LRG ASSET MANAGEMENT

WEEKLY UPDATE (JULY 19 – JULY 23, 2020)

KEY ECONOMIC INDICATORS

Foreign exchange reserve remained at its high of USD 36 billion, prompting the government to contemplate using the reserve to finance profitable development projects. Moreover, the central bank is buying dollars from the interbank market to prevent the BDT from appreciating amid growing reserves. Call money rate has increased to 4.29% this week from 3.80% in the previous week, after hovering around 5% in the last few months. Private sector credit growth dipped further to 8.6% in June from 8.9% in May. However, this figure is still inflated due to the interest capitalization effect of banks.

	This Week	Last Week	Weekly Change	YTD Change
Foreign Exchange Reserve (USD bn)	36.63	36.10	1.47%	11.84%
Call Money Rate (Weighted Average)	4.29%	3.80%	+49 bps	-66 bps%
Exchange Rate (BDT-USD)	84.80	84.80	0.00%	-0.12%
Oil Price (USD per barrel of WTI)	41.29	40.78	1.25%	-32.38%
		FY 2019-20	**FY 2018-19**	**% Change**
Export (USD mn) (Jul-Jun)		33,670	40,531	-16.9%
Import (USD mn) (Jul- May)		49,977	56,034	-10.8%
Remittances (USD mn) (Jul-Jun)		18,218	16,412	11.0%
Current Account Balance (USD mn) (Jul- May)		(4,374)	(5,154)	N/A
Tax Revenue (NBR) (USD mn) (Jul-May)		22,230	22,832	-2.63%
Credit to the Private Sector (USD mn) (Jun)		129,395	119,134	8.6%
Point-to-point Inflation (Jun)		5.35%	6.02%	+50 bps

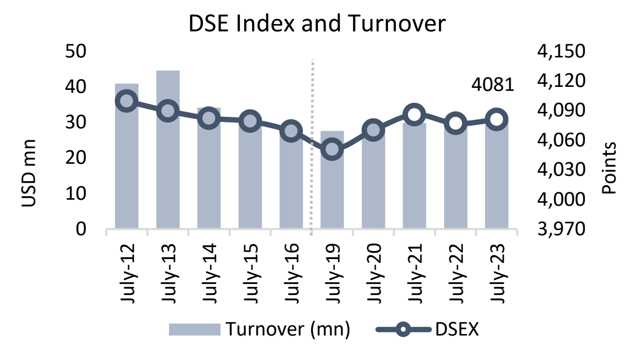
Source: Bangladesh Bank and Investing.com

ECONOMIC RISKS

Risk factor	Risk Level	Impact
Demand contraction	High	High uncertainty and virus fears have resulted in subdued demand, which in turn have led to large scale job losses and more demand contraction as discretionary spending takes a hit. According to ILO's projections, around 200 mn full-time workers' jobs may be lost, and Bangladesh will not be immune to this. Purchasing power is likely to remain weak to remain weak until the economy rebounds and the effects of the virus wear off.
Export slump	High	It has been projected global merchandise trade might plummet by ~13% due to the pandemic. As apparel stores across major export destinations of Bangladesh such as the US and Europe are suffering from demand contraction, export orders worth billions of dollars have been canceled or suspended so far and counting. Unless export diversification is implemented and global economic activities pick up, Bangladesh will continue to be subject to the concentrated risks of the RMG sector (that accounts for ~80% of export earnings).
Remittance shock	High	Although March (-11.83%), April (-24.48%) and May (-14.29%) registered double digit negative growth in inward remittance YOY amid the pandemic, June registered a positive gain (33.58%). However, as the World Bank expects global remittance to decline by 20% this year, the overall outlook is gloomy. Expatriates are facing mass deportations from Middle East countries in phases and globally ~2 mn Bangladeshi workers are now facing the risk of deportation.
Subdued tax revenue collection	High	Tax collection registered a negative growth of 2.63% for the first time since the country's independence due to the effects of the virus. Overall economic slowdown will continue to affect revenue collection and likely create a deeper budget deficit. According to ADB's forecast, Bangladesh may incur a tax revenue loss equivalent to 2% of GDP, which will likely exert an even greater pressure on the banking sector.
Soaring default loan in financial sector	High	The banking sector has been burdened with high non-performing loans (NPLs) at 9.03%, compounded with weak deposit growth and a CAR of 11.60% that is the lowest in South Asia. Moreover, poorly capitalized banks will have to bend over backwards to implement stimulus packages to provide relief to virus-struck businesses. The swelling damage in the economy may cause a sharp rise in the amassing default loans, undermining the sector further in the long term.
Depressed capital market	Medium	The overall gloomy economic outlook coupled with a high number of listed companies with poor fundamentals and the inability of regulators to restore investor confidence has resulted in a moribund situation in the capital market. Although the DSEX recently dipped below 3,900 points for the first time since 2015 amid the new floor price mechanism and the pandemic, it has now crossed 4,000 points after regulators took some initiatives to improve market participation and encourage foreign investment. Going forward, the performance of the market will depend on whether the regulators continue to focus on taking steps that are in the best interest of investors.

