

BRAC EPL Research (research@bracepl.com)
November 8, 2021
Subscription Start: Nov 08, 2021
Subscription End: Nov 14, 2021

IPO Details

Al-Arafah Islami Bank Limited (DSE: ALARABANK) will raise BDT 5,000.0 Mn by issuing an unsecured, contingent-convertible, non-cumulative and floating rate perpetual bond titled “**AIBL Mudaraba Perpetual Bond**”*. Of the total issue, BDT 4,500.0 Mn will be raised from private placement, while the rest BDT 500.0 Mn will be raised from the public through Initial Public Offering (IPO). IPO subscription for the public will commence from November 8, 2021 and would continue till November 14, 2021.

Al-Arafah Islami Bank Limited (AIBL), the **Issuer & Originator**, is a second generation, Shariah compliant, private commercial bank that commenced operation in 1995. The principal activities of AIBL include commercial banking, consumer banking, trade finance and other related custody and clearing services to the customers based on Islamic shariah principles. AIBL was listed in Dhaka Stock Exchange (DSE) and in Chittagong Stock Exchange (CSE) in 1998. The bank has two subsidiary companies – AIBL Capital Market Services Limited and AIBL Capital Management Limited.

Use of Proceeds

AIBL plans to raise Additional Tier-1 Capital in order to strengthen its capital base in accordance with Bangladesh Bank’s guidelines on Risk Based Capital Adequacy. The proceeds from the issue would be utilized for the bank’s regular business activities i.e. strengthening investment (loan) portfolio and other securities.

IPO Summary

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| Issue Code | AIBLPBOND |
| Issue Size | BDT 5,000.0 Mn |
| Issue Size under Public Offer | BDT 500.0 Mn |
| Face Value | BDT 5,000 |
| Minimum Subscription | BDT 5,000 |
| Tenure | Perpetual |
| Listing | Dhaka Stock Exchange (DSE) |
| Profit Rate | 6.0% - 10.0% |
| Issuer & Originator | Al-Arafah Islami Bank Limited |
| Trustee | MTB Capital Ltd. |
| Issue Manager(s) | UCB Investment Limited Prime Bank Investment Limited |
| Underwriter | Islami Bank Capital Management Ltd. |
| Rating Agency | Credit Rating Information and Services Limited (CRISL) |
| Issue Credit Rating | A+ (Indicative) |
| Issuer Credit Rating | Long term: AA Short term: ST-2 |

Key Features

- AIBLPBOND is perpetual in nature, hence there is no maturity date.
- Investors will receive annual payments from the share of distributable profit. The payment will be made at the end of calendar year. However, AIBL will have full discretion at all times to cancel distribution/payments to the bondholders.
- The rate of return of the bond will be determined based on the average annual deposit rate (1 year but <2 year) of the scheduled Islamic banks (1st, 2nd and 3rd generation banks only), excluding foreign Islamic and any Z-category Islamic banks. The latest deposit rate published in Bangladesh Bank website will be used for calculation.
- The minimum profit rate will be 6.0% with a maximum profit rate of 10.0%, all subject to the availability of distributable profit.
- In the case of late payments, AIBL shall pay a penalty of 2.0% higher than the coupon rate and will be payable on the amount not paid on the due date till the date of actual payment.
- Conversion to common shares at pre-specified trigger point as needed to reach the minimum consolidated CET-1 ratio as per Bangladesh Bank requirement (currently at 4.5%).
- AIBL can exercise the “**Call Option**” only after 10 years of issuance, with prior approval from Bangladesh Bank.
- Eligibility of exercising the call option: (1) Replacing the current instrument with capital of same or better quality that are sustainable for the income capacity of the bank; & (2) Capital position is above the minimum requirements after the call option is exercised.
- The claims of the investors of the bond will be superior to the claims of investors in equity shares. The claims will be subordinated to those of depositors, general creditors, and subordinated debt of the bank other than those qualifying as Additional Tier-1 Capital.
- The conversion strike price will be calculated as follows: Average of 180 business days market price prior to the trigger point or par value (BDT 10), amongst whichever is higher.

* Based on Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) definition, Mudaraba is a special arrangement of partnership business, where one party provides capital while the other party provides labour, and at the end of business cycle, the profits are distributed between both the parties as per previously signed agreement.

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.

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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

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