EDGE
RESEARCH & CONSULTING

03 February 2022
Bangladesh
Strategy Note

Real and monetary economy at odds

We bet on consumer names

- **2021 was a drunken rally:** DSEX was up ~25% in 2021 and ADTV soared, almost tripling to BDT14bn. Driven by all-time low interest rates, the index took off driven primarily by small caps. Blue chips, on the other hand, largely underperformed the market. We think the big theme for 2022 is that monetary economy is set to tighten, while real economy is on track for both near and longer term structural improvements. Regardless of how the broad market reacts to these opposing forces, we think consumer names such as Square Pharmaceuticals, Marico and Singer Bangladesh are poised to do well, given their existing cheap valuations and positive cyclicality with economic revival.

- **Further monetary tightening on the way:** The monetary equation began to flip when Bangladesh Bank mopped up ~BDT690bn from the money market via 'BB-Bill' auctions. On the external side, domestic economic revival led to trade deficits which shrunk the official and kerb market gap in FX. The net result was a dip in remittances which led to external side deficits and monetary tightening. We think this theme is set to continue and current account deficits will likely be back on the menu. Historically, the central bank has preferred interest rate volatility over FX volatility; how the latest round plays out in presence of rate caps will be interesting to see.

- **2022 will be the big year for infrastructure projects:** VAT collection, electricity consumption and ADP implementation all point towards a notable recovery from Covid. Beyond the short term bounce back, we think the key shift is more structural in nature, which entails benefits for years to come. The first is acceleration in RMG exports, which appears to be driven by competitive strength rather than pure order momentum. The second part is the introduction of mega infrastructure projects which are set to come online in the latter part of 2022 and plug in a big chunk of existing supply side gaps— (i) Padma Bridge, (ii) Dhaka MRT Line 6, (iii) Dhaka Elevated Expressway (Phase 1), and (iv) Rampal Coal Power Plant.

- **We back consumer names:** Given monetary policy uncertainty (rate caps/interest rate volatility) and asset quality risks, we would skip all financials apart from BRAC Bank (due to bKash). We view consumer names as being particularly interesting, given they stand to benefit the most from recovery in the real economy. Considering valuation upside and general business strength, our top picks in this space are Square Pharmaceuticals, Marico and Singer Bangladesh.

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Table 1: Summary of forecasts/changes

	Target Price		Rating		ETR (%)	P/E (+1)	P/B (+1)	EV/EBITDA (+1)
	Old	New	Old	New				
Financial								
BRAC Bank	76	111	Buy	Buy	98%	27.1	1.5	
City Bank	15	20	Sell	Sell	-27%	12.3	0.8	
Eastern Bank	43	47	Hold	Buy	22%	10.0	1.0	
Prime Bank	16	17	Hold	Sell	-20%	19.1	0.8	
United Commercial Bank	11	16	Sell	Hold	0%	8.9	0.5	
Delta BRAC Housing	91	56	Hold	Sell	-22%	14.5	2.0	
IDLC Finance	57	74	Sell	Buy	26%	10.7	1.3	
Telecom								
Grameenphone	432	339	Buy	Hold	4%	11.8	8.6	4.4
Pharma*								
Square Pharma	258	383	Buy	Buy	72%	10.8	1.9	12.2
Beximco Pharma	132	169	Sell	Hold	-12%	12.0	2.1	9.4
Renata Limited	1,119	1,406	Hold	Hold	4%	25.2	4.8	17.1
Consumer Goods								
Olympic	253	215	Buy	Buy	39%	17.8	6.9	12.7
Marico Bangladesh	1,777	2,684	Sell	Buy	18%	22.3	37.7	15.9
BAT Bangladesh	473	607	Hold	Hold	-1%	20.0	9.7	9.6
Singer Bangladesh	209	220	Buy	Buy	32%	18.5	3.8	11.2

Source: Company Reports and EDGE Calculation; *Stock prices as on 2 February 2022*

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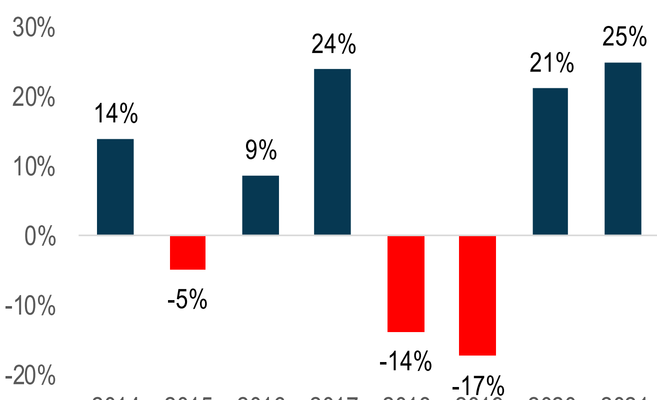
2021 started with a liquidity driven drunken rally

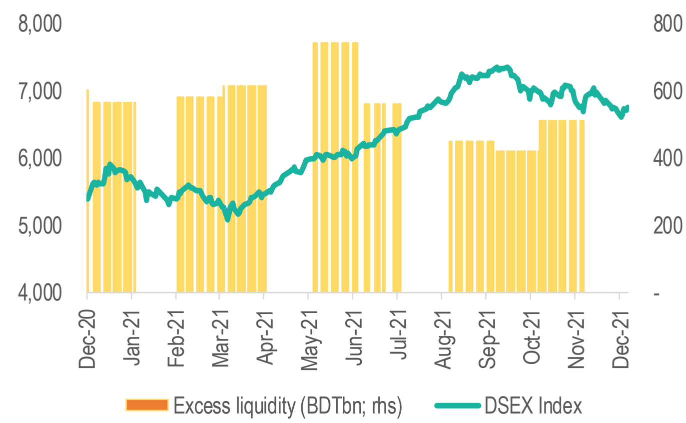
The bull market runs of 2020 and 2021 can both be traced back to 1H2020 when, faced with a pandemic, the central bank undertook monetary expansion to support the economy. This came in the form of reduced repo rates (-125bps), CRR rates (-150bps), and various refinancing packages. Money injection in the domestic market was supplemented by current account surpluses throughout 2H2020, which was driven by record high remittances in the period (+37% YoY; boosted by reduced differential in official and kerb market rates, and by halted 'hundi' operations)— remember that surpluses generally lead Bangladesh Bank to purchase dollars from (and sell BDT to) banks to stabilize the exchange rate. All said and done, 2021 began with an abundance of liquidity, all-time low treasury (and deposit) rates, and a lending rate cap (enforced in early 2020). It is only natural then, that the excess money in the system flowed to the stock market in search of higher returns.

Figure 1: DSEX YoY returns



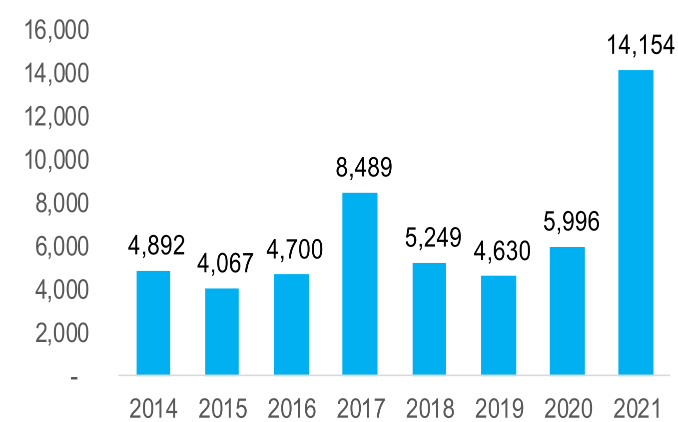
Source: DSE Website

Figure 2 : DSEX 2021



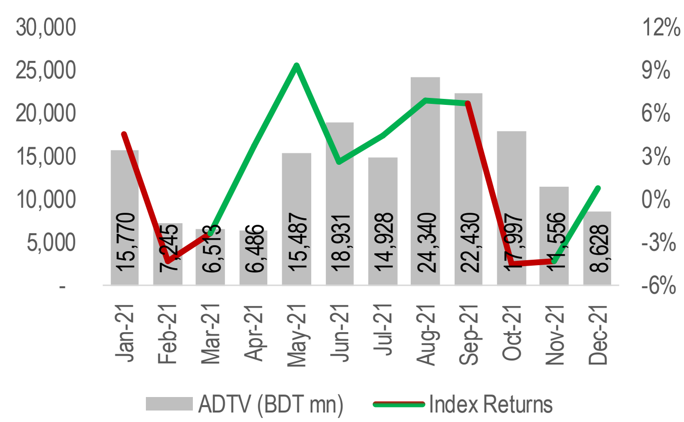
Source: DSE Website. *Feb, May and Aug data not available; Dec data not released*

Figure 3: Year-wise Average Daily Turnovers (ADTVs; BDT mn)



Source: DSE Website

Figure 4: ADTV and Index Returns 2021

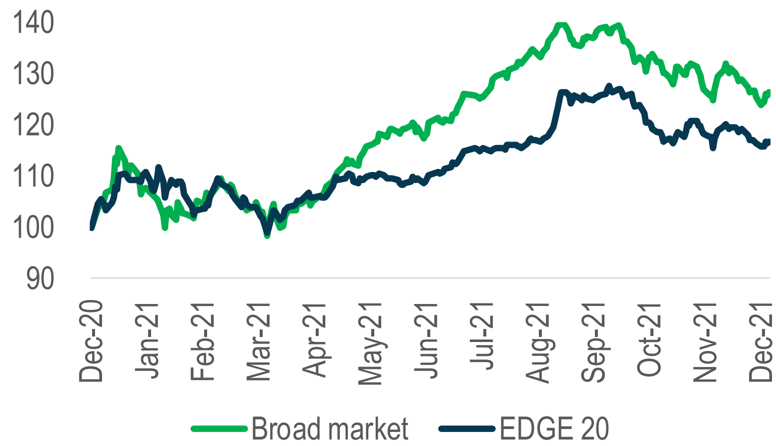


Source: DSE Website & EDGE Calculation

The relationship between the broad market and excess liquidity is clearly depicted Figure 2. The DSEX Index remained strong throughout 2021 (weathering a minor jitter in March amidst a new Covid-19 wave) and peaked around September-October in terms of both level and turnover (DSEX crossed 7,300 points for the first time in 2021). This rally, however, was not all-encompassing.

Where blue chips lagged the market

Figure 5: Market vs Blue chips



Source: DSE Website

The chart above shows how 'EDGE 20' (our blue chip index) fared against the broad market in 2021 (the broad market here refers to the aggregate market less the 20 companies in our blue chip index). It is evident that blue chips lagged the market in general, as 2021 saw marked movements in riskier small-cap stocks. While one way to look at it is that fundamental investors came out second best in this period, the glass half-full perspective is that blue chips are still relatively cheap and investable. We believe there is considerable value to be unlocked by getting into stocks such as SQURPHARMA, SINGERBD and BRACBANK, especially if there is a flight to safety at the end of the small-cap rally. The case for each of these stocks are elaborated in the 'Investment picks' (page 11) section of this report.

Then liquidity tightened up in 2H2021

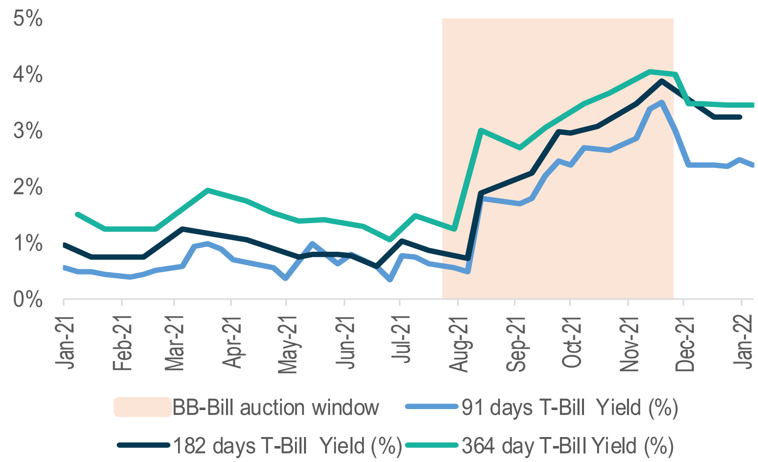
Just as the seeds of surplus liquidity initially bore tall equity prices, dissipation of that liquidity led to a dip in prices towards the end of 2021. The liquidity drain was primarily a result of central bank interventions in the money and forex markets.

Between August and November 2021 (highlighted in Figure 6 next page), Bangladesh Bank mopped up ~BDT690bn from the money market via 'BB-Bill' auctions; the resulting drop in excess liquidity (and in the DSEX index) is visible in Figure 2 (previous page). This tightened liquidity to the point that the call money rate shot up 224bps between October and November (to 4.49%). In response, the central bank put a hold on 'BB-Bill' auctions in late November to ease liquidity pressures. This appears to have paid off as the DSEX has stabilized at ~7,000 points and treasury yields have become sticky (more on that later).

Alongside 'BB-Bill' auctions in the money market, Bangladesh Bank has also been actively selling dollars (and purchasing BDT) in the forex market to alleviate downward pressure on the exchange rate brought about by a current account deficit. Imports have been on the rise (and continue to be so) since June 2021 for a multitude of reasons— high commodity prices, recovering business sentiment leading to capital machinery imports, and ramp up in RMG inputs to support export demand. Over the same period, remittances slowed down (-21% YoY in 2H2021) as kerb market differential expanded (~BDT90/USD versus ~BDT86/USD in official channels) and hundi operations likely resumed (due to relaxations on international travel). Although exports have been particularly strong of late (+28% YoY in 2H2021), it was not enough to offset the import momentum and remittance dip. The consequence is that Bangladesh Bank has been selling dollars to banks (~USD2.5bn thus far in FY22) to support the BDT, mopping up local currency from banks in the process. FX reserves stood at ~USD45bn in mid-January 2022, reflecting ~7 months import cover.

A third, and decisive drag on liquidity, is tied to credit disbursement. This has also started gathering pace following broader economic recovery, with private sector credit growth reaching double digits (10.11%) in November 2021, a first since 2019; public credit disbursement has also picked up gradually, with ADP spending in Jul-Nov 2021 above pre-pandemic levels. This three-pronged (money market, forex market, and credit disbursement) grab on liquidity led to a yield spike in the July-November period (shown in Figure 6 below).

Figure 6: Treasury yields



Source: DSE Website

Note that yields have been by and large sticky since December, which implies a liquidity supply-demand stalemate of sorts. The suspension of 'BB Bill' auctions by Bangladesh Bank in late November naturally played a part in restoring liquidity parity. In the credit space, the key cog is private credit (accounts for ~82% of domestic credit) which, although better off than 2020, essentially remains shackled by the lending rate cap. Against the backdrop of loan quality concerns and an upward revision of term deposit rates (Bangladesh Bank tied term deposit rates for individuals to inflation in 2021), banks have limited appetite to expand their loan books at the prescribed 9% lending rate. Before the deposit floor circular, banks preserved margins by reducing rates offered on fixed deposits— as low as 2% was offered by the more credible banks while inflation stood at 5-6% in 2021. Now that the floor rate has been raised by the regulator, the 9% cap weighs even heavier on banks.

Lending rate cap will (eventually) be repealed

As things stand, it is difficult to imagine private credit growth hitting the government's targeted ~15% in presence of the rate cap. While this would imply a repeal of the rate caps sooner rather than later, the coast does not appear quite so clear. On 9 January 2022, Bangladesh Bank allowed the official exchange rate to depreciate by BDT0.20 to BDT86/USD. The move is meant to address the external deficit situation by making imports more expensive, whilst incentivizing exporters (a bid to capitalize on current RMG export momentum) and remitters. The stance also reduces absorption of liquidity by Bangladesh Bank (via dollar sales). Continued dollar injections throughout FY22 lowered Bangladesh's FX reserve import cover to ~7 months (as of the writing of this report; was ~10 months at the beginning of FY22). It is also worth mentioning that a pre-requisite to keeping the lending cap is ensuring sufficient liquidity in the banking system and it could be that is a key concern for the central bank at present. Hence, while we do expect the lending rate ceiling to eventually be removed, the decisive blows may not land in 2022. What is clear is that sustained liquidity is a boon for the equity market, which was the crux of our initial discussion. As such, actions by the central bank to support liquidity will likely end up delaying an equity market correction.

