

SOUTH BANGLA AGRICULTURE & COMMERCE BANK LIMITED

Company Overview

South Bangla Agriculture & Commerce Bank Limited (SBAC Bank) was established on February 20, 2013 and commenced its operation on 25 March 2013. The principal activities of the Bank are banking and related activities including accepting customer deposits, lending to retail, Small and Medium Enterprises (SMEs), Trade Financing, Lease Financing, Project Financing, Issuing Letters of Credit, Inter Bank Borrowing & lending and dealing in government securities and equity shares etc. The Bank has 83 Branches and 11 sub-Branches in different locations of Bangladesh. The Bank is intended to expand operation in all over the country in spirit of Islami Shariah. The registered office of the Bank is at BSC Tower, 2-3 Rajuk Avenue, Motijheel, Dhaka-1000.

The Bank has recently formed a subsidiary company named SBAC Bank Investment Limited which incorporation date is 21 March 2021.

Composition and growth of Consolidated Operating Income:

(BDT mn)	2016	2017	2018	2019	2020 (9M)
Interest Income	3,844	4,765	6,420	7,357	4,638
<i>Growth</i>	34%	24%	35%	15%	-13%
Interest Expense	2,307	2,802	3,869	4,847	3,720
<i>Growth</i>	13%	22%	38%	25%	7%
Net Interest Margin	5.8%	5.3%	5.5%	4.7%	2.1%
Operating Income	2,962	3,476	4,004	4,353	2,696
<i>Growth*</i>	62%	17%	15%	9%	-5%
As % of Operating Income					
Net interest income	52%	56%	64%	58%	34%
Non-interest income	48%	44%	36%	42%	66%
Investment income	39%	29%	23%	28%	52%
Commission and brokerage income	7%	12%	11%	12%	11%
Other ope. income	2%	3%	2%	3%	3%
Growth*					
Net interest income	34%	24%	35%	15%	-50%
Non-interest income	40%	6%	-4%	27%	77%
Investment income	37%	-12%	-9%	33%	137%
Commission and brokerage income	54%	97%	6%	14%	-11%
Other ope. income	41%	28%	5%	31%	6%

*Growth for 2020 is calculated for 9 months over the same period of the last year.
 Net Interest Margin: Net interest income/2 years average of loans & advances

Historical Loans & Advances and Term Deposits:

(BDT bn)	2016	2017	2018	2019	2020 (Sep)	4-year CAGR
Loans & Adv.	30	43	50	56	58	--
% of Total Asset	66%	73%	71%	66%	68%	--
Growth (YoY)*	30%	43%	16%	11%	3%	25%
Term Deposits	38	50	59	72	68	--
% of Total Asset	84%	85%	84%	85%	79%	--
Growth (YoY)	25%	31%	18%	21%	-6%	23%
Credit-Deposit	79%	86%	85%	78%	86%	--

*Growth for 2020 is calculated over December 2019.

IPO Details

No. of Shares (Post-IPO) in mn	784.65
Authorized Capital (BDT mn)	10,000.00
Pre-IPO Paid-up Capital (BDT mn)	6,846.45
Post-IPO Paid-up Capital (BDT mn)	7,846.45
IPO size in shares (mn)	100.00
IPO size at offer price (BDT mn)	10,000.00
Face value per share (BDT)	10.00
Offer price per share (BDT)	10.00
Year End	December
Security Trading Code	SBACBANK
NAV per share (BDT) (June 2021)	14.61
Annualized EPS (BDT, Post-IPO)	0.54

