

Company Overview

LankaBangla Finance Limited (LBFL) was incorporated and commenced its operation on November 05, 1996. The principal activities of the Company are providing integrated financial services including corporate financial services, retail financial services, SME financial services, stock broking, corporate advisory and wealth management services. The Company is a primary dealer of government securities since November 2009. It is the lone financial institution to operate credit card (MasterCard and VISA) and also provide third party card processing services to different banks in Bangladesh. The Company has opened 2 new branches in 2018 and reached to a total of 27 branches in the country.

The Company has strong presence in capital market through its three subsidiaries – LankaBangla Investment Ltd. (99.99%), LankaBangla Securities Ltd. (LBSL) (96.54%) and LankaBangla Asset Management Company Ltd. (LBAMCL) (99.99%). LBSL has two subsidiaries namely LankaBangla Information System Limited and BizBangla Media Limited.

Composition and Growth of Consolidated Operating Income:

(BDT mn)	2014	2015	2016	2017	2018
Interest Income	3,965	4,787	5,662	7,076	9,095
Interest Expense	3,033	3,715	3,964	4,839	6,606
Net Interest Income	933	1,072	1,697	2,237	2,490
Net Interest Margin*	3.3%	3.0%	3.6%	3.8%	3.7%
Operating Income	2,067	2,522	3,347	5,142	4,455
<i>Growth</i>	-16%	22%	33%	54%	-13%
As % of Operating Income					
Net interest income	45%	43%	51%	44%	56%
Investment income	10%	17%	14%	18%	10%
Commission and brokerage income	33%	22%	17%	22%	16%
Other op. income	13%	18%	18%	17%	19%
Growth					
Net interest income	-9%	15%	58%	32%	11%
Investment income	-73%	120%	11%	89%	-53%
Commission and brokerage income	42%	-17%	1%	101%	-38%
Other op. income	25%	74%	33%	42%	-4%

*Net Interest Margin: Net interest income/average of loans & advances (approx.. calculation)

Consolidated Loans & Advances and Term Deposits:

(BDT bn)	2014	2015	2016	2017	2018	5 Year CAGR
Loans & Advances	30	42	51	67	69	--
% of Total Asset	78%	83%	80%	78%	78%	--
<i>Growth (YoY)</i>	22%	38%	23%	30%	3%	22%
Term Deposits	17	30	40	52	53	--
% of Total Asset	43%	60%	63%	60%	61%	--
<i>Growth (YoY)</i>	54%	80%	33%	28%	3%	38%
Credit/Deposit	182%	139%	128%	129%	129%	--

In 2018, deposit & loan portfolio of the Company has marginally grown by 3.3% & 3.2% respectively over 2017. **Though the core component of revenue, net interest income grew by 11%, consolidated EPS has decreased by 80% in 2018 due to** reduction in investment income by 53%, brokerage commission by 38% and increases in provision for loans and advances, investments and other assets by BDT 769.39 million over 2017.

Company Fundamentals

Market Cap (BDT mn)	11,751.8
Market weight (Based on Mkt Cap)	0.3%
No. of Share Outstanding (in mn)	513.2
Free-float (Public +Inst.+Foreign)	66.4%
Paid-up Capital (BDT mn)	5,131.8
3 Months Daily Average Turnover (BDT mn)	46.5
3 Months Return	9.4%
Current Price (BDT)	22.9
52-week price range (BDT)	22.0 – 33.6
Sector Forward P/E	24.9

	2015	2016	2017	2018
Financial Information (BDT mn):				
Operating Income	2,522	3,347	5,142	4,455
Operating Profit	910	1,342	2,471	1,685
Profit Before Tax	533	947	2,264	709
Profit After Tax	421	796	1,926	444
Shareholder's Equity	6,349	6,771	8,429	9,934
Deposit	30,107	40,148	51,675	53,405
Loans and Advances	41,819	51,244	66,544	68,676
Total Asset	50,448	63,935	85,443	87,889

Margin*:

Operating Profit	36.1%	40.1%	48.1%	37.8%
Pretax Profit	21.1%	28.3%	44.0%	15.9%
Net Profit	16.7%	23.8%	37.5%	10.0%

Growth:

Loans & Advances	37.6%	22.5%	29.9%	3.2%
Deposits	80.5%	33.4%	28.7%	3.3%
Equity	-11.0%	6.6%	24.5%	17.9%
Operating Income	22.0%	32.7%	53.6%	-13.4%
Operating Profit	16.3%	47.6%	84.1%	-31.8%
Net Profit	-7.3%	89.0%	142.1%	-76.9%

