NAHEEACP)	Engineering	150.00
Oimex Electrode Limited (OIMEX)	Engineering	150.00
ICB AMCL First Agrani Bank Mutual Fund (ICBAGRANI1)	Mutual Fund	500.00
BBS Cables Limited (BBSCABLES)	Engineering	200.00
Nurani Dyeing & Sweater Limited (NURANI)	Textile	430.00
Shepherd Industries Limited (SHEPHERD)	Textile	200.00
SEML IBBL Shariah Fund (SEMLIBBLSF)	Mutual Fund	250.00
Pacific Denims Limited (PDL)	Textile	750.00
Aamra Networks Limited	IT	562.50
Total money raised from IPO		**3192.50**

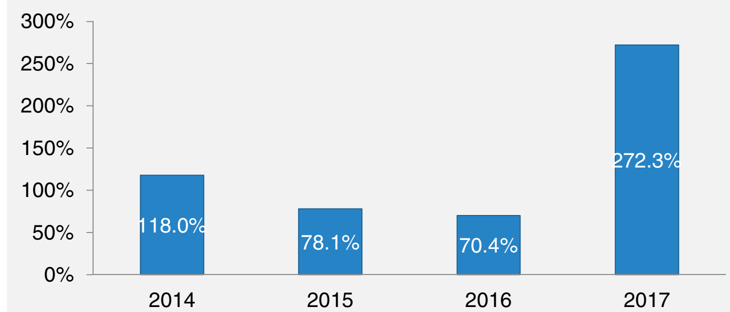
Source: DSE, LBSL Research

Chart: Total Amount Raised through IPO (BDT mn)



Source: DSE, LBSL Research

Chart: Weighted Avg. 1st Day Return of IPO Stocks



Source: DSE, LBSL Research

Note: Weights have been assigned based on public offer size

The amount of equity raised through IPOs in 2017 has reduced by almost 65% compared to 2016. This substantial reduction is due to the introduction of new regulations for the book building method which requires a company to go through a comparatively lengthy process in order to issues shares with a premium. This figure is expected to pick up in the next year as some companies are already going through the book building process which is scheduled to finish by next year.

IPO shares return on the first trading day has increased considerably to 272.3% which is higher than the total of the previous three years. Engineering sector mostly contributed to this return. The weighted average return (calculated from the offer price of IPO and the first trading day's closing price) was 70.4%, 78.1% and 118.0% in 2016, 2015 and 2014 consecutively.

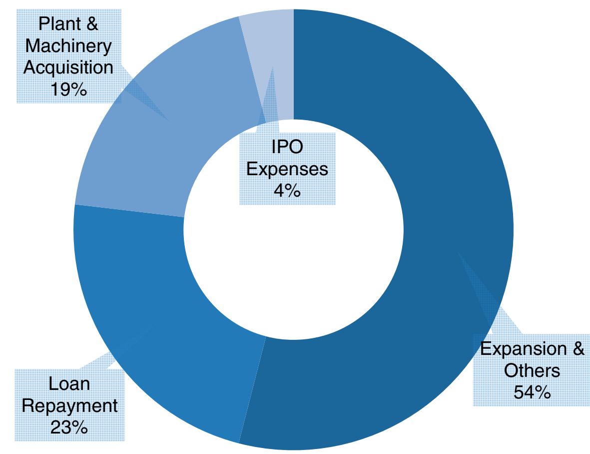
73.2% of the fund raised to be spent on BMRE and other operating activities

Table: IPO Proceeds Usage 2017 (BDT mn)

Sector	Loan Repayment	Plant & Machinery Acquisition	Expansion & Other	IPO Expenses	Total
Engineering	130.00	270.76	54.61	44.63	**500.00**
IT	185.92	0.00	346.87	29.70	**562.50**
Mutual Fund	0.00	0.00	750.00	0.00	**750.00**
Textile	412.46	340.27	572.99	54.28	**1380.00**
Total	**728.39**	**611.03**	**1724.48**	**128.61**	**3192.50**

Source: DSE, LBSL Research

Chart: Usage of IPO Funds

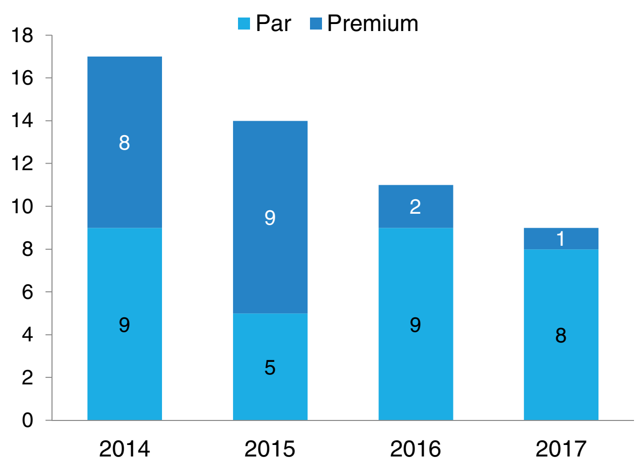


Source: DSE, LBSL Research

- A total of BDT 3192.40 mn was raised through IPO by 9 companies of which BDT 728.39 mn (22.8%) was scheduled to repay debts, mostly long term loans. Another BDT 1585.51 mn was scheduled for different capital projects of which 19.1% (BDT 611.03 mn) was to be used to buy new plant and machineries and BDT 974.48 mn was to be used for expansion projects primarily for building new premises.
- IPO expenses were 4% (BDT 128.61 mn) of the total proceeds.
- In 2016 only 2.5% of the fund was planned to be used to repay loans whereas the figure rose to 22.8% in 2017
- Textile sector has raised the most funds in 2017. Pacific Denim Ltd itself raised almost 23% of the total. Companies of this sector planned to use most of the fund for expansion projects.
- Two mutual funds ICB AMCL First Agrani Bank Mutual Fund (ICBAGRANI1) and SEML IBBL Shariah Fund (SEMLIBBLSF) raised in total of BDT 750 mn (23.5% of the total fund raised).
- Aamra Networks Limited is the only company which issued shares with premium through book building method. It raised 17.3% of the total fund raised and has planned to use 61.7% of the fund to develop different IT expansion projects.

Newly listed companies performed poorly after opening high

Chart: Par vs. Premium Issue



Source: DSE & LBSL Research

Table: Price return of IPO 2017

Company	1st day return	Return till year end
Nahee Aluminum Composite Panel Ltd. (NAHEEACP)	796.7%	-10.0%
Oimex Electrode Limited (OIMEX)	1042.0%	-42.9%
ICB AMCL First Agrani Bank Mutual Fund (ICBAGRANI1)	-11.0%	-9.0%
BBS Cables Limited (BBSCABLES)	803.0%	34.6%
Nurani Dyeing & Sweater Limited (NURANI)	108.0%	-1.1%
Shepherd Industries Limited (SHEPHERD)	382.7%	-41.0%
SEML IBBL Shariah Fund (SEMLIBBLSF)	28.0%	-42.2%
Pacific Denims Limited (PDL)	220.0%	-31.1%
Aamra Networks Limited*	254.9%	-29.4%

Source: DSE & LBSL Research

Note: Return till year end has been calculated based on the closing price of the first trading day
***Cut off price has been used to calculate the first day return of Aamra Network Limited**

In 2017, a total of 9 companies came to the market. Among them, only 1 company offered premium to their par value and the remaining 8 companies offered par value to get listed in the secondary market. On the other hand, in 2016, 11 companies got listed among which 9 companies offered premium to their par value and 2 companies offered par value for getting listed in the secondary market.