	2017	2018	2019	2020 (9M Ann)
Financial Information (BDT mn):				
Operating Income	3,476	4,004	4,353	3,594
Operating Profit	1,819	2,034	2,269	1,417
Profit Before Tax	1,518	1,641	1,764	1,297
Profit After Tax	982	880	968	861
Shareholder's Equity	6,539	7,430	8,363	9,026
Deposit	50,121	59,304	71,540	67,536
Loans and Advances	43,285	50,255	56,001	57,917
Investment	6,391	7,033	15,035	10,518
Total Asset	58,941	70,661	84,564	85,498
Retained Earnings	704	583	632	655
Margin:				
Operating Profit	52.3%	50.8%	52.1%	39.4%
Pretax Profit	43.7%	41.0%	40.5%	36.1%
Net Profit	28.3%	22.0%	22.2%	24.0%
Growth:				
Loans & Advances	43.5%	16.1%	11.4%	3.4%
Deposits	30.7%	18.3%	20.6%	-5.6%
Equity	16.4%	13.6%	12.6%	7.9%
Operating Income	17.4%	15.2%	8.7%	-17.4%
Operating Profit	19.7%	11.8%	11.6%	-37.6%
Net Profit	3.4%	-10.4%	10.0%	-11.0%
Financial Indicators:				
Credit/Deposit	86.4%	84.7%	78.3%	85.8%
Asset/Equity	9.0	9.5	10.1	9.5
CRAR	--	14.7%	14.6%	--
NPL	--	6.1%	5.7%	--
Cost to Income	47.7%	49.2%	47.9%	60.6%
Profitability:				
ROE	25.0%	23.5%	22.3%	14.9%
ROA	1.9%	1.4%	1.2%	2.0%
Valuation:				
Restated EPS (BDT)	1.1	1.2	1.1	0.5
Restated NAVPS (BDT)	9.5	10.7	11.5	14.61

IPO

The Company raised BDT 1,000.00 million through fixed price method of Initial Public Offering (IPO). ICB Capital Management Limited is the issue managers and Hoda Vasi Chowdhury & Co. is the auditor of the Company.

Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Investment in Govt. Securities (20 years Bond 40%) (15 years Bond 20%) (10 years Bond 20%) (5 years Bond 20%)	951.85	95.85%	W/i 3 months after receiving IPO Fund
IPO Expenses	48.15	4.15%	As and when required
Total	1,000.00	100%	

Ownership of the Company

Name of the Directors	Position	% of Holdings
		Post-IPO
Mr. S. M. Amzad Hossain	Chairman	2.80%
Begum Sufia Amjad	Director	2.93%
Mr. Abu Zafar Mohammod Shofiuddin	Director	4.27%
Mr. Abdul Kadir Molla	Director	4.27%
Engr. Md. Moklesur Rahman	Director	4.27%
Al-Haj Mizanur Rahman	Director	3.08%
Captain M. Moazzam Hossain	Director	4.35%
Mr. Hafizur Rahman Babu	Director	3.20%
Mr. Anwar Hussain	Director	2.01%
Mrs. Tahmina Afroz	Director	4.27%
Haji Shakhawat Anwara Eye Hospital Ltd	Director	4.27%
Mr. Mohammad Ayub	Director	3.57%
Mr. Mohammad Nawaz	Director	2.61%
Thermax Textile Mills Ltd.	Director	4.27%
Moonstar Ceramic Industries Ltd.	Director	4.36%
Total		54.53%

Family relationship among directors

Some of the directors are the family members of the chairman. There is no family relationship exists among the directors and top five officers of SBAC Bank Ltd.

Category-wise shareholding structure

Shareholding Category	Shares Hold (Post-IPO)	% of Holding (Post-IPO)
Sponsor Directors	576,527,729	73.48%
Institutional Investors (EI)	75,259,442	9.59%
Mutual fund (MF)	10,000,000	1.27%
General Public (GP)	112,858,346	14.38%
NRBs	10,000,000	1.27%
Total	784,645,517	100.00%

The following directors of the Company are associated with the listed securities in the following manner:

Name of Director	Associated in the Organization	Position in the Company
Mr. S. M. Amzad Hossain	Khulna Printing & Packaging Ltd.	Director

Industry Overview

The banking sector in Bangladesh comprises four categories of scheduled banks - state-owned commercial banks (SCBs), state-owned development financial institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs).

Number of Banks: At present, there are 61 scheduled banks that operate in Bangladesh under full control and supervision of Bangladesh Bank. There are 6 State Owned Commercial Banks (SOCB), 3 Specialized Banks, 35 Conventional Private Commercial Banks, 8 Islami Shariah based Private Commercial Banks and 9 Foreign Commercial Banks. As per the financial stability report of the Bangladesh Bank, at the end of December 2019, total number of bank branches increased to 10,578 from 10,286 in December 2018.

Loans and Advances: The asset structure of the banking industry continued to be dominated by loans and advances, which secured 66.51 percent share in 2018 while it was 66.49 percent in 2018. This increase was due to the growth in loans and advances by 11.9 percent in 2019 compared to 14.1 percent in 2018. Total loans and advances of the banking system stood at BDT 10,834 billion as of December 2019.