Financial Indicators:

Credit/Deposit	1.4	1.3	1.3	1.3
Asset/Equity	7.9	9.4	10.1	8.8
Capital Adequacy	13.4%	12.5%	11.9%	16.2%
NPL	3.2%	3.2%	2.9%	3.4%
Cost to Income	63.9%	59.9%	51.9%	62.2%

Profitability:

ROE	6.2%	12.1%	25.3%	4.8%
ROA	0.9%	1.4%	2.6%	0.5%

Dividend History:

Dividend % (C/B)	15/15	15/15	7.5/7.5	15/-
Dividend Yield	5.2%	4.3%	1.6%	5.8%
Dividend Payout	182.9%	96.7%	20.0%	177.2%

Valuation:

Price/Earnings	28.2	14.9	6.2	27.1
Price/BV	1.9	1.8	1.4	1.2
Restated EPS (BDT)	0.8	1.6	3.7	0.8
Restated NAVPS (BDT)	12.4	13.2	16.4	19.4

*Operating profit margin=Operating Profit/Total Operating Income

Pre-tax profit margin= Pre-tax Profit/Total Operating Income

Net profit margin=Net Profit/Total Operating Income

Shareholding Structure:

The Company was enlisted with the DSE on October 17, 2006 and CSE on October 31, 2006. Historical shareholding structures

As on	Sponsor	Govt.	Instt.	Foreign	Public
31 - Dec - 18	33.56%	0.00%	21.60%	1.54%	43.30%
31 - Dec - 17	33.56%	0.0%	23.25%	4.55%	38.64%
31 - Dec - 16	38.56%	0.0%	29.00%	1.85%	30.59%
31 - Dec - 15	38.56%	0.0%	29.00%	1.85%	30.59%

Industry Overview

As financial intermediaries, Non-Bank Financial Institution (NBFI) plays vital role in the development of the country. The main activities of NBFIs are consisted of syndicated financing, bridge financing, lease financing, securitization instruments, private placement of equity etc.

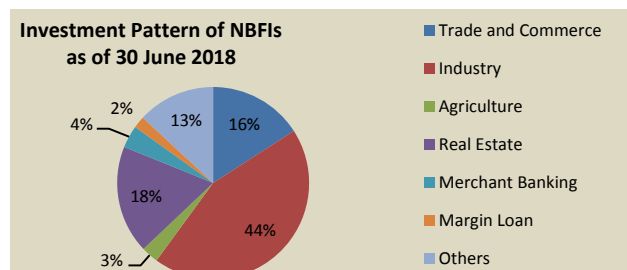
Number of NBFIs: According to latest Bangladesh Bank (BB) statistics, out of 34 NBFIs, 3 are government owned, 12 are joint ventures with foreign participation, and the rest 19 are locally private owned companies. Meanwhile, the branch network increased to 262 as of June 2018. So far 23 NBFIs are listed in the capital market. NBFIs have significant contribution to the country's Capital Market through its separate subsidiaries – Merchant Banks and Brokerage houses. Few NBFIs are specialized in Real Estate sector financing.

Growth of the Sector: Major sources of funds of NBFIs are term deposits, credit facilities from banks and other NBFIs, the call money market, as well as bonds and securitizations. The assets of the sector have increased substantially by 17.6% to BDT 841 bn, liabilities by 19.3% to BDT 726 bn and equity by 7.8% to BDT 115.1 bn as of December 2017. At the end of June 2018, total assets and liabilities of NBFIs increased to BDT 870 billion & 762 billion respectively.

Loans and lease is the major component of the NBFI's asset base consists of approximately 73.76% of total assets as of June 2018. In December 2017 aggregate loan and lease was BDT 614.6 bn grew by 15.1% from December 2016. Over last 5 year, Loan portfolio of the sector grew at a CAGR (Compound Annual Growth Rate) of 20.0%.

On the other hand, **Deposit** accounts for around 63.0% of total liabilities as of June 2018. Aggregate deposit of NBFI sector was BDT 468 bn in 2017 increased by 22.0% from 2016. 5-year CAGR of the sector deposit was 17.0%.

