

Young Entrepreneurs and Professionals Forum and The Daily Star Workshop on Investment in the Share Market Through Financial Analysis

In association with The British Council

Mr. Osama Taseer, Coordinator, YEP Forum: Welcome to this evening's workshop on "Investment in the Share Market through Financial Analysis". As the co-ordinator of the YEP Forum, it has been my privilege to give you the welcome speech on every YEP occasion and give you just a brief outline of the YEP Forum. The Young Entrepreneurs & Professionals' Forum is essentially a small group of people comprising people in the age group of 25 to 35. We have different chapters and we work out with those individual chapters; for example, we have a chapter on the law, we have chapter for the doctors, we have chapter for the engineers and this program is being sponsored by the chapter for the Finance & Banking Professionals. I will now ask Mr. Mohib Rashid, the workshop co-ordinator, to start the proceedings. Thank you.

Mr. Mohib Rashid, Workshop Coordinator: Investment in the share market through Financial Analysis. Some of you must be wondering - "Why Share Market?". When it is proved beyond doubt that share market is not the place for lay investors or general people, why are we asking people to come into the market? To clear this doubt on the very onset, let me make the point clear here. Firstly, we are not asking people to invest in the share market. We want people to know some of the technicalities and complexities built-in in the share market. We also want them to know some techniques of financial analysis that may help them making better and informed decision. Lastly, we believe that an active and efficient share market reflects the health of an economy and a developed capital market helps in better allocation of resource and industrialization. Bangladeshi entrepreneurs and business community might use the share market for raising fund for real investment more easily as it is being used in most of the developed countries. Share market affects mobilization and effective channeling of household sector's savings into productive enterprises. With all these convictions, we have arranged this workshop. We have a diverse and very learned group of speakers today with us - an academician and research scholar in the capital market Dr. Mahmood Osman Imam; a very active player in the share market right now Mr. Ahsanul Islam Titu; an entrepreneur in the financial market Mr. Yawer Sayeed; a very young but successful financial analyst Ms. Tahsina Rahman; a well-experienced capital market professional Mr. Minhaz Zia. We would share their experience in the business session. This would be followed by a question-answer session. A young expert panel is formed to sort and edit questions to be collected from the audience during the workshop. May I request Mr. Mahfuz Anam, adviser to the YEP Forum and the editor The Daily Star to say a few words.

Mr. Mahfuz Anam: It is my great pleasure to welcome you once again to the YEP Forum activity. It has been the privilege of The Daily Star to be a promoter of this forum and I am delighted to see that there are so many young participants in this workshop. Just a few common-sense words on the share market.

It is my belief that the heart of capitalist economy, the heart of market economy is the share market. This is the fundamental difference between a state-owned or a command economy vis-à-vis the market economy. It is through the share market that the health of a company in the ultimate analysis is judged by the public. It is my view again, a very generalist's view, the experts will correct me if I am wrong, that it is this fundamental link; it is the share market which links a company to the people. And through the performance of the share market, the confidence of the consumers, the confidence of the people, it is almost like an election. In the political terms the election takes place once in 5 years or 3 years, whatever is the constitutional term, but in the case share market a company is being elected everyday, every minute, through the performance of the company. Now how does the public judge the performance of the company? And that is where the financial analysis comes in. It is the most important tool of knowing how a market player will ultimately come to a conclusion. How will you decide where to put your money. On what information. This financial analysis is perhaps one of the most important tool. I think this is not the only tool but it is perhaps the key tool. And just to add one more important thing. We have had in Bangladesh a very bad experience with the share market. Suddenly, you know, we got into it, it went sky-rocketing and then it burst and most of us got beaten by the process. The reason that it happened was the 'collective ignorance' of everybody. It could only happen because we did not have the financial tool. If we did know how to analyze companies, how to make these judgements, financial analysis, then we would not have made the blunder that we did. And it was a blunder, I think, on a collective level. So, this workshop, I think, is a very important workshop. We are delighted to have such eminent panel's and I would like to express from on behalf of The Daily Star - deep sense of gratitude to all of you who have agreed to speak on this occasion. I wish you a happy learning, and as a result of happy learning, 'happy earning'.

Mahmood Osman Imam (MOI): Let me congratulate the organizers for giving me the opportunity to speak on this workshop on "Investment in share market through financial analysis" and I will focus on understanding different items of financial statements and financial ratios, the scope of equity research. The thing that we first have to focus on is what do we mean by financial statement? It is composed of 3 items - Income Statement, Balance Sheet and Cash Flow Statement.