Banking sector health concerns remain

Bangladesh Bank's interventions have also kept reported non-performing loans (NPLs) at bay since the pandemic; the catch is that reported numbers now belie underlying asset quality— published NPL ratio actually declined 166bps between the beginning and end of 2020, which is unintuitive given the period hosted a pandemic and lockdowns. This was made possible by policy support from the central bank. 2020 featured a loan classification moratorium while 2021 ended with a relaxed loan repayment policy— borrowers can remain unclassified by paying 15% of 2021 dues within the same year (there are murmurs that the payment deadline has been informally extended to mid-January 2022).

Although loan-related circulars have taken several forms in recent years, the essence has always been lower reported NPL ratios (~8-9% since 2020). Based on our channel checks and reading of the economy, we believe true bad loans to be closer to 25%. However, such a figure is unlikely to show up as long as regulatory interventions persist. As for relying on reported metrics, a starting point can be stressed loan ratio (disclosed in Bangladesh Bank's annual Financial Stability Reports), which includes both NPLs and restructured loans; this stood at ~22% at the end of 2020.

What has changed?

While 2021 was a pure monetary play, the big theme for 2022 is clearly focused around the real economy. In many cases, these two themes are at odds; monetary economy is going through a tightening, while real economy is seeing significant acceleration. The interesting bit for us is that there is more to the real economy story beyond just Covid-19 bounce back. We have divided the key points into two segments below, one focusing on the long-term dynamics and the other on short-term developments.

Long-term play: Infrastructure

Policy makers have been working in the background for a significant part of the last decade to solve the supply side bottlenecks that plague Bangladesh. While progress has been slow at times, it seems 2022 will be the "big year" when a significant portion of these projects will come live. These include both hard infrastructure projects such as bridges, roads, power etc. and soft infrastructure projects such as legal and digital infrastructure.

Table 2: Summary of near-term infrastructure projects

Project	Completion date	Project cost US$bn	Impact	Objective
Transportation				
Padma bridge	Mid-2022	3.7	US$6bn/year (+1.7% FY21 GDP)	Links South-Western to Northern and Eastern Region
Dhaka MRT Line-6	Late 2022	2.8	60k capacity/hour and ~80min saving	Ease Dhaka traffic
Dhaka Elevated Expressway	2022 (Phase 1)	1.4	US$432mn/year (+0.12% FY21 GDP)	Dhaka bypass and eases traffic within city
Karnaphuli Tunnel	Late 2022	1.1	Will carry 60mn vehicles initially, jump to	Ease Cox's to Chattogram Communication
Khulna-Mongla rail line	Late 2022	0.3	-	Transport goods from Mongla Port
Payra Seaport	2023	2.4	Expected to lower cost of importing commodi-	Lower Dependency on Chattogram Sea Port
Hazrat Shahjalal International Airport Terminal 3	2023	2.5	Increase passenger capacity to 20mn from 8mn, cargo handling capacity to 0.5mn from 0.2mn per anum	Handle increasing airport load
Power				
Rampal Coal Plant	Mid 2022	1.8	Add 1320MW	The government intends to add 2,883MW to the grid in the next six years (2022-2027)
Rooppur nuclear power plant	2023	12.7	Add 2400MW	
Matarbari Coal-Fired Power Station	2023	6.0	Add 1200 MW	
Payra R-LNG	2023	2.8	Add 3600MW	
Transmission Line Projects (~20 projects)	2022 to 2024	12.4	-	Boost transmission network around the country
Digital & Legal				
Banking interoperability	2022	N/A	Allow the transfer of funds between platform (MFS, Banks)	Reduce cost of transaction and boost digital payments
Taxation digitization	Completed	N/A	~130k used the online platform for last year	Simplify procedure and boost tax collection
Other Notable Prjects				
Chittagong-Cox's Rail Line	2024	2.0	16mn capacity/year, ~50% time saving	Facilitate swift travel to Cox's, part of Trans-Asian Rail
Western Economic Corridor and Regional Enhance-ment Program Phase I Project	2034	0.5	-	Provide connectivity in Western Bangladesh. WeCare is a transportation blueprint for the next generation infrastructure
Matarbari Deep Sea Port	2026	2	Expected to contribute 2-3% to GDP, ships with 800 TEU capacity will be able to dock	Handle the future growing port pressure (expected to be ~4mn TEU)
Land management automation	2025	0.14	-	Simplicy all procedure related to land management

Source: News reports and Government websites

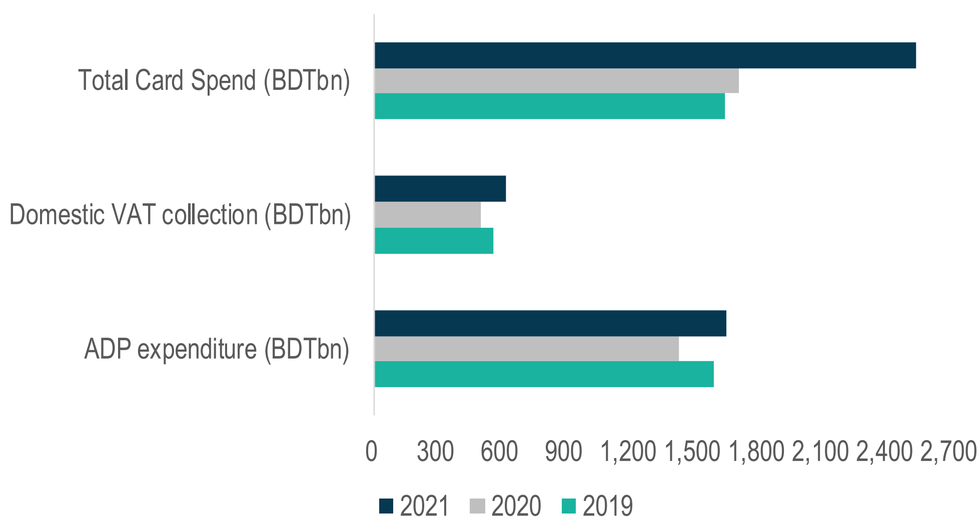
Currently, the government seems to be focusing primarily on improving connectivity and boosting economic activity in 'harder to reach' regions. There is also a focus on reducing the pressure on Dhaka, and overall, connecting various parts of the country — thereby improving logistics performance. Infrastructure projects, such as the Padma Bridge and WeCare, will span across several districts, providing access to these markets, boosting productivity in previously isolated regions and ease supply chain blockages; this will also have a spillover effect across industries.

Bangladesh's high population density means that each project will be connecting significantly more people, and the implied return on investment, as a result, is extremely high. With current capex drives, it is likely we might go from having a poor connectivity to an overall very efficient network within a decade or so. Another positive side to Bangladesh's development story is the country's conservative use of debt (external debt ~22% of GDP in FY21), which provides the government the much needed headroom to push through investment spending in the next few years.

We already have some visibility with the buildup in digital infrastructure (on the banking and taxation front). The short term future will likely see even further efforts in this space adding further to our bullish outlook for the country's potential growth – according to a PwC report, a 10% addition in a country's digitization score would bring a growth of 0.75% to its GDP per capita.

Short-term play: Covid bounceback

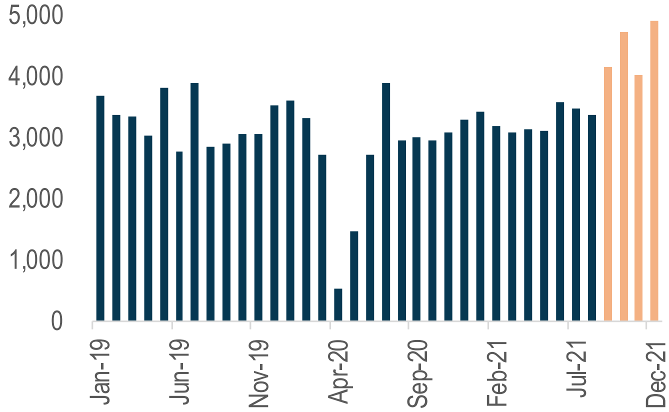
Figure 7: Activity indicators for January-November



Source: IMED, National Board of Revenue and Bangladesh Bank

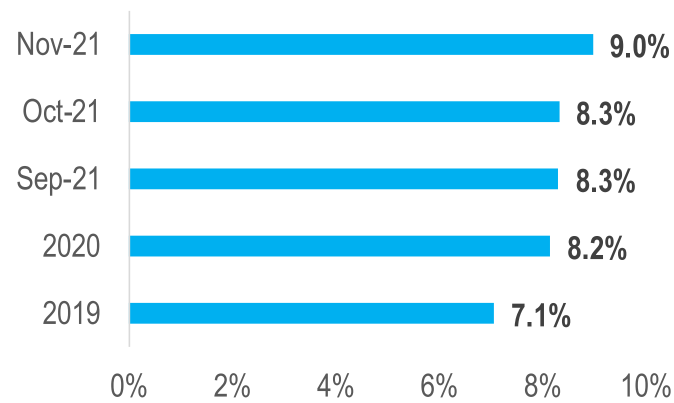
2021 saw the real economy pick up pace across the board. The activity indicators we track all exhibited a recovery trend, and most have already exceeded pre-Covid levels. Three of the more relevant ones are presented above in Figure 7. We look at card expenditure (total debit and credit card transactions) and VAT collection as proxies for consumer spending in the economy. Card spend was particularly strong in 2021, with e-commerce transactions gaining momentum early in the year and PoS transactions rebounding in the second half of the year (after the lifting of intermittent lockdowns). ADP expenditure, which we use as a gauge of public sector activity, has also bounced back. Government outlay is set to accelerate in the coming years as the infrastructure projects (mentioned earlier) come into play.

Figure 8: Bangladesh exports (USDbn)



Source: Export Promotion Bureau

Figure 9: Bangladesh's export share of US apparel



Source: OTEXA

On the external side, exports took up the baton from remittances in 2021 and registered record high single-month values towards the end of the year (highlighted orange in Figure 7); full year earnings grew 32% YoY. A confluence of factors served as tailwinds for the county's RMG sector (related exports make up ~80% of the total basket) in the last third of the year; these include:: i) Economic recovery key destinations such as the EU and US facilitated strong order flow prior to the winter season, and ii) Covid-19 related challenges in competitor countries (such as India, Vietnam, Myanmar, China) shifted foreign orders to Bangladesh. Bangladesh's export share of US apparel creeping up in Figure 9 is a reflection of the latter. A caveat here is that the growth spurt is primarily volume driven with marginal price bumps. Cost side pressures (cotton price hike, supply chain issues) are still at large, which has translated to trade deficits. A potential threat to export momentum involves Omicron-led lockdowns in EU or US; however, given the new variant is milder than its predecessor (Delta), hard lockdowns do not appear imminent.

Overall, the real economy seems to be coated in strength going into 2022.

Investment picks

Real and monetary economy at odds

The key challenge for 2022 is that the real and monetary economies appear to be painting two different pictures. We think the real economy is experiencing more than just a cyclical bounce back from Covid-19. Structural changes like completion of large infrastructure projects and export acceleration are here to stay.

On the other side, the DSEX has historically been a monetary cycle driven market and the monetary side paints a bearish picture due to external tightening led pressures. From a broad market perspective, the signal is clearly negative, but things could be interesting for certain blue chips.

We believe a higher weight should be assigned to developments in the real economy, given they are more structural (hence durable) in nature while monetary developments are more short-term in nature. Moreover, given the discount implied by blue chips at present, we see limited downside from further monetary tightening, while the upside potential appears significantly more handsome.

Non-financials

For non-financials we prefer companies that are likely to benefit from the acceleration in the real economy. As such, consumer companies would be our go-to, as they would benefit most handsomely from the bounce back.

Square Pharmaceuticals

Square is currently trading at an FY22f P/E of 11x, adjusted for net cash this comes to around ~9x. It seems Square has sorted out its sales team re-organization process; the net result is visible in reported numbers of the last few quarters, where topline consistently registered double digit growth. Moreover, Square has removed all loans/guarantees to sister entities, which we view as an important step in the right direction. We think the market is yet to price in these changes, which explains the depressed multiples. From a catalyst perspective, all pharma companies are set to enjoy a strong Jan-March quarter thanks to the Omicron wave, which fueled consumption of general cough/fever medicines quite substantially; Square is no exception to this purple patch.

Marico Bangladesh

Marico is currently trading at an FY22f P/E of 22x. More interestingly, due its high cash generating nature, its FY22f P/OCF also stands at ~22x. While certain segments like men's grooming and edible oils (Saffola) failed to take off in Bangladesh, as a whole, Marico's new launches appear to be quite successful given the strong revenue growth (>15% in most quarters) reported in recent periods. Moreover, Marico was able to retain high margins via price hikes despite prominent input price pressures in the copra space (raw material for coconut oil)— a testament to the company's pricing power. Overall, we think Marico is a share which appears slightly pricey on first glance, but is actually trading relatively cheap when multiples are adjusted for the business's exceptional profitability (invested capital is negligible).

Singer Bangladesh

Singer faced a tough 2021 due to a combination of input price hikes and weak topline (hit by Covid-19 related lockdowns in key quarters). Going forward, we expect both to turn: (i) Given the entire industry faces the same cost pressures, we expect a industry wide re-pricing, and (ii) With economic recovery on the cards, we see demand for cyclical sectors such as consumer electronics recovering to pre-pandemic levels. We expect Singer's margins to recover through 2022 and normalize in 2023. Based on 2023f earnings, Singer is trading at ~12x P/E which we think is cheap for a consumer electronics name, especially in light of the potential sector-wide recovery 2022 onwards.

Stick to BRAC in financials

Rate-cap related margin uncertainty and covid-19 induced bad loan black hole mean that Financials remain tricky. Apart from BRAC Bank, none of the other Financials are trading particularly cheap (vs history or our valuation), whilst being exposed to the same unknowns. We continue to prefer BRAC Bank mostly due to pure mispricing by the market (especially the bKash component). Regarding rate caps, although there is no particular visibility surrounding its repeal, we still think the measure will prove unsustainable as soon as liquidity pressures begin to mount; BRAC Bank would be the biggest beneficiary in that case.

Appendix: Coverage Rundown

(Prices as on 2 February 2022)

BRACBANK

Rating	BUY
Price (BDT)	57
Target Price (BDT)	111
Total Return	98%
Price Return	96%
Div. Yield	2%
# of shares (mn)	1,392
Market Cap (USDmn)	925

Stock Price

Year in review

BRAC Bank provided 34% return to shareholders in 2021, with the bulk of the price movement happening during the bKash Series C deal. In terms of business development, things were relatively quiet on the core banking end, primarily due to the rate cap making SME lending moot. However, things were different for bKash, where business boomed post lockdown, with the growth coming from non-cash out avenues such as merchant payments, p2p transfers and utility payments. A big development for BRAC Bank was the launch of its new digital channel brand "Astha", encompassing internet and mobile banking.

What could make it move

With foreign participation decreasing over time in Bangladesh markets, value discovery process has become somewhat complicated. In our view, local investors in Bangladesh respond mostly to earnings numbers. This suggests very limited value is currently being assigned to the bKash component, although there could be significant economic value being added on the back of higher adoption of services. Given bKash growth is unlikely to lead to EPS boost, we think the primary catalyst for BRAC Bank's share price would be repeal of the rate cap, which would provide significant profitability boost. Alternatively, given the share has become somewhat illiquid (most funds are buy and hold), any large ticket buyer could potentially move the stock quite sizably.

Primary risks

We still do not have a clear idea of permanent hit to loan book stemming from Covid-19. As a result, there are significant downside risks to risk cost and by extension, earnings numbers. Rate caps remain another key concern, while we expect this to be removed, timing is somewhat unknown. We think things could get particularly hairy if policy makers delay repealing the rate cap in the face of monetary tightening, which could have significant margin impact.

Any systemic risk fallout can affect the bank adversely; due to the nature of the event, it is difficult to predict how it might pan out. Beyond liquidity shock risks, other potential concerns include forced acquisitions of problem banks although there is no indication of this yet.

For bKash, the key risk is implementation interoperability which is scheduled to be launched in 2022. This would remove significant entry barriers from bKash and at the same time allow international competition to enter the market very efficiently. Interoperability could also have revenue implications for bKash, although details are scarce at this stage.

