Recent trends in capital market of bangladesh critical evaluation of regulation

RECENT TRENDS IN CAPITAL MARKET OF BANGLADESH: CRITICAL EVALUATION OF REGULATION by Syed Golam Shahjarul Alam A thesis submitted in partial fulfillment of the requirements for the degree of Professional Master in Banking and Finance Examination Committee: Dr. Sundar Venkatesh (Chairperson) Dr. Winai Wongsurawat Dr. Yuosre Badir Nationality: Previous Degree: Bangladeshi Master of Business Administration University of Dhaka Dhaka, Bangladesh Bangladesh Bank (Central Bank of Bangladesh) Scholarship Donor:

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I express my gratitude and deepest appreciation to my friend Ms. Senjuti binte rafiq, My Colleagues in Bangladesh Bank and DSE Library staffs who helped me by providing valuable suggestions and necessary data for my analysis. I am very much thankful to Dr. Winai Wongsurawat and Dr. Juthathip Jongwanich for their valuable suggestions regarding my project. I express my gratitude and deepest appreciation to Ms Kluaymai Thongkham, Ms. Farah Nashid Hossain and other AIT staffs for their effort in creating a homely atmosphere amid the difficult time. i ABSTRACT The Capital Market of Bangladesh is passing tough times since December 2010 as high volatility

is eroding the capital of Thousands of Investors that might turn into social instability. This fall is caused by many factors that I tried to identify and tried to link up between causal factors of market crash and regulatory failure. Primary issue related problems was faulty listing methods and IPO overpricing, few numbers of new listings, revaluating assets before company listing, high premium in issuance of right share/Repeat IPO etc. hile secondary market related problems was stock splits and stock price manipulations through block trading, circular trading and insider trading. Investor's greed and irrational behavior played a big rule to make the stock prices sky rocking as they were crazy to buy shares without judging the company fundamentals. Shares of the companies with closed operations and big accumulated losses were rising constantly due to investors high risk appetite that caused them to loss everything.

Government had already taken many steps (including SEC reforms) to stabilize the market but failed as investors confidence is in the bottom level. Government and regulators should work together to identify the main speculators and should brought under proper trial to bring investors back to the market. Regulator should make reforms on Listing procedures and other faulty regulatory frameworks to ensure transparency and efficiency in the capital market and also should bring clear guidelines regarding Private Placements, Asset Revaluation, Insider Trading, Dealing with Omnibus Accounts etc. ii TABLE OF CONTENTS CHAPTER TITLE Title Page

information of Chittagong vegetable oil Industries Regulatory Actions displayed in DSE screen Increase of Market Capitalization and Total Turnover PAGE 5 9 17 17 18 19 20 22 23 24 25 25 26 26 27 27 28 30 31 32 32 32 33 39 vi

LIST OF ABBREVIATIONS AIT Asian Institute of Technology BB Bangladesh Bank DSE Dhaka Stock Exchange SEC Securities and Exchange Commission CSE Chittagong Stock Exchange Report Ibrahim Khalid Share Probe Report FI Financial Institution ADB Asian Development Bank EII Eligible Institutional Investors IPO Initial Public Offerings PER Price Earnings Ratio DGEN DSE General Index vii viii CHAPTER 1 INTRODUCTION 1. 1 Background/Rationale for the thesis Sound Capital Market is an indispensible part of an Economy.

Without sound and efficient capital market, rapid economic development could be hampered as capital market provides long term funds to entrepreneurs. Capital Market of Bangladesh is still highly speculative and lacks transparency due to poor regulatory framework. In Bangladesh, Financial sector was historically driven by banks and capital market had fewer rules to play as people had mixed perception about the risk pattern in capital market that discouraged them mostly to invest there. But in the mid of ninetieths of last century capital market started to show vibrant behavior that make people interested bout the stock exchanges. As the index was rising sharply and everyone was making money, many people started to invest their money to the heated market that made a bigger bubble and finally the bubble bursts. Benchmark index came down to 700 point in November 1997 from its highest 3600 point in November 1996. Thousands of investors lost their money that made them reluctant to invest in the capital market again. It took one decade for them to forget the history of collapse. After that, regulators had taken many steps to stabilize the market. Hundreds of new issues came to the market.

Central depository, circuit breaker, online trading, etc. were introduced in the market to attract investors. As a result, the market started to grow again. Investors started to forget the history of 1996 and started to invest again. This time most investors were new and young with little knowledge about stocks and did not care about market risk. They invested their money and finally lost everything when the bubble started to burst in December, 2010 that had started to grow from the year 2009. This time Benchmark index came down to 3616 points in early February 2012 from its highest point 8918 in December 2010.

Millions of investors lost their money and came down to the street. This is the small picture of stock market crashes in Bangladesh. In both cases regulators had failed to take proactive measures to not grow the bubble and caused losses for millions of investors when the bubbles burst. When analysts were anxious about the bubbles, regulators were ignoring them and even defended the bubbles. The recent volatility of the capital market of Bangladesh is an abnormal phenomenon and such volatility tends to economic instability. I believe it will be interested enough to look into the causes of the problem.

As such volatility affects mass people (many investors), it is essential to try to minimize such volatility by identifying the causes (esp. , Regulatory failure) and solving the problems. In my study, I will try to identify the reasons of this volatility and also to recommend some suggestions to minimize such volatility in future. 1. 2 ? Statement of the Problems As recent volatility raises many questions about the regulatory capability of the SEC, I would like to study whether regulator had any rule to worsen the problem or does it had anything to do at all?

In my study, I will try to identify the reasons of recent unexpected events of the capital market of Bangladesh and will also try so suggests some ways to avoid same incidences in the future. Another reason to choose this topic is my present job field. I work for the central Bank of Bangladesh that plays a vital rule for economic development as a regulator. So the learning from this study will help me to identify 1 ? ? ? ? ? future risks associated with both money and capital market and also will make me able to make proactive decisions to prevent the economy from such disasters.

As no research is made in this important issue, I believe that my research will be very useful for users. I also believe that regulators (e. g. , SEC, DSE, CSE, Bangladesh Bank) might use my study to strengthen the financial system (esp. , capital market) of Bangladesh. It is unknown whether the recent stock market fluctuation is due to regulatory failure or due to irrational behaviors of investors. Irrational behavior of investors might be an important reason for recent stock market bubble. Patterns of investor's behavior might be covered by the study.