If the firm has a Free Cash Flow positive, usually it would be better for the firm to distribute it as dividend, according to Jensen Cash Flow Hypothesis. But what is the implication if you keep a part of it or the whole of it. It will lead to sub-optimal investment decision for the firm. So, it is for the firm to decide, if they have the positive Free Cash Flow, then it should be distributed as dividend or it can be used for some other purpose, like to acquire another company, or repurchasing the shares, if it is possible there. OK, if it is negative, then we have to borrow. So, this is linked, and now I am saying Cash-Flow Statement which talks about changes in cash, the change in liquidity. This is very important. With a beginning liquidity, if firm does not have positive ending liquidity, that is, greater than zero, then the firm is not in the Financial Equilibrium. That is very important while focusing this part. Dividend payout over time - this shows the behavior of the firm, consistency of the entrepreneur over its dividend policy. This is very important because it will be taken care of by the investors in the market. If I can quote some companies which has used this by not declaring dividend it has assisted its sister concern or subsidiary. Then shareholders of that company suffers due to helping the sister concern to which he is not a member or not a shareholder.

Ahsanul Islam Titu (AIT): The stock market reflects the news and the reaction of the people to the news, as well as, their anticipation of Impending events.

Stock prices: Basically we have daily stock transactions into one part: one is some highlights where the index is going and another part is individual league table where you see the company's name, market lots, volume, day's high-lows, previous closing, net changes and also some financial performance in the newspaper. I will try to make it easy for you, to understand each column and explain what these mean. For your better understanding, I will show you the highlight of one of the national daily. The Daily Star's financial page. FV is face value of the share. When a share is issued, on the certificate the face value is written. When you trade a share in the securities market, there is a minimum lot you have to buy. Some are 5 lot, some are 50 and some are 500, depending on the face value and the time of the issue. Most of the time, now we have Tk 100 shares each with 50 market lot. It means each script's face value is Tk 5000. And some are Tk 10 scripts, the market lot is of 500. It is the same as Tk 5000 per script. Basically in Dhaka Stock Exchange and Chittagong Stock Exchange, at least you need Tk 5000 to come and join in stock market. Next is volume. As my previous speaker mentioned, volume means the number of shares transacted during the day. Then comes the daily prices. There are three prices in the league table. High price means during the trading hour that is from 10.30 to 2.30 in Dhaka Stock Exchange and 10 o'clock to 3 o'clock in Chittagong Stock Exchange, during this period of time, at any point of time which is the highest market price a share was traded. Similarly the low price is during the same period of time which is the lowest price. And the closing price is end of the day. In the next column we see net change. What it means is that yesterday's closing price and today's closing price you can compare and you can see whether there is an upward trend or a downward trend. In the next column you see Year Ended, Year Ended means the accounting period/accounting year ended on a particular day.

Earning Per Share means how much a company earned in the last 12 month, divided by total outstanding shares. P/E is price to earning ratio. It is the current price divided by the most recent 12 month's earning. Sometimes some share's P/E ratio is very high. P/E ratio high means, for example say it is 20, that means that you have to pay 20 times; you are paying 20 times for 1 Tk. earning of the company. So sometimes it may be relatively high because of the confidence of the buyer for the future earning. You have to understand one thing very clearly, you do not buy last year's earning. When you buy a share, you buy the future earning of the share. Because when a company declare dividend, it is paid to the previous owner of the share. So when you buy a share you expect the company to perform like that of last year or better. When you buy a high price-earning ratio. Whereas sometimes a low P/E means

the investor has low confidence in the company's earning performance. May be the earning was good previous year. For example, this year Apex Tannery is not paying any dividend. So, last year before the declaration of the dividend, the price was 250 plus nearly 300. After that the price was gradually falling. Now the price is about 160 to 180. What it means is that during this course of time people specially the investor has a fair understanding that the leather sector or the Apex Tannery is not performing in the well next year. So it is not always that low P/E means it is a great opportunity, so go and grab it and buy it. The next item, is Dividend Per Share. What is the last year's dividend the company declared. So this is a historical figure - the last declared dividend.

Then comes the Dividend Yield. It means what really you are getting in terms of the market price. When the dividend is declared, it is done based on face value.