Sector wise composition of NBFIs' investment at the end of June 2018 was as follows:



Profitability: NBFIs' profit before taxes has increased by 40.2% in 2017 mainly due to 31.4% increase in net interest income, 88.9% increase in investment income and 150.0% increase in commission and brokerage income. However, other operating income decreased by 17.9%. On the other hand, operating

expenses and tax provisions increased by 25.3% and 5.4% respectively, while loan loss provisions has remained the same, compared with those of the previous year.

ROA (Return on Asset) and ROE (Return on Equity) measures the profitability relative to asset and equity. As of June 2018, ROA and ROE was 0.32% & 2.5% respectively which was 1.1% & 8.3% in 2017.

Asset quality: The ratio of non-performing loans/lease (NPL) to total loans/lease is one of the key indicators to identify problems with asset quality in the loan portfolio. Total classified loan of the sector stood at BDT 59.2 bn in June 2018 which was 9.2% of total industry loan.

Impact of Liquidity crisis: The performance of NBFI is greatly influenced by the banking sector of the country. The banking sector has struggled in 2018 due to rising non-performing loans against increased loan portfolio amid lower deposit growth. For facing increasingly more demand for loans from the private sector, a few banks had exceeded the allowable loan-deposit ratio (LDR) of 85%. As a result central bank has advised the banks to reduce the LDR to 83.5% by September 2019. The reduction of LDR has abridged the banking sector's ability of disbursing loan. For tackling the situation banks and financial institutions have tried to collect more funds by increasing the rate of interest in deposit. Eventually, the increased deposit rate squeezes the interest margin of the NBFIs.

Investment Positives

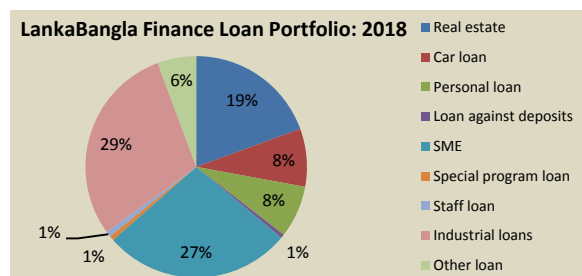
- LankaBangla Finance Ltd. has successfully established its brand name in the Country's financial sector. Moreover, **LankaBangla Securities Ltd., one of its subsidiaries, constantly maintains the top position as the most active brokerage house in DSE for 13 years & in CSE for 14 years.**
- The Company continued keeping pace outperforming the NBFI (Non-Bank Financial Institution) industry in terms of growth of total assets and loan portfolio over the last years.
 - From 2014 to 2018, asset base of the industry grew at a Cumulative Average Growth Rate (CAGR) of 14.71%. At the same time LBFL's asset base grew at a CAGR of 25.66%. **LBFI holds 8.96% market share in terms of Total Assets of the industry.**
 - In 2018, Loan portfolio of the Company grew by 3.20% over 2017 as the industry faced liquidity crunch throughout the year.** Loan portfolio of the industry grew at a 5-yr CAGR of 19.22% where LBFL's CAGR was 27.06%. A comparison of loan portfolio has shown in the following table:

Year (BDT billion)	Industry Loan Portfolio	LBFL Loan Portfolio	Market Share	Industry Growth	LBFL's Growth
2013	273.6	19.26	7.04%	8.53%	39.87%
2014	372.8	24.27	6.51%	36.26%	26.01%
2015	448.5	36.02	8.03%	20.31%	48.41%
2016	530.7	46.75	8.81%	18.33%	29.79%
2017	639.2	61.91	9.69%	20.45%	32.44%
2018	659.0	63.79	9.68%	3.10%	3.02%

Source: Annual Reports of IDLC Finance 2017 & LankaBangla Finance 2018

- The Company maintained a diversified loan portfolio over the years. The Company has been continuing more concentration in SME and retail financial activities in the form of auto loan, home loan, personal loan, credit card

and staff loan. In 2018, loan portfolio of corporate, retail and SME financial services have increased by 1%, 2% & 10% respectively over 2017.