Price Return

Engineering sector gave the most return on the first day of the trading followed by Textile while one mutual fund gave negative return. Despite having a greatly increased first trading day return of 272.3% in 2017 compared to only 70.4% in 2016, IPO shares performed poorly by providing a weighted average return in the year end of -20.2% compared to -12.4% in 2016. Only one stock (BBS Cables Limited) maintained a positive position till the year end.

PEER MARKET REVIEW 2017

Regional peer indexes gave mostly positive return in 2017, but in varying degrees
Frontier peers' performance consistent with positive year for Asian Equities
Bangladesh capital market gave middle-of-the-park returns with valuations at the peers' average level

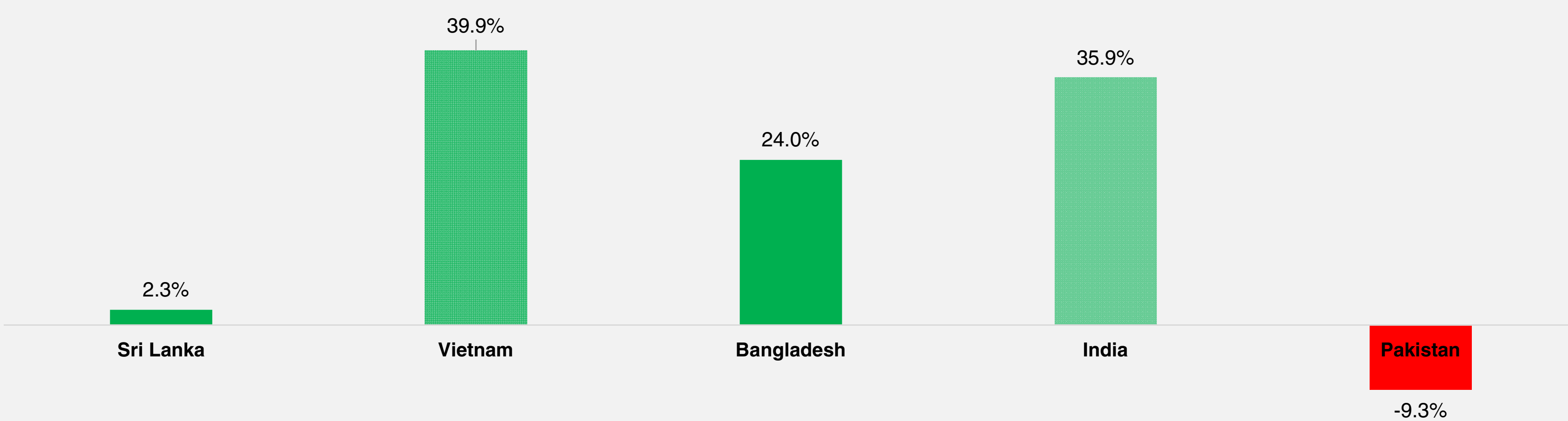
Regional peer indexes gave mixed returns in 2017

Table: Peer Market Performance

		Dec'16					Dec'17				
Particulars	**Country**	**Index**	**P/E**	**P/B**	**D/Y**	**Index return in 2016**	**Index**	**P/E**	**P/B**	**D/Y**	**Index return in 2017**
S&P BSE 500 Index	India	11,036.44	23.12	2.39	1.4%	3.8%	15,002.73	27.02	3.00	1.1%	35.9%
KSE All Share Index	Pakistan	32,842.43	15.71	2.41	3.6%	43.2%	29,774.24	11.42	1.98	4.6%	-9.3%
Ho Chi Minh Stock Index	Vietnam	664.87	15.91	1.97	3.0%	14.8%	930.17	17.05	2.21	2.1%	39.9%
CSE All Share Index	Sri Lanka	6,228.26	11.80	1.35	3.0%	-9.7%	6369.26	10.53	1.28	3.2%	2.3%
DSEX Index	Bangladesh	5,036.05	15.38	2.00	3.0%	8.8%	6,244.52	16.92	2.46	3.1%	24.0%

Source: Bloomberg, LBSL Research

Chart: Index Return in peer markets



Source: Bloomberg, LBSL Research

CLOSED END MUTUAL FUNDS 2017

Closed end funds (CEFs) under-performed the benchmark index by 1.4% in 2017

CEFs traded at 35% discount; only one fund traded at premium

Total cash dividend distributed by CEFs in 2017 stood at BDT 2,278.14 mn, 30.8% higher than that in 2016

Dividend yield for closed end funds was a healthy 5.36% at 2017 end

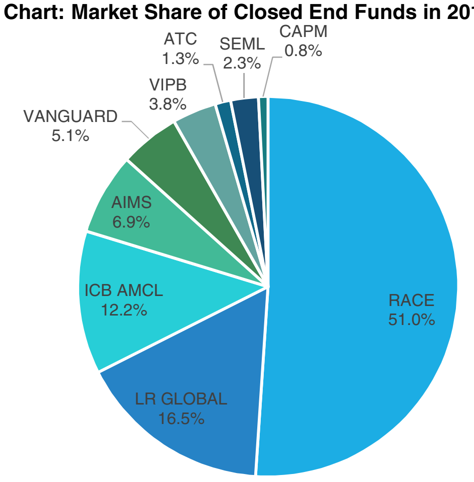
Closed End Funds' (CEFs) NAV increased by 22.6%

Table : Overall Performance of the CEFs

Particulars	Dec-16	Dec-17	Change
NAV of CEFs (BDT mn)	55,800.18	68,402.94	22.6%
DSEX (Broad Market)	5,036.05	6,244.52	24.0%
Price to NAV of all CEFs	0.67	0.65	-3.5%

Source: DSE, LBSL Research

Chart: Market Share of Closed End Funds in 2017



Source: DSE, LBSL Research

Table: Fund Managers' Performance

AMC	Portfolio Return	Over/ (Under) performance
VIPB	31.9%	7.9%
AIMS	26.1%	2.1%
ATC	25.8%	1.8%
RACE	25.3%	1.3%
LR GLOBAL	20.4%	-3.6%
VANGUARD	18.5%	-5.5%
ICB AMCL	16.3%	-7.7%
CAPM	10.0%	-14.0%
SEML	6.6%	-17.4%

Source: DSE, LBSL Research

Performance of Fund Managers in 2017

- Closed end funds registered a portfolio gain of 22.6% in 2017 whereas broad market gave return of 24.0%. The industry under-performed the benchmark return this year.
- Among the fund managers, VIPB was the top performer in terms of portfolio return as NAV of funds managed by VIPB increased by 31.9%. The second performer was AIMS, achieving portfolio return of 26.1%, followed by ATC 25.8%, RACE 25.3%, LR GLOBAL 20.4%, VANGUARD 18.5%, ICB AMCL 16.3%, CAPM 10.0% and SEML 6.6%.
- Among the asset managers, top asset manager in terms of Assets Under Management (AUM) is RACE, having 51.0% market share in the industry, followed by LR GLOBAL, ICB AMCL, AIMS, VANGUARD, VIPB, ATC, SEML and CAPM.
- VIPB, AIMS, ATC and RACE had beaten the market by 7.9%, 2.1%, 1.8%, and 1.3% respectively. Whereas, LR GLOBAL, VANGUARD, ICB AMCL, CAPM and SEML under-performed by 3.6%, 5.5%, 7.7%, 14.0%, and 17.4%.
- One fund of ICB AMCL was liquidated this year.

