

Investing in Bangladesh's stock market

JON SPRINGER, for Forbes

With about 4 percent of public listings on Bangladesh's stock exchanges held by foreigners, **Shahidul Islam** estimates foreign holdings in Bangladesh's public equities are at, or near, their all-time high. Islam is the CEO of VIPB Asset Management Company, an asset manager focused on growing Bangladesh's nascent market for mutual funds. Islam, age 41, is a CFA Charterholder and has 14 years of experience in Bangladesh's banking and capital markets. Islam kindly agreed to give his perspective on the investment climate in Bangladesh's stock markets for this interview.

Currently, VIPB manages two closed-end mutual funds. The firm is also seeking to add an open ended mutual fund. Islam is the first to note the funds trade at significant discounts while also noting that "before the bursting of the stock market bubble in 2010 many closed-ended mutual funds were trading at premiums in the range of 200 percent-400 percent." His closed-end funds are listed on both the Dhaka and Chittagong stock exchanges where foreign investors may buy shares in the funds the same way they may access other stocks, bonds and mutual funds listed on those exchanges.

Jon Springer: Under the old Dhaka Stock Exchange index, the stock exchange plummeted in excess of 50 percent from highs in November 2010 to its lows in April 2013. What brought the stock market down?

Shahidul Islam: Bangladesh's stock market was massively overvalued before the crash that started in late 2010. Equity market capitalisation increased from Tk 209 billion on January 1, 2005 to Tk 3,253 billion on December 5, 2010. New companies that got listed during that period of time accounted for Tk 1,008 billion of the increase. Therefore, the stocks that were listed before January 1, 2005 increased in value from Tk 209 billion on that date to Tk 2,245 billion on December 5, 2010, a 974 percent increase in value in less than

six years.

In late 2010, the central bank became concerned about the double-digit inflation at that point in time and started monetary tightening. Perhaps the central bank's decision to increase cash reserve requirements for commercial banks then triggered the collapse. But, I think the correction was long overdue and the policy intervention was a bit too late.

The new broader DSEX index and narrower DSE30 index [which were both launched in 2013 to replace the old index] are both up between 23 percent and 32 percent since their launch at the end of January 2013. Has the market found stable footing? And is the Dhaka Stock Exchange fairly valued? I think the market is pretty close to being fairly valued now. However, Bangladesh's markets are extremely inefficient and are driven more by speculation than fundamentals. Therefore, I believe the bull-run in the last few weeks has made some stocks overvalued. The others, in many cases, offer good values or are fairly valued.

Springer: About what percentage of investors on the Dhaka Stock Exchange are foreigners and what do you see as the reasons for foreign investment growth?

Islam: Some of the listed companies are subsidiaries of multinationals. Apart from the parent companies' stake in the listed multinationals, about 4 percent of the listed Bangladeshi stocks are held by foreigners. Foreign investment in Bangladesh stock market has always been low compared to other frontier markets such as Vietnam, Pakistan and Sri Lanka.

Despite it still being very low compared to other frontier markets, I think foreign holding is at an all-time high in Bangladesh at this moment. Net flows of foreign portfolio investment has remained positive in last few months. I think this trend will continue for some time because valuations of some of the stocks are attractive and local institutions, especially banks, are unable to increase their exposure to the market because Bangladesh Bank, the central

bank, has come up with new rules that reduced limits for banks' exposure in stock market drastically.

Bangladesh does not have too many institutional investors other than the banks. The insurance industry is very small and is at a nascent stage of development. The pension funds are insignificant in size and they almost always invest in bank deposits and government bonds. Most of the retail investors are driven by momentum. They join the bandwagon only when the market shows a sustained bullish trend.

Springer: Your investment funds have outperformed the performance of the stock market indexes. Are there particular sectors of the market that have helped you outperform? Have there been other factors you would highlight?

Islam: Yes, we have been generating more than 13 percent annual net returns since we launched our funds about 3 and a half years ago. In the meantime, as you mentioned, the stock market collapsed by about 50 percent before regaining some ground. The main reason for our outperformance is that our funds are not equity-only funds. We invest in stocks, government bonds, corporate bonds, cash instruments and short-term fixed deposits with banks. When we raised our funds in early 2011 we realised that the equity market was overvalued and, therefore, we invested more in government securities and corporate bonds than in stocks. Also, some of our equity holdings generated attractive returns even while the overall market was down. We were also investing in short-term fixed deposits with banks up to the maximum limit permitted by the mutual fund rules. During the last couple of years, short-term fixed deposits generated about 12 percent returns.