Deposits: Deposits served as the main sources of funds for the banking industry. According to the financial stability report 2019, total deposits of the bank sector was BDT 12,450 billion as of December 2019 which was BDT 11,186 billion in last year, registering 11.3% year over year (YoY) growth.

Advance-Deposit Ratio (ADR): The ADR of all banks has been re-fixed at 87 percent for conventional banks and at 92 percent for Shariah-based Islamic banks enabling banks to lend more during the coronavirus lockdown. The earlier ratios were 85 per cent and 90 per cent respectively. The revised limit of ADR came into effect from April 2020. The ADR of the banking industry increased to 77.3 percent at end-December 2019 from 77.6 percent at end-December 2018.

Private Sector Credit: Private sector credit growth hit 12-year low in June 2020 amid rising liquidity crisis in the country's banking sector due to soaring non-performing loans and poor deposit growth. As per the latest Bangladesh Bank data, the private sector credit growth slumped to 8.6 per cent in June 2020, well below the BB target to reach 14.5 per cent credit growth by the month. The growth rate in June was the lowest since December 2008.

CRR & SLR: Bangladesh Bank (BB) has re-fixed the Cash Reserve Ratio (CRR) at 4.0 per cent on bi-weekly average basis with a provision of minimum 3.5 per cent on a daily basis effective from April 15, 2020 against average total demand and time liabilities (ATDTL) of the second preceding month. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0% and for islami shariah based banks is 5.5% of ATDTL.

Bangladesh Bank relaxed CRR for offshore banking units of the country's scheduled banks in an attempt to reduce cost of fund and make the OBU operations more attractive. The central bank issued a circular slashing bi-weekly average CRR rate to 2% from 4% and daily CRR rate to 1.5%. The banks are allowed to maintain the CRR and SLR only for the offshore banking operations (OBOs) using both local and foreign currencies.

Liquid Assets: As of December 2019, the market share of liquid assets of PCBs' increased substantially whereas the share was declined moderately for the SCBs and FCBs. PCBs' share increased by 7.9 percentage points, while the share of the SCBs

reduced by 6.0 percentage points. Allowing higher proportion of institutional government funds to be deposited in PCBs might have caused the change as these deposits were shifted mostly from the SCBs to the PCBs. This recent stance improved the overall liquidity situation in the PCBs.

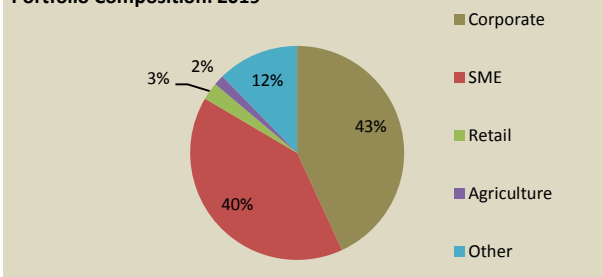
Non-Performing Loans (NPLs): Asset quality of the banking industry considerably improved as the gross NPL ratio declined from 10.3 percent in 2018 to 9.3 percent in 2019. It appears that the main driving force for decline in industry's overall NPL ratio was improvement of asset quality in SCBs and SDBs. However, gross NPL ratios still remained high for these two categories of banks. During the review year, net NPL ratio dropped significantly to 1.0 percent from 2.2 percent of the preceding year. Banking sector maintained a higher level of loan-loss provision in CY19 compared to that of CY18, resulting in an increased provision maintenance ratio. Nonetheless, high volume of provision shortfall in SCBs still remained a concern for the banking industry. The amount of gross NPL increased by BDT 4.2 billion to reach BDT 943.3 billion in 2019.

Agent Banking: Agent banking, which takes banking services to the unbanked people, is going from strength to strength, with both deposit collection and loan disbursement on the rise. As of March 2020, accounts in the agent banking platform, where 22 banks now give banking services to people, stood at 6.5 million accounts, which is more than double that from a year earlier, according to data from the central bank.

