LRG ASSET MANAGEMENT

WEEKLY UPDATE (MARCH 21-25, 2021)

KEY ECONOMIC INDICATORS

The ailing RMG sector has been struck with another blow as buyers have started asking for deferral payments again. Buyers are demanding 150 days payment period because many Western nations re-imposed lockdowns on the face of rising infections which have caused sales to drop. In addition, prices of cotton has increased in both the global and local market as yarn prices rose by more than $1.50/kg due to supply crunch and increase in transportation costs. On the other hand, rising import payments may be a concern for development projects that are to be financed from the foreign reserve as it can cover import expenditures for 5.94 months as of January which is below the comfortable level of 6 months. Oil prices dropped to as low as $57 during the week but bounced back after anticipation of fuel shortages kicked in due to Suez Canal traffic jam.

	This Week	Last Week	Weekly Change	YTD Change
Foreign Exchange Reserve (USD bn)	43.37	43.09	0.64%	0.45%
Call Money Rate (Weighted Average)	1.88%	1.74%	14 bps	-24 bps
Exchange Rate (BDT-USD)	84.80	84.80	0.00%	0.00%
Oil Price (USD per barrel of WTI)	60.97	61.42	-0.73%	25.97%
		FY 2020-21	**FY 2019-20**	**% Change**
Export (USD mn) (Jul-Feb)		25,862	26,242	-1.45%
Remittances (USD mn) (Jul-Feb)		16,687	12,499	33.51%
Import (USD mn) (Jul-Jan)		34,505	34,584	-0.23%
Current Account Balance (USD mn) (Jul-Jan)		2,235	(1,809)	N/A
Credit to the Private Sector (USD mn) (Jan)		134,466	124,112	8.32%
Point-to-point Inflation (Feb)		5.32%	5.46%	14 bps
Tax Revenue (NBR) (USD mn) (Jul-Jan)		15,585	14,927	4.41%

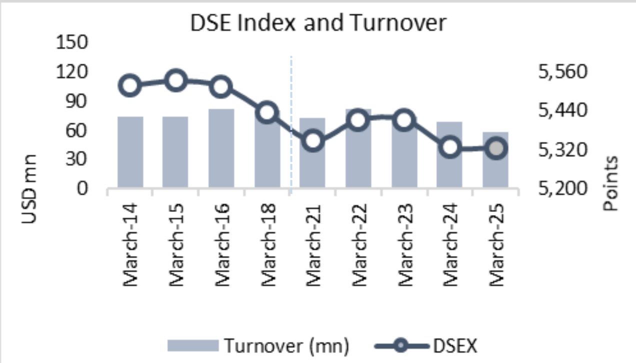
Source: Bangladesh Bank and Investing.com