Table 2: BBL Consolidated Financial Summary 2018-2026f (BDT mn)

Amounts in BDT million	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Cash	22,394	23,067	19,988	18,861	20,359	23,872	29,381	38,830	52,891
Interbank	44,652	46,598	42,650	43,368	44,122	45,388	46,756	48,233	49,829
Investments	35,133	55,952	94,095	73,426	78,249	84,615	91,745	99,730	108,674
Gross loans	**238,400**	**264,870**	**273,439**	**292,553**	**318,849**	**369,805**	**428,914**	**497,480**	**577,017**
Loans/Deposits	*92%*	*89%*	*82%*	*89%*	*90%*	*93%*	*94%*	*95%*	*96%*
Other Assets	17,425	24,369	25,962	26,403	28,156	30,259	32,522	34,958	37,580
Total assets	**358,005**	**414,855**	**456,134**	**454,611**	**489,735**	**553,939**	**629,317**	**719,230**	**825,990**
Liabs. & equity									
Interbank & Borrowings	31,303	37,223	36,028	36,768	40,049	45,984	52,805	60,646	69,659
Total deposits	**259,961**	**297,755**	**333,616**	**327,835**	**353,329**	**399,644**	**456,458**	**522,361**	**598,809**
Other borrowings	0	0	0	0	0	0	0	0	0
Shareholders' funds	**41,700**	**46,664**	**53,759**	**56,317**	**56,621**	**59,346**	**65,230**	**75,856**	**91,841**
Other Liabilities	25,040	33,214	32,732	33,692	39,735	48,964	54,824	60,368	65,681
Profit & Loss Account									
Net interest income	17,523	20,338	18,277	20,205	23,149	31,729	38,496	45,205	52,676
Net fees and commissions	7,227	6,599	6,846	6,240	7,143	7,827	9,995	14,947	20,760
Investment Income	1,085	645	3,433	5,000	2,000	1,920	2,052	2,197	2,357
Other Income	173	238	170	184	199	215	232	251	271
Total income	**26,008**	**27,820**	**28,727**	**31,629**	**32,491**	**41,690**	**50,775**	**62,601**	**76,064**
Total operating costs	(16,614)	(18,859)	(20,533)	(21,852)	(24,352)	(27,821)	(31,812)	(36,406)	(41,699)
Net operating income	**9,393**	**8,960**	**8,194**	**9,777**	**8,139**	**13,870**	**18,963**	**26,194**	**34,366**
Total loss provisions	(752)	(1,461)	(1,873)	(3,811)	(3,508)	(3,684)	(4,257)	(4,922)	(5,694)
Pretax profit	**8,641**	**7,499**	**6,321**	**5,966**	**4,631**	**10,186**	**14,706**	**21,272**	**28,672**
Tax	(2,973)	(2,918)	(2,295)	(2,082)	(1,675)	(3,484)	(4,845)	(6,669)	(8,709)
% tax rate	*34%*	*39%*	*36%*	*35%*	*36%*	*34%*	*33%*	*31%*	*30%*
Net attributable profits	**5,545**	**4,950**	**4,413**	**4,357**	**2,987**	**6,293**	**8,780**	**11,846**	**15,242**
Per share figures									
BVPS	25.3	29.2	34.6	36.7	37.0	38.6	42.1	47.7	55.8
EPS	**4.0**	**3.6**	**3.2**	**3.1**	**2.1**	**4.5**	**6.3**	**8.5**	**10.9**
DPS	0.0	0.7	1.0	1.0	1.9	2.9	2.9	2.9	2.9
Ratios									
NIMs	5.9%	5.9%	4.7%	4.9%	5.4%	6.7%	7.2%	7.5%	7.6%
ROAA	***1.6%***	***1.3%***	***1.0%***	***1.0%***	***0.6%***	***1.2%***	***1.5%***	***1.8%***	***2.0%***
ROAE	*17.9%*	*13.1%*	*10.0%*	*8.8%*	*5.8%*	*12.0%*	*15.6%*	*18.9%*	*21.1%*
Cost/ income ratio	***63.9%***	***67.8%***	***71.5%***	***69.1%***	***74.9%***	***66.7%***	***62.7%***	***58.2%***	***54.8%***
Coverage	88.1%	73.5%	114.7%	88.1%	84.3%	84.8%	88.5%	92.4%	96.3%
NPL Ratio	**3.6%**	**4.4%**	**3.4%**	**4.8%**	**5.1%**	**4.8%**	**4.3%**	**3.9%**	**3.6%**
Provisioning Charge P&L	0.3%	0.6%	0.7%	1.3%	1.1%	1.0%	1.0%	1.0%	1.0%
Total CAR	**15.7%**	**16.2%**	**15.1%**	**15.7%**	**14.4%**	**13.4%**	**13.1%**	**13.7%**	**14.8%**

Source: Company Reports and EDGE calculation

Table 3: BBL Standalone Financial Summary 2018-2026f (BDT mn)

Amounts in BDT million	**2018**	**2019**	**2020**	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**	**2026f**
Cash	22,375	22,830	19,243	18,858	20,555	23,639	27,421	31,808	36,898
Interbank	14,879	15,799	14,359	15,077	15,831	17,097	18,465	19,942	21,537
Investments	25,765	45,944	68,896	48,227	53,050	59,416	66,546	74,531	83,475
Gross loans	**238,008**	**264,091**	**273,063**	**292,178**	**318,474**	**369,429**	**428,538**	**497,104**	**576,641**
Loans/Deposits	*102%*	*98%*	*94%*	*103%*	*103%*	*104%*	*104%*	*104%*	*104%*
Other Assets	14,390	20,740	21,421	21,635	23,150	25,002	27,002	29,162	31,495
Total assets	**315,417**	**369,404**	**396,982**	**395,975**	**431,059**	**494,583**	**567,971**	**652,548**	**750,046**
Liabs. & equity									
Interbank & Borrowings	31,303	36,663	35,368	36,076	39,322	45,221	52,004	59,804	68,775
Total deposits	**233,509**	**268,309**	**289,054**	**283,273**	**308,768**	**355,083**	**411,896**	**477,800**	**554,248**
Other borrowings	-	-	-	-	-	-	-	-	-
Shareholders' funds	**31,638**	**38,919**	**46,477**	**49,915**	**50,564**	**53,012**	**57,329**	**63,062**	**70,252**
Other Liabilities	18,966	25,512	26,083	26,711	32,404	41,267	46,743	51,882	56,771
Profit & Loss Account									
Net interest income	15,243	17,488	16,132	16,288	17,384	23,439	28,199	32,572	37,331
Net fees and commissions	2,573	3,168	2,560	3,072	3,318	3,716	4,162	4,662	5,221
Investment Income	1,255	621	1,704	3,900	1,200	1,320	1,452	1,597	1,757
Other Income	93	110	112	120	128	137	147	157	168
Total income	**19,165**	**21,388**	**20,508**	**23,380**	**22,031**	**28,612**	**33,960**	**38,988**	**44,477**
Total operating costs	(10,343)	(11,440)	(11,907)	(12,502)	(13,627)	(15,399)	(17,401)	(19,663)	(22,219)
Net operating income	**8,822**	**9,948**	**8,602**	**10,878**	**8,404**	**13,214**	**16,560**	**19,326**	**22,258**
Total loss provisions	(750)	(1,442)	(1,867)	(3,811)	(3,508)	(3,684)	(4,257)	(4,922)	(5,694)
Pretax profit	**8,072**	**8,505**	**6,735**	**7,067**	**4,896**	**9,530**	**12,303**	**14,403**	**16,565**
Tax	(2,525)	(2,860)	(2,194)	(2,303)	(1,595)	(3,105)	(4,008)	(4,693)	(5,397)
% tax rate	*31%*	*34%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*
Net attributable profits	**5,547**	**5,646**	**4,541**	**4,765**	**3,301**	**6,425**	**8,294**	**9,711**	**11,168**
Per share figures									
BVPS	22.7	28.0	33.4	35.9	36.3	38.1	41.2	45.3	50.5
EPS	**4.0**	**4.1**	**3.3**	**3.4**	**2.4**	**4.6**	**6.0**	**7.0**	**8.0**
Ratios									
NIMs	5.8%	5.8%	4.7%	4.6%	4.7%	5.6%	5.9%	5.9%	5.9%
ROAA	***1.8%***	***1.6%***	***1.2%***	***1.2%***	***0.8%***	***1.4%***	***1.6%***	***1.6%***	***1.6%***
ROAE	*19.3%*	*16.0%*	*10.6%*	*9.9%*	*6.6%*	*12.4%*	*15.0%*	*16.1%*	*16.8%*
Cost/ income ratio	***54.0%***	***53.5%***	***58.1%***	***53.5%***	***61.9%***	***53.8%***	***51.2%***	***50.4%***	***50.0%***
Coverage	88.1%	73.5%	114.7%	88.1%	84.3%	84.8%	88.5%	92.4%	96.3%
NPL Ratio	**3.6%**	**4.5%**	**3.4%**	**4.8%**	**5.1%**	**4.8%**	**4.3%**	**4.0%**	**3.6%**
Provisioning Charge P&L	0.3%	0.5%	0.7%	1.3%	1.1%	1.0%	1.0%	1.0%	1.0%
Total CAR	**15.7%**	**16.2%**	**15.1%**	**15.7%**	**14.4%**	**13.4%**	**13.1%**	**13.7%**	**14.8%**

Source: Company Reports and EDGE calculation

Table 4: bKash Financial Summary (2018-2026f)

Amounts in BDT million	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Total transaction value	2,703,100	3,242,801	4,612,765	5,986,430	7,498,058	9,408,620	11,679,667	14,371,465	17,553,718
Net revenue	19,551	21,281	23,071	27,466	33,052	39,410	46,921	55,585	67,680
Fee income	17,546	18,658	20,056	23,619	27,413	31,307	36,880	43,282	52,748
Float income	2,005	2,623	3,015	3,847	5,639	8,102	10,041	12,302	14,932
Cost of services	14,042	16,612	16,763	21,251	24,444	28,113	32,027	34,045	38,331
Gross profit	5,509	4,669	6,308	6,215	8,608	11,297	14,894	21,539	29,349
Operating and administrative expenses	3,236	3,965	4,856	5,151	5,872	6,809	7,913	9,213	10,744
Promotional expenses	1,862	2,163	2,601	2,913	3,437	4,056	4,786	5,648	6,664
EBIT	382	(1,459)	(1,149)	(1,849)	(702)	431	2,195	6,679	11,941
EBITDA	726	(751)	(241)	(1,120)	41	1,188	2,965	7,463	12,739
PAT	483	(626)	(675)	(964)	(62)	835	2,208	5,628	9,636
Margins (as bps of transaction value)									
Fee income	64.9	57.5	43.5	39.5	36.6	33.3	31.6	30.1	30.0
Float income	7.4	8.1	6.5	6.4	7.5	8.6	8.6	8.6	8.5
Cost of services	51.9	51.2	36.3	35.5	32.6	29.9	27.4	23.7	21.8
Gross profit	20.4	14.4	13.7	10.4	11.5	12.0	12.8	15.0	16.7
Split of transaction value									
Cash in	42%	42%	42%	42%	42%	42%	42%	42%	42%
P2P	15%	15%	20%	21%	21%	22%	22%	23%	23%
Cash out	37%	37%	18%	18%	17%	15%	14%	13%	12%
Payments/others	6%	6%	20%	19%	20%	21%	22%	22%	23%
Float held by bKash	27,489	32,223	47,009	75,436	94,777	119,149	147,664	180,917	219,582

Source: Company Reports and EDGE Calculation

Table 5: BBL SOTP Valuation

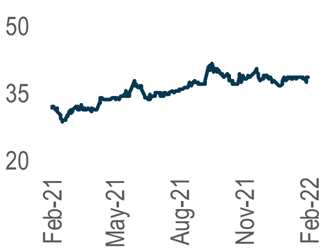
Component	Value	Ownership	Per Share	Methodology
BRAC Bank - Standalone	90,395	100%	64.9	DDM, RoAE 16%, CoE 12.5%, g 6%
bKash	178,896	34%	43.8	Softbank deal valuation
BRAC EPL Investments	0	100%	0.0	No value given
BRAC EPL Stock Brokerage	2,745	90%	1.8	At cost
BRAC IT Systems	67	49%	0.0	At cost
BRAC Saajan Exchange	152	75%	0.1	At cost
BRAC Asset Management	64	21%	0.0	At cost
Total			**110.6**	

Source: Company Reports and EDGE Calculation

EBL

Rating	BUY
Price (BDT)	39
Target Price (BDT)	47
Total Return	22%
Price Return	20%
Div. Yield	2%
# of shares (mn)	954
Market Cap (USDmn)	433

Share Price



Year in review

EBL's 2021 share price return was 32% (including dividends). In general, EBL is relatively better positioned compared to its peers due to its conservative corporate focused loan book which dampened much of the rate cap impact while at the same time provided cushion against covid-19 related loan book hit.

What could make it move

Going forward, if real economy recovery leads to higher corporate loan demand, we could potentially see some revival in business growth for EBL. Other notable catalysts would be repeal of the rate cap, even though the rate cap's impact on EBL has been mild as stated above. Otherwise, they key long term catalyst for EBL would be if the bank is able to benefit from any systemic risk event by utilizing its stronger balance sheet position, i.e. take over loan books/other banks, etc.

Primary risks

Permanent hit to loan book due to Covid-19 still remains an unknown. While systemic risks are a concern, we think EBL is likely to be relatively well prepared due to its conservative outlook. In general, EBL is a "low risk, low return" bet among our coverage.

Table 6: EBL Financial Summary 2018-2026f (BDT mn)

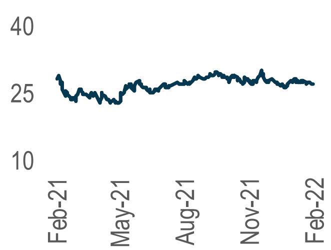
Amounts in BDT million	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Cash	16,338	19,690	15,699	20,462	22,099	24,751	27,721	31,047	34,773
Interbank	11,446	24,963	13,453	37,694	16,435	16,873	18,898	21,165	23,705
Investments	29,888	42,066	66,016	62,343	58,896	66,547	75,483	85,880	97,943
Gross loans	**217,380**	**239,095**	**230,545**	**251,294**	**273,911**	**306,780**	**343,593**	**384,825**	**431,004**
% cng	*13%*	*10%*	*-4%*	*9%*	*9%*	*12%*	*12%*	*12%*	*12%*
Loans/Deposits	*109%*	*100%*	*96%*	*98%*	*99%*	*99%*	*99%*	*99%*	*99%*
Other Assets	10,448	12,386	13,795	13,795	13,795	13,795	13,795	13,795	13,795
Total assets	**285,500**	**338,201**	**339,508**	**385,588**	**385,135**	**428,745**	**479,490**	**536,712**	**601,220**
Liabs. & equity									
Borrowings	47,066	46,348	40,281	45,233	49,304	52,153	58,411	65,420	73,271
Total deposits	**199,156**	**239,980**	**241,295**	**255,773**	**276,235**	**309,383**	**346,509**	**388,090**	**434,661**
% cng	*19%*	*20%*	*1%*	*6%*	*8%*	*12%*	*12%*	*12%*	*12%*
Subordinated Bond	2,000	6,500	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Shareholders' funds	**23,375**	**25,962**	**29,449**	**33,925**	**37,250**	**41,005**	**46,293**	**53,352**	**61,753**
Other Liabilities	13,903	19,411	22,483	44,657	16,346	20,205	22,277	23,850	25,535
Profit & Loss Account									
Net interest income	7,611	8,277	6,052	9,156	9,475	9,812	11,126	13,791	15,695
Net fees and commissions	3,468	3,785	3,067	3,681	3,939	4,411	4,940	5,533	6,197
Investment Income	2,312	2,699	5,102	5,329	2,756	3,221	4,333	4,935	5,622
Other Income	223	258	346	463	620	830	1,111	1,487	1,991
Total income	**13,615**	**15,020**	**14,567**	**18,629**	**16,789**	**18,274**	**21,510**	**25,747**	**29,504**
Total operating costs	(6,235)	(6,642)	(6,672)	(6,872)	(7,421)	(8,312)	(9,309)	(10,427)	(11,678)
Net operating income	**7,380**	**8,378**	**7,895**	**11,757**	**9,367**	**9,962**	**12,201**	**15,320**	**17,826**
Total loss provisions	(2,652)	(2,035)	(1,155)	(3,116)	(2,839)	(2,554)	(2,505)	(2,794)	(3,117)
Pretax profit	**4,728**	**6,343**	**6,740**	**8,641**	**6,528**	**7,408**	**9,695**	**12,526**	**14,709**
Tax	(1,617)	(2,353)	(2,560)	(3,354)	(2,796)	(3,247)	(4,002)	(5,061)	(5,903)
% tax rate	*34%*	*37%*	*38%*	*39%*	*43%*	*44%*	*41%*	*40%*	*40%*
Net attributable profits	**3,111**	**3,990**	**4,180**	**5,287**	**3,732**	**4,161**	**5,694**	**7,465**	**8,807**
Per share figures									
BVPS	24.5	27.2	30.9	35.6	39.1	43.0	48.5	55.9	64.7
% cng	*7%*	*11%*	*13%*	*15%*	*10%*	*10%*	*13%*	*15%*	*16%*
EPS	**3.3**	**4.2**	**4.4**	**5.5**	**3.9**	**4.4**	**6.0**	**7.8**	**9.2**
% cng	*28%*	*28%*	*5%*	*26%*	*-29%*	*12%*	*37%*	*31%*	*18%*
DPS	1.5	1.3	1.5	0.9	0.4	0.4	0.4	0.4	0.4
Payout ratio	*47%*	*31%*	*34%*	*15%*	*11%*	*10%*	*7%*	*5%*	*5%*
Ratios									
NIMs	3.9%	3.7%	3.2%	3.9%	3.3%	3.3%	3.5%	3.8%	3.9%
ROAA	***1.1%***	***1.3%***	***1.2%***	***1.5%***	***1.0%***	***1.0%***	***1.3%***	***1.5%***	***1.5%***
ROAE	*13.7%*	*16.2%*	*15.0%*	*15.6%*	*10.0%*	*10.1%*	*12.3%*	*14.0%*	*14.3%*
Cost/ income ratio	***45.8%***	***44.2%***	***45.8%***	***36.9%***	***44.2%***	***45.5%***	***43.3%***	***40.5%***	***39.6%***
Coverage	125.5%	103.7%	143.9%	117.3%	116.2%	127.7%	136.9%	146.2%	155.4%
NPL Ratio	**2.3%**	**3.4%**	**2.9%**	**4.3%**	**4.8%**	**4.5%**	**4.2%**	**4.0%**	**3.8%**
Provisioning Charge P&L	1.2%	0.9%	0.5%	1.2%	1.0%	0.8%	0.7%	0.7%	0.7%
Total CAR	**12.0%**	**14.6%**	**15.0%**	**14.9%**	**16.4%**	**16.3%**	**16.4%**	**16.9%**	**17.4%**