In many cases, data availability might hinder to reach on my objectives. Data related to stock manipulations and insider trading are not available and that's why I have to rely on secondary sources (if there is any) to conduct my study. Objectives of the Research Overall objective The study will try to identify the rule of regulators behind the recent capital market crash and focus on developing a road map for promoting Sustainable capital market regulatory framework in Bangladesh. Specific objectives 1. 3 1. 3. 1 1. 3. 2 The specific objectives of the study will be: ? To analyze and identify the reasons (Esp. regulatory rules.) for recent stock market crash in Bangladesh. ? To review the existing listing and trading rules in Stock indices in Bangladesh. ? To recommend some guidelines for better regulations to strengthen the capital market of Bangladesh. 1. 4 Scope This study is focused on the recent trend of the capital market of Bangladesh. The study will explain the regulatory aspects of capital market of Bangladesh on the basis of disclosed regulations and will try to judge the quality of the regulations in terms of its achievement of the goals. This study is basically descriptive in nature.

Data is collected from both Primary (Stock Exchange, SEC) and secondary sources like different publications of DSE, Bangladesh Bank, ADB, WB and IMF. Some other research papers in this line will also be used. The areas that will be concentrated are: ? Various aspects of capital market regulations of Bangladesh ? Recent trends of Capital Market ? Bubble creation and Bubble Burst and reasons behind this market collapse 2 CHAPTER 2 LITERATURE REVIEW 2. 1 Terminology To establish the conceptual framework for the research, it is important to provide definitions of key terminologies that are given below: 2. 1. 1 Capital Market

A capital market is a market for both debt and equity securities, where business enterprises and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year (Sullivan et. al. , 2003) 2. 1. 2 Money Market Money market is a segment of the financial market in which financial instruments with high liquidity and short maturities (one year or shorter) are traded. Trading in the money markets involves Treasury bills, bankers' acceptances, certificates of deposit, commercial paper, federal funds, and short-lived mortgage- and asset-backed securities.

It provides liquidity support to the global financial system (Frank J. Fabozzi et. al. , 2002). Money market of Bangladesh consists Bangladesh Bank (BB) as the central bank, 4 State Owned Commercial Banks (SCB), 5 government owned specialized banks, 30 domestic private banks, 9 foreign banks and 29 non-bank financial institutions. Moreover, MicroCredit Regulatory Authority (MRA) has given license to more than 300 Micro-credit Organizations. 2. 1. 3 Stock Exchange A stock exchange is a body that provides services to stock brokers and traders to trade stocks, bonds, and other securities.

Stock exchanges also provide facilities for issuance and redemption of securities and other financial instruments, capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, Mutual funds, unit trusts, derivatives and bonds. The initial public offering (IPO) of securities (stocks and bonds) is done in the primary market and subsequent trading of it is done in the secondary market. A stock exchange is often the most important component of a stock market. The major functions of Stock Exchanges are: 1.

Listing of Companies (As per Listing Regulations). 2. Providing the screen based automated trading of listed Securities. 3. Settlement of trading (As per Settlement of Transaction Regulations). 4. Gifting of share / granting approval to the transaction/transfer of share outside the trading system of the exchange (As per Listing Regulations 42). 5. Market Administration & Control. 6. Market Surveillance. 7. Publication of Monthly Review. 8. Monitoring the activities of listed companies (As per Listing Regulations). 9. Investor's grievance Cell (Disposal of complaint by laws 1997). 0. Investors Protection Fund (As per investor protection fund Regulations 1999). 3 11. Announcement of Price sensitive or other information about listed companies through online. 2. 1. 6 Demutualization Demutualization of a stock exchange is the process of transforming a non-profit memberowned mutual organization into a profit seeking shareholder Corporation. Exchanges all over the world have been demutualizing due to increasing international competition and technological challenges to traditional modes of securities trading.

The change of a stock exchange from a member-owned organization to a for-profit shareholder corporation triggers a number of questions about regulatory oversight. In Bangladesh, Stock indices are directed by the elected body of stock brokers where conflict of interest happens. There is very poor corporate governance in the Stock Indices that is an important reason of recent debacle (Investigation Report by the Committee). In chapter 2 I discussed about benefits of demutualization that are applicable for the capital market of Bangladesh.

As stock dealers and brokers are familiar as institutional investors and play a big rule in the capital market mechanism, they should be regulated properly. In Bangladesh, DSE conduct inspection on brokerage houses and DSE is also run by a selected committee of brokerage house, so one cannot expect proper judgment from the DSE. Table 2. 1 DSE Top five BO Accountholders in 2010 Name Total Annual Turnover (Tk. Billion) Prime Bank Investment Ltd. 676. 73 IDLC Finance Ltd. 555. 58 LankaBangla Securities Ltd. 525. 33 Trust Bank Ltd. 523. 25 AB Investments Ltd. 497. 33 Sl. 1. 2. 3. 4. 5.

From the table, we find that all the top investors are brokerage houses who are mainly monitored by DSE that creates many conflicts of interests. So, if brokerage houses make any big irregularity, DSE is supposed to hide it as it a member of DSE. In 2010, many positive factors along with regulatory supports (SEC, DSE) inflated the market and finally caused big losses for general investors. In case of irregularities (serial Trading, price manipulation) by brokerage houses/members, DSE had failed to make any proper investigation and also failed to inform it to SEC for regulatory actions and favored members.

In case of price bidding under book-building method, some members (associated to underwriter of the company) quoted very high and irrational price and DSE listed the securities of these companies without asking any question that rises about the transparency of the listing methods. Without stock exchange demutualization such conflict of interests could not be avoided. 2. 1. 7 Stock market Bubble A stock market bubble is one kind of economic bubble that takes place in stock markets when market participants drive stock prices above their value in relation to some system of stock valuation. (Smith et. al. 1988) 4

Impact of Bubble: There is debate about the impact of economic bubbles among different schools of economic thoughts. Many of the mainstream economists believe that bubbles cannot be recognized in advance, cannot be prevented from forming and attempts to “ prick” the bubble cause financial crises. Instead of pricking the bubble, authorities should wait for bubbles to burst by their own ways, dealing with the consequences via monetary and fiscal policies (Robert E. Wright, 2010). Other economists believe that bubble have negative impact on the economy as it tends to cause misallocation of resources into non-optimal uses.

Robert E. Wright, a political economist argues that bubbles can be identified ex ante with high confidence. In addition, the crash that is caused by an economic bubble can demolish a large amount of wealth and might cause continuing economic depression; this view is particularly linked to the debt-deflation theory of Irving Fisher and elaborated within PostKeynesian economics. An important aspect of economic bubbles is its impact on spending habits. Market participants with overvalued assets tend to spend more because they “ feel” richer (the wealth effect).

Many observers quote the housing market of New Zealand, Spain, United Kingdom, Australia and United States in recent times as an example of this effect. Possible causes of Bubble: Low interest rate policies by the Federal Reserve system are believed to have exacerbated housing and commodities bubbles. The housing bubble popped as subprime mortgages began to default at much higher rates than expected, which also coincided with the rising of the fed funds rate. It has also been variously suggested that bubbles may be intrinsic, rational and contagious.

