

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 also acts 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 located 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	Revenue	Composition	Growth		
	2019-20 (BDT mn)	2019-20	2019-20	2020-21 (6M)*	5-yr CAGR
IPLC Rent	1,927	77.1%	34%	41%	41.3%
IP Transit	459	18.4%	15%	48%	19.5%
Circuit	13	0.5%	-38%	4%	23.7%
Activation					
Co-Location Charge	62	2.5%	53%	45%	65.8%
Export~	37	1.5%	-37%	--	--
Total	2,499	100%	27.8%	38.1%	35.8%

IPLC=International Private Leased Circuit. *Growth for 2020-21 is calculated for Jul-Dec over the same period of last year. ~Export has been discontinued from February 2020

Capacity utilization

Historical capacity & utilization are shown in the following table

Particulars (GBPS)	2015-16	2016-17	2017-18	2018-19	2019-20
Capacity	300.00	1,800	1,800	1,900	2,700
Utilization	132.2	246.9	446.5	686.0	1,103
<i>Growth</i>	<i>294%</i>	<i>87%</i>	<i>81%</i>	<i>54%</i>	<i>61%</i>
Utilization (%)	66.1%	13.7%	24.8%	25.4%	40.9%

Shareholding Structure:

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

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-20	0.00%	73.84%	11.58%	2.72%	11.86%
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%

Company Fundamentals

Market Cap (BDT mn)	28,759.5
Market Weight Sector Weight	0.7% 3.9%
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)	132.9
3-month Return (Dividend Adjusted)	18.6%
Current Price (BDT)	174.4
52-Week Price Range (BDT)	65.6 - 189.7
Sector Forward P/E	18.3

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

Sales	1,405	1,956	2,499	3,124
Gross Profit	792	1,335	1,894	2,529
Operating Profit	395	849	1,318	1,939
Profit After Tax	73	586	956	1,440
Cash & Cash Equi.	1,131	2,023	2,419	3,301
Assets	10,434	11,412	12,150	13,048
CAPEX	118	67	92	12
Long Term Debt	2,731	2,560	2,379	2,284
Short Term Debt	238	332	352	363
Equity	5,884	6,388	6,750	7,470
Retained Earnings	809	1,305	1,640	2,340

Margin:

Gross Profit	56.4%	68.3%	75.8%	80.9%
Operating Profit	28.1%	43.4%	52.7%	62.1%
Pretax Profit	22.0%	41.8%	52.6%	63.5%
Net Profit	5.2%	30.0%	38.3%	46.1%

Growth:

Sales	35.5%	39.2%	27.8%	25.0%
Gross Profit	16.1%	68.5%	41.9%	33.5%
Operating Profit	8.4%	114.8%	55.1%	47.2%
Net Profit	-77.0%	699.6%	63.2%	50.6%

Profitability:

ROA	0.7%	5.4%	8.1%	11.4%
ROE	2.5%	18.3%	28.3%	38.6%

Leverage:

Debt Ratio	28.5%	25.3%	22.5%	20.3%
Debt-Equity Ratio	50.5%	45.3%	40.5%	35.4%
Int. Coverage	2.8	5.0	7.6	12.9

Dividend History:

Dividend (C/B)%	5/-	16/-	20/-	-/-
Dividend Yield	0.5%	1.2%	2.3%	-/-
Dividend Payout	112.5%	45.0%	34.5%	-/-

Valuation:

Price/Earnings	381.5	47.7	29.2	20.0
Price/BV	4.8	4.4	4.1	3.7
EPS (BDT)	0.4	3.6	5.8	8.7
NAVPS (BDT)	35.7	38.7	40.9	45.3

Industry Overview

In recent times, Bangladesh witnessed a phenomenal advancement in telecommunication sector. To boost up 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 December 2019, the country's total international bandwidth consumption reached 1,400 gigabits per second (Gbps), of which the BSCCL is supplying 800 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 173.36 million as of February 2021 while the mobile internet subscribers were 103.19 million**, according to Bangladesh Telecommunication Regulatory Commission (BTRC). 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. The number of **active internet connections rose to 112.72 million as of February 2021** according to BTRC. The country now has 9.52 million as of February 2021 active broadband connections and they are the major consumers of data.