Springer: Are there any factors from a viewpoint of government policy, infrastructure investment, social indicator improvements or trade agreements that are setting up macro trends in Bangladesh's economy?

Islam: I think the proliferation of telecommunication and internet is

going to play a transformational role in Bangladesh. Total telephone connections increased from about half a million in the early 1990s to 120 million now. Internet access is also spreading pretty fast. As a result educated young people have started doing outsourcing work for foreign companies. I think more internet-enabled outsourcing work is going to be a key driver of Bangladesh's economy in the next few years.

Also, some initiatives by the government and some non-government development organisations have resulted in tremendous gains in many social indicators such as reductions in infant mortality and increases in access to primary education and basic health care. Life expectancy at birth increased from 60 years in 1991 to more than 70 years now. The literacy rate during that time-frame increased from 35 percent to about 60 percent. All these gains are expected to contribute to economic growth in next couple of decades.

Springer: The Dhaka Stock Exchange recently modified its trading platform to T+2 with NASDAQ OMX. What will this do in terms of facilitating an improved investment climate? For example, you are trying to launch an open-ended mutual fund, does this change help with that? Do these changes make it possible for a foreign-based ETF to launch a Bangladesh-only fund?

Islam: Yes, Dhaka Stock Exchange has changed its settlement cycle from T+3 to T+2 recently. It will enhance market liquidity. But I don't think this change will have significant impact on investment climate. It won't have much impact on the open-ended fund that we are in the process of launching because open-ended funds are not listed.

Springer: Bangladesh's GDP grows relatively steadily at about 6 percent per year. Despite steady growth, beneath the surface there are pockets of growth, bubbles and undervalued sectors. Did government policies play any role in this regard?

Islam: Other than the stock market bubble we talked about, there has been

a massive bubble in real estate that culminated in 2010. In the ten years up until 2010, land prices increased 20-fold in some areas of the country. Despite corrections in the prices of apartments and commercial properties in the last couple of years, there are hardly any properties that generate rental yields of more than 2 percent. I think a gross rental yield of 2 percent is very low compared to the risk free rate in the country with the yield of the 5-year government bond at about 9.5 percent currently.

All these bubbles were created because money was too cheap for too long in Bangladesh between 2001 and 2010 and the credit growth was astronomical. Outstanding private sector credit increased from Tk 991 billion on July 1, 2004 to Tk 3,595 billion on July 1, 2011, growing more than 20 percent annually.

Bangladesh's GDP growth, as you know, has been driven by remittances from about 8 million Bangladeshis who work abroad and the export of readymade garments. The readymade garments industries are labour intensive. Therefore, there has not been too much investment in building factories and other productive capacities. Also, due to indecisions and a lack of government capacity to implement infrastructure projects, the investment in infrastructure has been very low. Therefore, overall capital investment has been low if we compare it with credit growth. As a result, the credit growths and monetary expansions had created asset price bubbles.

Springer: Bangladesh competes with a number of countries that are in Asean for factory jobs. As Asean plans to launch the Asean Economic Community next year, are there any negative or positive impacts to Bangladesh anticipated from the Asean Economic Community?

Islam: The Asean's move towards creating a single market within its members will be beneficial for Bangladesh. The trade within the members of the single market will increase and Bangladesh may face less competition from Asean countries in its traditional export market in the EU and the

US. Also, a common market is expected to accelerate growth within Asean and that may create demands for certain goods made in Bangladesh. It's good to have rich neighbours.

Springer: Why should emerging and frontier market investors add Bangladesh to their portfolio? Why should investors who rotate their investments around other emerging and frontier market countries such as the Philippines, Cambodia, Vietnam, Pakistan and Qatar, consider Bangladesh?

Islam: Bangladesh has its own challenges. The standards of corporate governance and financial disclosures of the listed companies are very poor. The regulators lack authority and human resources. And, from a macro perspective, there are issues such as political uncertainties, weak institutions, corruption and lack of infrastructure.

This said, Bangladesh's population is larger than any of the countries you mentioned except Pakistan. Also, the population in Bangladesh is homogeneous in terms of ethnicity. Therefore, the risk of sectarian conflicts, a common phenomenon in many frontier markets, is low in Bangladesh. Also Bangladesh's population is pretty young, the average age being only about 24 years.