To date, there is no widely accepted theory to explain their occurrence. Recent computergenerated agency models suggest that excessive leverage could be a key factor in causing financial bubbles. Some of the causes of economic bubble are given below: Liquidity: One of the possible causes of bubbles is the presence of excessive liquidity in the financial system that induces aggressive lending banks that make asset markets vulnerable. Economic bubbles often occur when too much money is chasing too few assets, causing both good and bad assets to appreciate excessively beyond their intrinsic value to an unacceptable level.

Greater fool theory: Greater fool theory says that bubbles are driven by the behavior of highly optimistic market participants (the fools) who buy overpriced assets in anticipation of selling it to other speculators (the greater fools) at a higher price. According to this unsupported explanation, the bubbles continue as long as the fools can find greater fools to pay up for the overpriced assets. The bubbles will be ended only when the greater fool becomes the greatest fool who pays the highest price for the overpriced asset and no longer finds another buyer to pay for it at a higher price (Levine et. al. 007) Extrapolation: Extrapolation is the process of projecting historical data into the future on the same basis. If price of an asset have increased at a certain rate in the past, they are supposed to continue to rise at that rate perpetually. It says that investors tend to extrapolate past abnormal returns on investment of certain assets into the future, causing them to overbid those risky assets in order to attempt to capture the same rates of return 5 again. Overbidding on certain assets will at a point of time results uneconomic rates of return for investors and then the asset price starts to shrink (Buchanan and Mark, 2008).

Herding: Investors tend to buy or sell an asset in the direction of the market trend. This is sometimes supported by technical analysis that tries to identify those trends and follow them that creates a self-fulfilling prophecy. Investment managers are compensated and retained in part due to their performance relative to their industry peers. Taking a conservative or contrarian position as a bubble builds results in performance unfavorable to peers that might cause customers to go to competitors and might affect the investment manager's employment and compensation.

Moral hazard: Moral hazard is the prospect that a party insulated from risk may behave differently from the way it would behave if it were fully exposed to the risk. A person's belief that they are responsible for the consequences of their own actions is an important aspect of rational behavior. An investor must balance the possibility of making a return on their investment with the risk of making a loss – the risk-return relationship. A moral hazard can occur when this relationship is interfered with, often via government policy.

A recent example is the Troubled Asset Relief Program (TARP), signed into law by U. S. President George W. Bush on October 3, 2008 to provide a Government bailout for many financial and non-financial institutions who speculated in high-risk financial instruments during the housing boom condemned by a 2005 story in The Economist titled " The worldwide rise in house prices is the biggest bubble in history”. Manipulation: Manipulation could be a very important reason of economic bubble. Especially, stock market bubble could be created through stock manipulations.

In many developed and developing countries, big investors (Both individuals and Institutional) might manipulate the stock price and could create a bubble. Recent stock market bubble in Bangladesh is mostly caused by manipulations (Ibrahim Khalid stock market probe Report, 2011) Insider Trading: Insider trading also might be a cause of economic bubble, esp. , in the capital market. Insiders can use the hidden information to take advantage of the undisclosed news from the market and can make the stock price higher than its intrinsic value (Ronald R et. al. 993) Other possible causes of Economic Bubble: Some regard bubbles as related to inflation and thus believe that the causes of inflation are also the causes of bubbles. Others think that bubbles represent an increase over that “ fundamental value” of an asset, which finally return to that fundamental value. Finally, others regard bubbles as necessary consequences of illogically valuing assets solely based upon their returns in the recent past without resorting to a rigorous analysis based on their underlying “ fundamentals”. 2. 1. 8 Omnibus Account Omnibus account is a type of account between two futures merchants (brokers).

Transaction of individual accounts is combined in this type of account that allows easier management of portfolio by the futures merchant. But this type of account could be used to manipulate stock as many individual transactions are kept hidden over there. 6 In a recent investigation, it was found that many speculative deals were made through Omnibus accounts of

Merchant Banks. Report showed that each Omnibus account consists of 3000-10000 individual accounts and big market players/manipulators used Omnibus Accounts to make speculate stock prices.

Even high SEC and Government Officials used the help of Omnibus account to buy and sell share though its prohibited for them to involve invest in the stock market. (Ibrahim Khalid Committee Report) In this case Merchant Bank did not comply with SEC and Bangladesh Bank rules. As per central Bank law, shares of Banks cannot be bought in unidentified accounts but Merchant banks did so in many cases. But SEC never raised any question about such accounts and never made any investigations to dig out irregularities that indicate poor regulations. . 1. 9 Stock market crash A stock market crash is a sudden dramatic fall of stock prices across a significant crosssection of a stock market, resulting in a significant loss of paper assets. Crashes are driven by panic as much as by underlying economic factors. They often follow speculative stock market bubbles. Stock market crashes are social phenomena where external economic events combine with crowd behavior and psychology in a positive feedback loop where selling by some market participants drives more market participants to sell.

Generally speaking, crashes usually occur under the following conditions, a prolonged period of rising stock prices and excessive economic optimism, a market where P/E ratios exceed long-term averages, and extensive use of margin debt and leverage by market participants (Galbraith, The Great Crash 1929, 1988). There is no numerically specific definition of a stock market crash but the term commonly applies to steep double-digit percentage losses in a stock market index over a period of several days. Crashes are often distinguished from bear markets by panic selling and abrupt, dramatic price declines.

Bear markets are periods of declining stock market prices that are measured in months or years. While crashes are often associated with bear markets, they do not necessarily go hand in hand. The crash of 1987, for example, did not lead to a bear market. Likewise, the Japanese Nikkei bear market of the 1990s occurred over several years without any notable crashes. 2. 2 Comparison of recent stock market volatility of DSE with other markets As any sudden dramatic and persistent stock price fall is treated as stock market crash, I believe the recent price fall of Dhaka stock exchange should be called a crash.

