Raise funds in a way that fits the bill

Tanzim Alamgir, managing director of UCB Investments, urges companies in an interview with The Daily Star

AHSAN HABIB

A company's way of raising funds should be determined by analysing its financial statements so that its sustainability does not face any threat, said Tanzim Alamgir, managing director of UCB Investments, a merchant bank.

"Only balance sheet can say whether a company needs share issuance, bond and syndicated loans," he told The Daily Star in an interview recently.

If a company needs equity but goes on to issue bonds or vice versa, the cash flow of the company would be hampered and its business will be impacted in the long run, he said.

Usually, merchant banks specialise in a specific area. Some manage initial public offerings (IPOs) while some help companies issue bonds and raise funds through syndicated loans.

In most cases, merchant banks will recommend clients go for the solutions where the investment banks have specialisation.

"However, a client's might have different requirements," said Alamgir.

With a promise to provide comprehensive advisory services to companies, UCB Investments, the merchant banking subsidiary of United Commercial Bank, began its journey on October 5 last year.

"Our target is to meet all the needs of the clients."

The merchant bank is providing services related to merger, acquisition, equity, syndication and bond issuance.

It has secured mandates to raise funds worth around Tk 5,000 crore under 15 deals since the inception of the company.

"We are already a trusted partner," Alamgir said.

Due to the coronavirus pandemic, many companies will suffer and will need advisory services. The banking industry is also growing so lenders will need more and more capital in the future where bonds will play an important role.

"Merchant banks may make a valuable contribution. So, there is a lot of potential to grow," said Alamgir.

The chief executive previously worked at City Bank Capital, Grameenphone, Industrial and Infrastructure Development Finance Company Ltd and many other financial institutions.

Investors in Bangladesh have a mindset to stick to bank deposits although there are many safe tools like bonds.

Tanzim Alamgir

"So, we should navigate them."

"I am curious to know why people are depositing money in FDRs [fixed deposit receipts] in a bank where the coupon rate of the same bank's bond is generating almost double the return."

The weighted average rate on deposits stood at 4.13 per cent in June, according to data from Bangladesh Bank. As a result, depositors were facing a negative return on savings given the inflation rate of 5.64 per cent in June.

The coupon rate, or the interest rate, ranges from 8 to 9 per cent.

According to Alamgir, corporate and individual investors alike are not aware about bonds. As a result, their investment in the segment is low.

Some corporates, however, are coming forward to invest in the zero-coupon bond, an instrument that pays no interest and trades at a discount to its face value.

Bonds are also offering good coupon rates that are higher than the deposit rates offered by banks, allowing investors to make a good profit.

"Bonds can be a good savings instrument for fixed-income people. This is especially true for those who want to keep their retirement benefits in a safe place that produces higher returns," Alamgir said.

He says people should not put all the funds in a single instrument and suggests them adopt a blended investment approach.

"They can start with investing in top-rated banks."

UCB Investments is focused on sustainable business so it has a certain portion of its funds invested in fixed-income instruments.

The merchant bank is also cautious about selecting shares when it comes to investing in the stock market. "We are generating handsome return from them."

The Bangladesh Securities and Exchange Commission has made it mandatory for merchant banks and asset management companies to invest a part of their portfolio into fixed-income securities.

"I welcome the initiatives. The central bank should adopt a similar policy for the scheduled banks and non-bank financial institutions to create appetite for bonds."

Answering to a question about the coupon rate set by the central bank, Alamgir says it sometimes may create challenges.

As the regulator, the Bangladesh Bank prescribes the rate of the bonds issued by banks and non-bank financial institutions. Corporates also issue bonds but the rate is not regulated by the BB.

"I understand that the central bank has some criteria and reasons for setting the rate, and this rate is also profitable," he said, adding that he backed a floating rate if it was a long-term bond.

Many companies in Bangladesh don't want to go public as the listing brings them under more regulations.

"I think the main reason is misconception," said Alamgir.

"We want to show them that the perception is not true. Moreover, there are many benefits for the listed companies."

UCB Investments plans to bring good companies to the stock market through IPOs.

According to the CEO, banks should not be the single source of finance. "The stock market is vibrant so there are many ways to raise capital."

Investment banks don't know how a company will fare five years after the listing because a company can incur losses.

"We want to see the willingness and endeavour of a company and its sponsors. We will be selective in choosing companies and we will not compromise on quality."

He says UCB Investments is not rushing towards money but rather catering services to the companies and the society.

"If we can ensure good services, clients will come to us."

Managing IPOs is not much profitable, so many investment banks aren't interested in helping companies launch the stocks.

"But we will do it as it is a big service to the society. Besides, it will ensure a product mix to our business."

