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News Analysis

Can secondary market sustain four new IPOs at a time?

By M Shamsur Rahman

As many as four companies are making initial public offerings (IPOs) in quick succession. They hope to raise Tk 30.21 crore. Market operators have expressed doubts whether the market can absorb the pressure.

In just one month, when the market was showing some signs of recovery, they say, such a pressure could have a depressive impact on the secondary market.

The DSE Chairman Rakibur Rahman said the IPOs should be released carefully in phases "without disturbing the market".

"The release of so many IPOs at a time will disturb the ailing secondary market," he said

The new companies are Samata Leather, Aramit Cement, Al Arafa Islami Bank and J H Chemicals.

The Securities and Exchange Commission, in a similar manner in June last year, allowed six companies to raise Tk 31 crore from the market.

The companies were Niloy Cement, Somorita Hospital, Gem Knitwear, Uttara Finance, CMC Kamal and Rose Heaven Ball Pen. Two of the companies suffered undersubscription.

The most popular interpretation among the market operators is that this is just the usual the SEC move to display its performance by recording better figures for the outgoing fiscal year.

The regulators would however defend themselves. "We have to treat all the IPOs in a similar manner. It's not up to us to decide when the companies will come."

According to an SEC official, two of these companies had their balance sheets drawn on December 31, 1997 and, according to company law, the accounts remain valid for 180 days.

"If these were not allowed to come by June they would have had to apply again with new audited accounts," the official said.

He also said that SEC was not to blame for the delay. "Clearance from National Board of Revenue (NBR) and Bangladesh Bank (BB) for two of the companies' came late. And in one case, it was BB's requirement to go public in June this year."

Meanwhile, the SEC has been extremely cautious about shouldering responsibilities regarding disclosures by companies.

"It must be distinctly understood that in reviewing this prospectus the Commission does not take any responsibility for the financial soundness of the company, any of its projects or the issue price of its shares or for the correctness of any of the statements made or opinion expressed with regard to them; responsibility for which lies with the issuer, its directors, issue managers, valuer and/or auditor. Any representation, statement made to the contrary is a criminal offence. It is however the Commission's responsibility to ensure that full and fair disclosures are made in the prospectus on the basis of documents/papers submitted, so that the investors can make informed investment decision."

This raises the question as to what prompted the SEC not to take any responsibility at this stage. "What was SEC's role when companies offered shares with 800 per cent premium?" asks an ordinary investor. "Who fixed the issue price for the company?"

"And before giving such statements, does SEC have any controlling authority over the issuers or the managers to the issue?"

The questions have become pertinent because some merchant banks and issue managers have received licenses only recently. The non-licenced issue managing firms are allowed to handle IPOs till September 30, 1998. "By September 30, we will have sufficient number of merchant banks and only these would be allowed to deal with IPOs," according to one SEC official.

If that is true, then how can SEC avoid its responsibility for IPOs made before September 30? What if the issue managers are found to be hiding price sensitive information?

What action did the SEC take against the issuer company, its directors and issue manager when a Daily Star story in February pointed out that a key investment sensitive information was intentionally concealed while a foreign company sought to raise Tk five crore from the primary market?

Instead of punishing those responsible, the SEC was learnt to have rewarded them with a letter of intent for merchant banking operations.

If that is how SEC defines its responsibility, then how would the investors begin to feel confident in the market mechanism?

This also comes contradictorily with the senior SEC officials' recent public statements that the regulators were working towards building confidence among the investors by asking for more disclosures and that those found guilty of concealing information would be punished.

So far, the SEC has filed 17 cases against different companies and their directors. But how many of the accused have actually paid the price for playing foul with poor investors' money?

In India, the Securities and Exchange Board of India (SEBI) ensures that the disclosures are made in line with SEBI guidelines and they complete the whole process within a very short period of time.

And the SEBI takes the responsibility. "The SEBI has vetted the offer document filed with it for a limited purpose of overseeing whether the disclosures contained therein are generally adequate and one in conformity with SEBI guidelines for disclosures and investors protection for the time being in force," is how the statement is made.

In this case, the issuer and the issue managers have to take responsibility for all the disclosures failing which the issue manager (lead manager) and the sponsors face serious consequences for foul play.

But SEC is acting in the opposite direction.

Export growth 17.08 pc, Tofael tells IMF mission

Commerce and Industries Minister Tofael Ahmed Tuesday said Bangladesh is maintaining overall stability in the economic sector and its export growth is now 17.08 per cent, reports UNB.

He was talking to the visiting IMF mission at his office in the city.

The minister informed them that the growth in the industrial sector is 8.1 per cent in the '97-98 fiscal year while growth in big industries is 10.1 per cent.