Recent price fall in DSE was sudden and persistent that caused significant loss of paper wealth and was abnormal in nature compared to other stock markets. If I compare the price trends of Dhaka Stock exchange with other stock exchange I find the price movement of DSE is absolutely different from other stock markets. Table-22: Comparison of DSE volatility with other market Name of the Index Index Return Std. Dev of index return (Dec’10-Jan’12) (Dec’10-Jan’12) DSE (50%) 11% BSE-30 (14%) 7. 8% SET 55. 62% 5. 84% 7 From the table 2. , we find that during December 2011 to January 2012 Bombay Stock Exchange selected index (BSE-30) felled by 14% while SET index of Thailand increased by 55. 62% during the period while Dhaka Stock Exchange general Index (DGEN) felled by more than 50% during that period, i. e. , DGEN lose its value by 50% during the period that says that this is not simple volatility and it can be defined as a collapse. On the other hand, Standard deviation of index return (a measure of volatility) for BSE-30 and

SET index was respective 7. 8% and 5. 4%. But for DSE, the standard deviation of index return was 11% that was much higher than other two indices. DSE index felled sharply during the period from 8200 point (approx.) to 4000 point (approx.) and the fall was persisted over a long period. Graph 2. 1 Trend of Bombay Stock Exchange-30 (BSE-30) index Graph 2. 2 Trend of DSE General (DGEN) index Graph 2. 3 Trend of SET Index 8 From the graph 2. 1 we find that BSE-30 index fluctuating over the period in the range of 10000 to 20000 points and showing an increasing trend now.

As a result the standard deviation of the index return was 7. 8%. But the BSE-30 index fluctuation is much lower than the DSE general index (Graph-2. 2). Graph 2. 3 gives the trend of SET Index of Thailand that is growing fast and crossed 1000 points from 600 points during the period. Standard deviation of SET index was 5. 84% that is much lower than that of DSE general index (11%). Graph 2. 2 gives the highly volatile and sharply falling index trend of DSE general Index that started to increase from 2600 points in January 2009 and crossed its zenith price of 8600 in December 2010.

After climbing the highest point it started to fall sharply and came down below 4000 in January 2012 less than half of the highest point. From the above analysis we can conclude that DSE index movement was not normal and the fall was so abrupt that it caused huge loss for investors. Especially investors who invested with margin loan lost everything as the index loss was more than 50%. Both BSE30 and SET are facing regular rise and fall while DSE is facing regular and sharp that indicates that the fall was like a stock market collapse and in the later part of the study I will identify this as a stock market collapse. 2. Previous research on this topic Many studies are done around the world to find the reasons of stock market crash and linked with regulatory issues. Recent economic crunch and stock market crash in US motivated economists to conduct in-depth research on it. In Bangladesh many analysts expressed their view regarding the capital market crash but no comprehensive research work is still done on it. Government had formed an enquiry team headed by Mr. Ibrahim Khalid, former deputy Governor of the Central Bank to make a probe into the recent activity and to identify the culprits that submitted their report to the government.

I am going to discuss the causes of recent Credit Crisis of 2007-2009 and " Ibrahim Khalid stock probe report" regarding the stock market of Bangladesh in this chapter. 2. 3. 1 Research on Capital Market crash in Bangladesh After the recent catastrophe of capital market of Bangladesh, Government of Peoples republic of Bangladesh had formed a high-powered committee in 2011 to investigate the issue and to give a report to the government within two months. The committee was headed by the ex-deputy governor of Bangladesh Bank, Mr. Khondoker Ibrahim 9 Khaled and the committee was named " Ibrahim Khaled share market probe Committee".

The committee published a report that was initially kept undisclosed to the general people but later on it was disclosed as investors groups and civil society was creating pressure over the government for disclosing it. I will try to summarize the findings of the report in this chapter. Reasons behind the Market Failure: Committee identify following broad factors that caused the capital market disaster recently: a) Primary Issue related Problems: ? Direct listing in Primary issue ? Abuse of Book Building Method of IPO ? High premium for stock listing ? Illegal Private placement market ?

Asset Revaluation of Companies before listing to charge higher premium. b) Secondary market related problems: ? Circular trading in Secondary market ? Block trading ? Stock Price Manipulation through Omnibus Accounts ? Most of the market players are identified in the report c) Irregularities in issuance of Right Share/Preference Share/Repeat IPO etc. d) Recommendation of Stock Dividend by companies against unrealized Profits e) Regulatory Failure ? Inconsistency in regulatory activities ? Supporting and legalization of unethical activities of Big Investors ?

Irresponsible Behavior/Weakness in many areas ? Formulating policies to support market Players (Manipulators) ? Lack of Due Diligence ? Lack of Co-ordination between SEC and Stock exchanges ? Allowing Financial Institutions to invest in capital market aggressively ? SEC Failed to take measure against manipulation of Financial statements Report says that the burden of this failure should be carried by Securities and Exchange Commission (SEC). Recommendations by the Committee The Committee has recommended some suggestions to the Government to recover the Capital Market from the depression.

Major points of their recommendations are given below: a) Restructuring of SEC ? Termination of SEC chief and some other corrupt members ? Comprehensive inspection of their corruption and necessary legal actions ? Recruiting qualified accountants/financial analysts/experts/Talents for SEC ? Increase the remuneration of SEC staff to attract talents ? Ensuring integrity of SEC personnel b) Stock Exchange Demutualization: ? Form Committee within DSE to give report regarding demutualization process within 3 months 10 c) d) e) f) g) h) i) j) k) l) m) If DSE fails to give report on time, Government should take steps after 3 months ? Government can take advisory supports from World Bank or any other international organization ? Government can employ an “ Administrator” to DSE to implement the demutualization process. Co-ordination between SEC and stock exchanges for better regulation Capital Market financing by Financial Institutions (FI’s) ? Formulate policy for capital market investment by FI’s in the line of such policies in India and Pakistan ? Take measures against FI’s who are involved with the recent stock market manipulation ?

Central Bank should monitor FI’s aggressive stock investment very strictly Formulate clear policy for Pre-IPO placement Ensure transparency in dealing with Omnibus Accounts Prohibit share trading by some Government Officials (e. g. , SEC, DSE, CSE, Bangladesh bank , Commercial bank officials) Asset Revaluation by companies should be reviewed by SEC Review the Book-Building Method of IPO Make uniform face-value of all companies Take legal actions against market players/manipulators Government should be more aware about the capital market and they should be free from influence of top market players (Salman F.

Rahman, Rakibur Rahman etc.) SEC should Open Investors advisory support services to avoid rumor-based trading Conclusion: Committee has made a study on the capital market issues. They specially focused on individual manipulations and regulatory system failure and provided some clear-cut recommendations for the government. I will conduct empirical study on some of the factors to test whether the volatility was due regulatory failure or not. 11 CHAPTER 3 METHODOLOGY 3. 1 Data Source This study is basically descriptive in nature.