Then Net Asset Value per share, means company has asset and liability, if you minus the liability from the asset, you get net asset and if you divide this net asset with all the outstanding shares, you get Net Asset Value per share. If Net Asset Value per share of the company is 125, and the face value is 100, what it means is that it is more than the face value. The price and net value. How much an investor is ready to pay for Tk 1 asset in that company.

Now we will come to the index of the Dhaka Stock Exchange. The index of the Dhaka Stock Exchange is calculated by a formula which is given by IFC. It is an internationally recognized formula to calculate the index.

Because you have only 235 companies in the stock exchange. Whatever things are going on, it does not reflect the real situation of the economy or business or political performance. The last thing is you will have a lot of information from us, you will have a lot of information from the panel, but the bottom line is how investors react to the news.

And the final comment, the market can do anything. It is not that a company is declaring 25% dividend and the price has to go up or it is not that the company does not declare any dividend and the price has to go down. Because it is the investor who decides what will be the price and it depends on people's fear and greed. That is the important factor in deciding the price in any capital market. Because fear makes people scare, so they sell and get out, while greed makes them more hungry for the money, and keep buying for a better opportunity.

Yawer Sayeed (YS): The workshop title is "Investment in share market through Financial Analysis" and my specific topic is "Impact of overall economy on share market and on industry: Reviewing industry scenario". If the foreign investors, you know, lot of them are coming to Bangladesh. Where do they look? Decision fast - whether Bangladesh is a good country to invest? - number one. They first look well, how does Bangladesh look. If Bangladesh looks good, fine; if it is bad they will go to Myanmar. They have a lot of options Vietnam, Cambodia, Myanmar too even, lot of foreign investors are going there. So that is the basic decision, it is top down decision a we call it. The next job is to always look, always be alert- when can I get out. Because until and unless you have got out you have not made money.

Minhaz Zia (MZ): My topic is mentioned. "Problems of financial analysis in Bangladesh share market: Impact of subjective and qualitative factors".

Generically there are two types of analysis: Technical analysis and Fundamental analysis. Fundamental analysis in fact has relevance not only in our country but also in very developed countries. Would talk more about that and the Financial Analysis, my previous speaker has highlighted are all actually part of the fundamental analysis. Now fundamental analysis means actually it is a study of everything. I mean the fundamental analyst studies the company, industry and the extensive views of industry, company and with even the global data. These are blended with his own subjective judgement and based on his insight because the basic premise i.e. the basic assumption. Now through your own analysis you will have to find whether this value is undervalued, overvalued or fairly valued. And through proper study only you can have this answer. Now there are two parts of it. First of all you see that the data or information we have talked about is not all quantitative in nature. And secondly, these have also many qualitative aspects as well, which need to analyze with equal vigor. And secondly even in the qualitative side the data that we start working with, all relates to the past. But your idea is to get the future value to make an enhanced return. That means you have to do some kind of forecasting. And you do forecasting by determining the estimate for all relevant factors which influence the price. Your job as an analyst is to find the economic value of the stock and based on your earning forecast. So here again comes the role of subjective judgement. Now what are the qualitative aspects that you need to do on top of the quantitative aspects like in a company there are many important qualitative factors which influence the price like shareholding structure itself.

There are some accounting rules and regulations. There is an ambiguity of accounting treatment of some items like some of balance sheet items and others. This also is a cause of great problem. And poor auditing standard. The PE method is basically a relative one and I have hardly seen any absolute valuation thing like the dividend discount model, which is theoretically more correct but difficult to apply because many parameters are there and which is really difficult to apply. But even in case of PE, the problem with the PE, is that first of all it is an accounting based valuation. So, accounting earning can vary due to the variation in the policy of different company. So, inter company comparison becomes very difficult. And secondly, the PE that you are calculating is a single multiplier. Instead of that I think a good suggestion would be to have instead of single multiplier, a multi-multiplier. Like not only based on PE but also P cash . P book value or P sales this kind of things. And then blend it and make an average of it. Then it can give you a better multiplier.

