

Company Overview

Bangladesh Shipping Corporation (BSC), a state owned and managed public sector Corporation, was incorporated on February 05, 1972. The Company is primarily engaged in shipping and ancillary business in international routes as national flag carrier. BSC is entrusted with the responsibility of carrying bulk cargo, food grain and crude oil, chartering, tramping and feeder services, unloading and providing agency service and ship repairing. Head office is located at Saltgola Road, Chattogram, BSC marine Workshop at Saltgola Road (near jetty gate no. 5), Chattogram and BSC Grain Conveyer Workshop at North Patenga (near jetty gate no. 7), Chattogram.

With the acquisition of ships 'BANGLAR DOOT' in 1972 and 'BANGLAR SHAMPAD' in 1973, BSC initiated its fleet and by turns BSC was able to acquire a total of 38 vessels. Later, 36 vessels were sold/handed over at different stages considering their age and non-profitability. As of June 2020, BSC has 08 (eight) number of vessels. Of these, carrying capacity of two ships is 14,541 DWT (Deadweight tonnage) each which were procured in 1987 from Denmark and capacity of six ships is 39,000 DWT each which were procured from China in 2018-19. Of the new six ships, three are Product Oil Tankers and three are Bulk Carriers.

Revenue Composition and Growth

Particulars	Composition		Growth*		
	2020-21 (Jul-Dec)	2018-19	2019-20	2020-21 (Jul-Dec)	5-yr CAGR
Freight Revenue	89%	171%~	61%	-14%	32%
Lighterage	22%	9%	-6%	-2%	-1%
Time Charter (six vessels)	67%	--	107%	-17%	--
Service Revenue	11%	15%	-2%	50%	5%
Address Commission	4%	10%	-11%	50%	1%
Service Charge	7%	21%	4%	52%	9%
Birth Right Charge	0%	--	--	100%	--
Total	100%	122%	51%	-10%	27%

*Growth for 2020-21 is calculated for 6 months over the same period of last year.
~Addition of six new vessels

The freight revenue has started to increase significantly from 2018-19 as the new six vessels was procured and subsequently employed commercially on Time Charter. The six ships were added to the BSC's fleet on 27/Jul/18, 28/Oct/18, 30/Dec/18, 3/Jan/19, 25/Jan/19 and 22/May/19 respectively.

Shareholding Structure

The Firm enlisted in the DSE in 1977 and in the CSE in 1995.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-20	0.00%	52.10%	24.30%	0.00%	23.60%
31-Dec-19	0.00%	52.10%	13.09%	0.00%	34.81%
31-Dec-18	0.00%	52.10%	13.09%	0.00%	34.81%
31-Dec-17	0.00%	52.10%	21.10%	0.00%	26.80%

Company Fundamentals

Market Cap (BDT mn)	6,147.2
Market Weight Sector Weight	0.2% 3.6%
Free-float (Public + Inst. + Foreign)	47.9%
No. of Shares Outstanding (mn)	152.5
Paid-up Capital (BDT mn)	1,525.4
3 Months Average Turnover (BDT mn)	19.7
3-month Return (Dividend Adjusted)	6.4%
Current Price (BDT)	40.3
52-Week Price Range (BDT)	32.6 - 51.6
Sector Forward P/E	24.7

	2017-18	2018-19	2019-20	2020-21 (6M Ann.)
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Financial Information (BDT mn):

Sales	832	1,851	2,799	2,378
Gross Profit	257	595	1,022	1,043
Operating Profit	(295)	159	657	692
Profit After Tax	125	175	415	507
Cash & Cash Equiv.	122	924	1,165	1,080
Assets	10,247	26,283	27,092	27,345
CAPEX	72	15,146	41	654
Long Term Debt	718	15,723	15,668	15,668
Short Term Debt	442	451	924	1,078
Equity	8,178	8,688	8,547	8,727
Retained Earnings	(2,202)	(1,693)	(1,832)	(1,652)

Margin:

Gross Profit	30.9%	32.1%	36.5%	43.9%
Operating Profit	-35.4%	8.6%	23.5%	29.1%
Pretax Profit	15.4%	20.5%	27.7%	34.4%
Net Profit	15.0%	9.5%	14.8%	21.3%

Growth:

Sales	1.3%	122.5%	51.2%	-15.0%
Gross Profit	-7.1%	131.6%	71.8%	2.1%
Operating Profit	-23.5%	154.0%	313.3%	5.2%
Net Profit	44.6%	39.9%	136.8%	22.2%

Profitability:

ROA	1.2%	1.0%	1.6%	1.9%
ROE	1.5%	2.1%	4.8%	5.9%

Leverage:

Debt Ratio	11.3%	61.5%	61.2%	61.2%
Debt-Equity	14.2%	186.2%	194.1%	191.9%
Int. Coverage	(27.9)	1.0	2.1	2.2

Dividend History:

Dividend (C/B)%	6/-	10/-	10/-	-/-
Dividend Yield	1.4%	1.9%	2.6%	--
Dividend Payout	73.1%	87.1%	36.8%	--

Valuation:

Price/Earnings	60.7	43.4	18.3	12.1
Price/BV	0.9	0.9	0.9	0.8
EPS (BDT)	0.8	1.1	2.7	3.3
NAVPS (BDT)	53.6	57.0	56.0	57.2

Industry Overview

In the past 10 years, the import and export rose by two and a half folds but the number of Bangladeshi flag vessels decreased. The number of national flag carrying ocean-going merchant ships declined drastically from 93 in 2012 to 41 (from public and private sector) in 2019. As a result, for export and import activities of Bangladesh depend on foreign vessels. Of the nearly 95% imports and exports carried out by sea, only 5% is being carried out by Bangladesh flag carrier ships. As of December 2018, Bangladesh's two seaports Chittagong and Mongla are handling nearly 4,000 ships a year.

The **reasons for declining Bangladesh flag-carrying merchant ships** include: lengthy and costly process in registration system, cutting of three per cent income tax on transport fare, non-protection of Bangladesh flag carrier ocean-going ships, double taxation avoidance agreement, lack of facility to open bank account in foreign currency for ocean-going ships, high bank interest rate, and disturbance of pirates at sea.

The country is largely missing out opportunities to tap the potentials of its oceangoing vessels industry due to a **lack of enough ships**. As a result, 85% share of the freight-carrying business has gone to the control of big foreign cargo industries, including those from Denmark, Switzerland, China, France, Germany, Korea and Taiwan. According to a government estimate, Bangladesh paid about BDT 580.00 billion to foreign ships in freight charges in fiscal year 2017-18. Although the country's total spending in freight charges was around BDT 690.00 billion, national flag vessels got a share of only 15% of it. Presently, apart from national flag vessels, several **international shipping companies**, including Maersk Line, Pacific International Lines (PIL), 'K' Line, Yang Ming Line, Samudera Shipping Line, the Sea Consortium, Far Shipping, and Bukit Barisan line run feeder services to Chittagong and Mongla port from different major ports to carry Bangladesh's inbound and outbound cargoes. Merchant ships from India, Malaysia, Indonesia, Singapore and Kuwait enjoy 100% flag protection from their respective countries while Bangladesh ship owners enjoy only 40% such protection.

The government plans to **increase the share of Bangladesh flag vessels** in overseas cargo carrying to 60% from the existing 40%. The present ordinance and rules give protection to Bangladeshi flag vessels to carry at least 40% of cargoes, they are even allowed to carry 100% of cargoes if capacity is achieved. Aiming to increase national flag carrying vessels, the government has slashed 15% VAT for registration of vessels having capacity of 5,000 DWT.

State run Bangladesh Shipping Corporation (BSC) has taken an initiative to **induct 32 different types** of vessels in its fleet by 2041, aiming to make it more profitable side by side improving the service standard for bringing back its past glory. According to the official document, BSC's ship acquisition plan includes acquirement of a number of vessels of different types and sizes in addition to replacement of the existing ones with a view to

increase carrying capacity of export-import of the country in government sector following the 7th Five-year plan, Vision-2021 & 2041.

