

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 in the telecommunication sector 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 holding around 60% market share in the bandwidth market. Apart from the BSCCL, six other international terrestrial cable operators are in the country.

BSCCL is the core service provider of submarine cable bandwidth and handles the country's submarine cables. 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 Company invested around BDT 6.10 billion in second submarine cables (SEA-ME-WE-5) with the financial assistance from Islamic Development Bank (IDB). The first one is situated at Jhilogjha, 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 Company. There are 36 IIG, 24 IGW & 129 ISP service providers in the country.

Revenue Composition & Growth

Particulars (BDT mn)	Revenue	Composition	Growth		
	2018-19	2018-19	2017-18	2018-19	2019-20*
IPLC Rent	1,437	73.5%	78%	58%	29%
IP Transit	398	20.3%	-10%	9%	11%
Circuit Activation	22	1.1%	82%	28%	-42%
Co-Location Charge	41	2.1%	201%	-2%	48%
Export	59	3.0%	-26%	-19%	9%
Total	1,956	100%	36%	39%	24%

IPLC=International Private Leased Circuit. *Growth for 2019-20 is calculated for Jul-Dec over the same period of last year.

Capacity utilization

Historical capacity & utilization are shown in the following table

Particulars (GBPS)	2014-15	2015-16	2016-17	2017-18	2018-19
Capacity	200	200	1,800	1,800	2,700
Utilization	33.5	132.2	246.9	446.5	686.0
<i>Growth</i>	49%	294%	87%	81%	54%
Utilization (%)	16.8%	66.1%	13.7%	24.8%	25.4%

Shareholding Structure:

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

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-19	0.00%	73.84%	11.03%	3.08%	12.05%
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%

Company Fundamentals

Market Cap (BDT mn)	11,857.7
Market Weight Sector Weight	0.5% 3.7%
Free-float (Public + Inst. + Foreign)	26.2%
No. of Shares Outstanding (mn)	164.9
Paid-up Capital (BDT mn)	1,649.0
3 Months Average Turnover (BDT mn)	46.4
3-month Return (Dividend & Free-float Adjusted)	-19.9%
Current Price (BDT)	71.9
52-Week Price Range (BDT)	71.0 - 174.2
Sector Forward P/E	9.1

	2016-17	2017-18	2018-19	2019-20 (6M Ann.)
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Financial Information (BDT mn):

Sales	1,037	1,405	1,956	2,262
Gross Profit	683	792	1,335	1,660
Operating Profit	365	395	849	1,051
Profit After Tax	318	73	586	745
Cash & Cash Equi.	672	1,131	2,023	2,261
Assets	9,963	10,434	11,412	11,641
CAPEX	36	118	67	86
Long Term Debt	2,866	2,731	2,560	2,507
Short Term Debt	-	238	332	306
Equity	6,009	5,884	6,388	6,496
Retained Earnings	1,037	1,405	1,956	2,262

Margin:

Gross Profit	65.8%	56.4%	68.3%	73.4%
Operating Profit	35.2%	28.1%	43.4%	46.4%
Pretax Profit	39.5%	22.0%	41.8%	45.3%
Net Profit	30.7%	5.2%	30.0%	32.9%

Growth:

Sales	67.6%	35.5%	39.2%	15.7%
Gross Profit	121.6%	16.1%	68.5%	24.4%
Operating Profit	154.1%	8.4%	114.8%	23.7%
Net Profit	92.3%	-77.0%	699.6%	27.1%

Profitability:

ROA	3.4%	0.7%	5.4%	6.5%
ROE	10.6%	2.5%	18.3%	22.9%

Leverage:

Debt Ratio	28.8%	28.5%	25.3%	24.2%
Debt-Equity Ratio	47.7%	50.5%	45.3%	43.3%
Int. Coverage	-	2.8	5.0	6.5

Dividend History:

Dividend (C/B)%	12/-	5/-	16/-	-/-
Dividend Yield	1.0%	0.5%	1.2%	-/-
Dividend Payout	62.2%	112.5%	45.0%	-/-

Valuation:

Price/Earnings	37.3	161.8	20.2	15.9
Price/BV	2.0	2.0	1.9	1.8
EPS (BDT)	1.9	0.4	3.6	4.5
NAVPS (BDT)	36.4	35.7	38.7	39.4

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. As of September 2019, the country's total international bandwidth consumption reached 1,250 gigabits per second (Gbps), of which the BSCCL is supplying 650 Gbps and the rest is imported from India. 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 127% to 1,250 Gbps in September 2019 over January 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, industry insiders said. A major portion of the country's bandwidth is consumed for browsing Facebook and YouTube which is also 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.