Note:

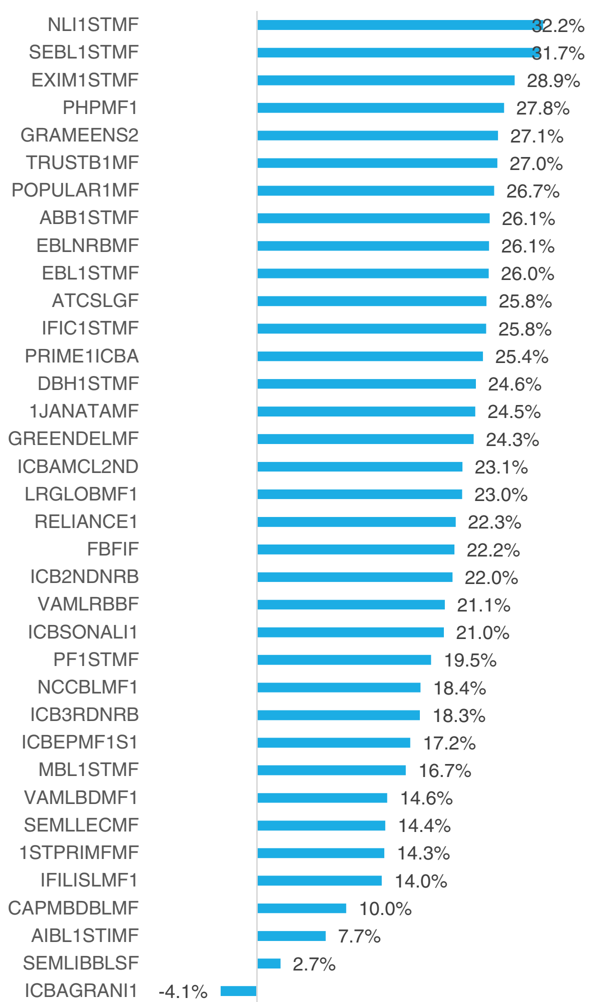
***To calculate the portfolio return of funds (and asset managers), the year end net asset value of funds are adjusted for cash dividend .**

*** Beginning NAV of newly added funds have been considered in industry NAV of 2016 to calculate the industry return.**

*** The funds which have been liquidated during 2017 have been deducted from total NAV of CEFs in 2016 as well.**

Total cash dividend distributed is BDT 2,278.14 mn

Chart : Portfolio Return of Mutual Funds in 2017



Source: DSE, LBSL Research

Table: Total Cash Dividends Paid by AMCs 2017

AMC	Dividend in 2017 (BDT mn)
RACE	636.34
ICB AMCL	513.75
LR GLOBAL	377.64
AIMS	265.16
VIPB	210.21
VANGUARD	104.32
ATC	95.77
SEML	74.95
CAPM	10.03
Total	**2,278.14**

Source: DSE, LBSL Research

Table : Cash Dividends Declared by Mutual Funds in 2017

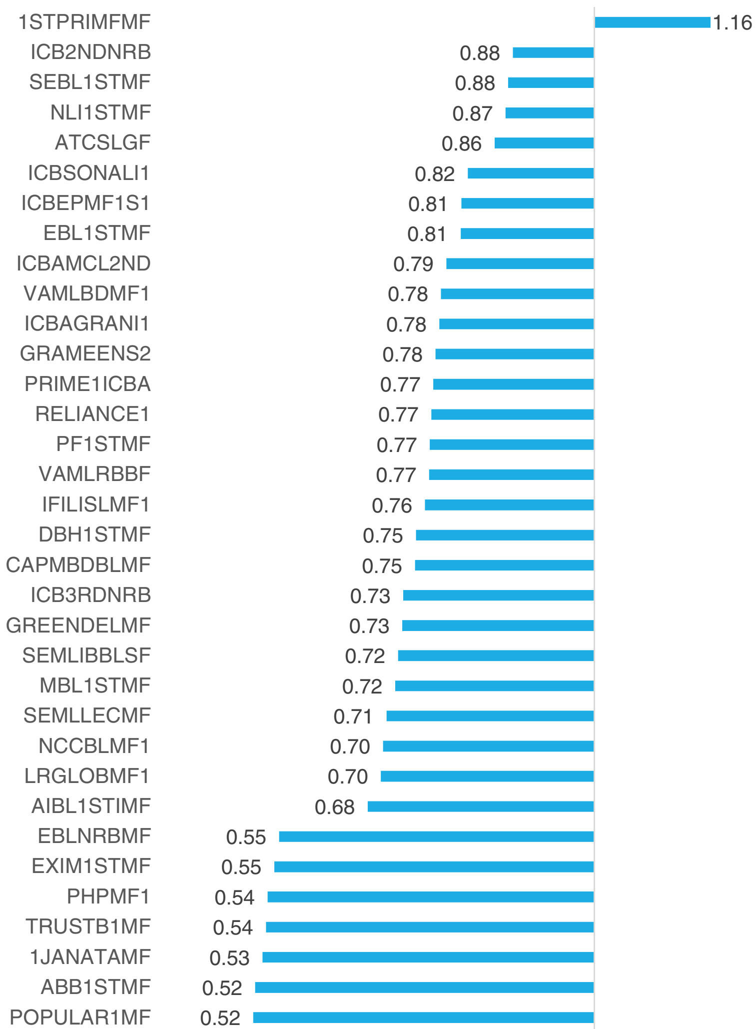
Fund name	Cash Dividend Per Share (BDT)	Dividend Yield
ATCSLGF	1.55	12.9%
NLI1STMF	1.50	9.9%
SEBL1STMF	1.35	9.5%
ICB2NDNRB	1.20	11.3%
GRAMEENS2	1.10	7.1%
RELIANCE1	1.00	9.1%
SEMLLECMF	1.00	13.3%
VAMLBDMF1	1.00	10.5%
IFILISLMF1	0.90	12.0%
LRGLOBMF1	0.78	9.4%
ICBSONALI1	0.75	8.9%
PRIME1ICBA	0.70	9.5%
ICBEPMF1S1	0.65	9.2%
ICBAMCL2ND	0.60	7.3%
DBH1STMF	0.50	5.3%
GREENDELMF	0.50	5.4%
ICB3RDNRB	0.50	7.8%
PF1STMF	0.50	7.1%
POPULAR1MF	0.35	5.6%
ABB1STMF	0.30	4.5%
PHPMF1	0.25	3.9%
SEMLIBBLSF	0.25	3.4%
1JANATAMF	0.20	3.1%
CAPMBDBLMF	0.20	2.5%
EBL1STMF	0.20	2.1%
EBLNRBMF	0.20	3.0%
EXIM1STMF	0.20	2.9%
FBFIF	0.20	3.5%
IFIC1STMF	0.20	3.3%
TRUSTB1MF	0.20	3.0%

1STPRIMFMF, AIBL1STIMF, ICBAGRANI1, MBL1STMF, NCCBLMF1, VAMLRBBF did not announce any cash dividend during 2017

Source: DSE, LBSL Research

Closed End Funds traded at 35% discount

Chart : Price to NAV Ratio of Closed End Mutual Funds



Source: DSE, LBSL Research

Table : Analysis of Top Five Discounted Mutual Funds

Top 5 Discounted	Price/Nav Dec'17	Portfolio Return	Asset Manager
FBFIF	0.47	22.2%	RACE
IFIC1STMF	0.51	25.8%	RACE
POPULAR1MF	0.52	26.7%	RACE
ABB1STMF	0.52	26.1%	RACE
1JANATAMF	0.53	24.5%	RACE

Source: DSE, LBSL Research

- Among the 36 closed end funds, only one fund were trading at a premium and all other funds were trading at discount. The industry's current price to NAV ratio stands at 0.65 which means the closed end funds of Bangladesh is being traded at 35% discount to its NAV. So, the industry exhibits undervaluation relative to its asset value which is attractive for the value investors. The top five most discounted funds in this industry are trading on an average 49% discount to their NAV.
- The top five discounted funds relative to their NAV had under-performed the benchmark index in terms of return. Of the top five most discounted funds, POPULAR1MF exhibited the highest portfolio return (26.7%) with a price to NAV ratio of 0.52.
- Among the AMCs, RACE's Price to NAV is poor regardless of being the highest dividend distributer of the year.

