Important News Snippets

June 25, 2019

research@bracepl.com

Following is a summary of important business news published in the leading daily newspapers of Bangladesh. For the complete news, please follow the online link given below each news. Please note that the news summary doesn't reflect the opinion of BRAC EPL Stock Brokerage Limited.

High Court stays Bangladesh Bank (BB) guidelines for two more months

• The High Court on extended the stay order for two more months on the special policy guidelines of Bangladesh Bank (BB) that offered loan rescheduling and 'one time exit' facilities for defaulters. On May 21, the High Court halted the guidelines for a month, five days after the central bank issued it. The guidelines allowed defaulting borrowers to reschedule loans by paying 2.0% down payment for a maximum period of 10 years. They were also given the scope for availing the 'one time exit' facility getting all dues cleared within 360 days after approving such facility by the banks concerned.

• The central bank's step to benefit bad borrowers drew strong criticism from economists and bankers who warned of a potentially disastrous outcome for the banking sector. On Monday, the central bank submitted a list of defaulters stating the volume of defaulted loans to the High Court bench. While submitting the sealed document to the court, Attorney said that the total volume of non-performing loans (NPLs) and 'inactive' loans in the country's banking system is worth BDT 2.2 trillion. Of the total amount, some BDT 1.1 trillion is NPL, BDT 800 billion remains stuck in court orders, and BDT 300 billion is written-off. However, he did not disclose the names of defaulters-neither the individuals, nor the companies-to the court.

http://today.thefinancialexpress.com.bd/first-page/hc-stays-bb-guidelines-for-two-more-months-1561397763
https://www.dhakatribune.com/business/banks/2019/06/25/bb-report-loan-defaults-hit-BDT220-000-crore

Savings tools sale set to be double the target

• Net sale of National Savings Certificates (NSC) is likely to be more than double its original target of BDT 261.97 billion this fiscal year ending June 30, as per sources at Internal Resources Division (IRD). The sale of the instrument is set to cross even the revised target of BDT 450 billion set for the outgoing financial year , as the government in the first 10 months of the 2019-20 fiscal year already borrowed BDT 434.74 billion from the savings tools. Officials at the Directorate of National Savings Certificates have said that the mad rush for the lucrative instruments further intensified soon after the proposed 10% tax at source was announced in the draft budget.

• Officials at the Directorate of National Savings Certificates cite the "striking difference" in the interest rates on offer has been encouraging people to move their money from banks to savings certificates. While banks are typically offering 6-7% interest on deposits, savings schemes offer between 11.04% and 11.76%. Government moved to introduce National Savings Scheme Online Management System from July this year to check abuses in investments in the government savings tools. As part of the move, the finance ministry launched the system on February 3 this year on a trial basis and instructed all the entities to install the system by June this year.

• For FY2019-20 fiscal year, the overall budget deficit (excluding grants) is expected to be BDT 1.45 trillion, about 5% of the national GDP, while BDT 270 billion will come from National Savings Schemes.

https://www.dhakatribune.com/business/regulations/2019/06/24/savings-tools-sale-set-to-be-double-the-target

Government to set export target at USD 44.40 billion for FY20

• The government is going to set the export target at USD 44.40 billion from exports of goods for FY20, with a 6.76% growth target in export earnings. For the outgoing fiscal year, the government had set export target at USD 39 billion, where the growth target was 6.36%. Against the target, in the first 11 month of current fiscal year, Bangladesh earned USD 37.75 billion, which was USD 33.72 billion in the same period last year.

• Of the proposed target, USD 37.42 billion will come from the country's apparel sector, which is over 84% of total target. For the RMG sector, the growth target is 7.03%. Of the total, USD 18.47 billion is expected from knitwear and USD 18.94 billion from woven products and the expected growth rate is 9.92% and 7.15% respectively. During July-May of the current fiscal year, export earnings from the apparel sector stood at USD 31.73 billion, which is 12.82% higher compared to USD 28.12 billion in the same period a year ago.

• Meanwhile, the government is going to set the export target at USD 1.06 billion for leather and leather goods, USD 1.02 billion for agricultural products, USD 910 million for home textiles, USD 855 million for jute and jute goods, and USD 504 million for frozen and live fish, USD 150 million for pharmaceuticals, USD 138 million for plastic goods and USD 88 million for ceramics.

https://www.dhakatribune.com/business/economy/2019/06/24/govt-to-set-export-target-at-44-40bn-for-fy20

Tax on companies' reserve to be reviewed before budget passage: PM's private industry and investment affairs adviser

• Prime minister's private industry and investment affairs adviser said that the government was seriously working on the issue of proposed 15% additional tax on retained earnings and reserve of listed companies and the issue might be resolved before passage of the budget for the financial year of 2019-20. He also added that they are seriously working on the issue as the imposition of 15% tax on retained earnings is actually double taxation.

