

Book building: a recipe for disaster

SAJJADUR RAHMAN

The book-building method has turned out to be a tool for manipulating market prices in Bangladesh, although it is a widely practised price fixing mechanism for initial public offering.

Analysts say the companies that have been listed under the book-building system should be reviewed to find out how the distortion of price took place by deceiving retail investors.

Book building was introduced in Bangladesh in 2009 and so far only three instances of such practice are there. But a number of companies, which are in the pipeline to be enlisted in the market under the system, might cause a huge flight of capital.

An analysis found that those who hold the private placements take out a substantial amount of money by selling shares at high prices during the first one month.

In one case, share prices of KPCL fell by 33 percent within one month and 50 percent in the next two months and did not rise thereafter. A share of the power company traded at only Tk 90.8 yesterday, but it reached its peak of Tk 341 during the initial days of trading.

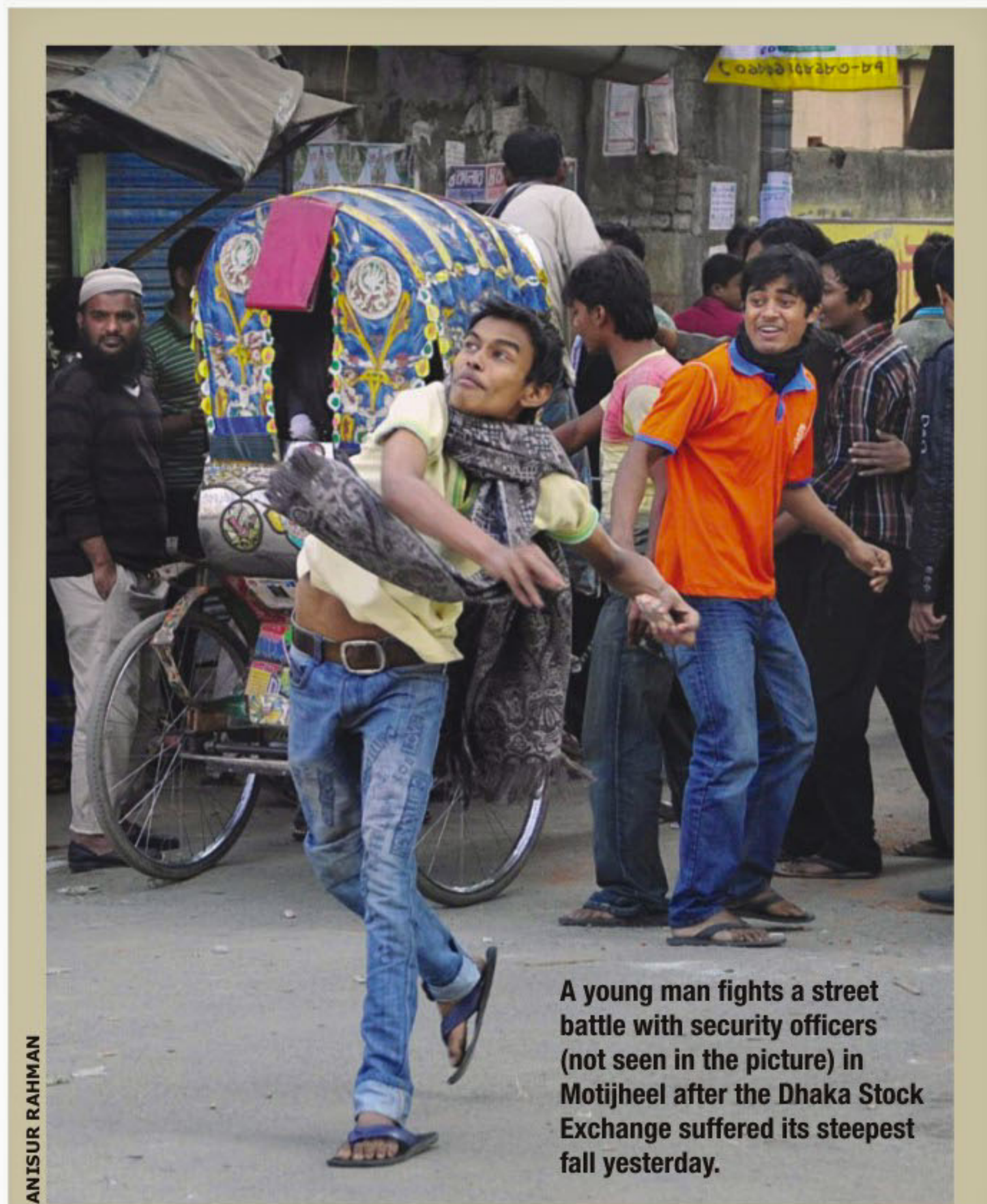
The total capital flight during the first 15 days from the transaction of the KPCL shares was estimated at Tk 83.7 crore. In another company, the total flight of capital was Tk 64.8 crore only in the first two days of trade.