He said the government further reduced the import tariff to maximum 40 per cent and withdrew non-tariff barriers and quantitative restrictions from almost all commodities.

"Although the loss in the state-owned enterprises has been reduced substantially, we are moving ahead with the privatisation programme for better governance," Tofael added.

The leader of the IMF mission Chanpen Puckahtikom thanked the government for achieving very sound progress in export, especially in ready-made garment sector.

She also appreciated the government's efforts to integrate with the international economy. A vibrant private sector and sufficient infrastructure would help supplement the integration process, she added.

Puckahtikom also inquired about the trade flow of Bangladesh with the neighbouring countries.

Welcoming the comments of the IMF mission leader, the minister said the government is ready to face the challenges of globalisation and liberalisation of trade.

He said, "We have taken steps to expand the trade links with the SAARC countries, including the revision of the SAARC Preferential Trading Arrangement."

The Commerce Minister said the government is promoting the private sector for product diversification and formulating policies regarding trade and investment in consultation with the private sector.

The IMF Resident Representative in Bangladesh Ronald Hicks was present during the meeting.

NSU students visit CSE

Star Business Report

A 35-member student delegation of the North South University (NSU) visited Chittagong Stock Exchange (CSE) on Tuesday.

Led by Fahad M Karim, the Student Coordinator of AIESEC (NSU), the team visited the bourse as part of their study-tour to various organisations in Chittagong and Cox's Bazar.

Out of 35 students eight are from AIESEC (Singapore), three from AIESEC (Japan) and the rest 24 are from the North South University.

They visited various sections including automated machine room and observed the screen-based trading. A presentation on CSE vision and activities was given to them by a senior executive.

They also had a courtesy meeting with AGM Shamsul Kamal, Chief Executive Officer (CEO) of the bourse. He told the students that the country's future capital market would be run by the educated professionals only and the students should be educated enough to take that responsibility.

A Raquib and K R Islam, teachers, School of Business of the NSU, also accompanied the students, said the CSE in a press statement.

The foundation laying ceremony of Central Sheltech hotel at Panthapath in the city recently. — Sheltech photo

Foundation stone of Central Sheltech hotel laid

Star Business Report

Former President of Metropolitan Chamber of Commerce and Industry, (MCCI), Dhaka and Chairman of Square Group, Samson H Chowdhury, laid the foundation stone of a Five Star Hotel — Central Sheltech — at Panthapath in the city recently.

The hotel will be built at a cost of Tk 200 crore.

Sheltech Chairman Tapon Chowdhury, Managing Director Dr Tawfique M Seraj, Directors Kutub Uddin Ahmed, Samuel S Chowdhury, S M Sagir and former director general of River Training Institute Seraj Uddin were present at the foundation laying ceremony, said Sheltech in a press statement.

Earlier the multi-storied luxurious hotel project was jointly inaugurated by Finance Minister S A M S Kibria and Industries and Commerce Minister Tofael Ahmed.

Buyers' demand selective at Ctg tea auction

CHITTAGONG, July 1 : The weekly tea sale here yesterday was marked with selective demand from buyers that lowered the market sharply, reports UNB.

Export enquiry was restricted as Afghanistan stayed away from the sale, market sources said.

There was very limited support from Pakistan, Russia and CIS. Poland lent a fair support for bold and large brokens which did not decline as sharply as other grades.

Internal buyers were less active as the major operator did not buy this week.

CTC Leaf : 17,707 chests, 8,969 gunny sacks, (205 chests, old season) on offer met with a restricted demand with heavy withdrawals.

CTC Brokens : Bold brokens were a good market and sold between Tk 64 and Tk 66 whilst larger brokens also met with a good demand but were progressively easier and generally sold between Tk 63 and Tk 65.50.

All other brokens were much easier and declined initially by Tk 5 to Tk 7 but with the progress of the sale by up to Tk 10 and more with substantial withdrawals.

CTC Fannings : Met with a very restricted demand with heavy withdrawals and where sold declined by Tk 8 to Tk 10 except for a few popular lines which were easier by Tk 5 to Tk 7.

CTC Dust: 2,155 chests, 2,616 gunny sacks, (55 chests old season) on offer met with a very weak demand with heavy withdrawals. Good liquoring types eased by Tk 3 to Tk 5 whilst others where sold shed up to Tk 10 per kg.

CDs especially cleaner types met with some competition and sold between Tk 85 and Tk 95 per kg.

Emirates moves to $20b HK airport

Emirates' fights in Hong Kong will operate from the glittering, brand new US$20 billion Chek Lap Kok International Airport in Hong Kong from July 6, says a press release.