BSCCL plays a vital role as a core telecommunication service provider and **only supplier of bulk bandwidth**. However, 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 operational in Bangladesh. **BSCCL**, a state-run venture that owns two submarine cable connections, **supplies around 1,100 Gbps of the country's total bandwidth consumption**.

The industry has experienced overcapacity which created **opportunity window for export**. 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 28% & 63% in revenue & net profit respectively in 2019-20 over last year.** This was due to the **61% increase in bandwidth usage** through a second undersea cable, improved gross profit margin and lower operating expenses in percentage of sales. **Gross profit margin increased to 75.8% in 2019-20** which was 68.3% in last year due to the rise in revenue against static direct expenses. **Revenue has increased by 38% in the first half of 2020-21** over the same period of last year **due to the 41% growth in IPLC business**. IPLC business contributed 76.96% to the total revenue during the period which was 75.54% in the same period of last year.
- **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 and is expecting to launch 5G services soon. 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 December 2024 which alone will add another 7,200 Gbps**. This will strengthen BSCCL in terms of bandwidth capacity as well as redundancy and diversity. Another reason for looking a new 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	2016	2017	2018	2019	2020
Mobile Internet	62.7	75.1	85.6	93.7	102.4
<i>Growth</i>	22%	20%	14%	10%	9%
ISP + PSTN*	3.8	5.3	5.7	5.7	9.5
<i>Growth</i>	52%	40%	7%	0%	67%
WiMAX	0.1	0.1	0.1	0.01	--
<i>Growth</i>	-37%	-4%	-32%	-92%	--
Total Subscriber	66.6	80.5	91.4	99.4	111.9
<i>Growth</i>	23%	21%	14%	9%	13%

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 2023**. Implementation of 5G in the country will create a great demand for 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.
 - BSCCL is also planning **to introduce some new services such as CDN (Content Delivery Network) and some cloud base services** in near future.
 - Continuous technological development is going on to transport more bandwidth over an optic fiber pair and thus the bandwidth carrying capacity of the submarine optic fiber cable is increasing gradually.
 - The Company is **looking for new markets to export its significant unused bandwidth**. Bangladesh has 2,700 Gbps bandwidth capacity from two submarine cables, but only 1,100 Gbps is consumed locally. The Company is now in talks with Nepal Telecom to export about 100 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.**
 - The company is also **trying to sell/lease some unutilized capacities of the SMW 5 submarine cable** (core path), which cannot be terminated or used in Bangladesh, to other SMW 5 consortium partners in order to get a part of the investment back and also to reduce the yearly O&M cost for the core part of the cable.
- 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. The Board of Directors of BSCCL has approved the appointment of ICB Capital Management Limited as Issue Manager and a Chartered Accountants Firm as a valuer of assets and liabilities as a process to issue shares in favor of Ministry of Posts, Telecommunications and Information Technology against equity money received the Government. **BSCCL has more than 100% in Equity Money from Government as of December 2020 which will be converted into shares. 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. **BSCCL is no longer the sole agency to supply Submarine Cable bandwidth to IGW, IIG and other corporate users.** The competitors are the ITC License holders who already acquired a substantial market share.
 - **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.
 - BSCCL used to lease 10 Gbps Internet bandwidth to Tripura, India till 7th February 2020 under an Agreement signed between BSCCL and BSNL, India in 2015. However, BSNL is contacting BSCCL to restore the service again. Meanwhile, BSCCL is actively looking to offer more Bandwidth to the North-Eastern Indian states of India under the said Agreement.