More importantly, as Bangladesh is one of the most inefficient markets in the world, it offers certain pockets of value to investors. Total market capitalisation of the listed banks in Bangladesh, for example, is currently about \$4 billion. These banks enjoy roughly 60 percent market share of the banking industry of the country whose GDP is about \$150 billion, and the sector is expected to grow at more than 6 percent in the near future. I think this level of valuation of the banking sector in a country is a bargain. However, I must mention that there are reasons to be concerned about the asset quality of the banks, especially because of the down-turn in the real estate market. Though the extent of real estate financing is not very high in Bangladesh, most of the corporate loans are collateralised by real estate.

Government of the People's Republic of Bangladesh				
Office of the Divisional Forest Officer				
Chittagong South Forest Division, Chittagong, Email: dfoctgs@gmail.com				
Memo No. CSFD/CRPAP/Tender(01)/(Package No. BFD/G143)/2014-15			Dated: 25/09/2014	
Invitation for Tenders				
1	Ministry/Division		Ministry of Environment & Forest.	
2	Agency		Bangladesh Forest Department.	
3	Procuring entity name		Divisional Forest Officer, Chittagong South Forest Division.	
4	Procuring entity code		Not used at present.	
5	Procuring entity district		Chittagong.	
6	Invitation for		Supply of Polypropylene Bags for Nursery Raising.	
7	Invitation Ref. No.		CSFD/CRPAP/Tender No. 01/2014-15	
8	Date		25 September, 2014.	
KEY INFORMATION				
9	Procurement method		OTM.	
FUNDING INFORMATION				
10	Budget and source of funds		Bangladesh Climate Change Resilient Fund (BCCRF).	
11	Development partners (if applicable)		World Bank, Bangladesh.	
PARTICULAR INFORMATION				
12	Project/programme code (if applicable)		45-4531-5016.	
13	Project/programme name (if applicable)		Climate Resilient Participatory Afforestation and Reforestation Project.	
14	Tender package No.		BFD/G143.	
15	Tender package name		Polypropylene Nursery Bag:	
		Package No.	Size	Quantity (Nos.)
		BFD/G143	18cmx13cm (7"x5")	4463580 Nos.
			25cmx15cm (10"x6")	330000 Nos.
			Total Nos.	4793580
16	Tender publication date		On or before 29 September, 2014.	
17	Tender last selling date		23 October, 2014	
18	Tender closing date and time		26 October, 2014	2:30pm
19	Tender opening date and time		26 October, 2014	3:00pm
20	Name & address of the office(s)		Office of the Divisional Forest Officer, Chittagong South Forest Division, Forest Hill, Nandankanon, Chittagong.	
	Selling tender document (principal)		Office of the Divisional Forest Officer, Chittagong South Forest Division, Forest Hill, Nandankanon, Chittagong.	
	Selling tender document (others)		Range Office of Chittagong South Forest Division (Town Range, Rangunia Range, Padua Range).	
	Receiving tender document		Office of the Divisional Forest Officer, Chittagong South Forest Division, Forest Hill, Nandankanon, Chittagong.	
	Opening tender document		Office of the Divisional Forest Officer, Chittagong South Forest Division, Forest Hill, Nandankanon, Chittagong.	
21	Place/date/time of pre-tender meeting (optional)		Office of the Divisional Forest Officer, Chittagong South Forest Division, Forest Hill, Nandankanon, Chittagong; Date and time: 16 September, 2014, 3:00pm.	
INFORMATION FOR TENDERER				
22	Eligibility of tenderer		(1) The tenderer shall have supply and/or production capacity of 100 lac poly bags per year. (2) The tenderer shall have successfully completed supply of similar goods amounting to 35.0 lac under maximum three contracts within last five years i.e. years counting backward from the date of publication of IFT in the newspaper. (3) The tenderers shall have minimum liquid asset or working capital or credit facility amounting to Tk 30,00,000/- (thirty lac). (4) The tenderer/manufacturer shall have specification certificate from Environment Directorate permitting for manufacturing of polypropylene bags for nursery raising. (5) The tenderer/manufacturer shall have a lab test report of current year from Bangladesh Council of Scientific and Industrial Research (BCSIR) laboratories about the quality, size and thickness of polypropylene bags for each size mentioned in scheduled of goods.	
23	Brief description of goods or works		● 18cmx13cm (7"x5") size polypropylene bag having thickness of 0.08 mm (both flap together) with 4 holes (8 holes for the bag) of 6mm (0.25") diameter. One edge of the bag should be sealed by hot press method while the other end should be open. Approximately 875 polypropylene bags of this specification weighs one kilogram. ● 25cmx15cm (10"x6") size polypropylene bag having thickness of 0.12mm (both flap together) with 6 holes (12 holes for the bag) of 6mm (0.25") diameter. One edge of the bag should be sealed by hot press method while the other end should be open. Approximately 233 polypropylene bags of this specification weighs one kilogram.	
24	Brief description of related services		Not applicable.	
25	Price of tender document (Tk)		750/- (seven hundred and fifty) only (non-refundable).	
	Lot No.	Identification of lot	Location	Tender security amount (Tk)
	1	Single Lot	Different Range Office of Chittagong South Forest Division	BDT 1,00,000/ (one lac) only
COMPLETION TIME				
				Completion time in weeks/month
				25 (twenty-five) days from the date of contract signing
PROCURING ENTITY DETAILS				
26	Name of official inviting tender		Bipul Krishna Das.	
27	Designation of official inviting tender		Divisional Forest Officer.	
28	Address of official inviting tender		Nandankanon, Chittagong South Forest Division, Chittagong.	
29	Contact details of official inviting tender		Tel: 031-637328, Fax: 031-2869138 & Email: dfoctgs@gmail.com	
30	The procuring entity reserves the right to reject all tenders or annul the tender proceedings.			
Bipul Krishna Das Divisional Forest Officer Chittagong South Forest Division, Chittagong				
GD-3714				

