

BANGLADESH SUBMARINE CABLE COMPANY LTD.

DSE: **BSCCL**
BLOOMBERG: **BSCC:BD**

Company Overview

Bangladesh Submarine Cable Company Limited (BSCCL) was incorporated and commenced commercial operation in 2008. The Company is substantially owned by the Government of Bangladesh (73.84%). BSCCL provides infrastructure to connect the country with International Information Superhighway. The principal activities of the Company are to provide high capacity voice and data bandwidth to all important places in Bangladesh to get benefit of all the IT related services. It has also started commercial operation as an International Internet Gateway (IIG) service provider since July, 2013.

BSCCL is the core service provider of submarine cable bandwidth and handles the country's lone submarine cable. The Company has two landing stations - the SEA-ME-WE-4 & SEA-ME-WE-5 (South East Asia-Middle East-Western Europe - 4 & 5). The first one is situated at Jhlongjha, Cox's Bazar and the other one is situated at Kuakata, Patuakhali.

International Internet Gateway (IIG) Companies, International Voice Gateway (IGW) Companies, Internet Service Provider (ISP) Companies are some of the customers of the firm.

Revenue Composition & Growth

Particulars (BDT mn)	Revenue	Composition	Growth		
	2017-18	2017-18	2016-17	2017-18	2018-19*
IPLC Rent	911	64.8%	74%	78%	61%
IP Transit	363	25.9%	48%	-10%	4%
Circuit Activation	17	1.2%	50%	82%	621%
Co-Location Charge	42	3.0%	74%	201%	-30%
Export	73	5.2%	162%	-26%	-43%
Total	1,405	--	68%	36%	36%

*IPLC=International Private Leased Circuit. *Growth for 2018-19 is calculated for Jul-Dec over the same period of last year*

Despite significant increase of 35.5% in revenue in 2017-18, net profit decreased by 77.0% over last year due to the increase in finance expenses for investment of BDT 6.10 billion in second submarine cable and also for deferred tax. Around 50% of the said investment was arranged from Islamic Development Bank (IDB). Commercial operation of the second submarine cable was started from 17 September 2017.

Capacity utilization

Historical capacity & utilization are shown in the following table

Particulars (GBPS)	2013-14	2014-15	2015-16	2016-17	2017-18
Capacity	200	200	200	1,800	1,800
Utilization	22.5	33.5	132.2	246.9	446.5
<i>Growth</i>	<i>-42%</i>	<i>49%</i>	<i>294%</i>	<i>87%</i>	<i>81%</i>
Utilization (%)	11.3%	16.8%	66.1%	13.7%	24.8%

Shareholding Structure:

The Firm was enlisted with the DSE and the CSE in June 2012.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-18	0.00%	73.84%	14.10%	2.44%	9.61%
31-Dec-17	0.00%	73.84%	13.49%	2.00%	10.67%
31-Dec-16	0.00%	73.84%	11.26%	0.73%	14.17%
31-Dec-15	0.00%	73.84%	10.00%	0.36%	15.80%

Company Fundamentals

Market Cap (BDT mn)	23,119.8
Market weight	0.6%
No. of Share Outstanding (in mn)	164.9
Free-float Shares	26.2%
Paid-up Capital (BDT mn)	1,649.1
3-month Average Turnover (BDT mn)	61.9
3-month Return	49.1%
Current Price (BDT)	140.2
52-week price range (BDT)	71.5 – 171.3
Sector's Forward P/E	16.0

	2015-16	2016-17	2017-18	2018-19 (6M Ann.)
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Financial Information (BDT mn):

Sales	619	1,037	1,405	1,820
Gross Profit	308	683	792	1,165
Operating Profit	144	365	395	690
Profit After Tax	166	318	73	470
Assets	9,005	9,963	10,434	11,008
CAPEX	24	36	118	8
Long Term Debt	2,521	2,866	2,731	2,647
Short Term Debt	-	-	238	322
Equity	5,599	6,009	5,884	6,038

Margin:

Gross Profit	49.8%	65.8%	56.4%	64.0%
Operating Profit	23.2%	35.2%	28.1%	37.9%
Pretax Profit	30.3%	39.5%	22.0%	35.0%
Net Profit	26.8%	30.7%	5.2%	25.9%

Growth:

Sales	14.4%	67.6%	35.5%	29.5%
Gross Profit	10.3%	121.6%	16.1%	47.1%
Operating Profit	102.7%	154.1%	8.4%	74.6%
Net Profit	28.3%	92.3%	-77.0%	542.2%

Profitability:

ROA	2.3%	3.4%	0.7%	4.4%
ROE	5.9%	10.6%	2.5%	15.6%

Leverage:

Debt Ratio	28.0%	28.8%	28.5%	27.0%
Debt-Equity Ratio	45.0%	47.7%	50.5%	49.2%
Int. Coverage	-	-	2.8	4.0

Dividend History:

Dividend (C/B)%	10/-	12/-	5/-	-/-
Dividend Yield	0.9%	1.0%	0.5%	-/-
Dividend Payout	99.6%	62.2%	112.5%	-/-

Valuation:

Price/Earnings	139.7	72.7	315.6	49.1
Price/BV	4.1	3.8	3.9	3.8
EPS (BDT)	1.0	1.9	0.4	2.9
NAVPS (BDT)	34.0	36.4	35.7	36.6

Industry Overview

In recent times, Bangladesh witnessed a phenomenal advancement in telecommunication sector. To boost the economy and social living standard the Government has put more emphasis on this sector by providing internet services to the mass people. The country is going to join the third submarine cable to meet up the growth of internet bandwidth consumption - which now stands at 950 gigabits per second (Gbps), up from 550 Gbps a year ago. Further, it requires a big volume of bandwidth with high speed as the government is going to launch 5G service in the country soon.