REGULATORY CHANGES 2017

Regulatory Changes

Changes in eligibility criteria for raising fund from capital market

Under the fixed price method, listing companies would require net profit after tax and positive net operating cash flow in the immediate preceding one year instead of the net profit and positive cash flow in the immediate preceding three years. Profit and cash flow requirements for companies listing under book building process have been left unchanged. There have also been changes in paid-up capital and IPO offer size requirements for potential listings.

For companies listing under fixed price method, offer size will have to be at least an amount equivalent to 10% (ten percent) of its paid-up capital (including intended offer) or BDT 150 million at par value, whichever is higher with pre-IPO paid up capital of BDT 150 million. For companies listing under book building method, offer size will have to be BDT 500 million along with pre-IPO paid-up capital of BDT 300 million.

Banking Companies (Amendment) Act-2017

Major changes to the Bank Company Act 1991 has been approved by the cabinet committee although they have not yet been formally made into law. Two major amendments of the act deal with directors' tenure and number of directors allowed from same family. Firstly, up to four members of a family may be appointed as board of directors for a bank, while the law currently permits only two members from one family. Secondly, the tenure of the board of directors of a private bank has been extended from six years to nine years. Also, elected chairman, directors and the managing director of a private bank will require the consent of Bangladesh Bank prior to assuming office. In the current law they have to seek permission from Bangladesh Bank before participating in the election.

Trading facility on negative equity accounts extended till 2018

Curently, brokerage houses enjoys the suppression of a provision that bars share transaction of the portfolios suffering from negative equity problem. The facility has been extended till December 2018. The brokerage houses with margin loan exposures will have to submit work plan on quarterly basis (within one week after the completion of each quarter) to handle negative equity accounts and to ensure compliance with the Margin Rule, 1999 by December 31, 2018. The stock bourses will also have to submit a consolidated summary statement on the brokerage houses' work plan and on the quarterly progress report within two weeks after getting reports from the stockbrokers.

Cap decreased for Eligible Investors in bidding under book building method

Eligible investors would be allowed to offer highest 2% of a company's total instead of existing provision that allows an entity to offer highest 10%. The rule change has been implemented to curb syndication of IPO cut-off price under book-building method as previously only 10 bids of eligible institutional investors could exhaust full offer size of an entity.

Changes in Market makers' capital requirements

The minimum capital requirement for becoming a market maker has been lowered to BDT 100 million from BDT 500 million. A market marker with a paid-up capital only BDT 100 million can tengange in market making for only one listed securities. An entity with BDT 500 million capital would be allowed to act as market marker for three authorized securities. An entity would be allowed to be market maker for highest five authorized securities at a time.

A market maker has also been allowed to make highest 20% short selling of its total sales on a particular securities in a day. For short selling, the sale prices cannot be less than the best current asking price on the exchange.

Regulations for bond and debenture investment tightened

Bangladesh Bank lowered the investment limit in a single company's bond or debenture by half, in a move to reduce the banks' risky investments. The reduced limit of investment is 5% against current 10% from the banks' total amount of paid-up capital, share premium, statutory reserves and retained earnings. Also, Bangladesh Securities and Exchange Commission will have to approve the bond or debenture investment. The sub-debt instruments of banks and companies will not be counted in the 5% limit.

Stricter requirements introduced for changing IPO/right share proceeds utilization plan

Instead of getting approval from the company's sponsors/directors, a company has to gain approval from the majority shareholders (51% or more) before changing the previously disclosed plan of IPO or, right shares proceed utilization plan. After gaining majority shareholder approval, companies will have to take approval from the Bangladesh Securities and Exchange Commission. The company will also have to publish the decision of changing use of proceeds as price sensitive information with detailed description and reasons for such decision.

Restrictions lifted for Eligible Investors holding Closed-end Mutual Fund shares

While floating a mutual fund, none of the institutional investors were allowed to hold more than 10 per cent stake of a mutual fund from the allocated shares for the eligible investors. Under the latest decision, the regulator would not impose any such condition that would limit institutional investors' holding of securities in a mutual fund, meaning an institutional investor would get chance to hold entire securities of a mutual fund which would be allocated for all the eligible investors.

Regulatory Changes

Guideline Issued for Agent Banking

Bangladesh Bank (BB) issued a new guideline titled “Prudential Guidelines for Agent Banking Operation in Bangladesh”. Banks intending to start agent banking operation shall conduct a prior study and shall apply for approval to Banking Regulation and Policy Department (BRPD), Bangladesh Bank. Banks will have to outline activities which can be carried out by an agent as well as provide a framework for offering branchless banking services and serve as a set of minimum standards of data and network security, customer protection and risk management to be adhered to the branchless banking services. Also, banks having license for Islamic Shariah based banking services will be allowed to provide Islamic Shariah based banking services through their agent network.

Central bank sets service charges for CMSME loans

The central bank issued a circular to all banks asking them not to impose any early settlement fees on the clients’ cottage, micro, small and medium enterprise (CMSME) sector. Bangladesh Bank also set a BDT 200 limit for the loan application fee. The banks will have to impose documentation fee, CIB charge, legal and valuation fee, and stamp charge on the clients in line with their (banks) actual spending. The banks will not be allowed to impose any other charges on the CMSME entrepreneurs.

Credit card, consumer loan limits increased

Bangladesh Bank has doubled the credit card limit and extended the personal loan ceiling. Banks can now disburse up to BDT 1 million, up from BDT 500,000, in loans against unsecured limits on credit card. Banks will be allowed to disburse up to BDT 2.5 million in loans under credit card schemes, provided the amount in excess of BDT 1 million is secured against liquid securities.

Banks can give up to BDT 500,000, up from the previous BDT 300,000 in loans without any securities. Against liquid securities, the ceiling for personal loans, including those for purchasing consumer durables has been increased to BDT 2 million from BDT 1 million.

Credit Card interest rate decreased

The central bank has directed commercial banks not to charge more than 5 percent on top of the highest interest rate of a consumer loan for credit card use. It’s estimated that on average interest rate for credit cards would come down to around 20 percent as consequence of the new regulation compared to 30 percent plus figure previously.

Provisioning requirement decreased for credit card loans, short term agricultural and micro credit

The banks will now need to maintain 2 percent general provisioning against all unclassified credit card loans under consumer financing, down from 5 percent previously. Also, short term agricultural and micro credit loans will now require 1 percent provisions compared to the 2.5 percent requirements beforehand.

Deadline extended for bourses to find strategic investors

Bangladesh Securities and Exchange Commission has extended time for the two stock exchanges till March 2018 to find strategic investors as the bourses could not pick such investors within the initially established timeframe of December 2017.