Air France pilots end record strike

AFP, Paris

Air France's main pilots' union Sunday ended the longest strike in the carrier's history to allow "calmer" talks to go ahead over the contentious issue of the airline's low-cost subsidiary Transavia.

A spokesman for the SNPL union, Guillaume Schmid, told AFP the pilots were ending the protest -- which has cost Air France more than 200 million euros (\$250 million) over the past two weeks -- so that the negotiations over Transavia can proceed.

Air France sees Transavia's development as vital in the struggle to retain market share in the cutthroat medium-haul sector, which is steadily being overrun by no-frills airlines such as easyJet and Ryanair.

But Air France pilots, who earn up to 250,000 euros a year, fear some of their flights will be replaced with services operated by Transavia, or their contracts will be squeezed by the expansion of the subsidiary.

Immediately after the pilots' union announced the end of the strike, French Prime Minister Manuel Valls called on all sides to "regain the confidence of everyone and resume the development of Air France and its subsidiary Transavia, which is an asset".

Valls said the 14-day strike was "misunderstood and penalised passengers, the company and the country's economy".



AFP

US founder and CEO of Amazon.com Jeff Bezos, right, hands over a cheque for \$2 billion to Indian vice president and country manager of Amazon.in, Amit Agarwal, atop a lorry in Bangalore yesterday. The investment will go towards raising the bar for online shopping in India.

বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়
BANGLADESH OPEN UNIVERSITY
গাজীপুর-১৭০৫

তিন বছর মেয়াদী

ভর্তি বিজ্ঞপ্তি

ব্যাচেলর অব আর্টস (বিএ)
ব্যাচেলর অব সোশ্যাল সায়েন্স (বিএসএস)

১৫তম ব্যাচ (জানুয়ারি-ডিসেম্বর, ২০১৫)

বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয় (বাবুবি)-এর সামাজিক বিজ্ঞান, মানবিক ও ভাষা স্কুল পরিচালিত তিন বছর মেয়াদী বিএ/বিএসএস প্রোগ্রামের ১৫তম ব্যাচে শিক্ষার্থী ভর্তির জন্য বাউবির নির্দিষ্ট ফরমে আবেদনপত্র আহ্বান করা যাচ্ছে।

❑ ভর্তির ন্যূনতম যোগ্যতা : এইচএসসি/সমমানের পরীক্ষায় উত্তীর্ণ

❑ ভর্তি ফরম বিতরণ, সংগ্রহ ও জমাদান, তারিখ: ১৩ অক্টোবর থেকে ১৮ ডিসেম্বর, ২০১৪ পর্যন্ত।