Centre for Policy Dialogue (CPD), a research organisation, in its half-yearly economic analysis expressed its concern over the unabated manipulations in the system. It said the SEC did not take any measure to address such an abnormal market behaviour and abuse by manipulators.

A businessman blamed the SEC for helping the manipulators in setting a far higher price for a share against its book value.

He cited the examples of Jamuna Mobil and MI Cement.

Jamuna Mobil's price was set at Tk 152



A young man fights a street battle with security officers (not seen in the picture) in Motijheel after the Dhaka Stock Exchange suffered its steepest fall yesterday.

ANISUR RAHMAN

The regulator's efforts...

STAR BUSINESS REPORT

It was a hectic year for the Securities and Exchange Commission, as the regulator was busy changing the regulations and introducing some new ones to calm the volatile stockmarket.

But nearly all the directives went in vain as the market behaved rough and at last was halted yesterday, when the main index of the Dhaka bourse, DSE General Index, nosedived by 660 points in just 50 minutes.

The regulator put in place 83 directives during the period between January 17, 2010 and January 10, 2011. It changed the directives of margin loan ratio 19 times.

against a book value of Tk 12 only and MI Cement at Tk 120 against its book value of Tk 10.

"Jamuna Mobil took five years to make it Tk 12 from Tk 10. So, the investors will take 100 years to get return on his investment at the highly artificial price," said the businessman, asking not to be named.

Similarly, 100-150 years would be required to make profit from an MI Cement share.

He also cited an example of Prime Bank that wanted to set the market price at Tk 150 per share against its book value of Tk 120. But then the SEC did not allow it.

"Now a Tk 10 share is being allowed to sell at Tk 150," he said, questioning how the SEC could allow it.

The price of a share of Unique Hotel and Resorts Limited, owned by The Westin Dhaka, has been fixed at Tk 185 on the basis of weighted average price after institutional bidding against a face value of Tk 10.

The CPD in its half-yearly economic analysis said, instead of ensuring competition among big investors at the 'price discovery' stage, the market syndicates are abusing it for placement shares at an artificially high price.

The think tank said the artificial price is being maintained for some time, particularly till the lifting of the lock-in period (15 days), and after that the investors offload their shares at higher prices.

"We don't oppose the book-building system, but we want a monitoring into the system," said Debapriya Bhattacharya, CPD's distinguished fellow.

AB Mirza Azizul Islam, former finance adviser to a caretaker government and former SEC chairman, also supports review to see if there was any manipulation in the shares of companies that came under the book-building system.

"Inherently, book building is a good system. But if there was any manipulation, that should be investigated," said Islam.

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Officials hand over blankets to one of the 500 poor people at Verenga in Pabna recently as part of its corporate social responsibility. Yusef Yang, director for corporate affairs and public relations of Huawei, was present on the occasion.

HUAWEI

New country manager for Nokia

STAR BUSINESS DESK

Nokia Emerging Asia appointed Abu Daud Khan as country manager to lead Nokia operations in Bangladesh and Nepal, said a statement.

Khan joined Nokia in 2010 and prior to the current assignment, he worked with Sony Ericsson Mobile Communications and British American Tobacco. Daud obtained his MBA from Institute of Business Administration, University of



Garmentech starts tomorrow

STAR BUSINESS REPORT

The 10th edition of Garmentech starts tomorrow at Bangabandhu International Conference Centre in Dhaka to exhibit the latest technologies and machinery of the garment sector.

Zakaria Trade and Fair International and ASK Trade and Exhibitions Ltd jointly organise the event that ends on Saturday, said the organisers at a press meet at Dhaka Reporters Unity yesterday.

In the show, 150 participants from 25 different countries will participate. The fair will remain open for all from 10:30am to 7pm everyday with-

Seminar stresses social stock exchange

STAR BUSINESS REPORT

Social enterprises need financing from 'impact investors' that include a heterogeneous group like foundations, family offices, banks, pension funds and social investment to scale up their efforts, a discussion in Dhaka was told yesterday.

Impact investors are a group that eyes a social goal beyond merely returns in terms of profit, as explained by the officials of Impact Investment Exchange Asia or IIX Asia, which organised the programme in association with Asian Development Bank.

Durreen Shahnaz, IIX Asia's founder chair, pointed out that a social bourse offers a mechanism to help local social enterprises raise capital and grow further.