MNC fund-raising regulations relaxed

Foreign companies operating in Bangladesh would be allowed to collect long-term fund from local banks, corporate groups, non-bank financial institutions and individuals by issuing taka bond without taking prior approval from the central bank. Previously, taking prior approval from central bank was mandatory before collecting long-term financing.

CAPITAL MARKET OUTLOOK 2018

Economic Outlook

- Bangladesh achieved the highest GDP growth rate in the South Asian region in 2017, and one of the highest GDP growth rates among major economies in the world. Bangladesh achieved GDP growth rate of 7.28% for FY17, beating the target of 7.2%. Average GDP growth rate for the past 10 years now stands at 6.26%. The government has set a GDP growth target of 7.40% for the 2018 fiscal year, which is achievable given the stable political climate, investments in power and transport infrastructure and the high private sector credit growth rates. Given current trends, GDP growth is likely to cross 8% in a few years.

- Inflation was kept under control until the end of 2016, reaching a low of 5.04% in December, before massive floods caused a loss of the import Boro rice crop in the fertile northern regions. This caused food inflation to spike up sharply from the start of 2017, which was countered by the government repealing import duties on rice and undertaking efforts to import rice from abroad. These steps managed to stem the spike in inflation, stabilizing it around the 6% level. The inflation level is still higher than the MPS target of 5.5%. There is a likelihood of oil prices rising in the international market due to strong global economic growth, and this could lead to higher non-food inflation. However, once subsequent rice crops are harvested, food inflation is expected to come back down.

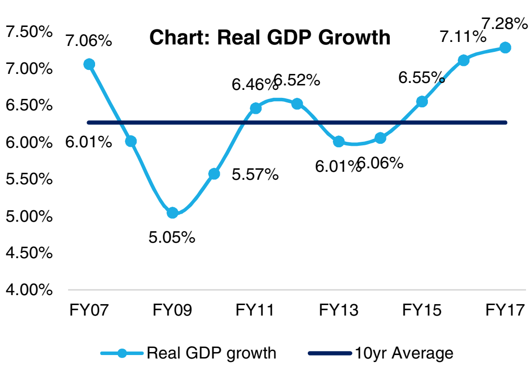
- We project export growth to pick up from the current level of 1.8%. Export growth suffered due to a number of reasons, including work stoppages due to factory relocation and remediation work in textile factories after the Rana plaza disaster. Since the remediation work is almost over, and the BDT has depreciated against the USD, the time is ripe for a reversal of the declining export trend. Remittances continued the declining trend since 2015 fiscal year, declined 14% in FY17 due to a combination of poor economic conditions in the Middle East and usage of informal channels (*hundi*) by workers to send back remittances due to stringent AML/CFT compliance by financial institutions. New overseas employment, however, has continued to grow, with the 2017 growth standing at 10% over the previous fiscal year. The increased number of overseas workers, combined with a possible turnaround in oil prices could lead to remittances bouncing back.

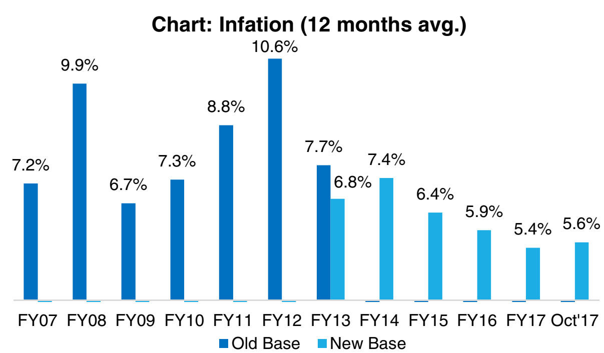
- The current account balance went into deficit in FY17, finishing at a level of -1.48 bn USD against ta surplus of 3.7 bn USD in FY16. The current account deficit was a result of strong growth of imports coupled with a very weak growth in exports and a continuing slide in remittances. Going forward, we expect export growth to pick up and current account deficit to start to reverse direction.

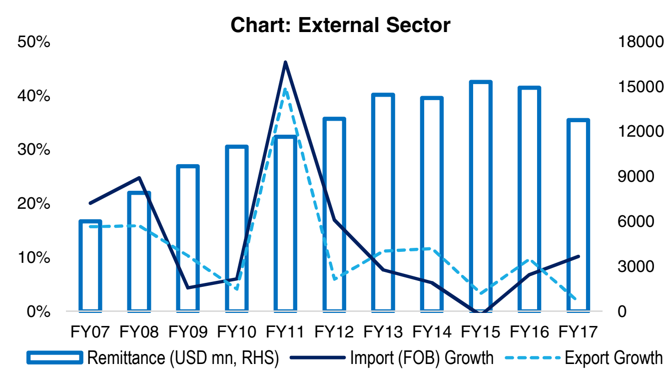
- The forex reserves hit a record 33.5 bn USD at the end of FY17. This is enough to meet 8.95 months of import bills. The current account deficit will pose a challenge in further growth of the foreign exchange reserve, since Bangladesh Bank will have to defend the BDT exchange rate using its reserves to try to stem its depreciation. We project that the foreign exchange reserves shall decline until the current account deficit is reversed. Due to the record current account deficit, we expect the BDT to continue to depreciate until such a time as exports pick up and the current account deficit stabilizes. The depreciation of the BDT is expected to spur export growth.

- FDI inflows reached a record level of USD 2.2 bn in 2016. A third line of credit worth USD 4.5 bn was signed with India, following two earlier lines worth USD 1 bn and 2 bn. Bangladesh is also planning to increase power imports from 660MW to 1,500MW. Deals worth USD 24.5 bn were signed with China in 2017 during the visit of the Chinese PM Xi Jinping. Along with a stable political outlook, these developments are expected to usher in a new era in FDI inflows in Bangladesh.

- Huge public spending on infrastructure along with record levels of private sector credit growth, coupled with increased inflation is likely to cause interest rates to stop their declining trend and consolidate before possibly reversing direction.