The total number of **mobile phone subscribers has reached 165.572 million as of December 2019 while the mobile internet subscribers were 93.68 million**, according to telecom regulator. The emerging of e-commerce business, mobile financial services, software Technology Park, blooming of online-centric services will be the driving forces for the bandwidth consumption.

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. 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. Bangladesh Submarine Cable Company Ltd (BSCCL), a state-run venture that owns two submarine cable connections, **supplies around 680 Gbps of the country's total bandwidth consumption**.

The number of **active internet connections** rose to 99.40 million as of December 2019 which was 91.35 million in December 2018 grew by 8.84% during the period, according to data from Bangladesh Telecommunication Regulatory Commission (BTRC). The country now has 5.74 million as of December 2019 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 undersea cables to neighboring countries through lease or sale.

Investment Positives

- **The Company has reported a significant growth of 39% & 700% in revenue & net profit respectively in 2018-19 over last year.** This was due to the increase in bandwidth usage through a second undersea cable, improved gross profit margin and lower operating expenses.
- **The government of Bangladesh has decided to connect with a third submarine cable (SEA-ME-WE-6)** to meet the demand for rapidly growing data consumption 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 from Singapore. **The Company will invest BDT 6.00 billion to connect with the SEA-ME-WE-6** (South East Asia–Middle East–Western Europe). As per initial document, **it is expected that the third cable will be ready for service by 2023 which alone will add another 7,200 Gbps.** Another reason for looking for another submarine cable is that the first cable is nearing its 20-year lifespan.
- **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	2015	2016	2017	2018	2019
Mobile Internet	51.5	62.7	75.1	85.6	93.7
<i>Growth</i>	22%	22%	20%	14%	10%
ISP + PSTN*	2.5	3.8	5.3	5.7	5.7
<i>Growth</i>	104%	52%	40%	7%	0%
WiMAX	0.1	0.1	0.1	0.1	0.01
<i>Growth</i>	-37%	-37%	-4%	-32%	-92%
Total Subscriber	54.1	66.6	80.5	91.4	99.4
<i>Growth</i>	24%	23%	21%	14%	9%

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

- **International terrestrial cable (ITC) operators have obtained the telecom regulators' permission to purchase bandwidth directly from BSCCL.** This is ultimately increasing the bandwidth sales of the Company 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.
- **The telecom operators are expanding their 4G network** throughout the country which is increasing the demand for bandwidth day by day. Meanwhile, the Government has **planned to introduce 5G services in the country within 2021-2023.** Implementation of 5G in the country will create a great demand of bandwidth in near future.
- **Government has built several IT Villages** in different parts of the country and **several others are under construction.** Various IT industries to be established in these IT Villages which will require high speed bandwidth.
- **Government has implemented several projects to connect all the government offices up to 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.

- Many small ISPs are working all over the country to spread fixed broadband distribution network into domestic households which is creating new demand for bandwidth every day.
- The Company is **looking for new markets to export its significant unused bandwidth**. Bangladesh has 2,600 Gbps bandwidth capacity from two submarine cables, but only 900 Gbps is consumed locally. The Company is now in talks with Nepal Telecom to export about 100 gigabits per second (Gbps) of bandwidth. As Bangladesh has access to the landlocked Himalayan nation only via India, BSCCL and Nepal Telecom have approached an Indian company, which has expressed willingness to establish the connection. **The BSCCL's second undersea cable lands in Kuakata of Patuakhali, which is closer to Nepal.**

Investment Negatives

- The Jatiya Sangsad (JS) passed a bill allowing the **autonomous organizations and agencies to deposit their surplus fund with the public exchequer**. According to the bill, the autonomous bodies can keep the required money for their operational expenses, development project expenditures and 25% of the annual emergency expenses. The rest of the money has to be deposited with the public exchequer. As of December 2019, the Company has BDT 2.26 billion as cash and cash equivalents. If the Company has to deposit a big amount with the public exchequer, **bank interest income will be significantly reduced which ultimately lower the net profit of the Company**. Besides, the Central Bank has instructed the **commercial banks for bringing down the interest rates on deposit to below 6%** which might also have a negative impact on the bottom line of the Company. Interest income was around 17% of operating income during the first six months of 2019-20 which was 14% in the full year of 2018-19.
- In February 11, 2020, The Financial Reporting Council (FRC) has directed companies **to convert share money deposit into paid up capital** within six months of depositing such fund in bank accounts and barring them from withdrawing the money. The share money deposit will be considered as potential share until its conversion into paid up capital and the company must show the diluted earnings per share in the financial statement or impact of the new shares on EPS. **BSCCL has more than 100% in Equity Money from Government as of December 2019 which will be converted into shares** after getting proper approval from Concerned Authority. **There will be 100% dilution in EPS upon conversion of money to the ordinary shares of the Company.**
- In 2012, BTRC issued International Terrestrial Cable (ITC) licenses to six private operators of which four are now in active commercial operation. The ITC license holders offer IPLC service of the submarine cable systems of the neighboring country (India) through ITC connecting the landing stations of India with Bangladesh. Hence, **ITC license holders are the main competitors of BSCCL** and they sometimes offer lower tariff to attract customers. To

remain competitive in the market, **BSCCL sometimes needs to revise its tariff of the IPLC and IP Transit services downward, which impacts the revenue and profit of the Company.**