Source: Company Reports and EDGE calculation

CITYBANK

Rating	SELL
Price (BDT)	27
Target Price (BDT)	20
Total Return	-27%
Price Return	-27%
Div. Yield	0%
# of shares (mn)	1,067
Market Cap (USDmn)	339

Share Price



Year in review

City Bank rose 24% in 2021 with the share primarily dipping and then recovering between 2Q21-3Q21. Rate caps were of limited concern to City Bank due to its corporate focused loan book; lower deposit rates in fact pushed NIMs to recent highs for the bank. With loan book up 14% in 9m21, it is fair to say City Bank had another aggressive year in terms of balance sheet expansion.

What could make it move

We think the key catalyst for a downward re-rating would be substantial asset quality flare up. This would mean the IFC story has not played out, and would cast doubt on the longer term transformation story. Our primary concern regarding the bank stems from its high appetite for balance sheet expansion, which in many instances defies the growth patterns for other top banks such as BRAC or EBL. We fear City Bank might have to face asset quality pressures in the future due to this appetite for growth.

Primary risks

Near term risks are related to rate caps; although margin wise City Bank does not stand to gain significantly from this, we could see the stock rallying simply due to the beta force.

Table 7: CBL Financial Summary 2018-2026f (BDT mn)

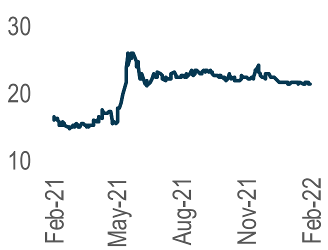
Amounts in BDT million	**2018**	**2019**	**2020**	**2021f**	**2022f**	**2023f**	**2024f**	**2025f**	**2026f**
Cash	19,440	25,913	22,405	25,094	28,607	32,612	37,178	42,383	48,317
Interbank	28,588	23,535	27,197	24,773	28,241	32,194	36,702	41,840	46,861
Investments	33,488	43,649	51,861	49,863	52,486	54,095	55,962	58,127	60,638
Gross loans	**231,875**	**247,778**	**269,268**	**309,658**	**353,010**	**402,431**	**458,772**	**523,000**	**585,759**
% cng	*18%*	*7%*	*9%*	*15%*	*14%*	*14%*	*14%*	*14%*	*12%*
Loans/Deposits	*113%*	*101%*	*106%*	*109%*	*109%*	*109%*	*109%*	*109%*	*107%*
Other Assets	13,549	16,079	17,863	20,542	23,624	27,167	31,243	35,929	41,318
Total assets	**326,940**	**356,953**	**388,594**	**429,930**	**485,968**	**548,500**	**619,855**	**701,278**	**782,893**
Liabs. & equity									
Borrowings	61,250	45,147	59,729	55,738	63,542	72,438	82,579	94,140	105,437
Total deposits	**204,860**	**246,441**	**254,496**	**285,036**	**324,941**	**370,433**	**422,293**	**481,414**	**548,812**
% cng	*12%*	*20%*	*3%*	*12%*	*14%*	*14%*	*14%*	*14%*	*14%*
Subordinated Bond	8,800	9,200	11,600	11,600	11,600	11,600	11,600	11,600	11,600
Shareholders' funds	**24,917**	**24,539**	**29,503**	**32,910**	**35,226**	**38,156**	**42,703**	**47,861**	**53,749**
Other Liabilities	27,113	31,626	33,265	44,645	50,659	55,874	60,681	66,263	63,295
Profit & Loss Account									
Net interest income	9,230	10,911	8,457	11,691	12,219	13,320	15,962	18,524	21,367
Net fees and commissions	3,614	3,723	3,936	4,723	4,581	5,177	5,902	6,728	7,670
Investment Income	2,151	2,362	3,748	3,241	2,872	3,866	3,998	4,143	4,303
Other Income	1,609	1,988	1,581	2,134	1,921	2,074	2,240	2,420	2,613
Total income	**16,605**	**18,983**	**17,722**	**21,789**	**21,594**	**24,437**	**28,102**	**31,815**	**35,953**
Total operating costs	(9,610)	(10,375)	(10,125)	(11,340)	(12,927)	(14,737)	(16,653)	(18,818)	(21,264)
Net operating income	**6,994**	**8,608**	**7,597**	**10,449**	**8,667**	**9,700**	**11,449**	**12,997**	**14,689**
Total loss provisions	(2,311)	(2,602)	(611)	(3,816)	(3,983)	(4,124)	(3,770)	(4,284)	(4,786)
Pretax profit	**4,683**	**6,006**	**6,986**	**6,633**	**4,683**	**5,575**	**7,679**	**8,713**	**9,903**
Tax	(2,458)	(3,371)	(2,622)	(3,226)	(2,368)	(2,645)	(3,133)	(3,555)	(4,015)
% tax rate	*52%*	*56%*	*38%*	*49%*	*51%*	*47%*	*41%*	*41%*	*41%*
Net attributable profits	**2,225**	**2,635**	**4,364**	**3,407**	**2,316**	**2,930**	**4,546**	**5,158**	**5,889**
Per share figures									
BVPS	23.3	23.0	27.6	30.8	33.0	35.8	40.0	44.8	50.4
% cng	*-5%*	*-2%*	*20%*	*12%*	*7%*	*8%*	*12%*	*12%*	*12%*
EPS	**2.1**	**2.5**	**4.1**	**3.2**	**2.2**	**2.7**	**4.3**	**4.8**	**5.5**
% cng	*-37%*	*18%*	*66%*	*-22%*	*-32%*	*27%*	*55%*	*13%*	*14%*
DPS	0.5	1.4	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Payout ratio	*25%*	*58%*	*41%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Ratios									
NIMs	4.1%	4.2%	3.3%	3.7%	3.5%	3.5%	3.6%	3.7%	3.7%
ROAA	***0.7%***	***0.8%***	***1.2%***	***0.8%***	***0.5%***	***0.6%***	***0.8%***	***0.8%***	***0.8%***
ROAE	*8.7%*	*10.7%*	*16.2%*	*10.9%*	*6.8%*	*8.0%*	*11.2%*	*11.4%*	*11.6%*
Cost/ income ratio	***57.9%***	***54.7%***	***57.1%***	***52.0%***	***59.9%***	***60.3%***	***59.3%***	***59.1%***	***59.1%***
Coverage	64.7%	70.7%	83.8%	83.9%	90.1%	105.9%	117.8%	130.2%	142.3%
NPL Ratio	**5.3%**	**5.7%**	**4.0%**	**5.0%**	**5.4%**	**5.0%**	**4.6%**	**4.2%**	**4.0%**
Provisioning Charge P&L	1.0%	1.1%	0.2%	1.2%	1.1%	1.0%	0.8%	0.8%	0.8%
Total CAR	**12.2%**	**13.9%**	**13.4%**	**13.9%**	**12.6%**	**12.2%**	**12.2%**	**12.1%**	**12.2%**

Source: Company Reports and EDGE calculation

PRIMEBANK

Rating	SELL
Price (BDT)	21
Target Price (BDT)	17
Total Return	-20%
Price Return	-22%
Div. Yield	2%
# of shares (mn)	1,132
Market Cap (USDmn)	284

Share Price



Year in review

PBL's (Ticker: PRIMEBANK) share price rose 38% in 2021, marked by a significant movement in the middle of the year, after which things cooled down. After some management changes and Board shuffle, we presumed things would be back on track but so far it appears that the bank still prefers to lay low with its treasury instrument driven balance sheet. Luckily for the bank, its treasury heavy balance sheet provides some cushion against Covid-19 related bad loan spike.

What could make it move

In general, lack of clear strategy has been the primary bottleneck for this bank. It could be said that Prime has missed bulk of the major changes that took place in the last 5 years, including shift towards alternative channels, retail lending etc. The bank needs to clearly demonstrate its ability to shift gears in order to catch up with its original peers. Moreover, given the low interest rate environment, we see limited reason for the bank to continue is its treasury dependent balance sheet.

Primary risks

The key near term upside risk is repeal rate caps as beta force is likely to be enough to move the stock upwards. Downside risks primarily stem from more stalling of the bank's strategy.

Table 8: PBL Financial Summary 2018-2026f (BDT mn)

Amounts in BDT million	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Cash	17,672	19,585	17,481	20,319	21,944	24,358	27,037	30,012	33,313
Interbank	13,628	9,918	7,491	9,829	10,615	11,783	13,079	14,518	16,115
Investments	27,988	49,101	57,227	52,293	45,284	48,907	52,819	57,045	61,609
Gross loans	**208,196**	**215,886**	**234,024**	**245,726**	**265,384**	**294,576**	**326,979**	**362,947**	**402,871**
% cng	*4%*	*4%*	*8%*	*5%*	*8%*	*11%*	*11%*	*11%*	*11%*
Loans/Deposits	*105%*	*100%*	*101%*	*109%*	*109%*	*109%*	*109%*	*109%*	*109%*
Other Assets	27,558	30,582	32,071	32,392	34,012	37,753	41,906	46,515	51,632
Total assets	**295,042**	**325,072**	**348,294**	**360,558**	**377,239**	**417,377**	**461,821**	**511,036**	**565,539**
Liabs. & equity									
Borrowings	24,945	28,188	29,613	27,030	26,538	26,512	29,428	32,665	36,258
Total deposits	**197,493**	**216,423**	**232,746**	**225,763**	**243,825**	**270,645**	**300,416**	**333,462**	**370,143**
% cng	*-1%*	*10%*	*8%*	*-3%*	*8%*	*11%*	*11%*	*11%*	*11%*
Subordinated Bond	9,000	8,500	8,000	8,000	5,500	3,000	500	0	0
Shareholders' funds	**26,327**	**27,934**	**28,473**	**30,885**	**31,608**	**32,331**	**34,375**	**36,911**	**40,074**
Other Liabilities	37,277	44,027	49,462	68,880	69,768	84,889	97,102	107,998	119,064
Profit & Loss Account									
Net interest income	7,782	8,200	5,504	8,159	7,633	9,406	10,273	11,582	13,277
Net fees and commissions	2,379	2,389	1,970	2,265	2,424	2,593	2,775	2,969	3,177
Investment Income	2,312	2,942	4,636	4,355	2,626	2,811	3,049	3,558	3,859
Other Income	942	855	817	800	856	916	981	1,049	1,123
Total income	**13,416**	**14,386**	**12,926**	**15,579**	**13,539**	**15,727**	**17,077**	**19,159**	**21,435**
Total operating costs	(7,608)	(7,580)	(7,351)	(7,498)	(8,098)	(8,827)	(9,621)	(10,487)	(11,431)
Net operating income	**5,808**	**6,806**	**5,575**	**8,081**	**5,441**	**6,900**	**7,456**	**8,672**	**10,004**
Total loss provisions	(1,782)	(2,491)	(1,711)	(3,099)	(2,804)	(2,507)	(2,439)	(2,691)	(2,970)
Pretax profit	**4,026**	**4,315**	**3,864**	**4,983**	**2,637**	**4,393**	**5,017**	**5,981**	**7,034**
Tax	(1,753)	(2,987)	(2,036)	(2,004)	(1,348)	(1,783)	(1,914)	(2,252)	(2,621)
% tax rate	*44%*	*69%*	*53%*	*40%*	*51%*	*41%*	*38%*	*38%*	*37%*
Net attributable profits	**2,273**	**1,328**	**1,828**	**2,978**	**1,289**	**2,610**	**3,102**	**3,729**	**4,413**
Per share figures									
BVPS	23.3	24.7	25.1	27.3	27.9	28.6	30.4	32.6	35.4
% cng	*6%*	*6%*	*2%*	*8%*	*2%*	*2%*	*6%*	*7%*	*9%*
EPS	**2.0**	**1.2**	**1.6**	**2.6**	**1.1**	**2.3**	**2.7**	**3.3**	**3.9**
% cng	*87%*	*-42%*	*38%*	*63%*	*-57%*	*102%*	*19%*	*20%*	*18%*
DPS	1.3	1.4	1.5	0.5	0.5	0.5	0.5	0.5	0.5
Payout ratio	*62%*	*115%*	*93%*	*19%*	*44%*	*22%*	*18%*	*15%*	*13%*
Ratios									
NIMs	4.1%	3.9%	2.6%	3.4%	3.1%	3.5%	3.4%	3.5%	3.6%
ROAA	***0.8%***	***0.4%***	***0.5%***	***0.8%***	***0.3%***	***0.7%***	***0.7%***	***0.8%***	***0.8%***
ROAE	*8.9%*	*4.9%*	*6.5%*	*10.0%*	*4.1%*	*8.2%*	*9.3%*	*10.5%*	*11.5%*
Cost/ income ratio	***56.7%***	***52.7%***	***56.9%***	***48.1%***	***59.8%***	***56.1%***	***56.3%***	***54.7%***	***53.3%***
Coverage	59.4%	99.7%	140.9%	119.8%	114.7%	120.5%	124.3%	128.1%	131.9%
NPL Ratio	**6.1%**	**4.6%**	**3.4%**	**4.7%**	**5.3%**	**5.0%**	**4.7%**	**4.5%**	**4.3%**
Provisioning Charge P&L	0.9%	1.2%	0.7%	1.3%	1.1%	0.9%	0.7%	0.7%	0.7%
Total CAR	**16.6%**	**17.2%**	**17.0%**	**14.0%**	**13.5%**	**12.7%**	**12.1%**	**11.9%**	**12.0%**

Source: Company Reports and EDGE calculation

UCB

Rating	HOLD
Price (BDT)	16
Target Price (BDT)	16
Total Return	0%
Price Return	0%
Div. Yield	0%
# of shares (mn)	1,278
Market Cap (USDmn)	242

Year in review

UCBL's share price rose ~14% during the year; the share took a tumble in 2Q21, after which it recovered very strongly in 3Q21. We would rate UCB as the weakest bank in our financials coverage, due to a combination of low capital base, low provision coverage and underlying loan book issues. Given the Covid-19 driven balance sheet uncertainty, this puts UCB in a bit of a hairy spot.

