



IPO Brief
July 01, 2021

South Bangla Agriculture & Commerce Bank Ltd.
Sector: Bank
DSE: SBACBANK; BLOOMBERG: N/A

Company Background

South Bangla Agriculture & Commerce Bank Ltd. (SBAC) is a fourth-generation private commercial bank in Bangladesh. It was incorporated in 2013 as a public limited company. Its corporate office is located in Motijheel, Dhaka and it has 83 branches and 11 sub-branches across the country. The bank employs 886 full-time professionals. It is planning to establish a subsidiary company—SBAC Bank Investment Limited.

SBAC has 19 directors on its board. The directors are experienced professionals and most of them sit on the board of other private and public companies. Mr Mosleh Uddin Ahmed is the MD & CEO of SBAC. Previously, he was the MD of NCC Bank Ltd.

IPO Details

South Bangla Agriculture & Commerce Bank Ltd. will raise BDT 1,000 Mn as initial public offering (IPO) through the fixed price method. The fund will be used for investing in government securities.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	BDT mn	% of Proceed
Investment in Government Securities	952	95.2%
IPO Expense	48	4.8%
Total	1,000	100.0%

Key Points

- Industry Positioning:** Bangladesh's banking industry is saturated with 60 players in the market. The current industry loan size is BDT 11 trillion. After seven years of operation, SBAC has a loan portfolio of BDT 57 billion, which is 0.5% of the total industry loan. The total industry deposit amount is BDT 13 trillion. SBAC holds 0.6% deposit market share. In terms of loan and deposit market share, SBAC lags behind the older banks.
- Current Business Scenario:** The year started with the central bank imposing a lending rate cap on the banks. The central bank later went for an expansionary monetary policy in response to dealing with Covid-19. Moreover, the banks witnessed lower credit demand from the business community as well. All of this led to excess liquidity and a lower spread scenario for the industry. The same can be witnessed for SBAC as well as the spread in 2020 deteriorated sharply for the bank.
- Board & Governance:** The board of directors of SBACBANK has a few members related to each other (only 5 out of 19). However, among the shareholders of the bank, there are quite a few family holdings. No single shareholder holds more than 5%. The chairman's family owns ~15% of the bank. All the other family groups own less than 10% each. To note, The chairman and his family was alleged of loan irregularities in 2021, for which Bangladesh Financial Intelligence Unit froze their accounts and put a travel ban on them. Among the 19 directors, only two are independent directors.
- Business Focus:** SBACBANK has a high concentration on SME financing. 38.8% of the loan book consists of SME financing. The bank is focused on agri business as well (13.8% of the loan portfolio). A high focus on SME is concerning in the pandemic scenario as these businesses are vulnerable to an economic shock. Moreover, these businesses typically have a high yield on advances. So, the lending rate cap has more impact on lending to these businesses.
- Deposit Aspect:** The bank had a consistent CASA ratio of 15%-20% for the last 5 years. Such a low CASA ratio may pose difficulty in attaining a low cost of deposit.
- Performance:** The bank's profitability ratio shows a decent performance compared to ROE and ROA of sector average of 4.9% and 0.3% respectively. The declining trend of ROE & ROA is concerning nonetheless. The bank's capital adequacy ratio is also on the decline and reached 13.5% in 2020.
- Large Loans:** The bank's focus on SME & Agro led to a low large loan concentration of 25.8% in 2020. Moreover, these large loans have zero classification issues.
- Asset Quality:** The bank's NPL ratio had a sudden jump in 2019, reaching over 6% and keeping the same rate in 2020. Although most banks had a reduction in NPL ratio in 2020, SBAC's slight rise in NPL is surprising. The bank's concentration on SME may have been the reason for the increase as this segment could not reap the full benefit of the stimulus packages. Moreover, SBAC may still be not efficient in managing the SME segment as the NPL ratio of the segment was 6.9% in 2019. The NPL coverage ratio is concerning as it has been low for the last two years. The bank had a provision shortfall of BDT 570 million in 2020.

Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Bank sector:

DSE Ticker	Market Cap (BDT mn)	TTM Earnings (BDT mn)	NAV (BDT Mn)	P/B	Remarks
STANDBANKL	9,280	893	16,770	0.6x	Similar Asset Size
NRBCBANK	23,678	1,793	11,114	2.1x	Similar Asset Size
BRACBANK	68,913	4,834	50,452	1.4x	SME Focused

Company Summary

Post IPO No. of Shares (Mn)	784.6
Post IPO Paid up capital (BDT Mn)	7,846.5
Pre IPO Paid up capital (BDT Mn)	6,846.5
New Shares Issued (Mn)	100.0
IPO Proceeds (BDT Mn)	1,000.0
Face Value (BDT)	10.0
Free Float	12.7%
Accounting Year End	December
Auditor	Hoda Vasi Chowdhury & Co.
Issue Manager	ICB Capital Management Ltd.

Income Statement

	BDT Mn				
	2016	2017	2018	2019	2020
Interest Income	3,844	4,765	6,420	7,357	5,855
Interest Expense	2,307	2,803	3,869	4,847	4,751
Net Interest Income	1,537	1,962	2,551	2,510	1,104
Investment Income	1,144	1,007	918	1,218	1,910
Commission, Exchange, and Brokerage	213	419	443	504	428
Other Operating Income	68	88	92	121	125
Non-Interest Income	1,425	1,514	1,453	1,843	2,463
Total Operating Income	2,961	3,476	4,004	4,353	3,567
Operating Expense	1,442	1,657	1,970	2,084	2,110
Profit Before Provision	1,520	1,819	2,034	2,269	1,458
Provisions	74	301	393	505	90
Net Profit before Tax	1,446	1,518	1,641	1,764	1,368
Tax	496	536	762	797	416
Net Profit after Tax	949	982	880	968	952
EPS (Post-IPO)	1.21	1.25	1.12	1.23	1.21

Balance Sheet

	BDT Mn				
	2016	2017	2018	2019	2020
Cash	2,709	3,524	4,088	4,437	4,173
Balance with Other Banks	6,346	4,148	7,039	7,017	9,630
Money at Call	186	0	80	0	0
Investments	4,681	6,391	7,033	15,035	12,977
Loans & Advances	30,174	43,285	50,255	56,001	57,409
Other Assets	1,503	1,593	2,167	2,075	4,214
Total Assets	45,600	58,941	70,661	84,564	88,403
Borrowings from Other FI	282	398	801	1,117	2,391
Deposits	38,337	50,121	59,304	71,540	71,451
Other Liabilities	1,364	1,882	3,126	3,544	5,254
Total Liabilities	39,984	52,402	63,232	76,201	79,097
Paid-up Capital	4,335	4,985	5,658	6,224	6,846
Statutory Reserve	495	799	1,127	1,480	1,753
Revaluation Reserve	110	51	62	28	19
Retained Earnings	676	704	583	632	687
Total Equity	5,616	6,539	7,430	8,363	9,307
Total Liabilities & Equity	45,600	58,941	70,661	84,564	88,403
BVPS (Post IPO)	7.02	8.27	9.39	10.62	11.84

Ratios

	2016	2017	2018	2019	2020
ROE	18.1%	16.2%	12.6%	12.3%	13.6%
Adjusted ROE	18.9%	16.4%	12.7%	12.3%	13.7%
ROA	2.3%	1.9%	1.4%	1.2%	1.4%
Loan-Deposit Spread	6.3%	5.6%	5.6%	5.1%	3.2%*
Net Interest Margin (NIM)	7.2%	6.2%	5.9%	4.9%	4.4%
Effective Tax Rate	34.3%	35.3%	46.4%	45.2%	30.4%
Cost to Income Ratio	48.7%	47.7%	49.2%	47.9%	59.1%
Gross NPL (% of L&A)	0.0%	0.9%	2.0%	6.1%	6.2%
NPL Coverage	NA	128.2%	88.3%	39.8%	44.2%
Capital Adequacy Ratio (CAR)	18.6%	16.5%	15.9%	14.7%	13.5%
AD Ratio	78.7%	84.0%	82.5%	78.2%	NA
CASA	15.6%	13.5%	16.3%	18.0%	21.1%

*as of Sep'20

Dividend

	2016	2017	2018	2019	2020
Cash Dividend	16.0%	15.3%	13.9%	15.0%	NA
Stock Dividend	16.1%	15.3%	13.9%	15.1%	NA

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BRAC EPL Stock Brokerage Limited

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