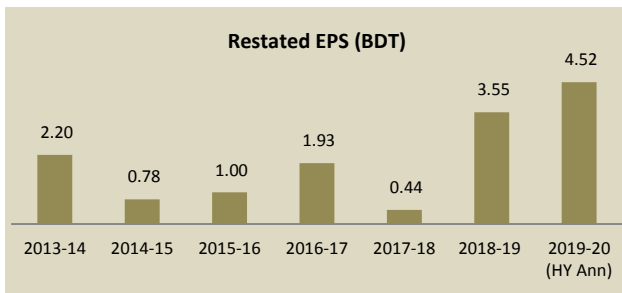
- In June 2019, **the government has reduced the bulk bandwidth price** in a move that aims to provide low-cost internet service. The internet price has been set at maximum BDT 400 per megabits second (Mbps) and minimum BDT 180 Mbps. Earlier, the maximum price was BDT 960 Mbps and minimum BDT 360 Mbps in 2015. The price cut will reduce the revenue of the Company. 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, 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. **If the government decides to issue submarine cable license to any other operator having NTTN license then BSCCL will face uneven competition which may jeopardize its business.**
- **Debt ratio might rise upon connecting with the third submarine cable if the Company opted for debt financing which will consequently increase the finance expenses.** This will have a negative impact on the net profit margin of the Company.

Latest Quarter Update – December 2019 (Q 2)

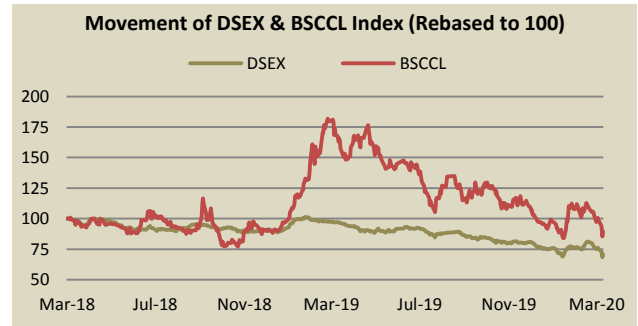
Particulars (BDT mn)	Jul-Dec 2019	Jul-Dec 2018	Oct-Dec 2019	Oct-Dec 2018
Turnover	1,131	910	593	471
Growth	24.2%	--	25.8%	--
Gross Profit	830	583	440	320
Margin	73.4%	64.1%	74.1%	67.8%
Growth	42.3%	--	37.6%	--
Operating Profit	525	342	277	210
Margin	46.4%	37.6%	46.7%	44.5%
Growth	53.5%	--	31.9%	--
Net Profit	372	236	201	158
Margin	32.9%	26.9%	33.8%	33.6%
Growth	57.7%	--	26.8%	--
EPS (BDT)	2.26	1.43	1.22	0.96

- Revenue has increased by 24% in the six months of 2019-20 over the same period of last year due to the 29% growth in IPLC business. IPLC business contributed 75.55% to the total revenue during the period which was 72.57% in the same period of last year.
- Gross profit margin has increased to 73% during the period which was 64% than that of last year due to the lower growth of direct cost of operation compared to the robust growth of revenue. Depreciation, the major direct cost, of core machinery remains almost same over the years. Hence, robust increase of sales figure magnified the GP margin.
- Bank interest and other income increased due to the increase in cash and cash equivalents, dividend income & others charge.

- Lower deferred tax expenses over same period of last year improved the net profit margin further during the period. The Company made a huge provision for interest payment on foreign loan in FY 2017-18.



In 2017-18, EPS dropped to BDT 0.44 due to the depreciation charged on second submarine cable, interest expenses on IDB loan and deferred tax expenses.



Concluding Remark

Bangladesh Submarine Cable Company Limited (BSCCL), a Government owned entity, is a core infrastructure provider in the telecommunications sector who provides the most vital infrastructure to connect the country with the International Information Superhighway. The growth of the Company is largely connected with overall socio-economic condition of the Country. Government policy of digitalization of govt. services and introduction of 4G and 5G services will contribute to increase in overall IPLC consumption in the country which in turn increases the profitability of the BSCCL.

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

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