http://www.newagebd.net/article/76407/tax-on-cos-reserve-to-be-reviewed-before-budget-passage-salman

Revised tax target to fall short by big margin

• The National Board of Revenue (NBR) is on course to missing its collection target by a big margin once again this fiscal year, increasingly leaving the government dependent on bank borrowing and foreign sources to fund its budget. In the first 11 months of fiscal 2018-19, the tax collector managed BDT 1.92 trillion, meaning a staggering BDT 881.05 billion has to be collected in June to hit the target, which has already been revised downwards seeing the sluggish receipts. The receipts are an increase of 6.97% from a year earlier, the lowest in 18 years, according to data from the NBR.

• The Centre for Policy Dialogue (CPD) forecasted the revenue shortfall come the year's end would be about BDT 850 billion . This would be the seventh year since fiscal 2012-13 that the government will miss its revenue collection target. The CPD in its analysis on the budget for fiscal 2019-20 also raised the issue of discrepancy in tax collection data between the NBR and finance ministry. The NBR's collection figures are always higher than the ones shown by the finance ministry.

https://www.thedailystar.net/business/news/revised-tax-target-fall-short-big-margin-1762018

Proposed taxes to push up cement prices by 10%

• The production cost of cement might go up by 10% if the government imposes advance tax (AT) on the import of raw materials as proposed in the national budget for 2019-20, cement manufacturers said. Such a hike in cement prices would lead to an increase in the cost of not only private infrastructure projects but also various government projects, including the Padma Bridge, Dhaka Metro Rail and the Rooppur Nuclear Power Plant, they observed at a post-budget press conference.

• In the national budget for the upcoming fiscal year, the government has proposed a 5.0% AT on import of many basic raw materials and additives required for manufacturing cement. The Bangladesh Cement Manufacturers Association (BCMA) demanded withdrawal of the proposed AT and a review of the advance income tax (AIT) provision for the sector. BCMA President presented a keynote paper, mentioning that the budget for the FY '20 has proposed a 5.0% AT on all kinds of raw materials and additives needed for cement manufacturing.

• Besides, the existing 5.0% advance income tax (AIT), which was refundable and adjustable to profits, has been proposed as 'final tax incidence', according to the paper. Cement manufactures have already been paying 3.0% AIT at source at the supply stage for the domestic market and it is considered as final tax incidence, it said. But from the next financial year, a total of 8.0% AIT will be considered as 'final tax incidence', the association claimed.

• The keynote paper said the cement industry totally depends on imported raw materials. So, if it doesn't get the exemption from 5.0% AT on imports, the companies will have to make 55% gross profit and 15% net profit in the post-production stage, it added. BCMA President said that they have to raise the cement price by BDT 42.77 a sack (10%) if the new tax provisions are implemented. But it won't be possible as such price fixation will not be market-friendly, as it would affect both production and sale and might disturb the stability of the industry, he added.

http://today.thefinancialexpress.com.bd/trade-market/proposed-taxes-to-push-up-cement-prices-by-10pc-1561395820
https://www.thedailystar.net/business/news/cement-be-10pc-costlier-1762003
https://www.dhakatribune.com/business/economy/2019/06/24/production-cost-of-cement-bag-may-increase-by-BDT42

Power sector tops tally of FDI in 2018: United Nations Conference on Trade and Development (Unctad)

• The power sector topped the tally of receiving foreign direct investment (FDI) in 2018 when Bangladesh received a record USD 3.61 billion, according to a United Nations agency. The Unctad's world investment report, released on Monday, said the net inflow of FDI to the power sector was USD 1.12 billion, followed by food (around USD 730 million), textiles & wearing (USD 404 million), banking (around 283 million) and telecommunications (nearly 220 million).

• Sharing the key features of the investment report, BIDA executive chairman said that the global inflows shrank by

13% to USD 1.3 trillion in 2018, but Bangladesh managed to achieve a phenomenal growth of around 68%. It's because of various investment-friendly state initiatives that started paying off. We're the best this time in terms of FDI growth, he added.

• According to the report, China led the tally of inward FDI with USD 1.30 billion, followed by the Netherlands (USD 692 million), the United Kingdom (USD 371 million), USA (USD 174 million) and Singapore (USD 171 million). Hailing Bangladesh's FDI outcome, the PM aide said that the government has set a target of lifting Bangladesh's position in the World Bank's Ease of Doing Business index by 2020. Currently, Bangladesh ranked 176th among 190 countries in the index.