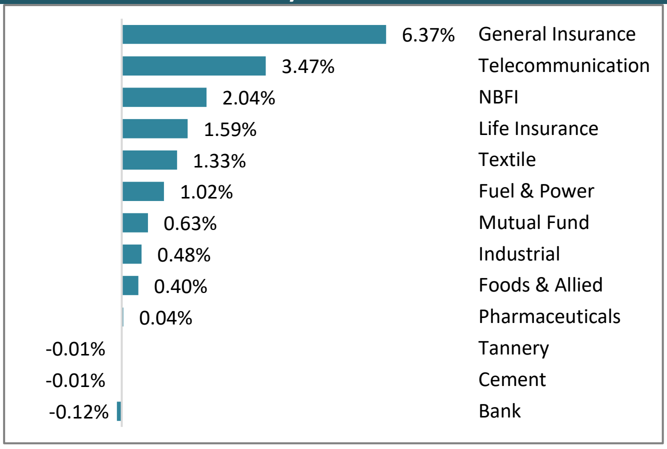
CAPITAL MARKET UPDATE

The broad index inched up by 12 points (0.29%) during the week as more market supportive news made the headlines including constructive steps by BSEC to improve market confidence. The market was bullish for a few days during the week due to several positive initiatives by the securities regulator including the decision to restructure ICB, initiation of much needed review of the current regulatory framework, and steps taken to rein in rampant market manipulation. In addition, the news of board approval at 13 banks to form a special fund to invest in the capital market was also welcomed. However, some investors also booked profit as the uncertainty remains regarding the impact of the floor price removal, timing and path of the economic recovery and permanent impact of the pandemic on the economy. Overall investor participation remained relatively dull and declined by -17.92% compared to the previous week.