What could make it move

Near term, the primary risk point for the bank is provisioning hit due to Covid-19 related flare ups. Weak balance sheet position and low returns on capital mean the bank does not have a lot of room to absorb hits before it starts hurting. Other risk factors include systemic events, where UCBL is likely to be a "guaranteed" net-loser due to its balance sheet vulnerabilities.

Primary risks

Upside risks include repeal of rate caps and introduction of any strategic investor into the Board, who could plug up both capital and governance related challenges.

Share Price

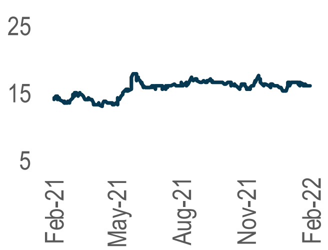


Table 9: UCBL Financial Summary 2018-2026f (BDT mn)

Amounts in BDT million	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Cash	22,791	26,404	24,948	26,195	29,339	32,859	36,802	41,219	46,165
Interbank	16,959	14,467	23,994	26,873	26,799	30,015	33,617	37,651	42,169
Investments	52,158	59,191	66,987	72,475	76,454	87,531	100,231	114,793	131,492
Gross loans	**296,577**	**325,484**	**356,066**	**398,794**	**446,649**	**500,247**	**560,276**	**627,509**	**702,811**
% cng	*13%*	*10%*	*9%*	*12%*	*12%*	*12%*	*12%*	*12%*	*12%*
Loans/Deposits	*100%*	*99%*	*101%*	*108%*	*108%*	*108%*	*108%*	*108%*	*108%*
Other Assets	16,150	23,968	26,584	28,711	31,008	33,489	36,168	39,061	42,186
Total assets	**404,634**	**449,514**	**498,579**	**553,048**	**610,249**	**684,141**	**767,094**	**860,233**	**964,822**
Liabs. & equity									
Borrowings	29,844	26,725	45,941	79,759	31,265	35,017	39,219	43,926	49,197
Total deposits	**297,016**	**330,416**	**352,314**	**369,929**	**414,321**	**464,039**	**519,724**	**582,091**	**651,942**
% cng	*7%*	*11%*	*7%*	*5%*	*12%*	*12%*	*12%*	*12%*	*12%*
Subordinated Bond	15,400	15,400	16,300	16,300	16,300	16,300	16,300	16,300	16,300
Shareholders' funds	**30,395**	**33,364**	**35,739**	**38,573**	**40,834**	**43,999**	**48,322**	**54,353**	**61,269**
Other Liabilities	31,979	43,609	48,286	48,487	107,528	124,786	143,530	163,563	186,115
Profit & Loss Account									
Net interest income	12,917	15,144	14,803	15,849	19,356	22,192	25,466	29,680	33,891
Net fees and commissions	4,619	5,110	4,970	5,964	6,561	7,217	7,938	8,732	9,605
Investment Income	986	822	1,166	2,800	500	500	500	500	500
Other Income	139	139	151	377	283	226	238	250	262
Total income	**18,661**	**21,215**	**21,091**	**24,990**	**26,699**	**30,135**	**34,142**	**39,162**	**44,258**
Total operating costs	(11,013)	(12,617)	(13,901)	(14,735)	(15,913)	(17,186)	(18,561)	(20,046)	(21,650)
Net operating income	**7,648**	**8,598**	**7,190**	**10,256**	**10,786**	**12,948**	**15,580**	**19,116**	**22,608**
Total loss provisions	(2,507)	(3,431)	(1,946)	(4,986)	(6,006)	(6,703)	(7,484)	(8,358)	(10,039)
Pretax profit	**5,142**	**5,167**	**5,244**	**5,270**	**4,779**	**6,245**	**8,097**	**10,758**	**12,569**
Tax	(2,639)	(2,309)	(2,295)	(2,436)	(2,518)	(3,080)	(3,774)	(4,726)	(5,653)
% tax rate	*51%*	*45%*	*44%*	*46%*	*53%*	*49%*	*47%*	*44%*	*45%*
Net attributable profits	**2,502**	**2,858**	**2,949**	**2,834**	**2,261**	**3,164**	**4,323**	**6,032**	**6,916**
Per share figures									
BVPS	23.8	26.1	28.0	30.2	31.9	34.4	37.8	42.5	47.9
% cng	*13%*	*10%*	*7%*	*8%*	*6%*	*8%*	*10%*	*12%*	*13%*
EPS	**2.0**	**2.2**	**2.3**	**2.2**	**1.8**	**2.5**	**3.4**	**4.7**	**5.4**
% cng	*-8%*	*14%*	*3%*	*-4%*	*-20%*	*40%*	*37%*	*40%*	*15%*
DPS	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Payout ratio	*0%*	*20%*	*21%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Ratios									
NIMs	3.8%	4.0%	3.6%	3.4%	3.7%	3.9%	3.9%	4.1%	4.1%
ROAA	***0.7%***	***0.7%***	***0.6%***	***0.5%***	***0.4%***	***0.5%***	***0.6%***	***0.7%***	***0.8%***
ROAE	*8.7%*	*9.0%*	*8.5%*	*7.6%*	*5.7%*	*7.5%*	*9.4%*	*11.7%*	*12.0%*
Cost/ income ratio	***59.0%***	***59.5%***	***65.9%***	***59.0%***	***59.6%***	***57.0%***	***54.4%***	***51.2%***	***48.9%***
Coverage	46.5%	61.0%	82.6%	96.6%	113.8%	131.7%	150.2%	169.1%	191.9%
NPL Ratio	**6.8%**	**5.3%**	**4.3%**	**4.0%**	**3.7%**	**3.4%**	**3.2%**	**3.0%**	**2.8%**
Provisioning Charge P&L	0.8%	1.1%	0.5%	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%
Total CAR	**12.9%**	**14.7%**	**14.9%**	**13.4%**	**13.4%**	**13.3%**	**13.5%**	**13.9%**	**14.5%**

Source: Company Reports and EDGE calculation

IDLC

Rating	BUY
Price (BDT)	59
Target Price (BDT)	74
Total Return	26%
Price Return	24%
Div. Yield	2%
# of shares (mn)	396
Market Cap (USDmn)	276

Share Price

Year in review

Despite some notable movements throughout the year, IDLC ended the year largely flat. IDLC remains out of the rate cap purview, making it pretty much the only lender in the SME space. With funding costs down, margins are likely to pick up as well. The only key issue remaining with the stock is the potential NPL flare up due to Covid-19. Historically, IDLC had been a leveraged beta play on the index due to its high EPS cyclicality associated with the DSEX (and monetary cycle). However, this time around the relationship appears to broken.

What could make it move

In general, IDLC has a very strong correlation with the interest rate cycle. When interest rates are down, funding cost gap versus banking peers is minimal, while the equity market also rallies. Unfortunately for IDLC, it could not make much of this period, as asset quality worries meant the lender was shy to go all out in terms of lending. Going forward, with interest rates gradually rising, things could gradually get more challenging for IDLC. Other downside risks to monitor include NPL flare ups due to Covid-19 related shocks, which still remain unknown at this stage.

Primary risks

Given IDLC is out of the purview of lending rate caps, this provides significant flexibility for the bank in its key SME segment, where the only other notable lender (BRAC Bank) cannot currently operate. If rate caps remain for longer than we expect, this could provide IDLC an opening to supercharge its loan book.

Table 10: IDLC Financial Summary 2018-2026f (BDT mn)

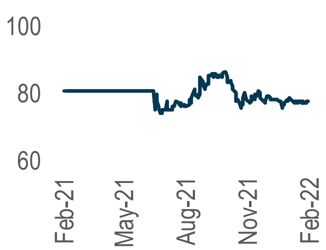
	2018	2019	2020	2021f	2022f	2023F	2024F	2025F	2026F
Cash	2,565	2,177	1,521	1,544	1,791	2,113	2,493	2,942	3,472
Interbank	13,670	12,923	20,475	20,886	24,227	15,594	18,401	21,713	25,621
Investments	7,300	6,935	8,659	6,016	6,088	6,171	6,269	6,380	6,509
Gross loans	**83,934**	**92,346**	**93,074**	**94,935**	**110,125**	**129,947**	**153,338**	**180,938**	**213,507**
% cng	*17%*	*10%*	*1%*	*2%*	*16%*	*18%*	*18%*	*18%*	*18%*
Loans/Deposits	*115%*	*119%*	*118%*	*123%*	*123%*	*123%*	*123%*	*123%*	*123%*
Other Assets	1,695	3,004	3,146	3,146	3,146	3,146	3,146	3,146	3,146
Total assets	**109,165**	**117,385**	**126,874**	**126,526**	**145,376**	**156,971**	**183,646**	**215,119**	**252,254**
Liabs. & equity									
Borrowings	12,496	14,228	20,791	23,734	16,519	19,492	23,001	27,141	32,026
Total deposits	**72,713**	**77,906**	**78,764**	**77,189**	**89,539**	**105,656**	**124,674**	**147,115**	**173,596**
% cng	*17%*	*7%*	*1%*	*-2%*	*16%*	*18%*	*18%*	*18%*	*18%*
Subordinated Bond	0	0	0	2,500	2,500	2,500	0	0	0
Shareholders' funds	**13,637**	**14,018**	**15,238**	**16,626**	**17,850**	**20,171**	**22,702**	**25,947**	**29,960**
Other Liabilities	10,319	11,234	12,080	6,477	18,968	9,152	13,269	14,917	16,672
Profit & Loss Account									
Net interest income	4,223	4,671	4,493	4,729	6,159	7,209	8,129	9,681	11,375
Net fees and commissions	597	410	505	808	606	679	761	852	954
Investment Income	559	96	1,337	1,244	683	807	815	823	833
Other Income	445	441	332	475	551	650	767	905	1,068
Total income	**5,824**	**5,618**	**6,667**	**7,256**	**7,999**	**9,345**	**10,471**	**12,261**	**14,230**
Total operating costs	(2,300)	(2,434)	(2,549)	(2,728)	(3,055)	(3,422)	(3,832)	(4,292)	(4,807)
Net operating income	**3,524**	**3,184**	**4,118**	**4,528**	**4,944**	**5,924**	**6,639**	**7,969**	**9,423**
Total loss provisions	(397)	(423)	(315)	(1,244)	(1,111)	(660)	(930)	(1,096)	(1,291)
Pretax profit	**3,127**	**2,761**	**3,804**	**3,284**	**3,833**	**5,264**	**5,709**	**6,873**	**8,132**
Tax	(956)	(1,061)	(1,263)	(1,519)	(1,667)	(2,001)	(2,235)	(2,686)	(3,176)
% tax rate	*31%*	*38%*	*33%*	*46%*	*43%*	*38%*	*39%*	*39%*	*39%*
Net attributable profits	**2,171**	**1,700**	**2,541**	**1,765**	**2,166**	**3,263**	**3,474**	**4,188**	**4,956**
Per share figures									
BVPS	34.4	35.4	38.5	42.0	45.1	50.9	57.3	65.5	75.7
% cng	*8%*	*3%*	*9%*	*9%*	*7%*	*13%*	*13%*	*14%*	*15%*
EPS	**5.5**	**4.3**	**6.4**	**4.5**	**5.5**	**8.2**	**8.8**	**10.6**	**12.5**
% cng	*-5%*	*-22%*	*49%*	*-31%*	*23%*	*51%*	*6%*	*21%*	*18%*
DPS	3.3	3.3	1.4	1.0	2.4	2.4	2.4	2.4	2.4
Payout ratio	*61%*	*78%*	*22%*	*21%*	*44%*	*29%*	*27%*	*23%*	*19%*
Ratios									
NIMs	4.7%	4.6%	4.4%	4.3%	5.0%	5.2%	5.2%	5.2%	5.2%
ROAA	***2.1%***	***1.5%***	***2.1%***	***1.4%***	***1.6%***	***2.2%***	***2.1%***	***2.1%***	***2.1%***
ROAE	*16.6%*	*12.3%*	*17.4%*	*11.1%*	*12.8%*	*17.3%*	*16.4%*	*17.4%*	*17.9%*
Cost/ income ratio	***39.5%***	***43.3%***	***38.2%***	***37.6%***	***38.2%***	***36.6%***	***36.6%***	***35.0%***	***33.8%***
Coverage	62.7%	55.6%	94.9%	91.0%	109.5%	108.3%	111.4%	114.3%	117.1%
NPL Ratio	**2.2%**	**3.0%**	**1.8%**	**2.9%**	**2.7%**	**2.5%**	**2.4%**	**2.2%**	**2.1%**
Provisioning Charge P&L	0.5%	0.5%	0.3%	1.3%	1.0%	0.5%	0.6%	0.6%	0.6%
Total CAR	**17.3%**	**17.5%**	**17.5%**	**18.9%**	**17.6%**	**18.3%**	**17.6%**	**17.0%**	**16.7%**

Source: Company Reports and EDGE calculation

DBH

Rating	SELL
Price (BDT)	77
Target Price (BDT)	56
Total Return	-22%
Price Return	-27%
Div. Yield	5%
# of shares (mn)	177
Market Cap (USDmn)	161

Share Price



Year in review

DBH fell 3% in 2021, with the stock tumbling immediately after floor prices were removed. With the rate cap active and funding costs plummeting, banks decided to move quite aggressively into mortgage financing, which made DBH's life quite difficult. DBH has been unable to grow its loan book for almost 5 years; the key challenge is that its opex efficiency is not enough to plug the funding cost gap versus peers.

What could make it move

Last year we highlighted that if DBH's loan book continues to shrink, it would effectively mean DBH's business model is broken. Once that becomes clear, we are likely to see significant sell pressure on the stock as it continues to trade at a sizeable premium to most of our coverage. In 2021, this became a reality, as DBH appears to be caught in a limbo.

Primary risks

DBH needs banks to start focusing on other lending segments so that it can get some breathing room in the mortgage market. As such, a repeal of the rate cap would be a positive catalyst for DBH. Other upside risks for DBH include the business venturing into higher risk/growth segments such as affordable housing, potentially breathing "new life" into the share.