Alamgir thinks financial education is important for all so that investors don't expect any unusual return from any investment since such tendency spoils the whole investment.

> *"If a company needs equity but goes on to issue bonds or vice versa, the cash flow of the company would be hampered."*

GLOBAL BUSINESS

Biden's new China trade plan echoes Trump's

REUTERS, *Washington*

US Trade Representative Katherine Tai will seek new talks with China over its failure to keep promises made in a "Phase 1" trade deal struck with former president Donald Trump, but will not pursue "Phase 2" negotiations over Beijing's state subsidies and other structural issues.

Senior Biden administration officials said Tai will pursue a virtual meeting with Chinese Vice Premier Liu He on Monday to discuss the trade deal "soon" while starting a "targeted" process to revive exclusions for certain Chinese imports from punitive US tariffs.

However, she will not rule out the use of new tariffs to push China to meet the Phase 1 commitments made under Trump, said the officials, speaking on condition of anonymity.

Tai will deliver long-awaited remarks outlining the Biden administration's China trade strategy at the Center for Strategic and International Studies, a Washington think-tank, at 10 am EDT (1400 GMT).

"For too long, China's lack of adherence to global trading norms has undercut the prosperity of Americans and others around the world," Tai is expected to say during her remarks, according to excerpts from her speech shared by the White House.

Tai will also say that she intends to have "frank conversations" with her counterpart in China.

"That will include discussion over China's performance under the Phase One Agreement and we will also directly engage with China on its industrial policies."

US President Joe Biden

Tai will not rule out the use of any trade tools, to bring China into compliance with the deal, officials said, but did not offer a time frame for such actions.

The deal is scheduled to expire at the end of 2021.

One of the administration officials told reporters on a preview call that China has not met commitments it made under the phase one deal. Excerpts from Tai's remarks show she will raise commitments made by China that were intended to benefit American industries, including agriculture.

The Phase 1 deal was crafted at the end of 2019, just as the coronavirus outbreak was starting to emerge in China.

The subsequent Covid-19 pandemic caused the steepest drop in global GDP since the 1930s Great Depression, wreaking havoc on trade flows and global supply chains, which continue to struggle as demand recovers.

China agreed to boost purchases of US farm and manufactured goods, energy and services by $200 billion above 2017 levels over two years.

The deal, which halted escalation of a trade war that heaped tariffs on hundreds of billions of dollars worth of goods from both countries, also called for China to improve protections for some US intellectual property and market access for American agricultural biotechnology and financial services firms.

The coronavirus pandemic hit Chinese purchases of US goods hard, and they have been running at only 62 per cent of the target, according to estimates by Chad Bown, a senior fellow at the Peterson Institute for International Economics.

US President Joe Biden kept in place the tariffs imposed by Trump as Tai conducted a top-to-bottom review of China trade policy.

Biden officials have said little about their strategy, focusing instead this year on rebuilding ties with US allies to present a more united front to Beijing.

A system of exclusions from the tariffs of up to 25 per cent on Chinese imports expired at end of 2020, except for some medical imports needed to fight the Covid-19 pandemic.

US officials said Tai would relaunch a new, "targeted" tariff exclusion process and would "keep open the potential for additional exclusion processes in the future."

The United States will not pursue "Phase 2" negotiations with China on deeper structural issues such as massive subsidies to vital industries that skew global markets, because Beijing is "doubling down on its authoritarian state-centric approach," officials said.

Tai will run through a history of China's failure to live up to its trade and reform commitments over the past two decades, from its accession to the World Trade Organization to the Phase 1 deal, the officials said.

"We recognize that China simply may not change, and that we have to have a strategy that deals with China as it is, rather than as we might wish it to be," one of the officials said.

The officials said the Biden administration is pursuing investments in technology, education and stronger supply chains to boost US competitiveness with China and will continue work with other major democracies to address China's "non-market" behavior.

Euro zone investor morale slumps to 6-month low

REUTERS, *Berlin*

Investor morale in the euro zone fell for the third month in a row in October and hit its lowest level since April on dimming economic expectations, a survey showed on Monday.

Sentix's index for the euro zone fell to 16.9 from 19.6 in September. A Reuters poll had pointed to an October reading of 18.6. A current conditions index fell to 26.3 from 30.8. An expectations index fell to 8.0 from 9.0, dropping for the fifth month in a row to hit its lowest level since May 2020.

"The economic recovery process continues to falter," said Sentix Managing Director Patrick Hussy.

"The continuing loss of momentum thus does not signal any autumn revival."

Sentix surveyed 1,067 investors from September 30 to October 2.

