

Surprise junk rush

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adviser to Awami League (AL) President Sheikh Hasina. He was also one of the sponsor directors of both banks before being removed from the boards for loan defaults.

M Morshed Khan, an adviser to BNP's Chairperson Khaleda Zia, is a shareholder of AB Bank by way of his Pacific Motors. Incidentally, Khan and Salman are also relatives, as the former's daughter is married to the latter's son.

Khan, who had fled the country after the 1/11 changeover in 2007, recently came back, and the rumour has it that the aforementioned relationship had a lot to do with it.

Meanwhile, a friendship between one of the IFIC shareholders, who also holds a key position in IFIC Bank, and Salman deepened after AL's recent ascension to power.

The past also reveals how Salman had wielded his influence on the two banks to take out millions in taka through a hundred fictitious accounts until the scam was detected by the central bank. Old timers still remember the innovative process of siphoning money off those banks through inland bill purchase (IBP) by Beximco.

Now, those connections, records of the past, and the insidious deals -- all are raising the question -- why those two banks suddenly started purchasing shares of a lacklustre company when no one cared about it.

HOW IT HAPPENED
AB Bank and IFIC Bank bought a huge chunk of Bextex shares just before the dividend declaration.

Investors flocked to Bextex shares following the dividend declaration, making the prices soar. Prices of each share rose to Tk 44.9 as of May 10 this year from Tk 23.8 on January 1, nearly an 88 percent upward jump.

Taking the opportunity of the price jump in Bextex shares, the two banks started offloading the shares they were holding -- at higher prices, and within a week they made a hefty profit by selling a half of Bextex shares in their portfolios.

AB Bank had bought 80 lakh Bextex shares for prices

ranging between Tk 24.50 and Tk 29.30 each between April 26 and May 3 of this year, while IFIC Bank had bought 15.30 lakh shares just within two days -- April 27 and 28 -- for Tk 29 to Tk 30, according to an investigation by Dhaka Stock Exchange (DSE).

DSE opened the investigation after an unusual price hike, and abnormal transactions in Bextex shares.

AB Bank started selling Bextex shares on May 6, which went on till May 10, selling off 30 lakh shares from its portfolio. IFIC Bank sold 8.75 lakh Bextex shares on May 6 and 7 for Tk 40 to Tk 45 each.

Usually, institutional investors, including banks, do not invest in Z category or junk shares, as return on the investment is not secured.

No Z category or junk share was found in AB Bank's portfolio in the six months prior to April 26, 2009, while no transaction in Z category shares was found in IFIC Bank's portfolio between January 1 and April 26 this year.

AB BANK'S VISION
Contacted by The Daily Star, AB Bank said they bought Bextex shares after analysing future forecast of Bextex.

"We have a strong research team, which assessed the future forecast of Bextex, and the team predicted that Bextex shares will be strong in the coming days," M Fazlur Rahman, head of investment banking division of AB Bank, said.

He said if it can be predicted that the price of a security, no matter whether it is a junk one, will go up, then 'why not invest in it?'

"We sold Bextex shares, as we got expected prices," he said adding that they are still buying and selling Bextex shares.

Asked whether they had earlier information about dividend declaration by Bextex, he denied and said, "It's baseless."

IFIC BANK'S VISION

Mohammad Abdullah, deputy managing director of IFIC, said the bank maintains a small portfolio. "We have an investment committee, that suggests buying and selling of shares as per our investment guidelines, after analysing the market trend. The suggestions

are approved by the management," Abdullah said.

Abdullah also said the bank not only bought Bextex shares, but also shares of other companies during the period. "We didn't do anything wrong. We invested in shares as per usual course of banking," he asserted.

SEC COMMENTS

DSE submitted its investigation report to the Securities and Exchange Commission, and urged the regulator to take necessary steps based on the findings.

In the investigation, DSE concluded that the buying binge of the two banks led to a 'demonstrated upward trend' in prices and transaction volume of Bextex shares, as institutional investors play a great role in the market.

General investors got interested in buying Bextex shares as they found that institutions were buying huge quantities of shares.

Contacted, SEC Chairman Ziaul Haque Khondker told The Daily Star, "The commission is studying the report."

AN EXPERT'S OPINION

Market experts however questioned the dividend declaration, and asset revaluation of Bextex.

"The market regulator and other relevant authorities should check who did the asset revaluation. Is it an independent chartered accountant? Or is it an auditing firm appointed by the company itself? Who regulates the valuer firm?" Salauddin Ahmed Khan, former chief executive officer of DSE, told The Daily Star.

Khan, who teaches finance at Dhaka University, said, "As far as I know, asset revaluation can be shown in the capital reserve of a company, but it can't be disbursed as dividends as long as it remains as unrealised gain."

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