Table 11: DBH Financial Summary 2018-2026f (BDT mn)

Amounts in BDT million	**2018**	**2019**	**2020**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
Cash	799	873	575	1,012	1,063	1,116	1,194	1,302	1,419
Interbank	11,779	13,029	14,339	15,561	11,204	11,764	12,588	13,721	14,955
Investments	608	462	489	489	489	489	489	490	490
Gross loans	**43,848**	**44,522**	**42,750**	**44,460**	**46,683**	**49,018**	**52,449**	**57,169**	**62,314**
% cng	*4%*	*2%*	*-4%*	*4%*	*5%*	*5%*	*7%*	*9%*	*9%*
Loans/Deposits	*101%*	*103%*	*98%*	*97%*	*97%*	*97%*	*97%*	*97%*	*97%*
Other Assets	466	394	454	472	495	520	556	607	661
Total assets	**57,499**	**59,280**	**58,607**	**61,995**	**59,935**	**62,907**	**67,277**	**73,288**	**79,840**
Liabs. & equity									
Borrowings	6,085	7,051	5,571	7,114	5,135	5,392	5,769	6,289	6,855
Total deposits	**43,319**	**43,411**	**43,827**	**46,018**	**48,319**	**50,735**	**54,287**	**59,172**	**64,498**
% cng	*5%*	*0%*	*1%*	*5%*	*5%*	*5%*	*7%*	*9%*	*9%*
Subordinated Bond	0	0	0	0	0	0	0	0	0
Shareholders' funds	**5,040**	**5,809**	**6,432**	**6,623**	**6,706**	**6,552**	**6,321**	**6,138**	**6,020**
Other Liabilities	3,055	3,009	2,778	2,240	(225)	229	900	1,689	2,468
Profit & Loss Account									
Net interest income	1,793	1,708	1,949	2,138	1,795	1,660	1,667	1,800	1,960
Net fees and commissions	146	200	156	175	196	219	245	275	308
Investment Income	46	27	24	40	40	40	40	40	40
Other Income	11	7	20	22	24	26	29	32	35
Total income	**1,996**	**1,941**	**2,148**	**2,374**	**2,054**	**1,945**	**1,981**	**2,146**	**2,343**
Total operating costs	(495)	(524)	(523)	(565)	(622)	(684)	(752)	(828)	(910)
Net operating income	**1,501**	**1,418**	**1,625**	**1,809**	**1,432**	**1,261**	**1,229**	**1,318**	**1,432**
Total loss provisions	106	137	(127)	(178)	0	(49)	(105)	(114)	(125)
Pretax profit	**1,607**	**1,555**	**1,498**	**1,631**	**1,432**	**1,212**	**1,124**	**1,204**	**1,308**
Tax	(559)	(482)	(607)	(669)	(501)	(441)	(430)	(461)	(501)
% tax rate	*35%*	*31%*	*41%*	*41%*	*35%*	*36%*	*38%*	*38%*	*38%*
Net attributable profits	**1,048**	**1,073**	**891**	**962**	**931**	**771**	**694**	**743**	**806**
Per share figures									
BVPS	28.4	32.8	36.3	37.4	37.8	37.0	35.7	34.6	34.0
% cng	*16%*	*15%*	*11%*	*3%*	*1%*	*-2%*	*-4%*	*-3%*	*-2%*
EPS	**5.9**	**6.1**	**5.0**	**5.4**	**5.3**	**4.3**	**3.9**	**4.2**	**4.5**
% cng	*10%*	*2%*	*-17%*	*8%*	*-3%*	*-17%*	*-10%*	*7%*	*9%*
DPS	1.7	1.5	1.3	4.3	4.8	5.2	5.2	5.2	5.2
Payout ratio	*29%*	*25%*	*26%*	*80%*	*91%*	*120%*	*133%*	*125%*	*115%*
Ratios									
NIMs	3.3%	3.0%	3.4%	3.7%	3.0%	2.8%	2.7%	2.6%	2.6%
ROAA	***1.9%***	***1.8%***	***1.5%***	***1.6%***	***1.5%***	***1.3%***	***1.1%***	***1.1%***	***1.1%***
ROAE	*22.3%*	*19.8%*	*14.6%*	*14.7%*	*14.0%*	*11.6%*	*10.8%*	*11.9%*	*13.3%*
Cost/ income ratio	***24.8%***	***27.0%***	***24.4%***	***23.8%***	***30.3%***	***35.2%***	***38.0%***	***38.6%***	***38.9%***
Coverage	684.3%	360.8%	504.9%	487.4%	404.4%	359.1%	339.1%	323.6%	310.7%
NPL Ratio	**0.3%**	**0.5%**	**0.4%**	**0.5%**	**0.6%**	**0.6%**	**0.7%**	**0.7%**	**0.7%**
Provisioning Charge P&L	-0.2%	-0.3%	0.3%	0.4%	0.0%	0.1%	0.2%	0.2%	0.2%
Total CAR	**18.9%**	**21.9%**	**24.2%**	**23.6%**	**24.7%**	**23.1%**	**21.0%**	**18.8%**	**17.1%**

Source: Company Reports and EDGE calculation

BATBC

Rating	HOLD
Price (BDT)	649
Target Price (BDT)	607
Total Return	-1%
Price Return	-7%
Div. Yield	6%
# of shares (mn)	540
Market Cap (USDmn)	4,123

Share Price

Year in review

2021 was a marquee year for BATBC as reported numbers and stock price both took off— a possibility we highlighted in 2020's strategy note. We mentioned that Covid-19 delayed the reflection of BATBC's true competitive strength in 2020 reported numbers. As the economy gradually adapted to Covid-19 and lockdowns eased in 2021, the stage was set to let the bat out of the bag. BATBC's top line grew 20% YoY in 9M21, with cigarette stick sales up 18% YoY. Over the same period, bottom line grew 33%. The company is poised to clock in ~60bn in stick sales for 2021 (translates to 16% YoY growth), which would imply a market share >70%. As the strong quarterly numbers came to light, stock price followed suit and reached a high of ~BDT747 in October 2021 (nearly double the close price at the end of 2020). The stock closed the year at BDT636, up 61% YoY.

Amidst the stellar numbers, rumors also surfaced about new product launches, namely candies. It is important to clarify that while new candies (Lyfe and Flow) did enter the market, these are not within the purview of BATBC's business and revenues. The company is exploring other product launches, however, with Premium variants in the pipeline.

The flipside to BATBC's current competitive muscle is that the company seems to be approaching a critical mass in the domestic market, as seizing market share beyond this point is challenging. We also believe BATBC's turnaround and strengths are already priced in (at BDT649/share); hence, we issue a HOLD rating on the company.

What could make it move

BATBC announced a capacity enhancement for their Savar factory last year, citing export of cigarettes as key motivator. At present, cigarette exports represent a miniscule portion of BATBC's top line. With revenue of ~BDT1 per stick exported, the company would need to hit volume of ~3bn sticks for the segment to comprise just 1% of BAT's top line; the company is yet to reach 400mn sticks in volume since 2019. It is important to keep a close eye on how the numbers change in 2022 as the Savar addition comes into play. If BAT Bangladesh is able to foray into markets such as China and grow volumes to meaningful levels, this segment can become more central to BATBC's story.

On a more near term (and unjustifiable) basis, the stock has historically responded strongly to stock dividend announcements (cases in point being 1Q19 and 1Q21). Although it is difficult to back this phenomenon up with logic, it is one that requires flagging.

Primary risks

Unfavorable budget pricing structure and anti-tobacco stances from the government are occupational hazards for BATBC. However, given BATBC's significant contribution to the national tax kitty (~8% of government's tax revenue), abrupt harsh stances are unlikely (at least until the government diversifies its tax basket). On the competition side, a threat may emerge if JTI develops local market competencies to challenge BAT. Evidence along those lines, however, is yet to present itself.

Table 12: BAT Bangladesh Financial Summary 2018-2026f (BDT mn)

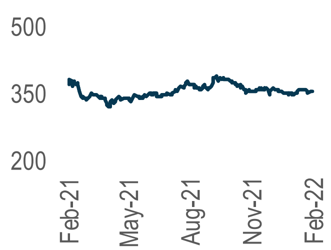
December Year End	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Income Statement (BDT mn)									
Revenue	54,640	56,821	60,291	81,117	86,059	90,976	96,282	101,595	105,913
EBITDA	21,497	19,837	23,222	34,511	36,749	39,492	42,466	45,390	47,733
EBIT	19,803	17,851	21,114	32,278	34,314	36,960	39,827	42,640	44,867
Profit Before Tax	19,314	17,404	21,090	31,826	33,921	36,603	39,551	42,452	44,746
Profit After Tax	10,012	9,246	10,887	16,429	17,510	18,894	20,416	21,914	23,098
EPS (BDT)	**18.5**	**17.1**	**20.2**	**30.4**	**32.4**	**35.0**	**37.8**	**40.6**	**42.8**
DPS (BDT)	50.0	40.0	60.0	48.7	22.7	38.5	26.5	44.6	47.1
Revenue Growth (%)	14%	16%	4%	21%	7%	11%	11%	11%	10%
EBIT Growth (%)	17%	-10%	18%	53%	6%	8%	8%	7%	5%
EPS Growth (%)	28%	-8%	18%	51%	7%	8%	8%	7%	5%
Balance Sheet (BDT mn)									
Current Assets	30,060	28,226	33,736	44,703	42,010	49,879	48,447	58,009	56,298
Cash	1,634	5,394	5,873	7,586	8,814	8,605	10,693	11,990	14,291
Non-Current Assets	26,484	31,204	31,012	31,758	32,220	32,715	33,248	33,560	33,861
Total Assets	56,543	59,430	64,747	76,462	74,230	82,594	81,695	91,569	90,159
Current Liabilites	22,923	16,624	23,878	31,533	31,514	33,408	33,024	35,407	35,118
Short-Term Debt	5,180	0	0	4,867	5,164	5,004	4,814	5,080	5,296
Non-Current Liabilities	4,092	7,013	6,869	6,651	6,464	6,296	6,148	6,017	5,903
Long-Term Debt	0	1,803	1,623	1,405	1,218	1,050	902	771	657
Minorities Interest	0	0	0	0	0	0	0	0	0
Shareholders' Equity	29,529	35,794	34,000	38,279	36,253	42,890	42,523	50,145	49,138
BVPS (BDT)	54.7	66.3	63.0	70.9	67.1	79.4	78.7	92.9	91.0
Cash Flow (BDT mn)									
Operating Cash Flow	8,450	17,553	13,832	12,270	23,551	15,402	26,382	18,517	29,470
Investing Cash Flow	(6,512)	(4,379)	(1,580)	(2,980)	(2,896)	(3,027)	(3,171)	(3,063)	(3,167)
Financing Cash Flow	(537)	(7,154)	(11,382)	(7,577)	(19,426)	(12,584)	(21,122)	(14,157)	(24,003)
Net Increase/ (Decrease)	1,401	6,020	871	1,713	1,228	(210)	2,088	1,297	2,300
Free Cash Flow	2,235	13,621	12,668	9,948	21,259	12,955	23,745	15,941	26,750
Key Ratios									
Gross Profit Margin (%)	50%	47%	49%	52%	52%	53%	54%	54%	55%
EBIT Margin (%)	36%	31%	35%	40%	40%	41%	41%	42%	42%
EBITDA Margin (%)	39%	35%	39%	43%	43%	43%	44%	45%	45%
ROE (%)	34%	26%	32%	43%	48%	44%	48%	44%	47%
ROA (%)	19%	16%	18%	23%	23%	24%	25%	25%	25%
Dividend Payout Ratio	270%	234%	298%	160%	70%	110%	70%	110%	110%
ROIC (%)	27%	23%	27%	38%	39%	41%	42%	44%	44%
RoAE (%)	38%	28%	31%	45%	47%	48%	48%	47%	47%

Source: Company Reports and EDGE Calculation

GP

Rating	HOLD
Price (BDT)	355
Target Price (BDT)	339
Total Return	4%
Price Return	-4%
Div. Yield	8%
# of shares (mn)	1,350
Market Cap (USDmn)	5,643

Share Price



Year in review

Grameenphone returned 8% to shareholders in 2021 (including dividends), with bottom line down YoY by the same margin. Top line stood roughly flat YoY as GP continues to be affected by structural problems in the telco sector. The theme of declining ARPU (due to price competition) offsetting growing subscribers (and data usage) has become a mainstay in recent years, leading to a revenue plateau for GP. The company managed to prop up bottom line on occasion by cutting back operating expenses but that can only go on for so long. It is reasonable to assume this dynamic will not change unless competition eases or competitors lose out in attrition in the long run. A silver lining is that relations with the regulator appear to be improving— GP's latest earnings disclosure revealed that 22 out of 30 LTU disputes have been resolved.

What could make it move

We believe moderation of data pricing competition could pave the way to significant upsides (given GP's scale and the sector's inherent scale benefits). There is no material change to our outlook on the business (on both regulatory and operational fronts). Smartphone adoption and internet (data) usage in Bangladesh still has room to grow, which are tailwinds for the sector. How the players and regulator navigate structural traps will determine ultimate profitability.

Primary risks

Another tug of war with the regulator and prolonged price wars are key risks. Network quality has also become an issue of late, which is a surprise given GP acquired additional spectrum/bandwidth in 2021.

Table 13: Grameenphone Financial Summary 2019-2026f (BDT mn)

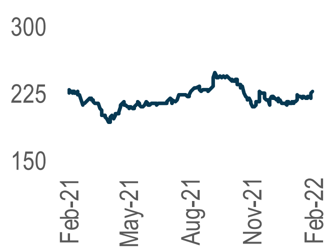
December Year End	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Income Statement (BDT mn)								
Blended ARPU	158	150	144	141	138	135	131	127
Voice ARPU	116	105	99	95	92	89	87	84
Data ARPU	33	37	38	41	42	41	40	39
Subscribers (mn)	76	79	84	89	94	98	103	108
Revenue	143,656	139,606	143,771	149,408	153,581	157,076	160,117	163,225
EBITDA	90,103	87,090	91,579	96,414	100,045	103,228	106,117	109,083
EBIT	66,652	63,440	66,423	69,709	70,084	71,649	72,905	74,799
Profit Before Tax	63,899	62,801	64,266	68,039	68,446	69,325	70,726	72,815
Profit After Tax	34,517	37,187	38,560	40,823	41,068	41,595	42,436	43,689
EPS (BDT)	**25.6**	**27.5**	**28.6**	**30.2**	**30.4**	**30.8**	**31.4**	**32.4**
DPS (BDT)	13.0	27.5	24.8	33.3	33.5	32.3	33.0	34.0
Revenue Growth (%)	8%	-3%	3%	4%	3%	2%	2%	2%
EBIT Growth (%)	17%	-5%	5%	5%	1%	2%	2%	3%
EPS Growth (%)	3%	8%	4%	6%	1%	1%	2%	3%
Balance Sheet (BDT mn)								
Current Assets	20,999	9,931	21,277	23,964	9,700	8,936	10,941	16,337
Cash	13,761	2,599	13,999	16,224	2,120	944	3,141	8,121
Non-Current Assets	127,735	138,253	132,432	131,874	145,183	140,912	135,407	129,254
Total Assets	148,734	148,184	153,709	155,837	154,883	149,849	146,347	145,592
Current Liabilites	80,142	69,088	70,067	70,876	71,646	72,144	72,736	73,205
Non-Current Liabilities	30,245	26,989	29,329	29,050	31,299	28,595	26,183	26,485
Long-Term Debt	23,768	21,716	24,055	23,776	26,025	23,322	20,910	21,212
Shareholders' Equity	38,347	52,108	54,314	55,911	51,939	49,109	47,429	45,902
BVPS (BDT)	28.4	38.6	40.2	41.4	38.5	36.4	35.1	34.0
Cash Flow (BDT mn)								
Operating Cash Flow	57,935	42,042	64,748	61,877	65,958	67,260	70,431	72,025
Investing Cash Flow	(17,352)	(14,023)	(19,335)	(20,146)	(37,270)	(21,308)	(21,706)	(22,132)
Financing Cash Flow	(27,733)	(26,211)	(34,013)	(39,505)	(42,792)	(47,128)	(46,528)	(44,913)
Net Increase/ (Decrease)	12,850	1,808	11,400	2,225	(14,104)	(1,176)	2,197	4,979
Free Cash Flow	40,072	28,658	47,570	43,400	36,325	54,277	56,904	57,877
Key Ratios								
EBIT Margin (%)	46%	45%	46%	47%	46%	46%	46%	46%
EBITDA Margin (%)	63%	62%	64%	65%	65%	66%	66%	67%
ROA (%)	24%	25%	26%	26%	26%	27%	29%	30%
Dividend Payout Ratio	51%	100%	87%	110%	110%	105%	105%	105%
ROIC (%)	36%	37%	44%	50%	50%	53%	62%	77%
RoAE (%)	92%	82%	72%	74%	76%	82%	88%	94%

Source: Company Reports and EDGE calculation

SQURPHARMA

Rating	BUY
Price (BDT)	227
Target Price (BDT)	383
Total Return	72%
Price Return	69%
Div. Yield	3%
# of shares (mn)	887
Market Cap (USDmn)	2,370

Share Price



Year in review

With Square, the stock and company performances appear to be at odds. While the broad market grew 25% in 2021, Square Pharma actually yielded a negative price return of ~2%; adjusting for cash dividend essentially makes the stock price flat YoY. A caveat here is price did move ~15% in both directions before settling just below December 2020's close price. What is interesting is that underlying company performance displayed no such volatility. Quarterly and annual numbers have both been strong, consistently clocking in double digit growth and seemingly putting to rest top line stagnation concerns. The momentum of revenue growth implies that Square's sales team restructuring (from a generalist to a specialist approach) is paying off— a turnaround we believe the market is yet to fully price in. Latest statements also revealed that Square has cleaned up its corporate guarantee slate, which is a material development in governance terms. Effectively, the company has addressed 2 of the 3 major issues surrounding the stock with no corresponding reflection in stock price.

Square is the market leader in an industry with favorable long term economics (gradual ageing of population and subsequent rise in spend) and the core business boasts an RoIC of 40-46% (Beximco and Renata have RoICs of ~13% and ~20% respectively). Industry representatives are also bullish on pharma exports in the coming years and Square naturally stands to benefit from those tailwinds. Add the fact that Square is currently trading at an FY22f P/E of ~11x (cash adjusted P/E of ~9x), and you have a compelling investment case (and one of our top investment picks for 2022).