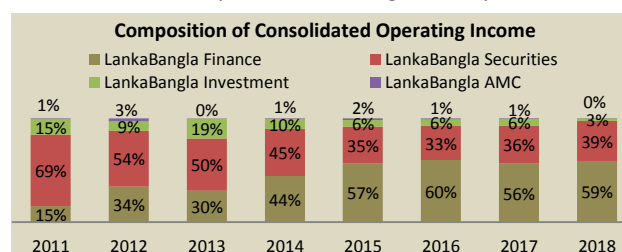


- **Disbursement in corporate business has decreased by 20% in 2018** due to the less emphasis on the segment because of low margin. Disbursement in 2018 was driven mostly by Term Loan and factoring.
- The Company **has continued to concentrate more on personal financial services** in the form of auto loan, home loan, personal loan, credit card and staff loan by expanding two branches and increasing manpower in retail financial activities.
- SME is comparatively a new segment of LBFL and is restructuring to make it one of the important core segments of LBFL. **Management has taken a series of strategies to foster more disbursement in SME segment** and boost the portfolio size to a sizeable amount as this sector is less rate sensitive and more profitable. **5-year CAGR of the SME portfolio was 126%.**
- **The Company's prime vision for 2019 is to ensure that branches play a bigger role in promoting retail and SME lending and driving medium term business goals.**

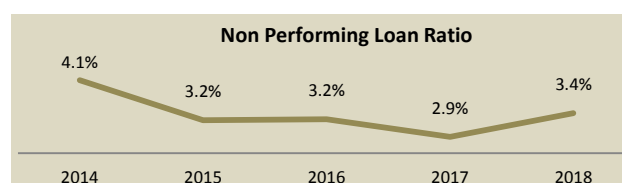
- In 2018, deposit portfolio of LBFL grew by 3.3% over 2017 despite liquidity crunch in the industry. Due to high attrition rate of corporate and Institutional deposit, the Company focused and successfully increased its retail deposit base. **Portfolio of Corporate TDR (Term Deposit Receipt), Bank & FI TDR and borrowings decreased by 19% against increase of Retail TDR and SME TDR. Retail and SME deposit grew by 77% and 2328% respectively in the period. SME TDR was introduced in 2017. Overall Bank Borrowings decreased by 12% in 2018 compared to that of 2017.**
- Capital Adequacy Ratio of the Company maintained at 16.18% as of December 2018 against Bangladesh Bank's stipulation of 10.0%. The Company has strengthened its balance sheet by issuing Rights Shares and Subordinated Bond. It raised its capital of BDT 1.59 billion through issuance of Rights Shares in January 2018 and BDT 1.79 billion from Bond. In November 2018, BSEC has accorded its consent to issue Non-Convertible Subordinated Bond by the Company of BDT 3.00 billion at floating interest rate of 8.00% to 11.00% p.a. (initial interest rate will be 10.00% p.a.) to boost the capital base of the Company by increasing Supplementary (Tier-II) Capital.
- **The Company has 27 branches as of December 2018 and is planning to open 5 more branches in 2019** in the potential areas to capture the emerging customers.

Investment Negatives

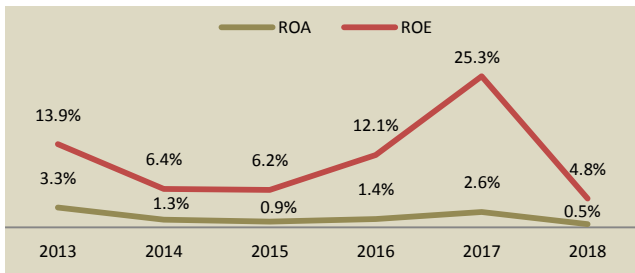
- In 2018, consolidated operating income and net profit of the Company was BDT 4,455 mn & 444 mn registering **13.3% & 76.9% negative growth respectively over the same period of last year** though the core component of revenue, net interest income, grew by 11% over 2017 by acquisition of new clients, increase in volume of business with existing clients and expansion of products and services helped to boost the interest income in 2018. The negative growth of net profit was because of:
 - reduction in investment income by 53%;
 - decrease of brokerage commission by 38%;
 - total operating expenses increased by 4% due to increase in salary and allowances and opening of two new branches in 2018;
 - increase in provision for leases and loan by 48%;
 - increase in provision for diminution in value of investment by 550%;
 - increase in provision for margin loan by 610%.