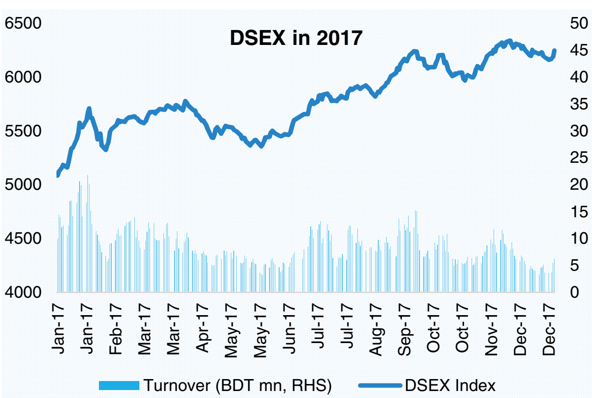


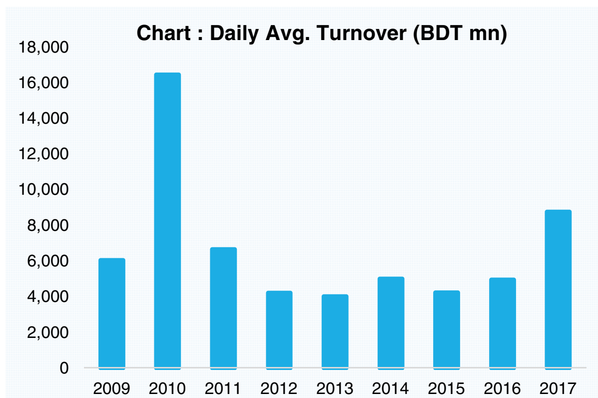


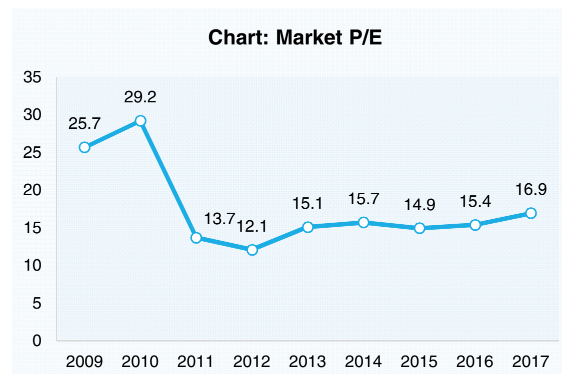


Capital Market Outlook

- Bangladesh Stock Market Passed a stellar 2017. The index rally that started in November 2016 has lasted more or less twelve months with a few peaks and troughs in the middle, overall moving in the anticipated upward trajectory. A year with a strong index return was overdue tor the Bangladeshi equities as the broad index return had been disappointing before this year, despite decent profit growth particularly from the large-cap stocks. The rally has been primarily powered by financial stocks, banks in particular. A multitude of factors have contributed in the sustained investor interest in the financial stocks: undervalued status in the earlier phases of the rally, strong private sector credit growth and investment income delivering handsome profit growths, Bank company act's four directors from same family (in place of two) amendment causing elevated interest from potential directors and a few local business groups taking interest in bank ownership. Selective large-cap stocks from non-financial sectors also gave healthy price returns as the overall multiple levels of the market underwent some upward revisions and a lot of gains made in the financial stocks were stored in to these dependable, non-cyclic stocks.
- The rally has played out in two major phases: the carryover from last year which eventually saw some correction and consolidation around ~5,300-5,400 levels and the sustained rally beginning in late June and lasting till late September taking the index to ~6200 levels. The year closed with index at ~6,250 levels and 24% annual index return. Average turnover for the year was BDT 8.76 billion (~USD 106 million). The expectation for 2018 is moderate index return, with manufacturing stocks like pharma and FMCG coming to the forefront. Valuation wise banks are no longer massively undervalued, with trailing P/E of 10.26x and P/B of 1.40x. We expect stronger performance from the banks which have made strides in terms of asset quality and ensuring good governance.
- Overall interest rates have been on a downtrend since the 4th Quarter of 2012 and by the mid 2017, rates have come down to historical low levels. The weighted average bank deposit rate as of Jun'16 was 4.84%, which is well below inflation level. Banks' lending rates have come down and persisted in the single digit. Call money rates declined to only 3.32% in Dec'17. Rates do seem to have reached the bottom with deposit rates seeing a small increase and rising to 4.89% in October'17. Healthy private sector credit growth has pushed the Advance-to-Deposits ratio of some banks close to regulatory threshold and overall demand for funds in the financial system appears to be growing. Consequently. both borrowing and lending rates may see some upward revision, but overall low interest climate is expected to persist with changes coming in small increments. We think the possibility of fresh fund flow into the capital market from the institutional investors is likely to continue in 2018. A few banks are close to their limits in terms of capital market exposure but most have room to inject new funds and overall balance sheet growth of the sector means a naturally increasing celling for capital market exposure.
- Private credit growth has picked up which is a boon for the banks and NBFIs but more importantly, it's a prerequisite for sustainable economic growth. The Bangladeshis' income level has been rising steadily. Companies making and selling consumer goods have been benefiting from the demographic dividend and it's expected to continue in 2017. The commodity upcycle in the global market, coupled with BDT devaluation against USD have put pressure import reliant, highly commoditized businesses like steel and cement. BDT stabilizing at a higher rate would decrease the pressure on these companies' margins. Also, the new currency situation would also be conducive to export oriented industries like RMG and textile.
- Bangladesh stock market has been getting more and more attention from international investors who are looking for lucrative investment opportunities in the frontier markets. In 201, total foreign turnover was USD 1,396.05 mn against USD 1,114.21 mn in 2016 recording 25.3% growth YoY. Our resilient economic growth, a good 2017, sustained healthy return from select large-cap stocks, and historically stable currency will attract increased foreign portfolio investment (FPI) in the coming years. We are expecting that, foreign involvement in Bangladesh equities will remain significant, with sizable presence in large-cap, blue chip stocks
- Even after a year with 24% index return, Bangladesh stock market still offers quite attractive valuations with trailing P/E multiple of 16.92x and P/B multiple of 2.46x. Cash dividend yield at the end of 2017 was 3.06%. Moreover, we are expecting corporate profitability in major sectors like Pharma, Telco, Food & Allied, Bank, NBFI Fuel & Power, etc., which occupy ~80% of total market capitalization. So, even if the market provides above average returns in the next 2-3 years horizon, the valuation level is unlikely to deviate to wildly from current levels.







**2016 number is year-end calculated P/E*

Industry Outlook

Banks

Bank is the integral part of our financial system. With 57 scheduled banks in the country, majority of our financial activities are carried out through banks. Still our bank penetration rate is very low compared to the peers, which indicates huge potential for future growth. Bangladesh in one of the fastest growing economies in the world with last 5 years' average real GDP growth of 6.59%. This growth momentum is expected to continue for the next decade. This kind of sustained growth must be backed by continuous investments. During 2011-2016, loans and advances of the listed banks grew at 15.3% CAGR. During FY'16, loans and advances grew by 17.1% YoY against private sector credit growth of 15.7% YoY during the same period. Due to political instability, a depressed investment scenario was present in the economy for the last few years. As a result, huge amount of excess liquidity accumulated in the banking system (BDT 922 bn as of Sep'17). Market interest rates have fallen to very low level and are expected to remain low in the coming years. The inflation level has also come down within a fairly comfortable range. This is a very investment friendly situation. After 3 subdued years, private credit growth picked up again in 2016. We can safely expect private credit growth to hover around 15% level during the next decade. As the biggest source of financing, banks will capitalize on this growth potential. Profitability of the sector has been low for the past three years. However, in 2016, profitability in the sector has shown some growth. ROE of listed banks in 2016 was 12.68% which was 10.92% in 2015. The major reason for such improvement is the growth in stock market. Capital market has passed a year of tremendous growth in 2017, which is expected to improve Bank's profitability even further for FY'17. Also, increasing popularity in MFS and agent banking is also going to play a key role in profitability growth of this sector.

The low interest rates are also expected to help in achieving higher growth and better asset quality. Once the NPL problem is sorted out, the bank sector will surely get back to its feet. 30 of the 57 banks are listed in the stock exchange. Valuation wise banks are no longer massively undervalued, with trailing P/E of 10.26x and P/B of 1.40x. We believe there is still lucrative return potential in most stocks in this sector in 2018. We expect stronger performance from the banks which are at a comparatively better position in terms of asset quality as well as core business activities.