What could make it move

We view Square's situation in 2022 to be similar to BATBC in 2021, where the stock price moved at a lag to underlying company fortunes. On those grounds, 2022 could be Square Pharma's time under the sun. The catalyst may very well be 3Q22 numbers, as we expect sales to be quite strong in the ongoing quarter. The recent rise in Omicron cases and related medication plays into Square's hands, as products like Mirakof (Butamirate Citrate) and Fexo (Fexofenadine Hydrochloride) have become near staples. Overall, Square's share price is likely to be most receptive to one of two things: i) persistent high growth quarters, which would alert the masses about the turnaround in the company's top line generation capabilities, and ii) some clarity regarding Square's plans for its massive cash balance (e.g. share repurchases or large payouts).

Primary risks

Risks involve Square falling behind industry trends (as was the case with the initial esomeprazole wave) and suboptimal capital allocation decisions. With nearly 50% of assets in cash and equivalents, prolonged cash drag with no visibility on deployment plans could be a problem for this share.

Table 14 : Square Pharma Financial Summary FY19-FY26f (BDT mn)

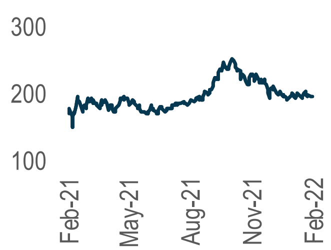
June Year End	FY19	FY20	FY21	FY22f	FY23f	FY24f	FY25f	FY26f
Income Statement (BDT mn)								
Revenue	44,034	45,876	50,703	59,580	65,695	72,414	79,833	87,973
EBITDA	15,498	15,841	17,066	21,005	23,223	25,598	28,221	31,099
EBIT	13,351	13,871	15,184	18,622	20,595	22,702	25,028	27,580
Profit Before Tax	15,661	16,998	18,669	22,400	25,000	27,786	30,886	34,304
Profit After Tax	12,646	13,354	15,947	18,737	20,514	22,778	25,297	28,072
EPS (BDT)	**14.3**	**15.1**	**18.0**	**21.1**	**23.1**	**25.7**	**28.5**	**31.7**
DPS (BDT)	3.7	4.5	6.0	7.2	8.5	9.5	10.5	11.5
Revenue Growth (%)	11.0%	4.2%	10.5%	17.5%	10.3%	10.2%	10.2%	10.2%
EBIT Growth (%)	10.5%	3.9%	9.5%	22.6%	10.6%	10.2%	10.2%	10.2%
EPS Growth (%)	9.1%	5.6%	19.4%	17.5%	9.5%	11.0%	11.1%	11.0%
Balance Sheet (BDT mn)								
Current Assets	38,412	47,384	55,076	63,756	72,842	82,916	94,195	106,892
Cash	27,004	32,564	43,364	51,266	59,070	68,222	78,424	89,868
Non-Current Assets	33,734	34,436	40,376	44,531	48,787	53,470	58,622	64,289
Total Assets	72,146	81,820	95,452	108,286	121,629	136,386	152,817	171,181
Current Liabilities	2,971	3,241	3,179	3,619	3,990	4,398	4,849	5,343
Short-Term Debt	0	0	0	0	0	0	0	0
Non-Current Liabilities	1,294	1,273	1,379	1,418	1,410	1,402	1,394	1,386
Long-Term Debt	0	0	104	143	135	127	119	111
Minorities Interest	0	0	1	1	1	1	1	1
Shareholders' Equity	67,881	77,306	90,895	103,250	116,228	130,585	146,574	164,452
BVPS (BDT)	76.6	87.2	102.5	116.5	131.1	147.3	165.3	185.5
Cash Flow (BDT mn)								
Operating Cash Flow	14,829	13,668	16,346	20,567	22,109	25,026	27,715	30,669
Investing Cash Flow	(2,192)	(4,309)	(3,964)	(6,321)	(6,762)	(7,445)	(8,197)	(9,023)
Financing Cash Flow	(3,314)	(3,968)	(5,215)	(6,343)	(7,543)	(8,429)	(9,316)	(10,202)
Net Increase/(Decrease)	9,323	5,391	7,167	7,902	7,804	9,152	10,202	11,443
Free Cash Flow	9,747	8,596	7,221	10,899	11,644	13,324	14,630	16,053
Key Ratios								
Gross Profit Margin (%)	49.8%	50.9%	51.1%	51.0%	51.0%	51.0%	51.0%	51.0%
EBIT Margin (%)	30.3%	30.2%	29.9%	31.3%	31.4%	31.4%	31.4%	31.4%
EBITDA Margin (%)	35.2%	34.5%	33.7%	35.3%	35.4%	35.4%	35.4%	35.4%
ROE (%)	18.6%	17.3%	17.5%	18.1%	17.6%	17.4%	17.3%	17.1%
ROA (%)	17.5%	16.3%	16.7%	17.3%	16.9%	16.7%	16.6%	16.4%
Dividend Payout Ratio	28.6%	31.4%	39.8%	40.0%	40.2%	41.1%	40.9%	40.3%
ROIC (%)	36.9%	37.1%	38.9%	42.2%	41.9%	41.5%	41.4%	41.2%
RoAE (%)	20.1%	18.4%	19.0%	19.3%	18.7%	18.5%	18.3%	18.1%

Source: Company Reports and EDGE Calculation

BXPHARMA

Rating	HOLD
Price (BDT)	196
Target Price (BDT)	169
Total Return	-12%
Price Return	-14%
Div. Yield	2%
# of shares (mn)	446
Market Cap (USDmn)	1,029

Share Price



Year in review

Beximco Pharma's stock price stood roughly flat YoY at the end of 2021. The stock did, however, reach ~BDT252 in October, reflecting a rise of ~32% YTD. Beximco finalized the acquisition of Sanofi Bangladesh in the same month, claiming a 54.6% stake in the company following a payment of ~BDT4.7bn; the purchase was financed partially by a BDT3.8bn loan from Agrani Bank. Sanofi carries a somewhat unique product portfolio comprising vaccines for deadly diseases (like meningitis and yellow fever), chemotherapeutic products, unique antibiotics, medicines for kidney disease and lifesaving drugs. Their annual revenue in 2020 totaled ~BDT3bn, compared to Beximco's BDT25bn. We believe a true reflection of Sanofi's business in Beximco's numbers will arrive FY23 onwards.

2021 also yielded vaccine distribution goodies for Beximco pharma as a result of the tri-patriate deal between Serum Institute of India (SII), Bangladesh government and Beximco. 15 million of the allotted 30 million doses were delivered in 2021, translating to an income of ~1bn (the pharma business pockets ~BDT77 per dose; impact shows up in Other Income). It is quite possible the remaining 15 million doses will be delivered in 2022— our forecast assumes they arrive in the first half of the calendar year and are part of Beximco's FY22 income.

Beyond these company-specific events, Beximco pharma is naturally privy to the same sectoral tailwinds mentioned in Square and Renata's write-ups. The pharma business presently accounts for ~20% of Bangladesh's pharma exports and given this segment is expected to take off in the coming years, Beximco naturally stands to reap the rewards. The caveat with Beximco pharma is that we believe all the sustainable positives are already priced in, which provides the basis for our HOLD rating.

What could make it move

While we do believe the stock to be somewhat overpriced, there may be a short term trading opportunity around 2HFY22 results. As mentioned earlier, 3Q22 is set to be a strong quarter for pharmas, Beximco pharma included. The rise of Covid cases and resulting surge in use of medication (including anti biotics and general fever remedies, where Beximco is dominant) are serving as sector tailwinds and we expect 3Q22 numbers to reflect this phenomenon. It is also worth mentioning that delivery of the remaining vaccine doses from SII can further prop up periodic earnings (~BDT1bn in potential income or ~BDT2 in EPS).

Primary risks

In our view, the risks surround underperformance of acquired businesses, which would mean suboptimal capital allocation in hindsight. Beximco's RoIC also pales in comparison to that of Square and Renata, and failure to improve that may result in a lower valuation multiple being assigned to the company.

Table 15: Beximco Pharma Financial Summary FY19-FY26f (BDT mn)

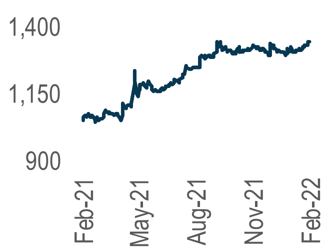
June Year End	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F	FY26f
Income Statement (BDT mn)								
Revenue	22,817	25,612	29,494	33,896	37,591	41,690	46,235	51,276
EBITDA	5,722	6,385	7,333	8,863	10,070	11,192	12,400	13,672
EBIT	4,865	5,374	6,328	7,662	8,629	9,558	10,643	11,805
Profit Before Tax	3,975	4,653	6,378	9,331	8,304	9,464	10,784	12,186
Profit After Tax	3,033	3,515	5,128	7,273	6,471	7,375	8,402	9,494
EPS (BDT)	**6.8**	**7.9**	**11.5**	**16.3**	**14.5**	**16.5**	**18.8**	**21.3**
DPS (BDT)	1.4	1.4	3.2	4.6	6.5	6.0	6.7	7.5
Revenue Growth (%)	28.8%	12.3%	15.2%	14.9%	10.9%	10.9%	10.9%	10.9%
EBIT Growth (%)	26.1%	10.5%	17.8%	21.1%	12.6%	10.8%	11.3%	10.9%
EPS Growth (%)	19.6%	15.9%	45.9%	41.8%	-11.0%	14.0%	13.9%	13.0%
Balance Sheet (BDT mn)								
Current Assets	13,264	13,049	13,771	19,821	19,975	21,149	23,281	26,438
Cash	610	635	676	4,949	4,068	3,510	3,720	4,746
Non-Current Assets	35,950	37,070	38,475	39,986	41,928	44,047	45,988	47,710
Total Assets	49,214	50,119	52,246	59,807	61,903	65,196	69,269	74,148
Current Liabilities	12,746	11,358	9,350	9,398	8,244	7,128	6,042	4,988
Short-Term Debt	10,889	8,853	6,425	6,202	4,818	3,434	2,049	665
Non-Current Liabilities	6,604	5,963	5,532	7,772	7,405	7,064	6,751	6,468
Long-Term Debt	2,596	1,652	1,207	3,214	2,590	1,966	1,342	718
Minorities Interest	276	302	334	386	431	483	542	609
Shareholders' Equity	29,588	32,495	37,031	42,251	45,823	50,521	55,934	62,082
BVPS (BDT)	66.3	72.8	83.0	94.7	102.7	113.2	125.4	139.2
Cash Flow (BDT mn)								
Operating Cash Flow	-	-	-	6,968	7,108	7,544	8,536	9,561
Investing Cash Flow	-	-	-	(2,478)	(3,126)	(3,469)	(3,388)	(3,247)
Financing Cash Flow	-	-	-	(216)	(4,862)	(4,633)	(4,938)	(5,287)
Net Increase/(Decrease)	217	25	-	4,274	(881)	(558)	210	1,026
Free Cash Flow	(1,332)	5,242	5,536	2,997	4,026	3,918	4,786	5,739
Key Ratios								
Gross Profit Margin (%)	46.5%	46.5%	47.2%	47.7%	48.0%	48.0%	48.0%	48.0%
EBIT Margin (%)	21.3%	21.0%	21.5%	22.6%	23.0%	22.9%	23.0%	23.0%
EBITDA Margin (%)	25.1%	24.9%	24.9%	26.1%	26.8%	26.8%	26.8%	26.7%
ROE (%)	10.3%	10.8%	13.8%	17.2%	14.1%	14.6%	15.0%	15.3%
ROA (%)	6.2%	7.0%	9.8%	12.2%	10.5%	11.3%	12.1%	12.8%
Dividend Payout Ratio	24.0%	20.1%	40.4%	40.0%	39.9%	41.4%	40.5%	39.8%
ROIC (%)	11.1%	11.5%	13.5%	15.2%	16.5%	17.4%	18.1%	18.9%
RoAE (%)	10.6%	11.2%	14.6%	18.2%	14.6%	15.2%	15.6%	15.9%

Source: Company Reports and EDGE Calculation

RENATA

Rating	HOLD
Price (BDT)	1,347
Target Price (BDT)	1,406
Total Return	5%
Price Return	4%
Div. Yield	1%
# of shares (mn)	107
Market Cap (USDmn)	1,698

Share Price



Year in review

Renata has been a crowd favorite for a while now and gained 32% in 2021 (including dividends). The stock has historically displayed a favorable capture ratio, both in terms of upside and downside capture. On the business side, Renata has been a growth juggernaut, consistently outpacing pharma industry growth. They were quick to capitalize on the sectoral esomeprazole shift with their flagship Maxpro, which subsequently became a cash cow of sorts for the company. Although Maxpro currently plays second fiddle to Sergel's Healthcare, Renata is already on the move again and are now prioritizing cardiovascular, central nervous system and oncology segments— these segments are expected to be growth hubs as Bangladesh transitions to a more chronic care profile. Renata were also quick to pivot to specialty eggs and free range chicken when their Agro unit's DOC business fell out of favor. It's this fleet-footedness that leads us to believe that Renata can continue to at least match industry growth in the spaces in which they operate.

The entity's other businesses, Purnava (consumer goods division) and Animal Health, also did well in 2021. Although the size of these businesses are relatively small at present, this could change if Renata is able to solidify its consumer brand and consolidate its position as the market leader in Animal Health. Contract manufacturing (part of pharma business) was especially strong in FY21 due to some pent up demand hitting numbers in that period. This will likely normalize to ~BDT3-4bn in annual revenue going forward. Pharma exports are also set to accelerate, as bioequivalence studies and approvals by foreign bodies revert to their normal run rate. The catch with Renata is its relatively high multiple (trailing P/E of 31x and EV/EBITDA of ~20x), which leaves it with limited upside (hence our HOLD rating).

What could make it move

Further price rallies may be driven by marked growth in subsidiary businesses or by surprise growth in core pharma business (stemming from new drug segments, exports or another bumper contract manufacturing bout). 3Q22 is poised to be a strong quarter for pharmaceuticals in general (due to spike in Covid cases and medication requirements) and stock prices may move around the earnings disclosures.

Primary risks

As with any growth stock, risk lies in Renata's revenue growth tapering off followed by penalization of its stock price (erosion of the existing high multiple).