Investment Positives

- The Company will utilize its IPO funds of **BDT 951.85 mn which is 96% of its IPO size for investment in Govt. securities** - one of the most secured sources of income. Hence, **investment income of the Company will increase.**
- As of September 2020, **the balance-sheet size of the Bank stood at BDT 85.50 billion and 4-year CAGR (Compound Annual Growth Rate) was 23.22%.** Loans and advances was 67.74% of the total assets of the Bank as of September 2020.
- As of December 2019, **total loan portfolio of the Bank stood at BDT 56.00 billion grew by 11.43% over last year** where 4-year CAGR was 24.74%. **Deposit portfolio was BDT 71.54 billion grew by 20.63% over last year** where 4-year CAGR was 23.48%. As of September 2020, loan and deposit portfolio was BDT 57.92 bn & 67.54 bn respectively.
- The Bank has designed its products basket to create a well-balanced and diversified portfolio. **As of December 31, 2019, 43% of total portfolio was concentrated with corporate and 40% was concentrated with SME sector.** Meanwhile, the Bank has given thrust on widening the retail and SME portfolio.

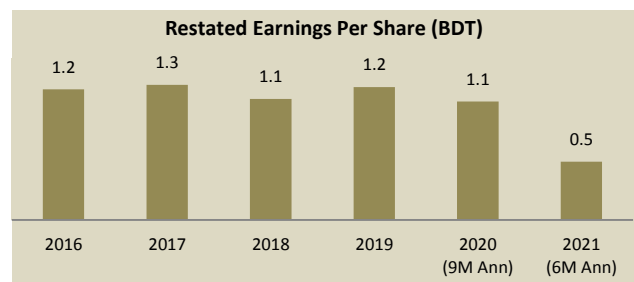
Portfolio Composition: 2019



- As of September 2020, **NPL (classified loan to total loan) of the Bank stood at 5.73%** which was one of the lowest in the industry. The Bank has given special emphasis to improve the asset quality. NPL was 6.09% in December 2019. The Bank has formulated policies and accordingly revised organizational structure **to keep the non-performing loan (NPL) below 1.00%.**
- Besides, conventional banking the Bank had also planned to open the Islamic banking window and already got approval from Bangladesh bank **to open Islamic banking window in ten of its branches.**

Investment Negatives

- **Private sector credit growth has been in declining trend** due to the **eroding confidence of businesses amid the potential threat of coronavirus pandemic.** Meanwhile, **lingering of covid-19 pandemic will cause disruptions to the financial sector** with soaring non-performing loans and low demand for funds from the private sector which in turns have the negative impact on the financials of the Company. **The private sector credit growth declined to 8.37% in June 2021** which was 9.20% & 11.26% in January 2020 and July 2019 respectively. This was because of reluctance of the entrepreneurs in making new investments to observe the revival efforts of the covid-19 pandemic.
- As of September 2020, **borrowings from other banks and financial institutions of the Bank increased to BDT 2.88 bn** which was 1.12 bn in December 2019 which is more costly source of financing.
- The Bank is further behind than its competitor in perspective of starting agent banking. Moreover, there is uneven competition in Banking Industry, that's why there exists high rivalry among the competitors to get the market share.



Latest Declaration: As per un-audited half-yearly (January-June 2021) consolidated financial statements, the Company reported profit after tax of BDT 209.50 million registering 38.18% negative growth over the same period of last year. Annualized post-IPO EPS was BDT 0.54 for 2021 and NAVPS was BDT 14.61 as on June 30, 2021.

Valuation		
Pricing Based on Relative Valuation		
	SBAC's Parameters	Value/Share
NAVPS (Jun, 2021)	14.61	14.61

Source: Prospectus of South Bangla Agriculture & Commerce Bank Limited, newspaper news, Bangladesh Bank and ILSL Research

ILSL Research Team:

Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst

For any Queries: research@ilsibd.com

Research Distribution Partners:

To access research through **Bloomberg** use <ILSL>

Disclaimer: This document has been prepared by International Leasing Securities Limited (ILSL) for information only of its clients on the basis of the publicly available information in the market and own research. This document has been prepared for information purpose only and does not solicit any action based on the material contained herein and should not be construed as an offer or solicitation to buy or sell or subscribe to any security. Neither ILSL nor any of its directors, shareholders, member of the management or employee represents or warrants expressly or impliedly that the information or data of the sources used in the documents are genuine, accurate, complete, authentic and correct. However all reasonable care has been taken to ensure the accuracy of the contents of this document. ILSL will not take any responsibility for any decisions made by investors based on the information herein.