On that day, the first Emirates flight to arrive at Chek Lap Kok will be EK089, coming in from Manila at approximately 0800 hrs (HK time). This flight continues onwards to Dubai.

Japan to enact residential, income tax cuts in 1999

TOKYO, July 1: Japan's ruling Liberal Democratic Party has decided to enact permanent cuts in residential and income taxes in 1999 to boost the country's sluggish economy, a newspaper reported on Wednesday, reports AP.

Prime Minister Ryutaro Hashimoto may announce the cuts ahead of elections to the upper house of Parliament on July 12, reported the Yomiuri, Japan's largest daily.

The cuts, which would replace a special tax cut of two trillion yen (14.5 billion dollars) now planned to take effect in 1999, will be between two trillion yen and four trillion yen (29 billion dollars) in scale, the Yomiuri reported.

Chief government spokesman Kanezo Muraoka said he wasn't aware of any decision on tax cuts, but that the government would debate the issue after elections for Parliament's upper house on July 12, the Nikkei News Service said.

'SAARC makes great progress in agri sector'

KATHMANDU, July 1: Great progress has been made in the field of agriculture in the South Asian Association for Regional Cooperation (SAARC) region on account of cooperation among the member countries, a SAARC official said here yesterday, reports Xinhua.

Liaquat Ali Chowdhury, director at the Kathmandu-based SAARC Secretariat, said SAARC has two technical committees separately on agriculture and rural development through which it formulates and undertakes programmes.

In the field of agriculture, a priority area of cooperation among the member countries which are basically agricultural countries, the emphasis has been placed on production of food grains, cash crops, livestock and fishery as well as preservation of natural resources such as land and water which are vital for the sector, he told the agency.

He said great progress has been made in the field with food production having been increased manifold.

Though some member countries are still not self-sufficient in food due to overpopulation, the SAARC countries have avoided any major famine. "This is really a great achievement for all the SAARC countries," he added.

The South Asian food security reserve, which serves as a cushion against food shortage in the region, became operational in 1988. Though no major food crisis has hit the region since then, all the member countries have food reserves at specific locations, he said.

The director noted that there are still scopes for boosting agricultural production, so nowadays the emphasis is being placed on development of indigenous technologies and their wide dissemination.

He said that in its meeting held last October in New Delhi, the Technical Committee on Agriculture conducted a discussion on agricultural perspective for South Asia to the year 2020.

The meeting underscored the need for realisation of the full potential of science and technology for sustained growth in agricultural production in the region.

It also highlighted the importance of promoting intra-regional cooperation to raise productivity in the member countries to the world level.

In September in Dhaka, there will be a workshop on transfer of technology, to be organised by the SAARC Agricultural Information Centre, he said. The workshop, the first of its kind in the region, will focus on replicable technologies in the region and new and frontier technologies on agriculture in the world.

The SAARC region is one of the poorest in the world and the majority of its 1.2 billion population live in the rural areas.

On rural development, the concerned technical committee has accorded priorities on how to eradicate poverty from the rural areas of member countries, how to generate employment in the most cost-effective manner and how to best develop the rural infrastructure, Chowdhury said.

"Recently, more and more emphasis is being placed on making rural credit available on a wide scale to the rural poor," he said.

He said the member countries also cooperate in providing housing and skill-oriented training to them.

Under the SAARC youth and volunteers scheme, youth and volunteers are brought together in a member country where there are successful programme. In this way, they can help member countries share the experience and draw the lessons, he said.

While great progress has been made, only 10 to 20 per cent of the huge potential has been tapped by member countries for cooperation in agriculture and rural development, he said.

"SAARC is only now beginning to realise the potential of regional cooperation," he explained.

Nurul Husain Khan, Chairman, Board of Directors, EBL presiding over the 134th meeting of the Board recently. — EBL photo

Aptech Computer Education Centre opens in Ctg

Star Business Report

The Computers Limited (TCL) opened an Aptech Computer and Education Centre at the Engineers Institution building in Chittagong recently.

"Aptech's education support services are ISO 9001 certified and such world class computer education is now in Chittagong, Bangladesh," said Aptech Computer Education in a press statement.

The TCL, Aptech's business partner has been providing computer education and training in Bangladesh for nearly 14 years.

In Dhaka, Aptech already has a centre at Dhanmondi and two more at Uttara and Motijheel are due to start soon, it said.

US trade deficit with China may hit $60b

SHANGHAI, July 1: The US trade deficit with China could climb to 60 billion dollars in 1998, US Trade Representative Charlene Barshefsky said on Wednesday, reports AP.