Table 16: Renata Financial Summary FY19-FY26f (BDT mn)

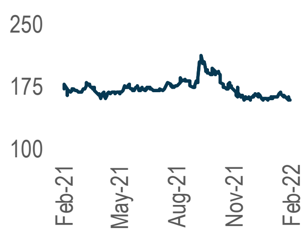
June Year End	FY19	FY20	FY21	FY22f	FY23f	FY24f	FY25f	FY26f
Income Statement (BDT mn)								
Revenue	22,809	24,675	29,971	32,012	35,720	39,594	43,921	48,758
EBITDA	5,865	6,475	7,521	8,312	9,305	10,473	11,579	13,024
EBIT	5,030	5,559	6,525	7,186	8,018	9,067	10,052	11,376
Profit Before Tax	5,154	5,878	6,778	7,398	8,216	9,359	10,518	12,047
Profit After Tax	3,756	4,012	5,062	5,733	6,368	7,253	8,152	9,336
EPS (BDT)	**35.0**	**37.4**	**47.2**	**53.5**	**59.4**	**67.7**	**76.0**	**87.1**
DPS (BDT)	8.3	11.6	14.1	16.0	17.8	20.3	22.8	26.1
Revenue Growth (%)	19.7%	8.2%	21.5%	6.8%	11.6%	10.8%	10.9%	11.0%
EBIT Growth (%)	16.5%	10.5%	17.4%	10.1%	11.6%	13.1%	10.9%	13.2%
EPS Growth (%)	20.9%	6.8%	26.2%	13.3%	11.1%	13.9%	12.4%	14.5%
Balance Sheet (BDT mn)								
Current Assets	12,093	15,176	17,194	18,015	21,379	26,420	32,251	39,182
Cash	850	1,417	1,406	1,437	2,123	2,955	3,449	3,900
Non-Current Assets	12,583	14,209	17,579	20,295	22,222	23,192	24,081	24,871
Total Assets	24,676	29,386	34,773	38,310	43,601	49,612	56,332	64,052
Current Liabilities	4,736	6,177	7,693	7,006	7,650	8,318	9,063	9,892
Short-Term Debt	2,563	2,981	4,802	3,760	4,191	4,638	5,136	5,690
Non-Current Liabilities	1,344	1,447	1,369	1,369	1,369	1,369	1,369	1,369
Long-Term Debt	0	0	0	0	0	0	0	0
Shareholders' Equity	18,596	21,762	25,711	29,934	34,582	39,925	45,900	52,791
BVPS (BDT)	173.5	203.0	239.9	279.3	322.6	372.5	428.2	492.5
Cash Flow (BDT mn)								
Operating Cash Flow	4,406	3,483	4,562	6,277	6,542	7,516	8,415	9,587
Investing Cash Flow	(4,031)	(2,488)	(5,281)	(3,694)	(4,566)	(5,221)	(6,243)	(7,244)
Financing Cash Flow	(713)	(467)	580	(2,552)	(1,289)	(1,463)	(1,678)	(1,891)
Net Increase/(Decrease)	(337)	527	(139)	31	686	832	494	451
Free Cash Flow	2,595	1,096	19	2,271	3,173	4,914	5,638	6,629
Key Ratios								
Gross Profit Margin (%)	49.6%	47.1%	47.3%	47.7%	48.2%	48.7%	49.2%	49.7%
EBIT Margin (%)	22.1%	22.5%	21.8%	22.4%	22.4%	22.9%	22.9%	23.3%
EBITDA Margin (%)	25.7%	26.2%	25.1%	26.0%	26.1%	26.5%	26.4%	26.7%
ROE (%)	20.2%	18.4%	19.7%	19.2%	18.4%	18.2%	17.8%	17.7%
ROA (%)	15.2%	13.7%	14.6%	15.0%	14.6%	14.6%	14.5%	14.6%
Dividend Payout Ratio	23.6%	30.9%	29.8%	30.0%	30.0%	30.0%	30.0%	30.0%
ROIC (%)	19.9%	19.8%	19.5%	19.1%	19.2%	20.1%	21.0%	22.5%
RoAE (%)	22.0%	19.9%	21.3%	20.6%	19.7%	19.5%	19.0%	18.9%

Source: Company Reports and EDGE calculation

OLYMPIC

Rating	BUY
Price (BDT)	158
Target Price (BDT)	215
Total Return	39%
Price Return	36%
Div. Yield	3%
# of shares (mn)	200
Market Cap (USDmn)	371

Share Price



Year in review

Olympic dropped -14% (adjusted for dividends) in 2021. In the first nine months of the year, revenue growth of the company slowed down as per our expectations. This was largely due to inflated bases in the prior year (i.e. 2020) enabled by increased confectionary consumption during Covid-related lockdowns. The main issue faced by the company in 2021 was the rise in global commodity prices, which shrunk margins to a 5-year low. We expect margins will gradually improve in the coming periods as the company reprices its products (upwards). We are less bullish on top line growth this time around, and believe that question marks surrounding management/succession are material risks that need to be flagged. We still maintain a BUY rating on the company on grounds of cheap valuation and strong brands under the Olympic umbrella (implying an ability to recover margins).

What could make it move

Beyond topline growth and margin recovery, clarity/progress on management issues will likely be the primary upside catalyst. Sources of price drag include worsening bottom-line numbers as well as lack of clarity on a potential ‘buyer’ for the company.

Primary risks

Our primary downside risk for the company includes visible flare up of family level issues and the lack of a buyer (which may lead to the company being neglected). Other risks involve enhanced competition as well as more failed launches in the confectionary segment.

Table 17: Olympic Financial Summary FY19-FY26f (BDT mn)

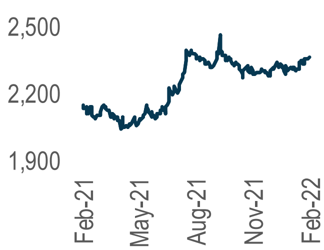
June Year End	FY19	FY20	FY21	FY22F	FY23F	FY24F	FY25F	FY26F
Income Statement (BDT mn)								
Revenue	13,734	15,895	18,033	19,672	21,788	24,134	26,807	29,777
EBITDA	2,715	2,903	2,842	2,731	3,201	3,955	4,596	5,208
EBIT	2,381	2,516	2,417	2,145	2,517	3,163	3,683	4,092
Profit Before Tax	2,556	2,774	2,690	2,361	2,726	3,363	3,872	4,180
Profit After Tax	1,876	2,033	2,037	1,770	2,044	2,522	2,904	3,135
EPS (BDT)	9.4	10.1	10.2	8.9	10.2	12.6	14.5	15.6
DPS (BDT)	5.0	5.2	5.4	5.3	6.1	8.2	9.4	10.1
Revenue Growth (%)	6%	16%	13%	9%	11%	11%	11%	11%
EBIT Growth (%)	5%	6%	-4%	-11%	17%	26%	16%	9%
EPS Growth (%)	4%	8%	0%	-13%	15%	23%	15%	8%
Balance Sheet (BDT mn)								
Current Assets	7,058	7,836	8,458	9,478	10,308	10,989	11,890	13,058
Cash	608	675	769	1,241	1,602	1,859	2,290	2,806
Non-Current Assets	3,899	3,966	4,677	5,046	5,451	5,866	6,293	6,735
Total Assets	10,957	11,803	13,135	14,524	15,759	16,855	18,183	19,793
Current Liabilities	3,182	3,143	3,368	4,078	4,467	4,679	4,991	5,503
Short-Term Debt	1,657	1,551	1,638	2,018	2,270	2,346	2,489	2,800
Non-Current Liabilities	559	418	528	528	528	528	528	529
Long-Term Debt	415	232	349	349	349	349	349	349
Shareholders' Equity	7,216	8,242	9,239	9,947	10,765	11,648	12,664	13,762
BVPS (BDT)	18.7	17.8	19.5	23.0	25.0	26.0	27.6	30.2
Cash Flow (BDT mn)								
Operating Cash Flow	3,162	2,035	2,175	2,138	2,396	3,028	3,515	3,732
Investing Cash Flow	(2,032)	(601)	(1,234)	(984)	(1,089)	(1,207)	(1,340)	(1,489)
Financing Cash Flow	(965)	(1,238)	(779)	(682)	(974)	(1,564)	(1,744)	(1,727)
Net Increase/(Decrease)	165	195	162	472	332	257	431	516
Free Cash Flow	2,018	1,493	804	993	1,150	1,671	2,033	2,247
Key Ratios								
Gross Profit Margin (%)	33.1%	31.9%	29.3%	27.2%	28.2%	30.1%	31.1%	31.1%
EBIT Margin (%)	17.3%	15.8%	13.4%	10.9%	11.6%	13.1%	13.7%	13.7%
EBITDA Margin (%)	19.8%	18.3%	15.8%	13.9%	14.7%	16.4%	17.1%	17.5%
ROE (%)	26.0%	24.7%	22.1%	17.8%	19.0%	21.7%	22.9%	22.8%
ROA (%)	17.1%	17.2%	15.5%	12.2%	13.0%	15.0%	16.0%	15.8%
Dividend Payout Ratio	53.4%	51.3%	53.0%	60.0%	60.0%	65.0%	65.0%	65.0%
ROIC (%)	53.0%	38.7%	32.4%	28.3%	29.5%	32.9%	35.0%	35.6%
RoAE (%)	27.8%	26.3%	23.3%	18.5%	19.7%	22.5%	23.9%	23.7%

Source: Company Reports and EDGE calculation

MARICO

Rating	BUY
Price (BDT)	2,362
Target Price (BDT)	2,684
Total Return	18%
Price Return	14%
Div. Yield	4%
# of shares (mn)	32
Market Cap (USDmn)	875

Share Price



Year in review

Marico's shares returned 12% (including dividends) in 2021. The business also fared strongly in 2021, despite facing margin corrections on the back of rising commodity prices. Going forward, we think margins will become less sensitive to copra cycles as other segments (e.g. VAHO, baby care) contribute more to the revenue mix. We also expect Marico to maintain healthy topline growth with both current products and new launches performing well in the market.

What could make it move

Further hikes in copra prices will deteriorate margins and act as a drag on EPS (and potentially on stock price). On the flipside, if copra prices normalize, it will foster yet another bull run for the company.

Primary risks

Risks involve muted success in new product segments, as was the case in men's grooming. However, evidence is more stacked on the success pile thus far.

Table 18: Marico Bangladesh Financial Summary FY19-FY26f (BDT mn)

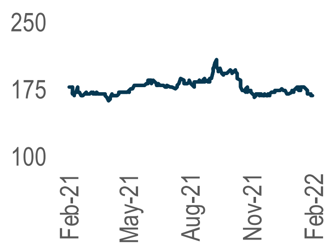
March Year End	FY19	FY20	FY21	FY22f	FY23f	FY24f	FY25f	FY26f
Income Statement (BDT mn)								
Revenue	8,768	9,795	11,307	12,965	14,548	16,232	18,216	20,563
EBITDA	2,637	3,312	4,114	4,773	4,929	5,513	6,199	7,007
EBIT	2,590	3,379	4,002	4,514	4,626	5,162	5,793	6,539
Profit Before Tax	2,750	3,571	4,195	4,394	4,510	5,049	5,684	6,435
Profit After Tax	2,023	2,645	3,109	3,339	3,495	3,913	4,405	4,987
EPS (BDT)	**64.2**	**84.0**	**98.7**	**106.0**	**111.0**	**124.2**	**139.8**	**153.4**
DPS (BDT)	50.0	100.0	90.0	95.4	99.9	111.8	125.9	153.4
Revenue Growth (%)	12%	12%	15%	15%	12%	12%	12%	13%
EBIT Growth (%)	21%	30%	18%	13%	2%	12%	12%	13%
EPS Growth (%)	23%	31%	18%	7%	5%	12%	13%	10%
Balance Sheet (BDT mn)								
Current Assets								
Cash	383	420	396	324	1,539	2,052	2,650	2,849
Non-Current Assets	576	895	1,673	1,574	1,635	1,689	1,739	1,785
Total Assets	4,576	5,008	5,794	6,434	7,349	8,217	9,220	9,885
Current Liabilities	3,209	3,367	4,003	4,431	4,997	5,474	6,036	6,701
Short-Term Debt	200	0	250	250	250	250	250	250
Non-Current Liabilities	65	254	155	32	32	32	32	32
Long-Term Debt	0	0	0	0	0	0	0	0
Shareholders' Equity	1,302	1,388	1,637	1,971	2,320	2,711	3,152	3,152
BVPS (BDT)	41.3	44.1	52.0	62.6	73.7	86.1	100.1	100.1
Cash Flow (BDT mn)								
Operating Cash Flow	3,344	2,239	3,780	3,344	4,840	4,553	5,127	5,804
Investing Cash Flow	(804)	559	(664)	(324)	(364)	(406)	(455)	(514)
Financing Cash Flow	(1,829)	(3,548)	(2,638)	(3,125)	(3,262)	(3,635)	(4,074)	(5,091)
Net Increase/ (Decrease)	711	(749)	478	(106)	1,215	513	598	199
Free Cash Flow	3,023	1,741	3,282	3,019	4,477	4,147	4,672	5,290
Key Ratios								
Gross Profit Margin (%)	49%	58%	59%	55%	53%	53%	53%	53%
EBIT Margin (%)	30%	34%	35%	35%	32%	32%	32%	32%
EBITDA Margin (%)	30%	34%	36%	37%	34%	34%	34%	34%
ROE (%)	155%	191%	190%	169%	151%	144%	140%	158%
ROA (%)	44%	53%	54%	52%	48%	48%	48%	50%
Dividend Payout Ratio	78%	119%	91%	90%	90%	90%	90%	100%
ROIC (%)	1555%	-19284%	715%	644%	1492%	-1603%	-1155%	-894%
RoAE (%)	145%	197%	206%	185%	163%	156%	150%	158%

Source: Company Reports and EDGE calculation; *Note: Marico's returns on assets and capital look unusual due to its asset-light and cash generating business operations (which implies low invested capital).*

SINGERBD

Rating	BUY
Price (BDT)	168
Target Price (BDT)	220
Total Return	32%
Price Return	31%
Div. Yield	1%
# of shares (mn)	100
Market Cap (USDmn)	197

Share Price



Year in review

Singer shares remained roughly flat in 2021, with a dividend adjusted return of –2%. While the company did grow topline in 1H21, annual numbers failed to reach pre-Covid heights. The second half of the year was especially rough, with 4Q21 reporting a loss of BDT0.77 per share. Singer's margins essentially got sandwiched between commodity prices led cost pressures and limited repricing power in the 'middle market'. Moreover, Covid-related restrictions being imposed during peak Eid seasons significantly hampered Singer's sales. The company's working capital problems also worsened as receivables and inventory levels shot up.

What could make it move

With broad economic recovery currently in motion, the consumer electronics market is poised for a resurgence. The company should subsequently see sales rebound. It is also likely that a sector-wide repricing is on the cards, given the entire sector is exposed to the same cost side challenges. That naturally bodes well for Singer's margins (and business).

Primary risks

Primary risks revolve around demand not rising as expected and cost side pressures persisting, leading to depressed bottom lines. Our outlook regarding long term risks remains unchanged— the company is vulnerable to forays into the 'middle segment' by premium and budget brands, essentially leaving Singer in no man's land. The threat of uneven competition from Walton (who boast considerable lobbying muscle) is also ever-present..

Table 19: Singer Bangladesh Financial Summary 2018-2026f (BDT mn)

March Year End	2018	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f
Income Statement (BDT mn)									
Revenue	13,559	15,485	15,046	16,431	18,754	21,286	24,165	27,400	31,074
EBITDA	1,769	2,064	1,710	1,464	1,922	2,704	3,183	3,712	4,267
EBIT	1,659	1,951	1,594	1,333	1,772	2,534	2,989	3,493	4,019
Profit Before Tax	1,275	1,471	1,092	889	1,250	1,967	2,405	2,905	3,438
Profit After Tax	921	1,032	783	645	906	1,426	1,744	2,106	2,493
EPS (BDT)	**9.2**	**10.4**	**7.8**	**6.5**	**9.1**	**14.3**	**17.5**	**21.1**	**25.0**
DPS (BDT)	8.4	1.5	3.0	1.3	1.8	2.9	3.5	4.2	5.0
Revenue Growth (%)	23%	14%	-3%	9%	14%	13%	14%	13%	13%
EBIT Growth (%)	28%	30%	28%	28%	28%	28%	28%	28%	28%
EPS Growth (%)	33%	12%	-24%	-18%	41%	57%	22%	21%	18%
Balance Sheet (BDT mn)									
Current Assets	**6,672**	**7,389**	**7,540**	**8,134**	**9,049**	**10,228**	**11,653**	**13,081**	**15,239**
Cash	195	182	180	14	(280)	(500)	(690)	(1,104)	(1,069)
Non-Current Assets	**1,815**	**2,939**	**2,883**	**3,080**	**3,305**	**3,560**	**3,850**	**4,179**	**4,552**
Total Assets	**8,487**	**10,328**	**10,423**	**11,213**	**12,353**	**13,788**	**15,503**	**17,260**	**19,791**
Current Liabilities	4,384	4,492	4,416	4,691	5,107	5,400	5,720	5,793	6,329
Short-Term Debt	2,738	1,972	2,019	2,011	2,111	2,111	2,011	1,611	1,611
Non-Current Liabilities	**1,725**	**2,647**	**2,797**	**2,797**	**2,797**	**2,797**	**2,797**	**2,797**	**2,797**
Long-Term Debt	37	26	14	14	14	14	14	14	14
Shareholders' Equity	2,311	3,192	3,209	3,725	4,450	5,591	6,985	8,671	10,665
BVPS (BDT)	23.2	32.0	32.2	37.4	44.6	56.1	70.1	87.0	107.0
Key Ratios									
Gross Profit Margin (%)	28%	28%	27%	25%	26%	28%	28%	28%	28%
EBIT Margin (%)	12%	13%	11%	8%	9%	12%	12%	13%	13%
EBITDA Margin (%)	13%	13%	11%	9%	10%	13%	13%	14%	14%
ROA (%)	12%	11%	8%	6%	8%	11%	12%	13%	13%
Dividend Payout Ratio	90%	15%	38%	20%	20%	20%	20%	20%	20%
ROIC (%)	22%	21%	16%	12%	15%	19%	19%	20%	20%

Source: Company Reports and EDGE calculation

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