• Executive director of local think-tank Policy Research Institute of Bangladesh (PRI) said that the recent events of acquisition of assets by overseas companies helped the country saw a steep rise in the FDI inflow. He also said that the mega deals such as Japan Tobacco's acquisition of Dhaka Tobacco, the purchase of 25% stakes in Dhaka Stock Exchange (DSE) by a consortium of Chinese bourses and the Chinese giant Alibaba buying of some stakes in bKash greatly contributed to the growth.

http://today.thefinancialexpress.com.bd/first-page/power-sector-tops-tally-of-fdi-in-2018-unctad-1561398411
https://www.thedailystar.net/business/news/record-fdi-2018-1762024
https://www.dhakatribune.com/business/economy/2019/06/24/report-bangladesh-tops-fdi-list-in-south-asia-in-2018

External sector shows sign of recovery in second half (H2) of 2018

• Current-account balance-to-GDP (gross domestic product) ratio improved during the second half (H2) of 2018 compared to the same period a year earlier. This means the country's export growth shows sign of upturn while import growth is decaying. Such as ratio has been fluctuating during the last couple of years, according to the latest Bangladesh Systemic Risk Dashboard (BSRD) report. The report noted the ratio has been negative since December 2016. During the fiscal year (FY) 2017-18, real GDP growth rate maintained an increasing trend and was recorded at 7.9%. The growth rate was 7.3% in FY 17.

http://today.thefinancialexpress.com.bd/last-page/external-sector-shows-sign-of-recovery-in-h2-1561397118

Banks' return on equity, asset falls sharply in 2018

• Return on equity and asset of the country's banks almost halved at the end of December last year from that of a year ago, showed a Bangladesh Bank report titled 'Bangladesh Systemic Risk Dashboard'. As per the BB report return on equity (ROE) dropped to 4.4% at the end of December, 2018 while the rate was 10.4% a year ago. Besides, return on asset (ROA) of the banks dropped to around 0.3% at the end of December, 2018 while the rate was around 0.7% in the previous year.

• Officials of the central bank said that growing non-performing loans had become a major burden for the country's banking sector. As the cost increased, banks' return on equity and return on asset dropped sharply. Banks will have to reduce the amount of defaulted loans by the way of expediting recovery procedure for reducing their cost and to maximise their profits, they said. Shareholders of the banks would be demoralised with the sharp fall in return, they said, adding that the reflection of such attitude of the investors had already been evident in the country's capital market.

• As per the BB data, the amount of defaulted loans in the scam-hit banking system skyrocketed to BDT 1.11 trillion in the first quarter of 2019. A BB report submitted to the High Court showed that the actual defaulted and inactive loan amount would reach BDT 2.2 trillion if the BDT 800.00 billion in loans, the recovery of which has remained stalled due to different court orders, and the BDT 300.00 billion in write-offs were added to the amount. Of the BDT 1.11 trillion, non-performing loans grew by 18.06% or BDT 169.62 billion in the first quarter of the calendar year 2019 from BDT 939.11 billion at the end of December, 2018.

http://www.newagebd.net/article/76404/banks-return-on-equity-asset-falls-sharply-in-2018

1.45 million cash transactions in March reported

• Bangladesh Bank (BB) did not find any terror or money-laundering links with more than 1.45 million cash transactions in March this year. The Bangladesh Financial Intelligence Unit (BFIU) received over 1.45-million cash transaction reports (CTRs) in March 2019 and some 263 suspicious transaction reports (STRs) in May from scheduled banks. The reports are however, being reviewed intensely to unearth such links by the regulator, officials said. Banks have to report to the BB if an amount of BDT 1.0 million and above is deposited in or withdrawn from a particular account in a single day.

• Banks submitted CTRs of 14.70-million transactions in fiscal year (FY) 2017-18 and non-banking institutions only 2,330, according to the annual report of BB. A system to report any suspicious transactions or activities has been introduced to protect the reporting entities from being exploited by money launderers and terror financers. The number of reports on suspicious transactions and activities regarding money laundering and terror financing is rising in the country, a source said.

• The 2019 Global Financial Integrity report on illicit financial flows to and from developing countries showed at least USD 5.90 billion flew out of Bangladesh in 2015 through misinvoicing in international trade with advanced economies. Illicit inflows from other countries to Bangladesh stood at USD 2.8 billion in 2015, it also revealed. The 2017 report showed annual average illicit capital outflow from Bangladesh stood at USD 7.58 billion during 2005-2014, and the amount was USD 9.10 billion in 2014.

http://today.thefinancialexpress.com.bd/last-page/145m-cash-transactions-in-mar-reported-1561397464

Banks call for exemption from stock dividend tax

• Banks have sought to be excused from the government's decision to introduce tax on both stock dividends and retained earnings. Finance Minister AHM Mustafa Kamal in his budget for fiscal 2019-20 proposed introducing 15% tax on stock dividends and retained earnings with a view to encouraging cash dividend.