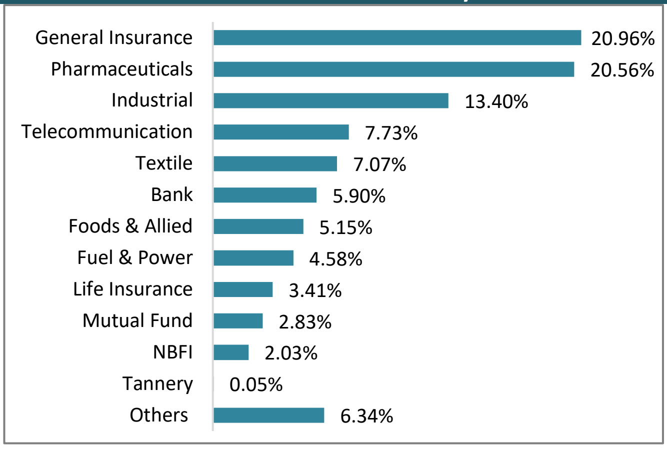


Market Statistics				
	This Week	Last Week	Weekly Change	YTD Change
DSEX	4,080.94	4,069.11	0.29%	-8.36%
DS30	1,374.59	1,368.76	0.43%	-8.47%
Market Cap ($ mn)	37,378.24	37,136.84	0.65%	-6.62%
Total Turnover ($ mn)	145.71	177.52	-17.92%	-26.27%
Avg. Daily Turn. ($ mn)	29.14	35.50	-17.92%	-26.27%
S&P 500	3,215.63	3,224.73	-0.28%	-1.30%
DJIA	26,469.89	26,671.95	-0.76%	-8.31%
FTSE 100	6,123.82	6,290.30	-2.65%	-19.47%
NIKKEI 225	22,751.61	22,696.42	0.24%	-1.95%

Weekly Sector Return



Sector Contribution to Total Weekly Turnover



NOTABLE EARNINGS ANNOUNCEMENTS DURING THE WEEK

Out of the total 26 earnings that were declared during the week, 46.2% companies posted positive growth while 53.8% were negative. Even after a 10.74% drop in revenue during the Apr-June'20 quarter, BATBC has seen a significant boost in net earnings as temporary closure of most operations due to the pandemic pushed down costs considerably compared to the same quarter in the previous fiscal year. MARICO's net earnings escalated by 17.4% as the company secured 11.2% growth in top-line revenue. On the other hand, the cement industry's sales volume has undergone a significant decline. Consequently, LHBL and HEIDELBCEM's top-line growth experienced a slump and costs increased substantially, which in turn has resulted in an earnings decline for these companies.

TICKER	COMPANY NAME	SECTOR	EPS 2020 (Apr-Jun)	EPS 2019 (Apr-Jun)	CHANGE
BATBC	British American Tobacco BD Co. Ltd.	Foods & Allied	16.48	9.73	69.4%
MARICO	Marico Bangladesh Ltd.	Pharmaceuticals	31.64	26.95	17.4%
IPDC	IPDC Finance Ltd.	NBFI	0.45	0.53	-15.1%
LHBL	LafargeHolcim Bangladesh Ltd.	Cement	0.28	0.38	-26.3%
HEIDELBCEM	Heidelberg Cement Bangladesh Ltd.	Cement	-3.31	-0.72	-359.7%

Source: DSEX, Investing.com, LR Global Research

QUARTERLY EARNINGS UPDATE

Most of the sectors experienced a double-digit negative earnings growth in the Jan-Mar, 2020 quarter compared to the same period in 2019. The food & allied, banking, and telecom sector reported the highest growth. Food & allied and telecom continued to perform well despite the economic slump as their goods and services fell under essential services and major player BATBC secured a positive earnings growth due to significant rise in stick sales. The banking sector was also able to post positive earnings as banks such as ONEBANKLTD, STANDBANKL, SOUTHEASTB, NBL, and NCCBANK were able to generate top line growth and kept aside lower provisioning for loans and advances. Alongside this, the pharmaceuticals sector reported positive earnings as it received a boost in sales due to the health crisis in the country. On the other hand, the tannery, textile, and industrial sectors were the worst performers mainly due to demand contraction amid the pandemic.

Sector	2018					2019					2020
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar
Bank	11,636	17,642	13,939	26,630	69,847	13,988	21,244	13,891	20,560	69,684	18,311
Cement	800	863	203	835	2,701	729	879	403	42	2,053	596
Ceramic	288	207	337	446	1,279	230	59	261	287	837	167
Food & Allied	2,595	2,821	2,090	2,073	9,578	1,820	1,205	2,667	2,668	8,361	2,523
Fuel & Power	7,214	10,255	10,792	9,542	37,802	8,931	11,261	10,654	8,812	39,659	7,198
Industrial	4,678	13,395	4,181	4,368	26,623	4,450	5,044	3,629	2,874	15,997	2,806
NBFI	2,331	2,029	1,421	3,311	9,092	1,673	-891	-655	1,437	1,565	1,854
Pharmaceuticals	4,729	4,791	4,549	4,547	18,617	4,787	4,985	6,093	5,920	21,786	5,391
Telecommunication	6,394	10,804	8,892	9,070	35,160	8,926	9,553	7,269	8,766	34,514	10,694
Textile	1,304	1,238	1,594	1,249	5,384	1,218	-6,076	817	814	-3,227	283
Tannery	411	278	607	321	1,616	269	99	352	144	864	-55