NBFI

Non-Banking Financial Institutions (NBFIs) are playing a crucial role by providing additional financial services that cannot be always provided by the banks. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of customers. NBFIs also play an important role in the capital market as well as in real estate sector of Bangladesh. NBFIs in Bangladesh usually comes up with special products that cannot be always provided by banks. Their agility in providing support and specialization in specific business arenas allows them to reinforce business growth. However, due to recent economic downturn and array of new banks driving in to the economy, NBFIs presently facing stiff competition. Average borrowing rate of the NBFIs stood at 8.33% (Aug-17) while lending rate 11.6% (Aug-17). The spread narrowed to 3.26% (Aug-17) which was 3.99% just a year ago. Average spread of the banking industry during the period stood at 4.53%. Banks had a key advantage over the NBFIs due to their access to low cost funding. Profitability of listed NBFIs depressed during the year due to tighter money market scenario. ROA & ROE of listed NBFIs was down to 0.98% & 6.7% respectively (Sep-17) from 1.2% & 8.2% (Dec-16). Net profit margin of the listed NBFIs stood at 15.3% in first nine months of 2017 as against 16.7% in 2016 & 25.5% in 2012. However, like the banking industry NBFIs are also burdened with bad loans which is deteriorating profitability of the industry to a greater extent. As on 2016 NPL (%) of the NBFI industry stood at 9% which was 8.9% in 2015 & 5.3% in 2014. Though the prime concern regards to asset quality was mainly attributable to three listed NBFIs, the industry was subdued with a substantial classified loan. The better part is private sector credit growth scenario is improving which might improvise NBFIs to expand their loan basket more. However, surge in the capital market contributed heavily in the total income for the NBFIs in 2017. NBFIs invested 136% of their total equity as on Sep-17. Approximately 31% of their (listed NBFIs) total income was generated from capital market operations (Sep-17). The key index DSEX manifested a 22.8% YTD return in 2017. Any major plunge in the capital market might drive down the profitability of the NBFIs substantially. Despite the recent concern regarding few NBFIs asset quality and head to head rivalry with banks, NBFIs with sound asset quality & better corporate governance practice substantiates a prospective investment destination.

Telecommunication

Cellular Telephone Service industry contains four players currently: Grameenphone, Robi Axiata, Banglalink and the state-owned Teletalk. The total revenue size in 2017 was approximately BDT 220 bn (USD 2.7bn). Currently, there is 141.68mn subscribers with 86.0% voice penetration and 45.1% data penetration according to BTRC. Mobile data subscribers are increasing exponentially due to massive increase in use of mobile internet at the retail level. The number of data subscribers in Bangladesh increased by 44.5% since the end of 2015. Introduction of 3G internet services back in 2012 contributed significantly in the increasing usage and decreasing unit costs of mobile internet services. 4G spectrum allocation process is close to completion. It has been declared that 4G spectrums will be handed over within February, 2018. Data revenue has only started to come to fore as a significant revenue source for the local telco operators. Even in 2013, only~2% of telcos' total service revenues came from data revenues. In 2016, the contribution was up to 12.5%. Although data revenue is seeing rapid growth for telcos, there is still much room to grow. Compared to peer countries, data revenue's contribution to overall service revenue is at the lowest levels compared to other Asian countries. In Bangladesh, the contribution is ~15% whereas more developed economies like Thailand and Malaysia sees 45-50% contribution from data revenue. In 2017, Robi and Airtel merger was finalized. Airtel was the fourth largest player in the segment. The Merger was the largest in the country's history. Citycell, the first cellular telephone service provider in the country's history, went bankrupt this year.

2017 saw Grameenphone pass an outstanding year in the capital market, yielding 65% price return. The movement was backed up by strong increase in profitability powered by sharp increases in data revenue and healthier subscriber growth. 4G rollout will be an important catalyst in ensuring growth of data revenue contribution. The second largest player, Robi had begun the listing process but their merger has ceased that process. The company would require two consecutive years of profits before listing so no progress in that regard is expected in 2018. The business outlook for the mobile telecom service providers remain positive over the next two to three years.

Industry Outlooks

Pharmaceuticals

Pharmaceutical industry is one of the fastest growing manufacturing sectors in Bangladesh with an annual average growth rate consistently in the high double digits. As of June 2017, the Bangladeshi pharma market size stands at BDT 187.56bn (USD 2.28bn). The industry growth is largely derived from the growing local demand. Increasing health consciousness among the people, more investment in healthcare infrastructures, shifting disease profile to non-communicable, chronic diseases and positive demographic changes are the major facilitators for the increasing demand in this industry. Over the last ten years (2006-2016), the industry has grown at CAGR of 16.5%. Despite experiencing significant growth in the recent past, there is certainly room to grow still. Bangladesh pharmaceutical industry is still less penetrated as the healthcare expenditure consists only 3.7% of GDP (in 2013), whereas world average is 8.6%. Even the population size and enhancing social indicators are cueing that the future growth of the industry will continue at reasonably higher pace. Between FY06 and FY16, the nominal GDP grew at a 13.6% CAGR. The local pharma industry grew at a 13.5% CAGR between 2005 and 2015, fully capturing the economic growth. we expect pharma industry growth will outpace economic growth over the short to medium term and industry will reach ~BDT 389bn in 2022, with a 14.0% CAGR.

Pharmaceuticals passed a significant year in 2017, both in the capital market and in operational terms. Two more USFDA drug approvals were received. Exports began to more than ten new market, including Canada. Exports in FY17 was BDT 89.17mn, showing 8.6% YOY growth. Although lower than previsou year, the growth number is still formidable as overall export growth was only 1.7%. In terms of profitability, upwards movement in oil prices and devaluation of BDT against USD could potentially put some pressure on margins. Established pharma players enjoy higher than average pricing power, which is likely to offset increases in cost. Historically, margins have not slumped during adverse commodity or, currency situations and we do not expect margins taking any significant hit during 2018. Robust industry demand and high pricing power underpins our strongly positive views on the sector. Large pharma manufacturers have displayed strong growth in both revenue and profitability in 2017, yet the price return was not seen amongst all the large-cap manufacturers. As a result, valuations of several large cap companies have reached attractive levels compared to historical trend and overall market valuation levels.

Consumer Goods

Fast Moving Consumer Goods (FMCG) industry of Bangladesh replicates its own characteristics – 'fast moving' in terms of growth. According to AC Nielsen data, the annual size of Bangladesh FMCG industry is estimated to be at BDT 243 bn in 2016. Bangladesh has a growing middle and affluent class. Middle and affluent class population of Bangladesh is increasing rapidly by an average 10.5% annually. FMCG sector has high penetration in urban areas due to high spending propensity of the residents. In last 5 years, population growth rate of the country hovered around 1.2% whereas urban population growth rate was around 3.5%. The urban population growth rate is higher than that of India (2.4%), Myanmar (2.5%), China (2.8%), Vietnam (3.1%) and Pakistan (3.3%). In addition to this, by the end of 2016, around 61.1% of the population are estimated to be in the age range of 15 to 64, which is the working age group of the population, a sign that the income generation in the economy will be boosted in the coming years. Moreover, with the development of rural areas, rural population is also expected to have greater purchasing power. As of 2017, the annual per capita income stands at USD 1610, which was $1,466 in the last fiscal year, and has grown at 10.4% on average over the last ten years in USD terms. The rising income levels of the nation's population is another sign of the growing purchasing power of the country's large population

A closer look at important consumer goods segments listed in the capital market reveals that segment wise outlook is quite in line with FMCG outlook. For biscuit industry, the branded biscuit industry is growing at 8 to 9% annually. Annual size of this industry in 2017 is estimated at BDT 39 bn which grew 8.3% from last year with an estimated annual production of ~400,000 MT products. We expect the industry to grow at 12-15% in next 5 years.Focusing on cigarettes, low end tobacco products are losing market shares to branded cigarettes due to government pricing policies and continued migration from bidi and gul. The cigarette industry had marginal volume growth last year as the consumers' preference are moving from bidi to cigarette while the whole tobacco industry is facing a decline. This growth is being driven by the low segment cigarettes owing to increasing purchasing power, suitable demographics and government's policies against low end tobacco products. Proceeding to the growing sector of locally produced or assembled consumer electronics, a significant consumption shift towards locally produced or assembled electronic goods has become evident in Bangladesh. With the rising income level, the standard of living is leveling up causing purchases of appliances that offer more convenience to life is on the rise as well. Moreover, Bangladesh's Household final expenditure, an indication of households' extent of consumption was 69.1% of its GDP in 2016, whereas it is 59.4% in India, 80.1% in Pakistan, 64.4% in Vietnam, 55.0% in Malaysia and around 58.03% in the overall world. Due to the supply of cheaper yet quality alternative products, the demand of locally produced or assembled consumer electronics and home appliances has been increasing recently in our country.