Data is collected from both Primary (Stock Exchange, SEC) and secondary sources like different publications of DSE, Bangladesh Bank, ADB, WB and IMF. Some other research papers in this line will also be used. 3. 2 Analysis Technique/method 3. 2. 1 Qualitative analysis: As my study will try to examine the regulatory aspect in the capital market of Bangladesh, I will focus more qualitative analysis techniques. Quantitative Analysis: In my study, I will also use quantitative techniques to analyze data. Software's like SPSS, Excel might be helpful for me. 3. 2. 2 12

CHAPTER 4 Recent Trends of Capital Market Over the last few years, the capital market of Bangladesh has witnessed a super-normal growth which is not in line of development of real sector of the country. Progress in capital market development has been made possible by, among other things, the central depository system and the automated trading system, a substantial increase in the minimum capital requirement of banks and nonbank financial institutions, lower interest rates on long-term government savings instruments, and an increase in overseas workers' remittances (Bangladesh Bank, 2011).

Increased investors' participation and demand for stocks are fueling price hikes in the market. Other indicators of the capital market also recorded significant growth. Market capitalization of DSE remarkably increased during last three years as reflected in the ratios of market capitalization to the country's GDP at current market price. Market capitalization stood at Taka 2700. 7 billion at the end of FY10 increased by 190. 1 percent from Taka 931. 0 billion of end FY08. The ratio of market capitalization of DSE to GDP rose to 39. percent in end FY10 from 5. 2 percent in FY06 and from 2. 3

percent of FY00. Except for the 13. 1 percent bubble in 1996, the ratio was almost flat at below 3 percent up to FY04. After the 1996's bubble and bust, the market returned to sunny days in the beginning of last quarter FY04 by crossing the index 1100 marked point. After ten years of a flat capital market, the DSE General Index (DGEN) crossed 3000 marked point in December 2007 for the second time. Since the third quarter of FY09, the DGEN gained sharply and it jumped to 8918. 1 in December 2010 increased by 5908. 51 points or 197 percent from the index of end June 2009(3010 points). When the recent past global recession adversely affected the world capital market, sustained rise of price index and daily average turnover of Bangladesh capital market could be seen as a positive sign for the Bangladesh economy. Investment by foreigners in DSE increased during last three years. In FY10, the foreign trade turnover was Taka 18. 7 billion (0. 7 percent of total turnover in DSE) which was 57. 9 percent higher than previous year.

Foreign trade was Taka 9. 9 billion (6. 0 percent of total turnover) in FY07 and was Taka 3. 4 billion (9. 7 percent of total turnover) in FY97 (Bangladesh Bank, 2011) Nonetheless, long-term prospects for capital market development are mixed. Although, the Securities and Exchange Commission (SEC) of Bangladesh has tried to correct the abnormal behavior observed in the market, very often it is argued that lack of proper and firm decisions from the regulator's side has contributed to make the market more unstable rather than stabilizing it.

At the beginning of recent Bull Run, Bangladesh capital market was fairly underpriced in terms of Price Earnings Ratio. The market weighted PER of

DSE was 11 to 18 during FY04-FY07. PER became to bigger from beginning of FY09 as the acceleration of price index. The PER reached to its peak level at 30. 6 in February 2010 from 18. 4 of end June 2009. The high PER indicates that the market is highly overpriced and overheated. The strong demand from the retail investors, not matched by a corresponding increase in supply of stocks, has caused the PER to rise beyond rational levels.

In terms of any measure, Bangladesh capital market is overheated during last couple of years as supply shocks (Bangladesh bank, 2011). 13 The capital market developments and its sustainability depend on market fundamentals at least in the medium term, and the fundamental strength of the market essentially comes from financial strength of the listed companies. Also, strong regulatory environment created and maintained by the regulatory bodies and participation of institutional investors and professional market analysts help orderly market operations.

The market witnessed that last few years many fundamental companies with strong financial strength have been listed in the market. The main regulatory body SEC and the Government of Bangladesh and others related regulatory authorities have continued their all efforts to develop the Bangladesh capital market that reflected in the market trends. But growth of market demand for stock was much then that of supply that inflated the market in recent years and made the market most volatile one in the region.

The recent vibrant nature of the capital market also might be due to the increased interest in the market by a large number of individual investors which has been influenced by the government’s decision to reduce the bank interest rates for its different types of savings instrument. Some basic information regarding Dhaka stock Exchange is given below: Table 4. 1 Dhaka Stock Exchange (DSE) activities FY08 FY09 FY10 378 443 450 No. of listed securities 284. 4 457. 9 607. 3 Issued equity and debt (billion Taka) 1044. 80 1903 3508. 0 Market capitalization (billion Taka) 4309. 46 9327. 153 17831. 37 Turnover in value (million Taka) 2795. 00 4535. 30 8290. 50 DSE General Index* ? Year-end close Price, Source-Dhaka Stock exchange FY11 459 618. 51 2616 5598. 52 5257. 50 Table 4. 2 DSE Highest Records Total Number of Trades Total Trade Volume Total Traded Value in Taka(mn) Total Market Capital in Taka(mn) DSI Index Values 389310 242856735 32495. 756 3680714. 195 7383. 93657 8918. 51346 Date 05-12-2010 21-07-2011 05-12-2010 05-12-2010 05-12-2010 05-12-2010

From Table 4. 1, we find that DSE general index, Daily trade value and market capitalization of DSE increased substantially during last 4 years. But number of listed securities remained almost the same during the period that implies that supply side response was less relative to demand side response and market capitalization and index increased due to increased demand for securities and scarcity of good securities. Nature of Investors: At the end of 2010, total number Beneficiary Owner (BO) Account stood at 3. Million (DSE Data). Out of that a big number of investors did not have sufficient knowledge about securities trading and most of them were relying on rumors spread by big investors. Information of BO accounts of last 3 years are given below: Table 4. 3 Change in total Number of BO Accounts in two Years Date 01. 01. 2009 30. 06. 2009 31. 12. 2009 Total No. of BO A/C 14, 68, 500 14, 19, 019 19, 20, 602 Change (+/-) -(49481) 5, 01, 583 14 30. 06. 2010 31. 01. 2011 25, 70, 654 33, 79, 719 6, 50, 052 8, 09, 065

From the table we find that most of the BO accounts were opened during June ’2009 to January ’2011 that indicated that more than half of the investors could be treated as new investors. During 2009, stock exchanges, Institutional investors and SEC make many campaigns within and outside the country to attract new investor that seems to be successful as the BO accountholders was doubled in last two years that might be treated as a potential for market development. But due to scarcity of new securities market price increased substantially.