• It makes sense for other listed companies but not for banks as our dividend policies are transparent and regulated, said the president of the Association of Bankers, Bangladesh (ABB), a forum of private banks' managing directors, in letters to the Bangladesh Bank and the National Board of Revenue yesterday. Banks will have to maintain at least 12.50% capital against their capital adequacy ratio under the Basel III guidelines within this year but the proposed tax will create a roadblock, the letter said.

• In an another letter issued on June 19, the ABB said the cost for issuing new credit and debit cards would increase significantly as the government imposed fresh tariff on their import. In the proposed budget, USD 0.70 has been imposed as import tariff on each magnetic stripe card, USD 2 for chip-and-pin card and USD 3 for contactless card. Though there was no declared tariff on card import, customs used to charge a maximum USD 0.52 on each card. Given that the government and the central bank are pushing for creating a cashless society, the new rates are illogical, said the managing director of Dhaka Bank. The move will discourage clients from asking for credit and debit cards as banks will be compelled to impose charges for issuing them, he added.

https://www.thedailystar.net/business/news/banks-call-exemption-stock-dividend-tax-1762009

More large companies to come under Large Taxpayers Unit (LTU)

• The National Board of Revenue has withdrawn the upper limit on the number of companies to be brought under its Large Taxpayers Unit (LTU-Value-Added Tax) to bring more eligible companies across the country under the unit's jurisdiction for ensuring proper revenue collection from the entities and providing them better services. The revenue board has issued new guidelines on selection of taxpayers for the LTU, expanding the jurisdiction of the unit across the country, scrapping the previous guidelines issued in 2012 which restricted the highest number of companies to 200 under the unit.

• The NBR issued the guidelines along with other budgetary measures on June 13 for the next fiscal year of 2019-2020. According to the new guidelines, businesses which paid on average BDT 100 million in VAT in last three financial years will come under the purview of the LTU. The jurisdiction of LTU will be all over Bangladesh. Previously, businesses running VAT-related activities from their Dhaka offices and paid on average BDT 50 million in VAT in three financial years were considered for the LTU.

• The new guidelines also said that the NBR would select the necessary number of businesses to bring them under the LTU. Currently, a total of 170 large businesses, mainly from bank, non-bank financial institution, pharmaceutical, tobacco, electricity distribution and beverage sectors, pay VAT to the LTU which, set up in 2004, collects around 56% of the total VAT collection by the NBR. A committee headed by NBR member (VAT policy) will select the business houses for bringing them under the jurisdiction of the LTU in line with the guidelines.

• The LTU has also demanded bringing a number of big companies including PRAN-RFL, Lafarge Surma Cement and all five-star hotels under its jurisdiction and removing more than 32 companies paying less than the required amount of VAT to the unit.

http://www.newagebd.net/article/76401/more-large-companies-to-come-under-ltu

BRAC EPL STOCK BROKERAGE LTD

Important News Snippets

June 25, 2019

research@bracepl.com

World Stock and Commodities*

Index Name	Close Value	Value Change	% Change
Crude Oil (WTI)*	$57.29	-0.61	-1.05%
Crude Oil (Brent)*	$64.22	-0.64	-0.99%
Gold Spot*	$1,429.92	+10.20	+0.72%
DSEX	5,379.15	-4.74	-0.09%
Dow Jones Industrial Average	26,727.54	+8.41	+0.03%
FTSE 100	7,416.69	+9.19	+0.12%
Nikkei 225	21,241.28	-44.71	-0.21%

Exchange Rates

USD 1 = BDT 84.41*
GBP 1 = BDT 107.59*
EUR 1 = BDT 96.24*
INR 1 = BDT 1.22*

**Currencies are taken from XE Currency Converter and Commodities are taken from Bloomberg.*

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Ayaz Mahmud, CFA	Deputy Head of Research	ayaz.mahmud@bracepl.com	01708 805 221
Md. Sakib Chowdhury	Research Analyst	sakib.chowdhury@bracepl.com	01709 641 247
S. M. Samiuzzaman	Research Analyst	sm.samiuzzaman@bracepl.com	01708 805 224
Sadman Sakib	Research Associate	sadman.sakib@bracepl.com	01730 727 939
Ahmed Zaki Khan	Research Associate	zaki.khan@bracepl.com	01708 805 211
Md. Rafiqul Islam	Research Associate	mrafiqulislam@bracepl.com	01708 805 229
Md. Mahirul Quddus	Research Associate	mmahirul.quddus@bracepl.com	01709 636 546

International Trade and Sales

Ahsanur Rahman Bappi	Head of International Trade & Sales	bappi@bracepl.com	01730 357 991

BRAC EPL Research
www.bracepl.com

121/B Gulshan Avenue
Gulshan-2, Dhaka
Phone: +880 2 881 9421-5
Fax: +880 2 881 9426
E-Mail: research@bracepl.com