Construction Materials

Infrastructure spending by the govt. has driven volumes even as the real estate market has remained stagnant. However, the construction materials industry is unlikely to see buoyancy in demand unless real estate makes an unexpected recovery. This will be especially significant as 2018 will see a national election and private sector construction is likely to be deferred from the resulting uncertainty. Thus the outlook for MS Electrodes remains positive but less so than 2017.

The decorative paint industry has grown between 8-10% in the last five years and current market size is estimated to be BDT 25bn. As the industry is reliant on petroleum derivatives as raw materials, margins are likely to reduce in the upcoming year with fuel prices surging in the international market. Meanwhile, rising per capita incomes and changing lifestyles will contribute to the growth in volume of decorative paints.

Meanwhile the ceramics industry has seen increased scope for optimism with hopes for a dispersion of its fuel uncertainties. Local ceramic manufacturers were faced by an acute gas crisis and increased competition from Chinese products leading to difficult times. With the national strategy focusing on diverting gas to manufacturing industries, the crisis is expected to recede while a reduction in duties on imported raw materials in Budget FY2017-18 will increase competitiveness of domestic products. Budgetary changes will also benefit local aluminum manufacturers with increased duties set on imported aluminum bars and fittings.

Industry Outlook

Fuel Distribution

Bangladesh Petroleum Corporation (BPC), a govt. agency regulates fuel imports in the country. BPC imports crude oil, refined oil (kerosene, diesel, petrol, and octane) and furnace oil. The exceptions to BPC's monopoly on fuel imports is market for lubricants and the imported furnace oil for private sector power plants. 2.90mn tons of fuel was imported through BPC in the first half of 2017, a sharp rise from 2.42mn tones during the same period of the last year. Traditionally, much of the country's required fuel is imported in the first half with a rare exception seen in 2016. As a result, the import figures at the end of the year are only expected to be slightly higher than those for 2016. With the govt. promoting LPG as primary fuel for households and with LNG imports expected to start in 2019, the market for traditional fuels will only continue to grow slightly.

The fuel imported by BPC is distributed through three companies with majority state ownership- Padma, Meghna & Jamuna which receive distribution commission on the volume of oil sold. The companies make fixed deposits in banks from their collection of receipts with interest income providing a major source of revenue. As private sector credit growth in the country surged past target levels and with tighter inflation targets in 2018, deposit rates are likely to increase, thereby increasing the revenue of these companies.

Electricity Generation

The power sector is expected to continue its robust growth in 2018 led by a significant number of private sector power plants set to be implemented during the year. As of September 2017, the country had a total installed power generation capacity of 13,621MW, an increase of 1,256MW from the beginning of the year. Long term outlook also remains positive. Increased access to electricity among unreached population, higher power consumption led by rising per capita income and increasing industrialization means that demand for power will continue to rise sharply. The Power System Master Plan (PSMP) 2016 estimates that the country's power demand will reach 52,000MW by 2041 and determines that approximately 57,000MW power needs to be generated. The electricity generation capacity has increased at a CAGR of 12.7% between 2010 and September 2017, a much accelerated rate from previous periods. While private sector involvement was a vital factor in Bangladesh's surge in power generation, large govt. projects are also underway to reach the power generation goals of 2041. The fuel composition of this sector is also likely to see dramatic changes with increased focus on coal and imported LNG as domestic gas reserves needs to be diverted to the nation's manufacturing industries. The business model for the country's private power sector remains attractive with guaranteed capacity payments if the plants remain operational and heavy subsidies on imported furnace oil. Several private sector firms which were awarded contracts for power plants to be implemented in the upcoming year will witness steep rise in earnings.

Steel

The rise in steel demand in the country is spearheaded by heavy spending on infrastructure which contribute to roughly 40% of steel demand the country. Large steelmakers continued to add billet production capacity to improve bottom lines but their efforts were largely offset by rising scrap prices. Ability to pass on prices to consumers was largely eroded to significant overcapacity prevailing in the industry. Despite the adverse impact on margins, government spending will continue to drive volume thus providing a much needed boon to the industry. However, the real estate market which accounts for 60% of the demand for steel remains largely static. As a result, the situation for steel companies is unlikely to witness significant change in 2018 unless billet and scrap prices reduce.

Cement

Demand for cement has registered a robust CAGR of 12.67% over the last five years, significantly higher than the country's GDP growth. Large government infrastructure projects have sustained the growth in cement demand amid a slow real estate recovery. Years of consolidation has resulted in an oligopolistic market structure. Despite the presence of 34 major players in the market, the top ten companies own 81% market share. The estimated market size in 2016 is around 200 Billion BDT in terms of value and 25 million Metric Tons in terms of volume. The total installed capacity of cement production in Bangladesh is about 35 million metric tons per year and the effective capacity is around 25 million metric tons per year. Due to seasonality of the sector sales are higher in December-May. Extreme over capacity compared to demand, price hike of raw materials, heavy dependency on the import of raw material, depreciation of local currency, low remittance inflow, inadequate supply of gas and electricity and intense competition among too many makers have hit the Cement industry hard in the outgoing year.

Textile

Bangladesh RMG sector is the largest export oriented sector of Bangladesh which shares around 81.23% of the country's total export earnings as and accounts for 12.76% of GDP of this growing economy as of FY17. RMG exports is flourishing and sees growth in volume in future as the products enjoy preferential export facilities under Generalized System of Preference (GSP) and EBA scheme with EU by means of trade concessions, Trade and Investment Corporation Forum Agreement (TICFA) with US and duty free access to India, China and South Korea.

One of the major competitive advantages that Bangladesh retains in attracting foreign investments and export oriented industries is low labor costs. Though in 2013, Government of Bangladesh set the minimum wage of USD 69 per month. Adding to this, Cambodia and Vietnam, the closest competitor of Bangladesh in apparel exporting market, have decided to increase minimum wages, which will come into effect from January, 2018. So Bangladesh RMG product is expected to have competitive advantage in terms of price in international market.

Bangladesh is gaining its market share in global apparel market thanks to diversion of order from competing countries and rise in China price. China market share in US market was 36.43% in 2014 which came down to 34.60% in 2016 and 33.93% in first nine months of 2017. Whereas, Bangladesh gained 6.57% market share in US market in 2016 which was 5.91% in 2014. This potential decrease in Chinese export presents a huge opportunity for Bangladesh. During the FY18, to encourage the country's export trade, export subsidies or cash incentives have given for some export items which has become effective from 1 July 2017 to 1 June 2018. So, RMG export is expected to see strong volume growth in future.

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