Question Answer Session conducted by Mr Quazi Mahmud Hossain: I am yet another proud member of the YEP Forum and you have noticed by now that we do program with a difference. We ask you to just come through a registration and it is free and we make our best efforts to make things in organized way. Get the right people relatively young people and so on. But we are not perfect. So not every program or even this program is a great work shop. We do not even want to claim that. Every work shop or seminar has some guidelines. So do we have for this one. And because of time management, we could not and we do not intend to go participative in the way questions come from the floor. We have distributed as you have seen a piece of paper to ask questions. And you already know we have an expert panel. And the members of the expert panel who are here, who helped us with the questions in sorting and giving a order or a system to it. Mr. Rezwan Eunus, from HSBC. Mr. Noor Mohammad from Eastern bank, Mr. Mohiuddin Ahmed from EVRD, Mr. Mohammad Mujib Kabir from Dhaka University, which you already know, I think from the distributed papers. Now having said this much, I think it is time to go for the questions, so that gentle men and lady here can respond. Well here are simple guide lines. We would want to have a very systematic session. If you do have a question something you do not like about us, or the seminar or about the stock market about prime minister or about the government, about America, I am just taking it away.

So, first question. Not necessarily in an order, the way it has come, is to Mr. Sayeed here, a very charismatic speaker. The question is, **how do we get information on industry and each sector? Where do we go and how do we get it?**

YS: Actually as Minhaz Zia said, we have dearth of statistics and also statistics are not reliable. However having said that, basically when we do our analysis we have to take the government figures first. And then we try to question it. Does it fit? Growth rate coming up, government claiming something. And does the calculation really meet together. So this is the basic. Bureau of Statistics. We have information. Then we have listed companies they have come up with their Annual Reports. We have prospectus of different companies going public. These are all secondary sources. But when we are making specially big investments, then we also do our own study of the market. And that is primary data we have to look for. We do not have any research based organization specifically catering to the need of this kind of analysis what we are looking. But fortunately, there are lot of news papers and individuals coming up with their analysis and that really helps in making informed decisions.

QMH: I could go to the next question which is addressed to Mr. Titu. The question is - **what do you think the regulators and market players should do to boost the moral of the small investors after the 1996 stock market crash? So the moral building. How can you do that?**

AIT: Actually this is a common question, every time everybody asks what to do. Actually to bring back the confidence of the investors and common people, the company those shares we trade, they have to perform well. Like for example, if you see in 1995-96 the disclosure from the companies were very optimistic. Some body is making 5 star hotel and some body is exporting and some body is doing some thing nice. After that in 1997-98

you find all the disappointing things. Hartal. We can not perform. Flood. We can not perform. We can not pay dividend. So this kind of things, make people not to have any confidence in the total market. So another question is the regulator. What a regulator can do? Basically a regulator is there to oversee the performance of the stock market players. Not to involve too much. I will suggest, may be they are intervening too much. So too much intervention will not create confidence. It will make worse. Like for example all of a sudden suspending 16 companies from trading. As all of you know, who are involved. That makes shares less liquid. Why would people come to secondary market? So that they do not have to wait for six month or one year or a fixed term. They can come and go. It is easy for them to come in the secondary market. Not put their money in the FDR. So to bring back the confidence the regulator and SROs have to work hand on hand, not to create panic to the investors.

QMH: The next question is addressed to Mr. Minhaz Zia. The question is **"Financial analysis is for the academicians. Not for the investors in this country". Please comment.** This question is asked by Mr. Delwar Ahmed.

MZ: Well if you believe in that way, I will not be surprised if you face the same fate that millions of investors faced in 1996 crash. Very simple. You have to be a rational investor. And you have to go for analysis.

AIT: Just a quick comment. What the Financial Analysis will do is not to make you down so fast. It will not give you a sure profit, but it will not let you down. So if cautious investors take few notes regarding Financial Analysis, they can protect themselves from free fall, what happened in 1996.

QMH: The next question is to Dr. Osman Imam. **Most of the listed companies are reluctant to declare dividend. Even if they do, the dividend rate is pretty low. Why do you think this trend is prevalent?**