Bandwidth consumption in Bangladesh soared 94 percent year-on-year to 970 gigabits per second (Gbps) in 2018 thanks to the expansion of fixed broadband and rollout of 4G telecom services. The figure was only 300 Gbps at the end of 2016. The increasing internet use has helped bandwidth consumption to double every year and pushed the annual internet economy to reach BDT 50,000 million, industry insiders said. That a major portion of a country's bandwidth is consumed for browsing Facebook and YouTube is a global trend. An increasing number of government services are being made available online, which has also increased the bandwidth consumption.

The total usage of internet bandwidth of the state-owned company is also getting momentum. Government has implemented several projects to connect all the government offices upto Upazila level through optic fiber cable network and introducing e-filing, e-tendering, e-commerce, e-health, e-agriculture and many other online services. These services are creating huge opportunities for bandwidth in public sector mostly for data related services.

BSCCL plays a vital role as a core telecommunication service provider and **only supplier of bulk bandwidth**. However, Bangladesh Telecommunication Regulatory Commission (BTRC) has also issued International Terrestrial Cable (ITC) licenses to six companies.

Bangladesh Submarine Cable Company Ltd (BSCCL), a state-run venture that owns two submarine cable connections, **supplies around 62 percent or 605 Gbps of the country's total bandwidth consumption**. The BSCCL is supplying 285 Gbps from its first cable in Cox's Bazar and 320 Gbps from the second one in Kuakata that started operations in 2017. **Apart from the BSCCL, six international terrestrial cable operators – Fiber@Home, Summit Communications, Novocom, 1Asia Alliance Communication, BD Link Communication and Mango Teleservices – are in operation in Bangladesh.**

The number of **active internet connections** rose to 91.35 million in December 2018 which was 80.48 million in December 2017 grew by 13.51% in the period, according to data from Bangladesh Telecommunication Regulatory Commission (BTRC). The country now has 5.74 million as of December 2018 active broadband connections and they are the major consumers of data.

The industry has experienced overcapacity which created **opportunity window for export**. Only 25% of its total bandwidth is using here. Recently, the government has decided to export unused internet bandwidth capacity of its lone undersea cable to neighboring countries through lease or sale.

Investment Positives

- **The Company has reported a significant growth of 36% & 2,333% in revenue & net profit respectively in the first half of 2018-19 over the same period of last year. This was due to the increase in IPLC business, improved gross profit margin and lower operating expenses.** These are explained in details in later part of the report.
- **In September 2017, the Company started the commercial operation of the 2nd submarine cable, the SEA-ME-WE-5, with a capacity of 1,500 Gbps.** BSCCL ensured redundancy for its services and its capacity for national consumption and also for export to the neighboring countries/international market.
- **The government of Bangladesh has decided to connect with a third submarine cable to meet the demand for rapidly growing data consumption. Internet bandwidth consumption which now stands at 950 gigabits per second (Gbps) as of January 2019, up from 550 Gbps a year ago** due to the roll out of 4G services in the country in February 2018. Bangladesh wants to be a part of the initiative taken by a new consortium to lay an undersea cable within a short time from Singapore. Another reason for looking for another submarine cable is that the first cable is nearing its 20-year lifespan.
- The government is also planning to launch 5G services to the telecom operators soon. As a result, demand for bandwidth will increase.
- **Bandwidth usage of the Company is in increasing trend due to the rapidly growing consumption of data in the country.** The country's data consumption is growing at double digits over the last few years.

Internet Subscribers (in million)					
Particulars	2014	2015	2016	2017	2018
Mobile Internet	42.2	51.5	62.7	75.1	85.6
<i>Growth</i>	23%	22%	22%	20%	14%
ISP + PSTN*	1.2	2.5	3.8	5.3	5.7
<i>Growth</i>	1%	104%	52%	40%	7%
WiMAX	0.2	0.1	0.1	0.1	0.1
<i>Growth</i>	-27%	-37%	-37%	-4%	-32%
Total Subscriber	43.6	54.1	66.6	80.5	91.4
<i>Growth</i>	22%	24%	23%	21%	14%

Source: BTRC; *ISP=Internet Service Provider; PSTN= Public Switched Telephone Network

- **International terrestrial cable (ITC) operators have obtained the telecom regulators' permission in January 2016 to purchase bandwidth directly from BSCCL.** This is ultimately increasing the bandwidth sales of the BSCCL in the local market.
- Per capita bandwidth use in Bangladesh is lower compared to many other countries in South-East Asia. Hence, **GOB is taking various measures to increase broadband penetration in the country.** Also. More and more business is going online which results in rapid growth in demand of internet bandwidth.
- **Government has implemented several projects to connect all the government offices upto Upazila level through optic fiber cable network** and introducing e-filing, e-tendering, e-commerce, e-health, e-agriculture and many other online services. These services are creating opportunities for bandwidth in public sector mostly for data related services.