"Such a specialised regional exchange will reduce the cost of search for impact investors and build their confidence in purchasing shares and bonds issued by social enterprises looking to

expand their operations," she said.

IIX Asia, a Singapore-based social enterprise, seeks to establish the region's first social stock exchange to provide sustainable social enterprises from developing countries with the opportunity to raise capital through the stock market.

The US firm, Rockefeller Foundation, provides financial support to this social enterprise.

Shahnaz informed the function, held at Sonargaon Hotel, that two local enterprises -- Kazi and Kazi Tea and Waste Concern -- are likely to be the first to get the chance to raise capital under this platform.

"We observe IIX Asia as an interesting platform to raise capital for our company," said Kazi Anis Ahmed, chief executive officer of Kazi and Kazi Tea.

The daylong discussion, Impact Forum for Social Change, shed light on different aspects of a social enterprise.

Such an organisation uses business methods to address the issues

relating to social or environmental concerns such as healthcare services, education, housing and microfinance.

"Social enterprises are making an important contribution to inclusive economic growth, but they need financing in providing opportunities for the poor in Asia and the Pacific," said Margot Brandenburg, associate director of Rockefeller Foundation.

She stressed developing parallel investments, which are needed to build capacity of social enterprises and engage national and regional policymakers to make the exchange a success.

A total of 60 officials from the government, development agencies and social enterprises as well as experts in capital market development and resource mobilisation took part in the programme.

Mashiur Rahman, economic affairs adviser to the prime minister, and Bart W. Edes, director of ADB's Poverty, Gender, and Social Development Division, also spoke.

Be friendly to farmers, BB chief urges bankers

A CORRESPONDENT, Pabna

Atiur Rahman, Bangladesh Bank governor, urged all bank executives to change their attitude towards farmers for the sake of developing the agriculture sector.

Rahman was speaking at a farmers' assembly at Silimpur village in Ishwardi upazila under Pabna district on Sunday after inaugurating a biogas plant in the residence of a local farmer Moyez Uddin.

The country's industrial development depends on the progress of the agriculture sector, the governor said.

"Agriculture is the key to economic success here. The real development in economy and industry will be happened if we can ensure the real development in agriculture."

"The bankers have to change their mind setup and be friendly to the farmers to reach the goal."

He also asked the farmers to cooperate with the banks.

Farmer Moyez Uddin chaired the meeting where Shaikh Siraj, a founding member of Channel i, and Sayed Abdul Hamid, Agrani Bank managing director, also spoke.

Ford sees pickups as harbinger for 2011 sales

REUTERS, Detroit

A top Ford Motor Co executive said on Monday that the strength of pickup truck sales in the first quarter will be a key early signal for the overall 2011 US auto market.

Global sales and marketing chief Jim Farley said that Ford for now is maintaining its annual sales forecast of between 12.5 million and 13.5 million, up from 11.5 million in 2010.

Speaking on the sidelines of the North American International Auto Show in Detroit, Farley declined to give a specific forecast for Ford sales, other than to say the automaker is just as optimistic about 2011 as it was in 2010 when its sales increased 19 percent. Last year was Ford's largest year-on-year sales increase in its home market since 1984.

"We'll look at pickup segmentation," Farley said on the key to early signs of 2011 industry sales strength. "How strong is the pickup market in percentage of the market is impor-

tant. Pickup trucks were around 12 percent of the industry (in 2010)."

Auto analysts say that pickup truck sales are likely to receive a boost in 2011 because new U.S. tax laws allow for businesses to get tax breaks on capital purchases for trucks like the Ford F-series. The F-series has long been the best-selling vehicle line in North America.

Farley said Ford was surprised by the strength of the commercial fleet market in 2010 and expects continued strength in this area which includes medium- and heavy-trucks in 2011.

Farley said part of the reason that commercial fleet sales were high is that businesses were replacing old vehicles.

In addition to pickup trucks, sales of the "C-segment" of small cars will be key, he said.

"If the C-segment is strong, obviously we'll have to make some adjustment (to 2011's sales forecast)," Farley said.



TRANSCOM BEVERAGE

Team members of Transcom Beverages Ltd pose at the annual conference in Kuala Lumpur, Malaysia, recently. Latifur Rahman, chairman of Transcom Group, and Golam Quddus Chowdhury, managing director of Transcom Beverages, were also present.



EMPLOYERS' FEDERATION

President of Bangladesh Employers Federation Rokia Afzal Rahman leads a delegation to a meeting with Labour and Employment Minister Khandaker Mosharraf Hossain at ministers' office in Dhaka yesterday.