UK to unveil new pandemic support for workers

AFP, *Manchester*

Britain's finance minister admitted Monday that ending a pandemic furlough scheme that kept millions employed would mean job losses as the government was set to announce new support for workers.

Rishi Sunak, the chancellor of the exchequer, will announce a 500 million ($680 million, 580 million euro) package of retraining aimed at older workers coming off furlough and at younger Britons, the ruling Conservative party said.

Prime Minister Boris Johnson's government has spent almost 70 billion on paying the bulk of wages for staff stuck at home, helping to keep the official unemployment rate relatively low.But Sunak ended the furlough scheme on Thursday, and is also scrapping a weekly boost to benefits for the lowest-paid workers.

He insists that it is time to transition to longer-term support, against objections by opposition parties and campaigners that the changes will plunge many people deeper into poverty.

"I said right at the beginning of this crisis, it wasn't going to be possible for me or quite frankly any chancellor to save every single person's job," Sunak told Sky News.

"We have a lower unemployment rate here in the UK than America, Canada, France, Spain, Italy, amongst others, and there are record numbers of job vacancies," he added.

The first phase of his plan had protected 11 million jobs through the furlough scheme, he said, and Britain was now "experiencing one of the strongest and fastest recoveries of any major economy in the world".

"But the job is not done yet and I want to make sure our economy is fit for the future, and that means providing the support and skills people need to get into work and get on in life," he was to say in a speech to the Conservatives' annual conference.

However, protesters at the conference in Manchester, northwest England, accused the Conservatives of abandoning the poor.

"Children are hungry. How can that be in this century? We're here because we have to do something to register our disgust," retired teacher Lorraine Thompson told AFP on Sunday.

Official data last week showed Britain's economy rebounded more strongly than expected in the second quarter.

But separate indicators point to a growth slowdown, as the country struggles with a supply chain bottleneck and global inflationary pressures that have sent fuel prices rocketing.

The government is grappling with a spate of panic-buying at petrol stations caused by a shortage of tanker drivers, and has mobilised the army to help.

AFP/FILE

British Prime Minister Boris Johnson vowed to never return Britain to its "broken" pre-Brexit economy.

Businesses blame the driver shortage on the government's hardline approach to Brexit, which stopped a flow of workers from eastern Europe, but ministers say the pandemic is to blame.

In a bullish conference message to the Tory faithful, Johnson vowed to forge ahead with his post-Covid recovery plan to "build back better" in areas from infrastructure to climate change.

Interviewed by the BBC on Sunday, he refused to return Britain to its "broken" pre-Brexit economy which he said was overly reliant on cheap foreign labour.

"What we can't do in all these sectors is simply go back to the tired, failed, old model and reach for the lever marked uncontrolled immigration, with people at low wages," he said. "So yes, there will be a period of adjustment.

Evergrande to raise $5b from property unit sale

REUTERS, *Hong Kong*

China Evergrande will sell a majority stake in its property management business for more than $5 billion, Chinese media said on Monday, a deal which would be the largest asset sale yet at the debt-laden property developer if it goes ahead.

Once China's top-selling property group, Evergrande is facing what could be one of the country's largest-ever restructurings as the company is weighed down by debts of around $305 billion. Uncertainty over Evergrande's fate has unsettled financial markets worried about any fallout from its troubles.

Evergrande on Monday said it requested a halt in the trading of its shares in Hong Kong pending an announcement about a major transaction. Evergrande Property Services Group, a spin-off listed last year, also requested a halt and said it referred to "a possible general offer for shares of the company."

China's state-backed Global Times said Hopson Development was the buyer of a 51 per cent stake in the property business for more than HK$40 billion ($5.1 billion), citing unspecified other media reports. Hopson also said it had suspended trading in its shares, pending an announcement related to a major acquisition of a Hong Kong-listed firm and a possible mandatory offer.

Both Hopson and Evergrande did not respond to requests for comment on the Global Times report.

Analysts said the possible deal signals the company is still working to meet its obligations. But it also rekindled broader concerns about the risk to China's property sector and economy if Evergrande is liquidated at low prices.

"Selling an asset means they are still trying to raise cash to pay the bills," said OCBC analyst Ezien Hoo. "Looks like the property management unit is the easiest to dispose in the grand scheme of things."

In August, Reuters had reported that Evergrande was in talks with state-owned and private companies to sell stakes in its electric vehicle and property management businesses, citing a source close to the matter.

Beijing has also prodded government-owned firms and state-backed developers to purchase some of Evergrande's assets, people with knowledge of the matter told Reuters last week.

Hopson stands in good stead compared with other property developers in China, owning more assets than liabilities and improving profit in the first half.