Investment Negatives

- In February 2018, the government has slashed the bandwidth price by 15% and is likely to drop further in the coming years. However, this slash in price will increase the BSCCL's bandwidth usage due to the reduction of imports by the private ITC (international terrestrial cable) operators. International gateway operators and internet service providers and end users will mostly benefit from the price cut.
- BSCCL does not hold NTTN (Nationwide Telecommunication Transmission Network) license. Hence, BSCCL needs to depend on NTTN operators for transportation of the submarine bandwidth to different parts of the country which means that BSCCL is not able to offer complete solution for its customers using its own resources.
- Debt ratio of the Company would rise upon connecting with the third submarine cable which will consequently increase the finance expenses and depreciation charges. This will have a negative impact on the net profit margin of the Company.

Latest Quarter Update – December 2018 (Q 2)

Particulars (BDT mn)	Jul-Dec 2018	Jul-Dec 2017	Oct-Dec 2018	Oct-Dec 2017
Turnover	910	671	471	341
Growth	35.6%	--	38.1%	--
Gross Profit	583	357	320	189
Margin	64.1%	53.1%	67.8%	55.4%
Growth	63.6%	--	68.8%	--
Operating Profit	342	160	210	88
Margin	37.6%	23.8%	44.5%	25.9%
Growth	114.4%	--	137.5%	--
Net Profit	236	10	158	6
Margin	25.9%	1.4%	33.6%	1.8%
Growth	2,332.9%	--	2,581.0%	--

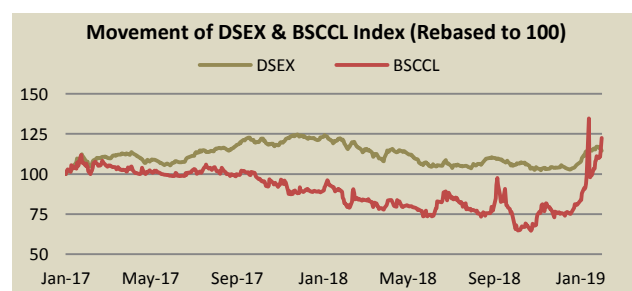
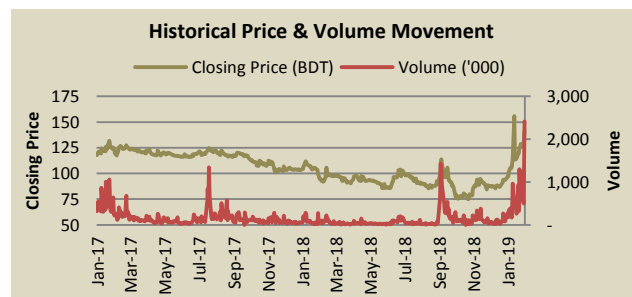
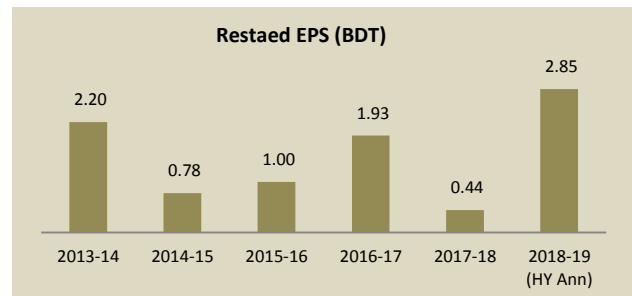
- Revenue has increased by 36% in the six months of 2018-19 over the same period of last year due to the enhancement of IPLC business in which the Company has achieved a 40% growth to 950 Gbps in January 2019 which was 672 Gbps in June 2018 in bandwidth utilization which resulted in considerable topline growth.
- Gross profit margin has increased to 64.1% in the period which was 53.1% than that of last year due to the lower growth of direct cost of operation compared to the robust growth of revenue. Depreciation of core machinery remains almost same over the years. Hence, robust increase of sales figure magnified the GP margin.

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- Bank interest and other income increased due to the increase in cash and cash equivalents, rest house rent & others and landing station cross connection charge.
- Finance expenses increased resulted from the payment of interest of the foreign loan taken from IDB.
- Lower deferred tax expenses over same period of last year improved the net profit margin further in the period. The Company made a huge provision for interest payment on foreign loan in FY 2017-18.



Concluding Remark

Bangladesh Submarine Cable Company Limited (BSCCL), a Government owned entity, is considered as the country's prime telecommunication service provider. The growth of the Company is largely connected with overall socio-economic condition of the Country.

Source: Annual Reports, DSE website, BTRC, BSCCL Website, the Financial Express, the Daily Star and ILSL Research

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