QoQ Growth (Sectorwise)	2018				Yearly Growth	2019				Yearly Growth	2020
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		Jan-Mar
Bank	-2.6%	4.1%	-17.3%	40.0%	7.8%	20.2%	20.4%	-0.3%	-22.8%	-0.2%	30.9%
Cement	-25.0%	55.7%	-43.8%	113.3%	13.8%	-8.9%	1.9%	98.8%	-95.0%	-24.0%	-18.2%
Ceramic	20.5%	-42.9%	11.3%	36.9%	3.9%	-20.3%	-71.3%	-22.7%	-35.6%	-34.5%	-27.5%
Food & Allied	12.9%	83.9%	10.1%	25.3%	29.7%	-29.9%	-74.1%	27.7%	28.7%	-12.7%	38.6%
Fuel & Power	8.6%	23.7%	29.6%	26.2%	22.7%	23.8%	9.8%	-1.3%	-7.6%	4.9%	-19.4%
Industrial	13.0%	377.5%	21.1%	12.5%	86.5%	-4.9%	-62.3%	-13.2%	-34.2%	-39.9%	-36.9%
NBFI	-38.0%	-16.3%	-49.0%	54.3%	-18.2%	-28.2%	-143.9%	-146.1%	-56.6%	-82.8%	10.8%
Pharmaceuticals	-1.9%	-4.8%	-11.3%	-22.4%	-10.7%	1.2%	4.1%	33.9%	30.2%	17.0%	12.6%
Telecommunication	-2.5%	36.3%	27.6%	51.8%	28.2%	39.6%	-11.6%	-18.3%	-3.3%	-1.8%	19.8%
Textile	-9.8%	-8.6%	24.0%	-10.8%	-1.9%	-6.6%	-591.0%	-48.7%	-34.8%	-159.9%	-76.8%
Tannery	51.8%	37.5%	16.3%	-4.4%	21.5%	-34.4%	-64.5%	-42.0%	-55.1%	-46.6%	-120.2%

*Note: Sector represents more than 70% of the companies (according to large market capital) Source: DSEX, LR Global Research.

MAJOR EVENTS DURING THE WEEK

Mismanagement pushes down number of virus tests: COVID-19 Update

Amid a declining number of tests, the growth rate of COVID-19 cases in Bangladesh appears to have declined this week. However, infection rate is still growing at 22.8%. During the week, 19,112 new positive cases and 293 more deaths were reported, taking the total number of cases to 221,178 as of 25th July, according to official data. Although the weekly growth rate of total positive cases in Bangladesh (9.5%) slowed down from the previous week (12.2%), the number of tests carried out per day continued to decrease (-5.0%) due to the imposition of test fees, excessive delay in test report delivery and fake test certificate scams.

USD 3.18 billion export payments left hanging

The RMG industry is currently at risk of losing USD 3.18 billion as work orders have been cancelled or suspended due to worldwide demand contraction amid the pandemic. Between March to June 2020, the sector's export earnings fell by USD 5.28 bn compared to the previous year and overall RMG exports declined by 18% in FY20.

State-owned ICB to be restructured

The securities regulator has appointed a foreign advisory institution to restructure ICB so that its role in the market can be strengthened. ICB’s high debt burden has significantly pushed up interest costs which has forced them to liquidate their positions in the market to repay their debts. This has weakened ICB's ability to support the depressed stock market.

Forex reserves to be used for financing development projects

The central bank has been asked to formulate a guideline that will contain details regarding how a portion of the forex reserve can be used to finance profitable development projects. The revenue generated from the projects will subsequently be used to repay the debts and the national budget will be used to fill in any deficits that arise.