ECONOMIC RISKS

Risk factor	Risk Level	Impact
Subdued tax revenue collection	High	Tax collection registered a negative growth of -2.63% in FY20 for the first time since the country's independence due to the effects of the virus. However, revenue collection has increased by 4.41% in the Jul-Jan period of FY21 as businesses and economic activities are slowly reviving. But actual tax collection continues to remain below the target. According to ADB's forecast, Bangladesh may incur a tax revenue loss equivalent to 2% of GDP due to the pandemic.
Soaring default loan in financial sector	High	The banking sector has been burdened with a high NPL ratio of 7.66% and a CAR of 11.63% that is the lowest in South Asia. Although banks are sitting with excess liquidity, their implementation of the stimulus package remains slow. The loan moratorium period ran between Jan-Dec 2020. Going forward, a sharp rise in default loans is being anticipated which is likely to undermine the sector further in the long term. The central bank has instructed banks to keep 1% extra provision against all loans that enjoyed deferral or time extension facilities. In addition, banks and NBFIs have been permitted to declare dividends depending on the strength of their capital base.
Remittance shock	Medium	Inward remittances made an exceptional recovery in the Jul-Feb period amid the pandemic with a 33.51% jump YoY. This increase has defied World Bank's projection of a -22% decline for 2020. The reason behind this increase can be attributed to the usage of formal channels amid the pandemic, the attractive 2% cash incentive and near-zero interest rates abroad. The current level of remittance inflow may sustain due to these factors coupled with gradual manpower export, though the growth rate is unlikely to be as high as 2020.
Demand contraction	Medium	Economic activities have been gradually picking up on the backdrop of the pandemic as both businesses and individuals are learning to live with the virus after the lockdown ended in May. This has allowed demand in the economy to slowly recover. However, while consumer confidence is likely to strengthen as the percentage of vaccinated population continues to increase, the recent spike in virus cases is concerning.
Export slump	Medium	It has been projected that global merchandise trade might plummet by ~13% due to the pandemic. While reinstatement of cancelled orders initially helped RMG exports rebound, the impact of the second wave has dragged RMG export growth to the negative zone once again. Although vaccine rollout at major export destinations have commenced, the resurgence of virus cases is likely to delay recovery. Moreover, unless export diversification is implemented and global economic activities pick up, Bangladesh will continue to be subjected to the concentrated risks of the RMG sector (that accounts for ~80% of export earnings).
Volatile capital market	Medium	The securities regulator has been engaged in taking various initiatives to reform the market. It has also taken up a strong stance against any non-compliance to rein in market manipulation. This has forged a positive sentiment in the market and pushed up market liquidity significantly in recent times. 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 and how the recent spike in virus cases play out.

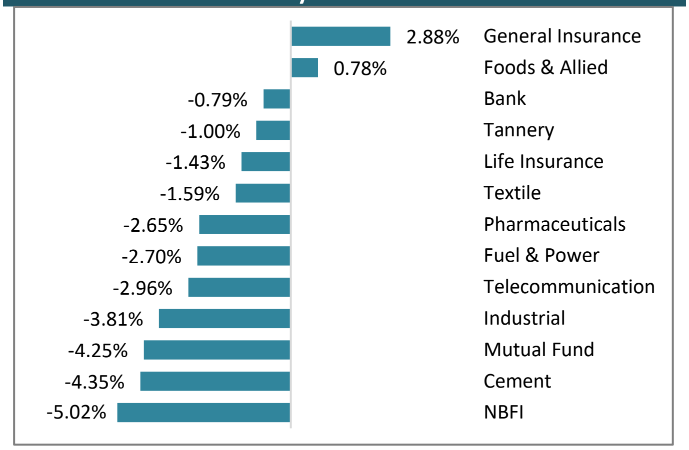
CAPITAL MARKET UPDATE

The DSEX registered a decline for a second consecutive week as it shed 107 points (-1.98%) as virus infections and deaths continued to surge and dented investors' confidence. Investors have been adopting a cautious stance and liquidating their positions in the market as the deteriorating virus situation locally as well as globally is putting the country has heightened uncertainty in the economy. The market managed to slide into the green zone mid-week for two days, with a 64 points (1.20%) gain in 2 days, as institutional investors tried to buoy up the market with more buy orders after a meeting with the regulator. However, it returned to the negative zone and fell sharply by 84 points (-1.54%) the next day, wiping out the previous two days' gain. Only the general insurance and food & allied sector managed to log in a slight positive return. Other than this, all remaining sectors were impacted by the virus and yielded a negative return. Average market turnover declined -8.40% over the previous week. During the week, the securities regulator took more measures to ensure compliance by asking 5 listed companies to provide explanation regarding anomalies in their financial statements and serving warnings to 6 brokerage houses due to their violation of securities laws and regulations.