This demand-supply mismatch along with inadequate investor’s knowledge made the stock prices in a new height and finally turned into a big depression that is still going on. Recently listed Companies with financial information: Twenty three companies (including three direct listing companies) raised new equity of Taka 18. 2 billion in the capital market in FY10, higher than the Taka 5. 9 billion raised by the sixteen companies in FY09. Of the new equity issued, Taka 5. 3 billion raised through private placements and Taka 12. 9 billion raised through public placements against Taka 0. billion raised through private placements and Taka 5. 0 billion through initial public offerings (IPO) in FY09. The volume of public offerings in FY10 was oversubscribed more than nine times indicating the high demand of new securities in the primary market. Bonus shares valued at Taka 27. 6 billion were issued in FY10 by one hundred and twenty one companies against retained profits, higher than the Taka 16. 2 billion issued in FY09 by ninety one companies. Currently 493 securities (Debt and Equity securities) are being traded in Dhaka stock exchange. Few numbers of companies are making fresh issue every year. 3, 18 and 10 companies listed their securities respectively in 2009, 2010 and 2011(up to July). Traditionally DSE used fixed price method for flotation of new companies. But fixed price method does not attract good companies always. So, to attract new companies, SEC decided to introduce Book building method that is a globally acceptable method for IPO. But in Bangladesh, Book Building method is handled very roughly that caused loss for millions of investors. Detail information of securities floated in the market for last 3 years are given in table 4. 4. 15 Table 4. Detail information of fresh Issues in the DSE during 2009-11 Book Value 10 10 10 10 10 10 10 10 10 10 10 10 10 10 10 10 10 10 100 10 10 10 10 100 100 10 10 10 100 10 10 10 100 100 10 10 10 100 100 100 10 Issue Price 111. 6 127 10 10 10 60 10 10 10 10 10 10 10 10 10 10 10 25 100 10 10 10 48 120 100 10 10 10 100 10 20 70 100 100 10 90 10 100 100 250 10 Opening Price 134 145 12. 7 10 10. 2 73 68 10. 8 9. 5 74 9. 6 136 9. 3 10. 9 12. 6 11. 4 89. 2 89 235 12. 7 12. 9 16. 5 208 799 514 28. 6 23. 5 27 559 25 57 177 462 261 63. 1 325 35. 5 1955 405 784 71. 6 1st day return 20. 07 14. 7 27. 00 0. 00 2. 00 21. 67 580. 00 8. 00 -5. 00 640. 00 -4. 00 1260. 00 -7. 00 9. 00 26. 00 14. 00 792. 00 256. 00 135. 00 27. 00 29. 00 65. 00 333. 33 565. 83 414. 00 186. 00 135. 00 170. 00 459. 00 150. 00 185. 00 152. 86 362. 00 161. 00 531. 00 261. 11 255. 00 1855. 00 305. 00 213. 60 616. 00 1st Month close Price 140 190 10. 5 9. 2 8. 5 65 48 9. 5 9. 8 61 9. 5 130 10. 2 10 11. 4 10. 5 85. 2 85 620 12. 4 12. 7 16 170 740 506 24. 2 20. 6 20 619 27 60 171 511 180 59 451 31. 5 1667 470 762 46. 9 1st Month return 25. 45 49. 61 5. 00 -8. 00 -15. 00 8. 33 380. 00 -5. 00 -2. 0 510. 00 -5. 00 1200. 00 2. 00 0. 00 14. 00 5. 00 752. 00 240. 00 520. 00 24. 00 27. 00 60. 00 254. 17

516. 67 406. 00 142. 00 106. 00 100. 00 519. 00 170. 00 200. 00 144. 29 411. 00 80. 00 490. 00 401. 11 215. 00 1567. 00 370. 00 204. 80 369. 00 1st year close price 70 71. 9 8. 3 8. 6 8. 7 35. 1 23. 5 7. 7 9. 5 29. 3 5. 4 77 7. 2 7. 4 8. 1 7. 4 41 70 510 8. 7 9. 4 14 103 2646 1197 16. 1 17. 5 17 800 17 102 245 604 156 73. 1 672 17. 5 2497 838. 5 1721 29. 8 Yearly return -37. 28* -43. 39* -17* -14* -13* -41. 5* 135* -23 -5 193 -46 670 -28 -26 -19 -26 310 180 410 -13 -6 40 114. 8 2105 1097 61 75 70 700 70 410 250 504 56 631 646. 67 75 2397 738. 5 588. 4 198 year 2011 2011 2011 2011 2011 2011 2011 2011 2011 2011 2010 2010 2010 2010 2010 2010 2010 2010 2010 2010 2010 2010 2010 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 2009 Issue Name M. I. Cement MJL BD Ltd. Reliance MF EBL NRB MF SEBL 1st MF Barkatullah Electrodes Salvo chemicals MBL MF AIBL MF Deshbandhu polymer PHP MF Active Fine Chemicals IFIL MF Popular MF Janata MF Green delta MF Beacon Pharma Malek Spinning United Air ICB 3rd MF Phoenix MF IFIC MF RAK Ceramic Dhaka Insurance R.

N. Spinning DBH 1st MF Prime Bank 1st Icb MF Trust Bank MF Provati Insurance ICB employees MF Goldenson (RPO) Grameen Phone Ltd. Islami Insurance ICB AMCL MF Dacca Dying MARICO BD Ltd. EBL 1st MF Rupali Life insurance Asia Insurace Bay Leasing Prime Finance 1st MF From the table it was found that many of the new issues were overvalued and lost value in fast few month that are contrary to traditional ideas regarding IPO.

Most of such losing stocks were listed through Book building method where it was assumed that premium value for new stock was much higher than the intrinsic value and after listing in the market these stocks reached on their fundamental value. Actually this is an example of overpricing of IPOs in Bangladesh that caused bubble in the market. 16 CHAPTER 5 Empirical examination of three problems identified by Ibrahim Khalid committee In recent years, Bangladesh capital market witnessed both bullish and bearish trends caused by irregular fluctuation in the indices due to various reasons.

In this chapter, I will try to identify some reasons/factor that caused such irregular cycles or stock market crash in Bangladesh. 5. 1 Changes in Face Value (Stock Split) of Securities: There are several theories that explain the reasons of stock split by companies. The most common reasons are to achieve an optimal price range for liquidity, to achieve an optimal tick size and to signal the confidence of managements' in the future stock price. Various studies on stock split and market behavior shows that there are stock price might lead increase in stock price and trade volume in the short term (Aduda and Caroline. 2010).

Copeland (1979) noted that a stock split changes stock prices to a more optimal price, which in turn increased demand for the stock. Their hypothesis of the optimal price range stated that there was a price range within which trading was most liquid for stocks of a company. Baker and Powell (1993) noted that the main motivation for the executives to split stock was toward improved liquidity. High-priced stocks found to be illiquid due to the psychological reasons and transaction costs. Therefore, when the prices climbs up to a certain level, the executive splits the stock to lower prices which facilitates trading and enhance liquidity.