- আবেদনপত্র সংগ্রহ : বাউবি কর্তৃক নির্ধারিত ব্যাংকের শাখায় ১০০/- (একশত) টাকা জমা দিয়ে আঞ্চলিক কেন্দ্র বা উপ-আঞ্চলিক কেন্দ্র থেকে অফিস চলাকালীন সময়ে আবেদনপত্র সংগ্রহ করা ও ভর্তি হওয়া যাবে (সোম-শুক্রবার)।
- বিশ্ববিদ্যালয়ের যে আঞ্চলিক কেন্দ্র বা উপ-আঞ্চলিক কেন্দ্র থেকে আবেদনপত্র সংগ্রহ করা হবে, সেই কেন্দ্রেই আবেদনপত্রটি নির্ধারিত সময়ের মধ্যে জমা ও ভর্তি হতে হবে।
- ভর্তির আবেদনপত্রের সাথে প্রার্থীকে নিম্নোক্ত কাগজ পত্র জমা দিতে হবে
ক) বিশ্ববিদ্যালয়ের শিক্ষক বা প্রথম শ্রেণীর কর্মকর্তা কর্তৃক সত্যায়িত সদ্য তোলা ০৩ (তিন) কপি পাসপোর্ট আকারের ছবি।
খ) সকল শিক্ষাগত যোগ্যতার সনদপত্র ও নম্বরপত্রের সত্যায়িত কপি।
গ) চারিত্রিক সনদপত্র।
ঘ) জাতীয় পরিচয়পত্রের সত্যায়িত কপি।
- প্রার্থী ভর্তি: বাউবির আঞ্চলিক কেন্দ্র/উপ-আঞ্চলিক কেন্দ্রের দায়িত্বপ্রাপ্ত কর্মকর্তা প্রয়োজনীয় তথ্য ও সনদপত্রসমূহ যাচাই-বাছাইপূর্বক প্রার্থীকে আগে আসলে আগে ভর্তি হতে পারবেন ভিজিটে ভর্তির জন্য মনোনীত করবেন। ভর্তির সময় প্রার্থীকে মূল সনদপত্র ও নম্বরপত্র দায়িত্বপ্রাপ্ত কর্মকর্তাকে দেখাতে হবে (যা সত্যায়িত কপির সঙ্গে যাচাই করে ক্ষেত্র দেয়া হবে)।
- রেজিস্ট্রেশন ফি ২০০/- টাকা এবং ভর্তির জন্য শিক্ষার্থীকে প্রতি কোর্স ফি ৬৫০/- টাকা হারে ০৪টি কোর্সের জন্য ২৬০০/- টাকা এবং একাডেমিক ক্যালেন্ডারের জন্য ২৫/- টাকা সর্বমোট ২,৮২৫/- (দুই হাজার আটশত পঁচিশ) টাকা (আবেদনপত্র ফি ব্যতিত) নির্ধারিত ব্যাংকে জমা দিতে হবে। উক্ত জমা রসিদের নির্দিষ্ট অংশ আঞ্চলিক/উপ-আঞ্চলিক কেন্দ্রের দায়িত্বপ্রাপ্ত কর্মকর্তার নিকট জমা প্রদান সাপেক্ষে ভর্তির কার্যক্রম সম্পন্ন করতে হবে।

বাউবি'র আঞ্চলিক কেন্দ্রের ফোন নম্বরসমূহ

আঞ্চলিক কেন্দ্রসমূহ	ফোন নং	আঞ্চলিক কেন্দ্রসমূহ	ফোন নং
ঢাকা	০২-৯৬৭৩৬৬৯	রাজশাহী	০৭২১-৮০০০০৮
বগুড়া	০৫১-৬২৭৯৪	যশোর	০৪২১-৬৮৫২৬
বরিশাল	০৪৩১-২১৭৬২৮২	ফরিদপুর	০৬৩১-৬২০৮১
রংপুর	০৫২১-৬৩৫৯৩	চট্টগ্রাম	০৩১-৬১৯৬৩৩
ময়মনসিংহ	০৯১১-৬৫২৯৮	সিলেট	০৮২১-৭১৯৫২৩
কুমিল্লা	০৮১-৭৭৫৫৭	খুলনা	০৪১-৭৩১৭৯৫

বিঃদ্র: ডাকযোগে ভর্তি সংক্রান্ত কোনো পত্র প্রেরণ করা হবে না। মনোনীত শিক্ষার্থীকে ব্যক্তিগতভাবে উপস্থিত হয়ে ভর্তি হতে হবে। ভর্তি সংক্রান্ত বিবৃতিতে তথ্য আঞ্চলিক কেন্দ্র / উপ-আঞ্চলিক কেন্দ্রের নোটিশ বোর্ড ও ইন্টারনেটে (<http://www.bou.edu.bd>) পাওয়া যাবে। উপ-আঞ্চলিক কেন্দ্রের ঠিকানা আঞ্চলিক কেন্দ্র থেকে জানা যাবে।

অধ্যাপক ড. মমতাজ উদ্দীন পাটোয়ারী
তীন, সামাজিক বিজ্ঞান, মানবিক ও ভাষা স্কুল
বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়
গাজীপুর-১৭০৫

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