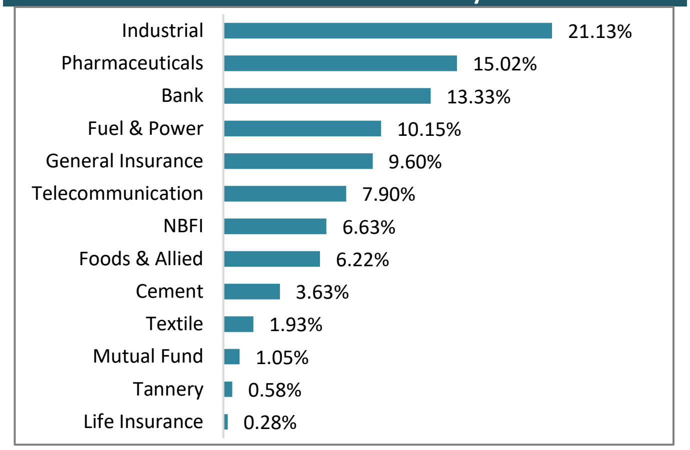


Market Statistics				
	This Week	Last Week	Weekly Change	YTD Change
DSEX	5,327	5,435	-1.98%	-1.39%
DS30	2,021	2,074	-2.55%	2.90%
Market Cap ($ mn)	54,549	55,574	-1.84%	3.38%
Total Turnover ($ mn)	354	309	14.50%	-58.52%
Avg. Daily Turn. ($ mn)	71	77	-8.40%	-58.52%
S&P 500	3,975	3,913	1.57%	5.82%
DJIA	33,073	32,628	1.36%	8.06%
FTSE 100	6,741	6,709	0.48%	4.34%
NIKKEI 225	29,177	29,792	-2.07%	6.31%

Weekly Sector Return



Sector Contribution to Total Weekly Turnover



NOTABLE EARNINGS ANNOUNCEMENTS DURING THE WEEK

Out of the 12 earnings that were declared during the week, 8 companies posted positive earnings growth and 4 companies posted negative growth in earnings. Majority of the banks posted earnings growth this week thanks to the reduced provision rules set by the central in a bid to support the financial institutions during this pandemic. CITYBANK's earnings grew by 65.64% which allowed them to declare 17.5% cash and 5% bonus dividend. The bank declared stock dividend to keep their capital of risk weighted asset ratio strong for future business growth. BANKASIA AND JAMUNABANK posted earnings growth of 3.57% and 4.73% respectively which allowed them to post good dividends and keep their investors happy.

TICKER	COMPANY NAME	SECTOR	EPS 2020 (Jan-Dec)	EPS 2019 (Jan-Dec)	CHANGE	Dividend (2020)
CITYBANK	The City Bank Limited	Bank	4.29	2.59	65.64%	17.50% C & 5% B
BANKASIA	Bank Asia Ltd.	Bank	1.74	1.68	3.57%	10% C
JAMUNABANK	Jamuna Bank Limited	Bank	3.54	3.38	4.73%	17.50% C

Source: DSEX, Investing.com, LR Global Research

QUARTERLY EARNINGS UPDATE

During the Oct-Dec'20 quarter, based on the data of 177 companies that have declared their earnings so far, the industrial sector bounced back and recorded the highest earnings growth after declining continuously for more than a year. The gradual revival of economic activities has had a large part to play in this as virus cases slowly subside. The NBFI sector recorded the second highest earnings growth during the quarter followed by bank, pharmaceuticals, and ceramic. Bank and NBFIs continued its profit growth trend from the previous quarter. In the Jul-Sep'20 quarter, a good number of NBFIs logged in higher earnings due to lower provisioning and reduced deposit rates, allowing the sector to register the highest growth in that quarter. Banks too experienced a significant boost in earnings due to similar reasons during that period. At this time, it is slightly concerning that the tannery sector is still continuing to post negative growth in earnings due to the discretionary nature of the products. Earlier in Apr-Jun'20 quarter, only the NBFI and food & allied sector managed to report a positive growth mainly due to a significant boost in ICB's earnings and BATBC's resilient growth in stick sales, respectively.