Recently BSC has undertaken a **number of development projects** in line with the overall development activities of the country. Several ship acquisition projects have been undertaken by BSC in consistent with Single Point Mooring (SPM) project of Bangladesh Petroleum Corporation (BPC). Besides, considering the government and private initiatives to set up coal-based power plants in various regions of the country, the BSC has taken a number of ship acquisition projects to carry cargoes.

Investment Positives

- **Ship acquisition plan of the BSC:**
 - The Company has planned to **procure six more ships - two bulk carriers and four crude oil tankers** to its fleet for bringing dynamism in its services. The capacity of each bulk carrier ship will be 80,000 tonnes. Each of the two crude oil tanker's capacity is 114,000 tonnes while 80,000 tonnes each of the other two tankers. **The ships will be procured from China under Chinese loan.**
 - It has decided to **procure six large tankers for carrying liquid natural gas (LNG)** in a move to increase the capacity of the state in managing the vital energy in February 2021. **Of the six tankers, two have capacity to carry approximately 140,000 cubic metres each, two approximately 174,000 cubic meters each and two approximately 180,000 cubic metres. The estimated cost of the six tankers has been fixed at BDT 106.02 billion.** The BSC to acquire the LNG carriers in line with the government's decision of importing LNG for uninterrupted supply to household and industries.
 - The Company has decided to **procure four cellular containers from Denmark to carry oil, coal, fertilizer, foods and other products** (annual report 2018-19). The ships are expected to be added to the BSC's fleet **by 2022.**
 - The Company has decided to **purchase two mother bulk carrier of 80,000 ton each and ten bulk carrier with a capacity of 10,000 to 15,000 ton each** for lighterage from mother vessel to maintain uninterrupted supply chain of coal from abroad as the country is setting up **three coal fired power plants at Rampal, Payra and Matarbari.**
 - The BSC has planned to **procure two mother tankers with a capacity of 100,000 – 125,000 MT** for transporting the **crude oil for Eastern Refinery Limited (ERL)** as ERL has planned to double the refining capacity of crude oil with setting up of its second unit.

- The Company has planned to procure two mother product oil tanker of 80,000 MT capacities each for carrying the imported oil as BPC purchases 3.50 million MT diesel oil and 0.40 million MT jet fuel oil through foreign ships.

The procurement of the new ships will break the monopoly of foreign companies in Bangladesh's shipping business.

- In November 2019, the cabinet has approved the Bangladesh Flag Vessels (Protection) Bill 2019 with a provision stating that **at least 50% instead of the existing 40% of the seaborne cargoes related to Bangladesh's foreign trade must be carried by BSC** flag vessels.
- The shipping ministry has asked the **state-owned entities to carry cargos, purchased or transported with the government funds, by vessels of the Bangladesh Shipping Corporation**. The BSC will charter oceangoing ships on behalf of the government agencies to carry the goods if its own vessels are not available as per requirement of the agencies. **The Corporation will charge 2.5% address commission** for chartering vessels on behalf of the agencies. State-run entities usually import various types of fertiliser, fuel oil, food items and motor vehicles.
- To implement the MOU to expand the operational area between Bangladesh and Sri Lanka, the Company has jointly initiated to start feeder service on route Chattogram – Colombo - Chattagram. The Company has also taken initiatives to **expand its operation** on routes from Chattogram to Singapore.