Speaking to a US business group, Barshefsky said Beijing needed to open its markets wider to foreign goods and services if it hoped to gain entry into the World Trade Organization.

She told the Shanghai American Chamber of Commerce that China had made progress in reforming its import regime, but US exports still had a tough time penetrating the mainland market. High tariffs and other market barriers contributed to 50 billion dollar trade imbalance in 1997, and that amount is likely to swell rather than shrink this year, she said.

China claims the trade imbalance is only 16.4 billion dollars excluding among other things trade through Hong Kong, but agrees its surplus is growing.

Barshefsky downplayed the possibility of a congressional backlash against China, saying Beijing was taking steps to address the issue.

She noted China recently made new offers to open its financial services and telecommunications industries in a new proposal to join the WTO.

Another senior US trade official, speaking on condition of anonymity, said any new offer for joining the World Trade Organization will require broad liberalization of the financial sector, and not just selective approvals for foreign banking, securities and insurance firms.

EBL profit rises by 53.36 pc

Star Business Report

The net profit before tax of Eastern Bank Limited rose by 53.36 per cent in 1997 over the previous year.

The Board of Directors of the bank at its 134th meeting held recently approved the balance sheet and profit and loss account for the year ended on December 31 1997, said the bank in a press statement.

The net profit before tax of the bank stood at Taka 342 million after making sufficient provision against classified loans and advances.

During the years, total deposits and assets (excluding contingent liability) of the bank went up from Taka 7,487.00 million and Taka 7,985.00 million to Taka 9,480 million and Taka 10,189 million showing increases of 26.62 per cent and 27.60 per cent respectively.

Chittagong EPZ: A success story

*At the backdrop of global economic turmoil in the late 70's and early 80's, the government decided to establish Export Processing Zones in the country to offset the situation, **Akhtar Hamid Monsur**, a BEPZA official, recalls. Fifteen years after the first EPZ was set up, Monsur looks back with statistics*

The idea of establishing EPZs in Bangladesh gained momentum when, in September 1976, the then President of the World Bank Robert McNamara held a meeting with the late President Ziaur Rahman and explained to him the benefit of Export Processing Zones. The World Bank team led by McNamara was reviewing the question of debt servicing of loan to Bangladesh, future loans and future aid from the Bank.

In August 22, 1978, the Executive Committee of the National Economic Council (ECNEC) approved the proposal to establish the country's first Export Processing Zone in Chittagong on 630 acres of land. Two years after the approval of ECNEC, the Project Evaluation Committee (PEC) approved the Project Proposal (PP) of the Chittagong EPZ with an allocation of Tk 60.42 crore including a foreign exchange component of Tk 6.97 crore. On December 26, 1980, parliament enacted laws to create Bangladesh Export Processing Zones Authority (BEPZA), which came into being on April 15, 1981.

The Executive Committee of the National Economic Council approved the first phase of the Chittagong Export Processing Zone on June 13, 1981 with an allocation of Tk 24.89 crore. CEPZ started its journey on March 6, 1983 with the appointment of Chairman and Members of the BEPZA.

The total area of the Chittagong Export Processing Zone is 630 acres. The entire industrial area has been divided into 10 sectors. All plots are almost equal in size (2000 sq.m). Sector-1 has 64 fully developed plots with all infrastructure facilities. Sector-2 consists of 38 plots, 52 plots in sector-3, 48 in sector-4, 36 in sector-5, 26 in sector-6, in sector-7, 11 in sector-4A and 10 in sector-1A. Considering increased demand from investors, the Bangladesh Export Processing Zones Authority has decided to develop another sector. This sector-8 has 56 plots. Development work of this sector is progressing fast.

A new era dawned in the industrialization process in Bangladesh with the commissioning of the Chittagong Export Processing Zone in 1983-84.

Before detailing the Chittagong Export Processing Zone, a general idea should be given on EPZ. There are three types of Export Processing Zones in the world. These are: manufacturing type, storage type and both manufacturing and storage type. The EPZs of Bangladesh fall in the first category, manufacturing type.

The location of Chittagong EPZ has been key to its success. With its privileged location near the Bay of Bengal, CEPZ has already attracted the attention of the global manufacturers. The entrepreneurs are attaching utmost importance to the Chittagong Export Processing Zone as the optimum profit-earning base of the world.

Generally, the people of Chittagong are quite orthodox. The women folks of Chittagong seldom go out of their houses. But the establishment of Chittagong EPZ has totally changed the social structure of Chittagong. Interestingly, 66.21 per cent of the total workforce of the Chittagong EPZ are women. They proved to be highly intelligent and easy to train.