Sector	2019					2020			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Bank	13,988	21,244	13,891	22,880	72,003	18,311	13,382	21,338	4,479
Cement	872	958	582	250	2,662	803	173	930	778
Ceramic	230	59	261	287	837	167	-278	142	355
Food & Allied	2,294	1,683	3,219	3,156	10,352	3,020	2,501	2,960	201
Fuel & Power	9,076	11,399	10,862	8,961	40,298	7,336	5,683	9,997	9,111
Industrial	4,733	4,834	3,870	3,165	16,602	2,929	-665	3,439	5,895
NBFI	1,775	-393	-783	1,216	1,814	1,517	1,355	1,864	1,737
Pharmaceuticals	6,344	6,951	7,617	7,387	28,298	6,778	4,870	8,869	8,323
Telecommunication	8,926	9,553	7,269	8,766	34,514	10,694	7,265	8,898	10,330
Textile	1,465	-5,890	1,183	1,271	-1,971	417	-3,951	484	894
Tannery	270	101	371	144	886	-27	-869	-455	69

QoQ Growth (Sectorwise)	2019				Yearly Growth	2020			
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Bank	20.2%	20.4%	-0.3%	-14.1%	3.1%	30.9%	-37.0%	53.6%	40.9%
Cement	-4.6%	-0.4%	93.8%	-72.4%	-13.6%	-7.9%	-81.9%	59.7%	-
Ceramic	-20.3%	-71.3%	-22.7%	-35.6%	-34.5%	-27.5%	-567.8%	-45.7%	23.7%
Food & Allied	-25.0%	-74.1%	25.3%	25.6%	-18.8%	31.6%	48.6%	-8.0%	-47.2%
Fuel & Power	22.5%	9.4%	-1.1%	-7.3%	4.7%	-19.2%	-50.1%	-8.0%	6.4%
Industrial	-2.3%	-65.2%	-12.0%	-30.8%	-40.0%	-38.1%	-113.8%	-11.1%	108.1%
NBFI	-32.7%	-118.7%	-142.2%	-75.6%	-84.3%	-14.5%	444.8%	338.0%	54.0%
Pharmaceuticals	7.7%	6.0%	25.6%	20.7%	14.9%	6.8%	-29.9%	16.4%	27.1%
Telecommunication	39.6%	-11.6%	-18.3%	-3.3%	-1.8%	19.8%	-24.0%	22.4%	17.8%
Textile	-9.4%	-481.5%	-39.8%	-20.8%	-129.3%	-71.5%	32.9%	-59.1%	-29.7%
Tannery	-34.1%	-63.8%	-38.8%	-55.0%	-45.2%	-109.9%	-962.9%	-222.6%	-27.9%

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

*Jul-Sep'20 & Oct-Dec'20 earnings growth have been calculated based on the earnings of 227 and 177 companies, respectively, that have been declared so far out of the 251 tracked.

MAJOR EVENTS DURING THE WEEK

COVID-19 infection rate increases to 12.93% this week in Bangladesh: COVID-19 Update

The weekly new COVID-19 cases increased by 85.24% as the total tests conducted increased by 27.89% compared to the previous week. During the week, 23,100 new positive cases and 201 more deaths were reported in Bangladesh, taking the total number of cases to 588,132 as of 25th March, according to official tallies. The positivity rate increased to 12.93% while the death rate is hovering around the same region. Hospitals in Bangladesh are struggling again as ICU beds are getting filled with COVID patients. The pace of rising transmission is alarming and adequate measures needs to be taken to bring situation under control. Globally, the total number of cases has crossed 127 mn and the death count is also about to reach 2.78 mn.

Central Bank extends loan repayment using different facilities until 2022

BB has relaxed loan repayments again but this time did not relax the repayments for all loans. Borrowers of demand and term loans will be given time till Dec 2022 and June 2021 respectively. For working capital, it is extended till June 2022 if interest payments are being made. However, this facility does not apply to loans taken from the incentive packages.

Non-bank financial institutions (NBFIs) dividend capped at 30%

The central bank this week gave a clear directive on NBFIs dividend payout percentage and has set the limit at 30%. Of the amount, the NBFIs will have to pay 15 per cent in the stock dividend, and the rest will be paid in the form of cash. NBFIs with CAR ratio of less than 10% and default loans of more than 10%, will not be able to declare any dividend.