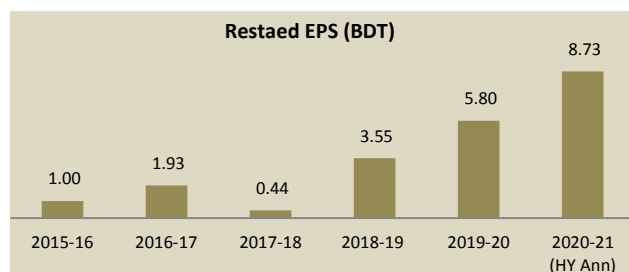
Investment Negatives

- In February 2020, 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 2020, the Company has BDT 3.30 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**. Meanwhile, as of January 2021 the weighted average deposit rates of the banks came down to 4.51% which was 5.69% in January 2020. **Interest income was around 8.42% of operating income during the first six months of 2020-21 which was 13.55% in the full year of 2019-20.**
- In February 11, 2020, The Financial Reporting Council (FRC) has directed companies **to convert share money deposit**

Latest Quarter Update – December 2020 (Q 2)

Particulars (BDT mn)	Jul-Dec 2020	Jul-Dec 2019	Oct-Dec 2020	Oct-Dec 2019
Turnover	1,562	1,131	791	593
<i>Growth</i>	38.1%	--	33.4%	--
Gross Profit	1,264	830	642	440
<i>Margin</i>	80.9%	73.4%	81.2%	74.1%
<i>Growth</i>	52.3%	--	46.1%	--
Operating Profit	970	525	526	277
<i>Margin</i>	62.1%	46.5%	66.4%	46.7%
<i>Growth</i>	84.5%	--	89.9%	--
Net Profit	720	372	389	201
<i>Margin</i>	46.1%	32.9%	49.2%	33.8%
<i>Growth</i>	93.5%	--	94.0%	--
EPS (BDT)	4.37	2.26	2.36	33.8

- Revenue has increased by 38% in the six months of 2020-21 over the same period of last year due to the 41% growth in IPLC business. IPLC business contributed 76.96% to the total revenue during the period which was 75.54% in the same period of last year.
- Gross profit margin has increased to 80.9% during the period which was 73.4% than that of last year due to the static 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 decreased despite increase in cash & cash equivalents due to the decrease in deposit rates in the money market. As of January 2021, weighted average deposit rates of the banks came down to 4.51% which was 5.69% in January 2020.
- Lower deferred tax expenses over same period of last year improved the net profit margin further during the period.



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.

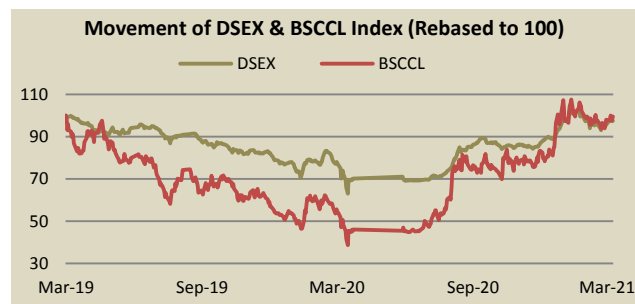
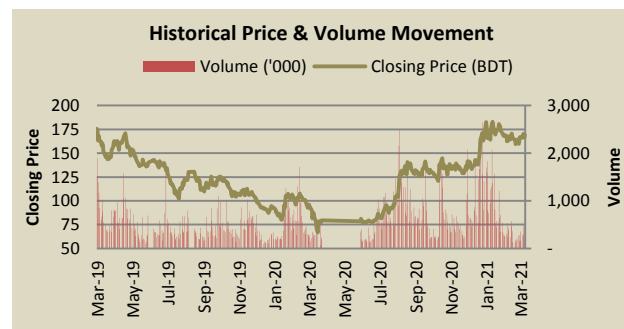
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Concluding Remark

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 5G services will contribute to increase in overall bandwidth consumption in the country which in turn increases the profitability of the BSCCL.

Source: Annual Reports, DSE website, BTRC, BSCCL Website, the newspaper news and ILSL Research

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