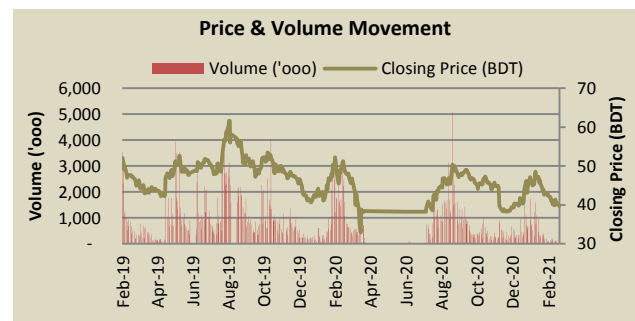
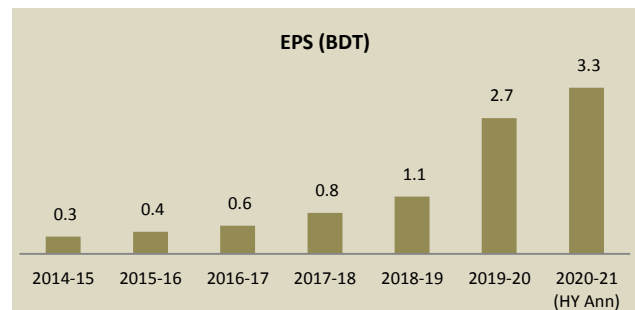
Investment Negatives

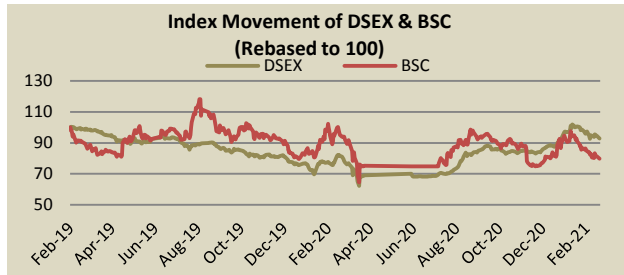
- The Company is heavily exposed to leverage due to the loan taken for acquiring six new ships from China. **As of December 2020, debt ratio was 61.2%. Debt ratio may rise further as the Company is planning to procure more ships with debt financing.** Finance expenses were around 47% of operating profit. The BSC has availed **Chinese concessional loan of BDT 15.00 billion for 20 years including utilization, grace and repayment period with 2% interest rate** per annum under the project to procure six new vessels. The Company is also availing loan from the Government of Bangladesh at interest rate of 5%.
- Non-Operating income (interest come from SND & FDR) contributed significantly in its earnings. As per annual report 2019-20, income from SND and FDR was BDT 329 million whereas Operating Profit was BDT 657 million. Therefore, **decline in bank deposit rate will hamper net profit** of the Company.
- **Retained earnings of the Company have still remained negative of BDT 1.65 billion as of December 2020.** However, with the current profitability trend, the negative balance would be completely depleted within the couple of years.

Latest Quarter Update – December 2020 (Q2)

Particulars (BDT mn)	Jul-Dec 2020	Jul-Dec 2019	Oct-Dec 2020	Oct-Dec 2019
Revenue	1,189	1,317	635	642
Growth	-9.72%	--	-1.10%	--
Gross Profit	522	350	295	173
Margin	43.90%	26.58%	46.46%	26.95%
Growth	49.14%	--	70.52%	--
Operating Profit	346	142	207	55
Margin	29.10%	10.78%	32.60%	8.57%
Growth	143.66%	--	276.36%	--
Finance Expenses	154	5	77	2
Net Profit	253	417	165	195
Margin	21.28%	31.66%	25.98%	30.37%
Growth	-39.33%	--	15.38%	--
EPS (BDT)	1.66	2.79	1.08	1.28

- Turnover of the Company has decreased during the Jul-Dec of 2019-20 over the same period of last year due to the as **imports has declined at the government level** amid novel coronavirus pandemic.
- Gross profit margin has jumped to 44% during the reported period which was 27% over the same period of last year due to **lower salary & allowances, vessel repairs & survey fees, fuel expenses, deck & engine expenses and depreciation.**
- Net profit margin has decreased due to the increase in finance expenses and deferred tax. **Finance expenses increased due to the increase in interest on six vessels.**




Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	24.7	82.1
Market Forward P/E	15.2	50.5
NAVPS (BDT)		57.2

Concluding Remark

BSC is a government owned public limited company to provide efficient, safe, reliable and economic shipping services to the local exporters, importers and business houses. Though the Company is passing a crucial period with only eight ships, but with the addition of new ships to the BSC's fleet, a brighter prospect is coming ahead for the Company.

Source: Annual Reports, the Company's Website, Newspaper Reports and ILSL Research

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