

BRAC EPL Research (research@bracepl.com)
November 21, 2021

Subscription Start: Nov 21, 2021
Subscription End: Dec 02, 2021

IPO Details

Islami Bank Bangladesh Limited (DSE: ISLAMIBANK) will raise BDT 8,000.0 Mn by issuing unsecured, subordinated, contingent-convertible, non-cumulative and floating rate perpetual bond titled “**IBBL 2nd Perpetual Mudaraba Bond**”*. Of the total issue, BDT 7,200.0 Mn will be raised from private placement, while the rest BDT 800.0 Mn will be raised from the public through Initial Public Offering (IPO). IPO subscription for the public will commence from November 21, 2021 and would continue till December 05, 2021.

Islami Bank Bangladesh Limited (IBBL), the **Issuer & Originator**, is a first generation, Shariah compliant, private commercial bank that commenced its operation in 1983. The principal activities of IBBL include commercial banking, consumer banking, trade finance, micro-finance and other banking services to the customers based on Islamic shariah principles. IBBL was listed in Dhaka Stock Exchange (DSE) in 1985 and in Chittagong Stock Exchange (CSE) in 1996. The bank has three subsidiary companies – Islami Bank Securities Limited, Islami Bank Capital Management Limited and IBBL Exchange Singapore Pte. Ltd.

Use of Proceeds

IBBL plans to augment its Additional Tier-1 Capital to strengthen its capital base in accordance with Bangladesh Bank’s guidelines on Risk Based Capital Adequacy. The proceeds from the issue would be utilized for the bank’s regular business activities i.e. strengthening investment (loan) portfolio and other securities.

Key Features

- IBBL2PBOND is perpetual in nature, hence there is no maturity date.
- The rate of return of the bond will be determined based on the average annual deposit rate (1 year but <2 year) of the scheduled Islamic banks (1st, 2nd and 3rd generation banks only), excluding foreign Islamic and any Z-category Islamic banks. The latest deposit rate published in Bangladesh Bank website will be used for calculation.
- The minimum profit rate will be 6.0% with a maximum profit rate of 10.0%, all subject to the availability of distributable profit.
- Investors will receive annual payments from the share of distributable profit. The payment will be made at the end of calendar year. However, IBBL will have full discretion at all times to cancel distribution/payments to the bondholders.
- In the case of late payments, IBBL shall pay a penalty of 2.0% higher than the coupon rate.
- The profit would not be cumulative i.e. profits missed (or provided less) in a year would not be paid in the future years, even if adequate profit is available and capital adequacy ratio conforms to regulatory minimum.
- IBBL can exercise the “**Call Option**” only after 10 years of issuance, with prior approval from Bangladesh Bank.
- Eligibility of exercising the call option: (1) Replacing the current instrument with capital of same or better quality that are sustainable for the income capacity of the bank; & (2) Capital position is above the minimum requirements after the call option is exercised.
- The conversion of the bonds to common shares would take place at pre-specified trigger point as needed to reach the minimum consolidated CET-1 ratio as per Bangladesh Bank requirement (currently at 4.5%). Unless the trigger point is activated, the conversion would never take place.
- The conversion strike price will be calculated as follows: Average of 180 business days market price prior to the trigger point or par value (BDT 10), amongst whichever is higher.
- The “Dividend Stopper Clause” would stop dividend payment to common equity holders in the event the holders of Additional Tier 1 bonds are not paid profit/coupon either due to exercise of issuer’s coupon discretion or otherwise.
- The claims of the investors of the bond will be superior to the claims of investors in equity shares. The claims will be subordinated to those of depositors, general creditors, and the listed Mudaraba Perpetual Bond (MPB) of the bank other than those qualifying as Additional Tier-1 Capital.

IPO Summary

Issue Code	IBBL2PBOND
Issue Size	BDT 8,000.0 Mn
Issue Size under Public Offer	BDT 800.0 Mn
Face Value	BDT 5,000
Minimum Subscription	BDT 5,000
Tenure	Perpetual
Listing	Dhaka Stock Exchange (DSE)
Profit Rate	6.0%-10.0%
Issuer & Originator	Islami Bank Bangladesh Limited
Trustee	SBL Capital Management Ltd.
Issue Manager(s)	UCB Investment Ltd. Prime Bank Investment Ltd.
Underwriter	AIBL Capital Management Ltd.
Rating Agency	Alpha Credit Rating Limited
Issue Credit Rating	AA+
Issuer Credit Rating	Long term: AAA Short term: ST-1

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

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BRAC EPL Stock Brokerage Limited

Research

Salim Afzal Shawon, CFA	Head of Research	salim@bracepl.com	01708 805 221
Nazmus Saadat, CFA	Research Analyst	nazmus.saadat@bracepl.com	01708 805 229
Anika Mafiz	Research Analyst	anika.mafiz@bracepl.com	01708 805 206
Fahim Hassan	Research Associate	fahim.hassan@bracepl.com	01709 636 546

International Trade and Sales

Ahsanur Rahman Bappi	Chief Executive Officer	bappi@bracepl.com	01730 357 991
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BRAC EPL Research

www.bracepl.com

Symphony, Plot No. S.E. (F) - 9,
Road No. 142, Gulshan-1, Dhaka
Phone: +880 2 985 2446-50
Fax: +880 2 985 2451
E-Mail: research@bracepl.com