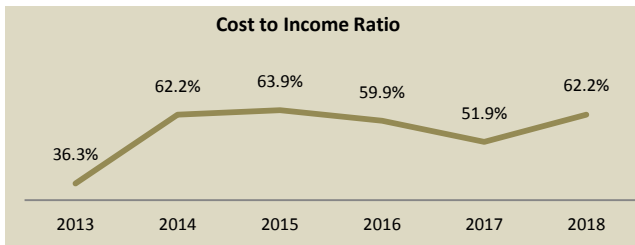
- Around 44% of the consolidated operating income of the Company comes from the capital market operation through its subsidiaries which are highly volatile in nature. **Capital market experienced a major decline in the benchmark index, DSEX, of the Dhaka Stock Exchange in 2018 by 38% over 2017 where daily average turnover has slumped by 37%. This slash in the index led the brokerage income and investment income to decline by 38% & 53% respectively over last year.** Political uncertainty, yearlong liquidity shortage in the banking sector, unstable money market and selling pressure from foreign investors has played vital roles in the downtrend stock market. However, being the market leader for many years LBSL is expecting growth in revenue and profitability in the coming years as with the uptick in capital market expectations.
- The performance of the Company is greatly influenced by the financial sector of the country. The financial sector has struggled in 2018 due to liquidity crisis. Meanwhile, the central bank's directive to reduce the ADR to 83.5% by September 2019, the banks is trying to collect more funds by increasing the rate of interest in deposit. **The liquidity crisis in the financial sector might push up the deposit rates in the coming days which might have adverse impact on the net interest margin of the Company.**
- **As of December 2018, NPL (classified loan to total loan) of the Company has increased to 3.35%** which was 2.85% in 2017. As of December 2018, industry NPL was 9.11%.



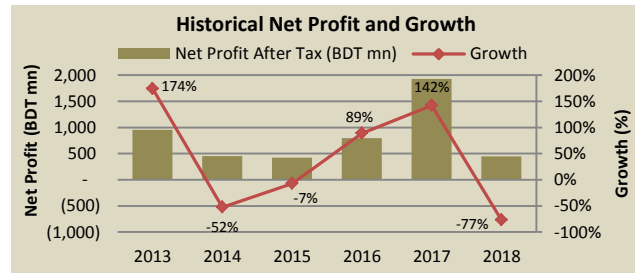
- Return on Assets (ROA) and Return on Equity (ROE) registered a decrease in 2018 by 1.19% points and 20.76% points respectively over 2017 due to reduction in net profit in the period.



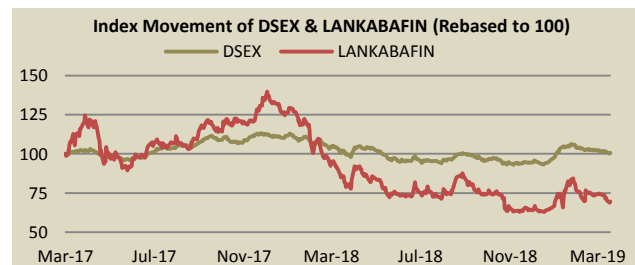
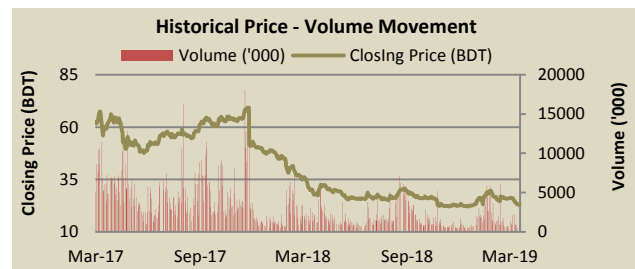
- Costs to income ratio increased in 2018 by 10.22% points due to 13.3% decrease in operating income during the year against 3.7% increase in operating expenses in the period. Operating expenses increased due to increase in salary & allowances and opening of two new branches in 2018.



- The Company's business faces competition from commercial banks in terms of sources of fund. Absence of CASA (Current Account – Savings Account) deposits increases bank dependency and reduces bargain power to bring public deposits resulting high cost of fund and low spread.
- The Company is also facing tough competition in consumer loan & SME financing from banks & other non-bank financial institutions. To cope up from this, LBFL is improving its products mix and service efficiency to attract and retain the customers.



Net profit decreased in 2018 due to decrease in brokerage & investment income and increase in provision for leases, loans and advances



Concluding Remark

LankaBangla Finance Ltd. is one of the leading NBFIs in the country. Particularly, the firm is the market leader in capital market services. As the Company is focusing on business expansion through its existing and extended branch network, concentrating more on retail and SME businesses, it will increase the Company's market share and profitability in the coming years.

Source: Annual Reports, DSE Website, the Financial Express, the Daily Star, Bangladesh Bank website, ILSL Research, LankaBangla website.

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