Benartzi et al. (2005) argued that management splits their stocks only if it considers the current level of stock price and earnings to be persistent. In Bangladesh, price of small face value (Tk. 10) securities are relatively higher then big face value (Tk. 100) securities where other things remain the same. By May 2010, SEC instructed all companies to convert the face value of securities to Tk. 10 from various per values that increased price level of Tk. 10 share substantially that inflated both the individual stock price and indices. During the period of 2009-2010, 62 companies had changed their face value.

Some of the examples are given below with pairs: Table 5. 1 Price comparison of companies with same fundamentals but different per value Items EPS-2009 (Tk.) NAV-2009 (Tk.) (floating share (%)) Dividend-2009 Price-30/12/09 Price-30/12/10 1. Union Capital (Par value- 2. BIFC (Par value- Differences(1-2) 10) 100) 3. 90(39. 00) 34. 35 15. 60(156) 153 417. 5 Million (21%) 359. 0 Million (22%) 30%B 10%C, 12%B 116. 50(1165) 323. 00 246. 80(2468) 1117. 00 Market Return (31/12/09-31/12/10) -4. 65 +3 +58. 50 +8% TK. 842 (+360%) TK. 1351 (+221%) 82% Table 5. 2 Price comparison of Mutual Funds with different per value Items EPS-2009 (Tk. NAV-2009 (Tk.) Paid Up capital 1. AIMS MF (Par 2. GrameenMF(Par value-1) value-10) 0. 19(1. 9) 3. 45 1. 91(19. 1) 34. 65 168. 0 Million 170. 0 Million Differences (1-2) -1. 55 -15. 55 -2 17 Dividend-2009 Price-30/12/09(TK) Price-30/12/10 (TK) No dividend was declared that year due to pending case with the court. 13. 83(138. 30) 78. 48 +59. 52(176%) 11. 85(118. 50) 104. 17 +14. 33(114%) From the both table given above that with similar financial condition or weaker financial conditions lower face value companies were overvalued relative to higher face value companies in same industries.

This situation was persisting for many years and regulator failed to identify the face value of all listed companies that created some overvalued securities in the market. Investors were eager to buy the securities of these companies that were going to change face and before split price of these were jumping. As an example, National Bank Ltd (NBL) spits its share from Tk. 100 par value to Tk. 10 at 22/09/2010. At that day, the price of those securities was Tk. 823. 00(82. 30) only. But after just two months, price of the securities stood at Tk. 40 (22/11/2011) without any significant change in the company fundamentals. Another example is Prime finance and Investment Companies Ltd. that split the stock in 25 July 2010 when the stock price was Tk. 331. But just after two month (26 July 2010) stock price rose to Tk. 472 and the increase during this two month is almost 43%. So, we might say that change in face value (stock Split) inflated the market and caused an unanticipated bubble in the market. List of some stock split companies and their market capitalization are given below: Table 5. List of some stock split companies and their Market Capitalization(Tk.) Market Capitalization Market Capitalization Change Market Millions Name of the Company (as on 02. 07. 2009) (as on 05. 12. 2010) (%) Adjusted Return (%) NBL Pubali Bank UCBL Uttara Bank ICB Islamic Bank Ltd Eastern Bank Uttara Finance Al-Arafah Islami Bank Prime Bank Southeast Bank Dhaka Bank NCCBL Social Islami Bank MIDAS Finance Standard Bank EXIM Bank People’s Leasing Prime Finance Jamuna Bank Shahjalal Islami Bank Premier Bank Ltd. BD Finance Phoenix Finance First Security Bank Ltd. Automobile Aftab

17093. 5 16979. 24 9544. 65 20777. 12 7946. 52 2475. 00 2475. 00 6687. 61 15747. 27 10584. 51 7324. 53 7511. 61 6762. 96 1560. 80 6953. 95 12498. 38 10172. 48 10172. 48 5100. 82 7583. 21 6889. 42 2039. 68 1059. 30 2768. 4 2768. 41 18 77256. 42 57735. 13 765099. 54 43391. 15 13958. 75 39460. 16 21859. 2 32413. 54 57186. 03 45708. 89 21250. 18 37404. 66 16044. 57 12483. 34 22424. 52 42838. 33 33180. 05 43690. 10 17602. 83 309117. 03 20200. 744 20200. 75 12199. 52 12963. 72 24360. 48 351. 96 240. 03 7916. 0 0 108. 84 75. 65 1494. 3 5 783. 2 384. 68 263. 14 331. 84 190. 12 397. 95 137. 24 699. 0 222. 47 242. 75 226. 17 329. 49 245. 09 3976. 3 3 193. 21 890. 38 1051. 6 5 368. 27 779. 94 2. 5 (30) Not traded in 2009 (150) (147) 4 240 101 (30) (77) (55) (54) (76) 228 (23. 8) (153) 612 263 (103) 45 (62) 273 225 (65) 70 From the table we find that market capitalization of stock split companies increased substantially during that period. Market adjusted returns of these companies were mixed as dividends, Right share issues are not considered here. Stock denomination fixation and Regulatory rules: From the table 4. 5 we find how stock split companies’ shares increased substantially.

But such behavior is considered as normal in terms of other markets and cannot be treated as market failure and regulator cannot stop stock split in a stock market. 5. 2 Asset Revaluation: Chainirun and Narktabtee (2008) argued that firms revalue their assets to signal the firms’ growth prospect and liquidity improvement in order to decrease information asymmetry. Sharpe and Walker (2007) revealed that announcements of asset revaluation were associated with substantial upward movement in stock price and these shift in stock price generally sustains in later months.

In Bangladesh, companies revalued their assets (Land and other Fixed Assets) that increased their asset value substantially as price of land and all other assets increased sharply that caused increased stock prices in the market. Many factors influenced companies to revalue their fixed assets. Some of these factors are to increase Stock price, to get more credit under NAV-based margin rules, to get higher ratings, to strengthen financial statement and to attain investors confident etc. sample of the companies of top value gainers are listed below: Table 5. Top 10 NAV-gainer companies after asset revaluations Stock Price DGEN the NAV per Share(Tk.) NAV Before Asset Revaluation After Asset Revaluation Name of Company Change (%) Change during Jan’2009Dec’2010 (%) Change Jan’2009Dec’2010(%) Market Adjusted return (%) Libra Infusions Ltd. 438 15, 667 Sonali Ansh Ltd. 297 2, 157 Rahim Textile Ltd. 127 785 BD Thai Aluminum 142 566 Ltd. Infusions Ltd. Orion 20 101 Ocean Containers 13 50 Shinepukur 12 26 ceramics Prime Textile 300 633 Eastern Insurance 151 309 BD welding 20 39 electrodesthe company was listed in 2010. As 3472 626 518 298 413 296 120 110 104 95 355 767 641 185 357 Not Applicable* 212% 21 572 162 1001 143 555 429 (27) 145 —(191) 360 (50) 789 From the Table 5. 4 given above, we find that some company gained up-to 1000% after asset revaluations during the period of 2009-10. As there is a clear and direct relationship between asset revaluation gain and stock price growth, I can say that revaluation might help the market to grow up faster and also caused much volatility. Many of the company directors sold their shares when the price went to the peak in 2010.