MZ: Ok you know, a firm wants to declare dividend to attract the investor. But dividend can not be paid if the firm does not have sufficient cash flow. Though the accounting profit has been made in that year is sufficiently high. Look at the example that has been given here - Beximco Pharma. They have made a profit of Tk 8 per share but they have declared Tk 3 dividend per share. But they could not pay it to the ICB holding shares of Beximco group. And deadline for payment is 31st October. And surprisingly, if you look at the dividend announcement, they have given last time for Padma Textile or something else it has been mentioned that the dividend will be payable. They mentioned dividend declaration of 20% by Padma Textile subject to the approval of DSE, CSE and Securities and Exchange Commission (SEC), that dividend will be payable within 180 days which is complete violation of the Company Act. Dividend should be payable within 60 days of the AGM. Why I am referring to this, it is because they have mentioned in the case denial has been made then the declaration of the dividend will be null and void. And they are declaring dividend relating to the past financial year. If you are not able to pay with that time better do not declare it. Do not make confusion. Now this will depend on watchdogs. And making issuers a scapegoat. It should not happen. Dividend has an impact on the price. Even though one of my colleague did research on it. Earlier we have seen dividend has an impact. Like how far an investor can get the information. I am extending little bit of my explanation in the sense, whenever you are increasing dividend even though you do not go through the Annual Report you are assuming they want to convey a signal to the market that they are performing well. Companies are reluctant to cut dividend until and unless they are forced to. If they remain unchanged that means ok, you are getting a feedback and get an idea about the dividend payment. And also the behavior of the entrepreneur. Consistency of the behavior of the entrepreneur. So dividend is really an important matter.

QMH: The next question is to Ms. Tahsina. The question goes like this. **Do you think the finance managers consider cost of capital while making dividend payment decision?**

TR: They do not only consider cost of capital they also think about their cash flow and all the expenses. So basically at first they have to make some money from the net profit. And they have to retain some for their future growth. They can always right issue and borrow from banks for long term. So their retention is important as well for paying dividend. So they consider lot of points including cost of capital.

QMH: Next question is to Mr. Sayeed again. The movement in the economy and the movement in the share market are supposed to be highly correlated. **As the government claims the economy is growing in a satisfactory way, whereas the stock market seems to move on the other direction. Can you explain the situation?** In two minutes?

YS: Very complicated matter. The government claims that the economy is doing fine. But our finance minister also claims that our share market or capital market or our interest rate does not have any relevance with the total economic scenario. Not very long a go 10th August 1999 in DCCI seminar on capital market. But I think it is a dilemma. Which one to believe. Economy is doing fine or economy does not have any relationship with the performance of the stock market. If we talk about capital market, there are two markets primary market and secondary market. So the secondary market which is already sold out. Now if people who have burnt their fingers have the courage to cut their loss, accept the fate, that well we have lost. Slowly they will liquidate their holdings and reinvest it again. We Bangladeshi are prone to actually love our share certificate. Because our names are written on it. And we keep it locked under trunk. Very difficult in our culture to part with our shares. Specially those we got through IPO. I know lot of investors who had very good shares in IPO. But did not sell in 1996. They were thinking Singers would go up Tk 50000, why now. So we must have a cultural change. We must have the ability to accept the loss. Only then the secondary market will go up. Now for the primary market it is a difficult task. Because as long as investors are not coming back issues would be under subscribed. They will not get underwriters and all. So it is the total scenario actually. You just can not see what DSE is doing. As Mr. Titu said it does not matter much what the index is doing. You have to look in to the basic things. So if our corporate sector is doing fine, now how do we measure if our economy is doing fine? One measure I would like to apply is how much dividend the corporate body is giving. Now if you compare like I think all of you have received the AIMS weekly market review of the Beximco Group as Dr. Osman has said. Well I have gone through to analyze half yearly report of these companies. Now their this years half yearly report is very good. Based on that my analysis was that at least they would be able to give equal dividend like last year. Now when we have this dividend declaration and which is also conditional as I said earlier this analysis has become paralysis. No use. They have not given. Now if we look at the performance of the company we would have reservation that we are doing fine. Specially the industrial sector. Well agricultural commodities are not sold in our stock exchange. It is the industrial companies shares. If the industrial sector is doing fine, it's ok. There certainly is a relationship.

QMH: Now to Mr. Titu **how do stock price index go up and down? Seems like very basic question. But I think again rephrase the basic philosophy of how does a stock price index go up and down? And it says Can you show the calculation?** I think that second part would be very difficult. But you can explain.

AIT: No it is not very complicated regarding how stock index is calculated. It's very simple. We have a base value. Base value means on a certain day like for example, in our case DSE on January 1st 1991. They took off the prices of January 1st 1991 as base capitalization. And then every day whatever the closing price of the share they multiply the closing price with the outstanding shares. That is called market capitalization. If you divide market capitalization with the base price you get the index. Then you have to multiply by hundred for index calculation. So what I mean here is that it is not the real reflector of evenly all the 235 companies listed in the exchange. Why? Because for example a share like BAT BC have a 10% of total market capitalization. It means when the price movement of BAT BC is just one taka, they have more impact on market capitalization than when there is movement in a share of say M Hossain