While selecting the site for CEPZ the following factors were taken care of:

a) local labour supply; b) proximity to international sea and air port; c) accessibility of the zone to the global markets; d) adequate supply of various utilities like power, water, gas and telecommunication; and e) suitable accommodation and education facilities for foreign investors and their dependents.

These factors proved very vital for the success of the CEPZ. Three types of investment are allowed in the EPZs of Bangladesh. These are: 100 per cent foreign ownership including ownership by Bangladesh nationals usually resident abroad, joint venture projects between foreign and Bangladesh entrepreneurs resident in Bangladesh and 100 per cent Bangladeshi entrepreneurs resident in Bangladesh.

In the first year (1983) of Chittagong EPZ, only one industry was sanctioned by the BEPZA. The first industry of the zone is M/s Siam's Superior Ltd of Hong Kong producing garments with a proposed investment of US $ 2.8 million. The second industry of CEPZ is M/s Delite Knitting Co Ltd also of Hong Kong. Delite Knitting is the first CEPZ enterprise to export goods.

The BEPZA has so far sanctioned 144 industries for the CEPZ. Of these, 74 are totally foreign owned, 33 are under joint venture and 37 are Bangladeshi.

In 1984, the authorities sanctioned 6 industries, 5 in the following year, another 5 the year after, 4 in 1988 and 5 in 1989. The year 1990 was the booming year for the CEPZ because in this year BEPZA sanctioned as many as 20 industries. In 1991, BEPZA sanctioned 4 industries and an equal number in the following year, 5 next year, 7 in 1993, 13 in 1994, 15 in 1995, 16 industries in 1996, 17 in 1997. In 1998, BEPZA has so far sanctioned 13 industries.

Most interesting aspect is that most of the enterprises were found prompt to start production.

Among the 144 industries sanctioned for CEPZ by the BEPZA, 82 industries are in operation with an investment of US $ 219.362 million. Another 62 industries are in different stages of implementation. With the commissioning of all the industries, the total investment the CEPZ will stand at about US$ 420 million.

A total of 16 countries have so far invested in CEPZ. These are South Korea, Japan, USA, Hong Kong, UK, Pakistan, Malaysia, Denmark, Australia, India, UAE, Thailand, Germany, China, France and Bangladesh.

South Koreans are the largest investor in CEPZ with 21 units. They have invested US$ 72.97 million. Japan is the second largest investor having 13 industries with an investment of US $ 55.12 million. The US has invested US$ 12.968 million in 9 industries followed by Hong Kong with an investment of US $ 18.579 million. Bangladesh has invested US$ 44.273 million in 15 industries.

Most of the South Korean industries are producing electronics goods, hardware, different types of bags, sportswear, tent, sleeping bag and back packs, artificial flower, zipper, garments and accessories, dyed and finished fabrics, sweater and its dyed yarn and various types of footwear.

The Japanese investments are in the fields of electrical and electronic goods like fan motor, small indicator lamp, multi led lamp, count switch, small pilot lamp, light emitting diode, automobile parts, camera lens, various sporting goods like fishing reel and golf shaft, steel chain, metal products, optical instruments' parts, aluminium ingot and cotton hand gloves.

Product-wise, the highest investment is in the garments sector. A total of US$ 58.84 million has been invested for the production of garments and its accessories, US $41.654 million for textile products, US $ 33.502 million for various sporting goods including fishing reel and golf equipment, US$ 19.206 million for leather goods, US$ 12.661 million for terry towel and US$ 11.170 million for electronics and electrical goods.

The export from Chittagong EPZ started in 1983-84 with US$ 164,000. After that, export earning increased every year. The first eleven months of the current fiscal year saw CEPZ exported goods worth US $ 404.715 million.

Since its inception in 1983-84, the Chittagong EPZ's cumulative export earnings stands at US $ 1382.869 million. Most of the goods have been exported to the US, Germany, Italy, Sweden, France, Canada, Belgium, the UK, Austria, Norway, Switzerland, Denmark, Finland, Russia, Australia, Thailand, Singapore, Hong Kong Japan, South Korea Brazil, Argentina and Egypt.

The CEPZ is the largest employer in Bangladesh since independence, starting with 624 in the commissioning year. Foreigners working in the zone enjoy equal rights similar to those of Bangladeshi nationals.

Of the total employees in CEPZ, 30,737 are female (66.21%) and 15,690 are male (33.79%). Garments sector in the zone has employed the maximum number -- 21,609 — of employees.

The success of the Chittagong Export Processing Zone gave birth to the Dhaka Export Processing Zone and three other EPZs -- one in Mongla, one in Ishurdi and the third one in Comilla (these three EPZs are at implementation stage).