But such phenomenon is supported by study and cannot be treated as regulatory failure. 19 5. 3 Issuance of Right/Preference Shares: Companies offer right shares to increase capital base or to meet regulatory capitals. In 2010, 22 companies proposed right shares to existing shareholders valuing 24720 million Taka that almost 17 times than that of 2009 figure which was only 1450 Million taka. Most of the right proposals of 2010 were with a premium price that differed on a range of 10% to 600%. Table 5. 5 Top Companies offered Right shares with high premium Company Name Confidence Cement Co.

Ltd. Bay Leasing & Finance Eastern Insurance Co. Ltd. The City Bank Ltd. Phoenix Finance Asia Insurance *Close Price of 1st Trading day Premium Value (Tk.) 600 250 200 100 100 100 Stock Price on 01/01/2009 (Tk.) 323. 00 784. 75* 562. 25 432. 50 440. 50 404. 30* From table 5. 5 we find that in January 2009, price of confidence cement co. ltd. was only Tk. 323 but just after one year its right offer price was Tk. 700 (including Tk. 600 Premium) that was approved by the SEC which is a classic example of regulatory silence toward manipulation. Table 5. Top Companies offered preference Shares Company Name Value of Preference Share (Tk. Million) Private Placement Beximco Pharma 4100 63% Sumit Power 3000 69% Aftab Automobile 1800 82% Peoples Leasing 1200 58% BD Thai Aluminum 750 77% In case of preference share, most of them are distributed through private placement where there was no transparency of allocation. Another interesting thing is that, stock price of most of the companies mentioned above increased substantially just after the offerings that increased the greed of investors to make profit through buying right/preference shares of these companies. . 4 Faulty listing methods: In the year 2010, regulator introduced Book building method to attract new companies to the market. Some companies abused this opportunity to exploit maximum benefits from listing that inflated the market. SEC allows companies to float securities through IPO (Fixed Price and Book Building method), Direct Listing and Repeat IPO where Book building method is used mostly in the year 2010. In Bangladesh, following companies used book building method for listing in the capital market: 20 Table 5. Companies floated shares through Book Building Method Name of Company Premium Offer Collected capital value price (Million Tk.) MJL Bangladesh Ltd. MI cement Ltd. Khulna power company Ltd. Ocean containers Ltd. (OCL) RAK Ceramics Ltd. 142. 40 101. 60 184. 25 135 38 152. 40 111. 60 194. 25 145 48 5690 3050 9600 1600 1310 Market Price (02/02/12) 68. 10 65. 20 43. 20 46. 20 54. 07 From the Table 5. 7 we find that first four companies charged very high premium for its share where and withdrawn huge amount of capital from market.

When these companies asked for very high price, shares of other companies of same industry tends to rise on an expectation that it is highly undervalued that increases the general price index. As per the local expert, local media and committee report, Book building method is the most important factor behind the recent stock market volatility in Bangladesh. So we need to study this factor deeply to reach on a conclusion. I would like to describe the implication of price discovery method followed to discover the price of KPCL and OCL here. Khulna Power Company Ltd: Khulna Power Company Ltd. s a power generation company under private ownership that sells supply electricity to consumers through national distribution system. Its security was first traded in 18April, 2010 and price of the securities is being discovered by eligible institutional investors through Book Building system. The company was registered in 15 October, 1997. Its NAV was 17. 09 and 18. 53 respectively for the year 2008 and 2009 while EPS was 0. 97 and 2. 79 respectively for the year 2008 and 2009. Other listing related information regarding the company is given below: Table 5. Basic Listing Information of Khulna Power Company Ltd. Khulna Power Company Ltd. Name of the Item Sl. 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. Face Value Indicative price Offer Price NAV (As of 2009) EPS(As of 2009) Salable Shares Paid Up capital(As of 2009) First day Trade Price(18/04/2010) Trade price after 7 days Trade price after 30 days Trade Price After 1 year Lowest trade price Highest Trade Price(18/04/2010) Taka Tk. 10 Tk. 162 TK. 194 Tk. 18. 53 Tk. 2. 97 5, 21, 48, 250 TK. 208, 593, 0000 Tk. 273. 60 TK. 270 TK. 207 Tk. 90. 60 TK. 55. 00 Tk. 341 21 Net Asset Value of KPCL was TK. 18. 3 and indicative price was Tk. 162 that is Ten times higher than the asset value of the company. EPS of the company was TK. 2. 79 and before the listing P/E of the security stood at almost 60 that is unusual in respect of other company. Ocean Containers Limited: It is the pioneer for Inland Container Depot (ICD) and Container Freight Stations (CFS) and is the largest privately owned land container port (Off-dock) in Bangladesh. It is located at Patenga Industrial Area of Chittagong on the International Airport road, which is only 6 km from the country’s largest seaport, Chittagong Port.

It was listed with DSE in 2010 through book building method. Other listing related information regarding the company is given below: Table 5. 9 Basic Listing Information of Ocean Containers Limited. Sl. 1. 2. 3. 4. 5. 6. 7. 8. 9.

10. Ocean Containers Limited. Name of the Item Face Value Offer price NAV (As of 2009) EPS(As of 2009) First day Trade Price (04/03/2910) Trade price after 7 days Trade price after 30 days Trade Price After 1 year Lowest trade price Highest Trade Price (04/03/2910) Taka Tk. 10 Tk. 145 Tk. 55 Tk. 3. 73 Tk. 297 TK. 79 TK. 258 Tk. 96. 60 TK. 62 Tk. 2254 From these figures, we find that the maximum price of the stock was Tk. 2254 and minimum price was Tk. 69 only against face value of Tk. 10. The lowest price of the securities was half of the offer price of the securities that indicates that many shareholders caused huge losses out of this security. In both cases discussed above most benefit goes to the owners of the company and both the company are owned by same people. Few institutional investors benefited directly from these two securities.

Book Building method for price discovery gives various massages to the market. Some of these are follows: 1. Investors will feel that market is undervalued and they will select instruments that are already in the peak but relatively undervalued if compared to KPCL/OCL. 2. Companies of same industry of which KPCL is operating should go up. Most of the companies of power sector seemed undervalued relative to KPCL as it was overvalued and investors had expectations that price of each company will go to that level that fueled the speculative trend of the market. 3.

General Investors had a perception that Eligible institutional investors are technically sound to discover the justified price for a specific stock and th