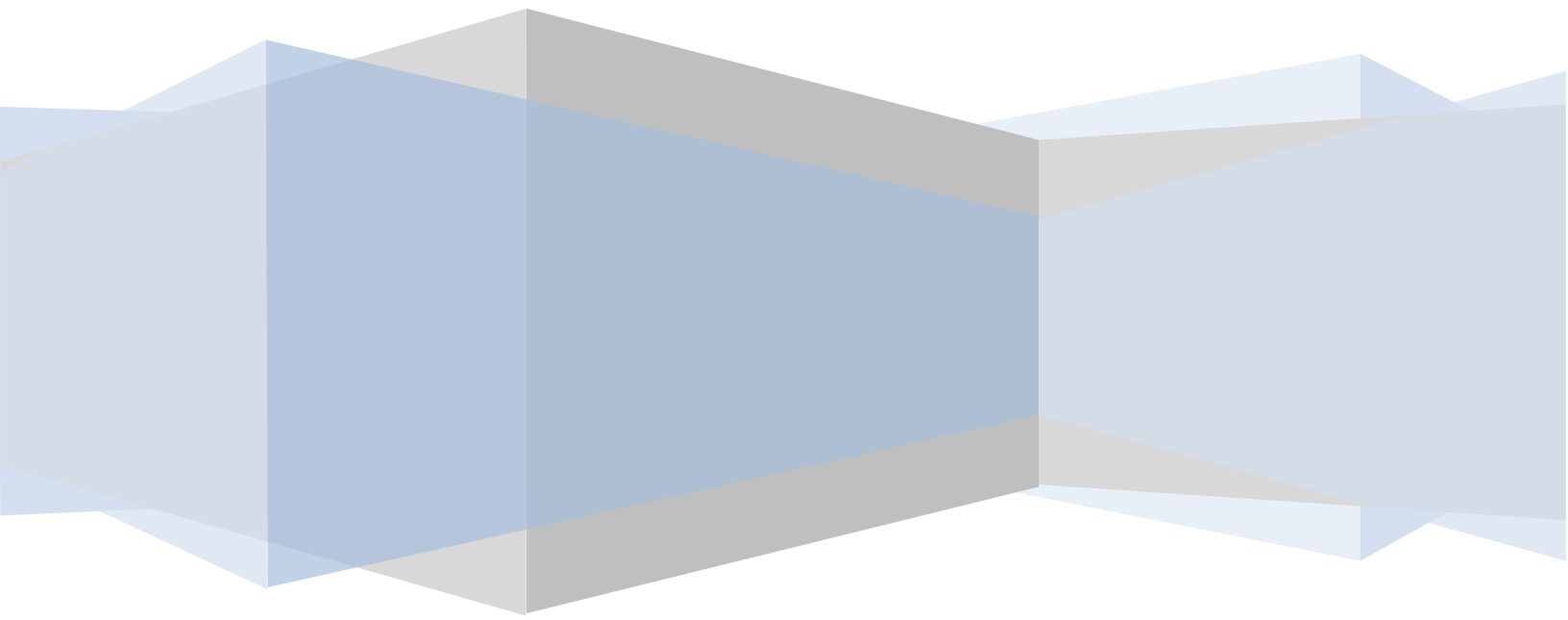




Methods of Share Valuation



BRAC University



Internship Report: Methods of Share Valuation

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Date of Submission: 7th September, 2011

LETTER OF TRANSMITTAL

7th September, 2011

To
Mr. Shawkat Kamal
Assistant Professor
BRAC Business School
BRAC University,
66, Mohakhali, Dhaka

Subject: Submission of Internship Report

Dear Sir,

I hereby submit my Internship report on the assigned topic. I tried my best to finish the report with all the relevant information and facts that could possibly be obtained. It would be my pleasure if you would kindly accept the report.

In case of any further clarification or elaboration, I would welcome the opportunity to consult with you to explore how the findings could best meet your needs.

Sincerely yours,

Ahmed Rafi Chowdhury (08104050).

ACKNOWLEDGEMENT

First of all, I would like to thank my academic advisor Mr. Shawkat Kamal, **Assistant Professor**, BRAC Business School, BRAC University for the guidance and valuable remarks about the convention of the report. I am very grateful to him for his time, guidance and consideration.

I would also like to thank Ms. Manira Khan, Deputy Manager, Investment Banking, BRAC EPL Investments Limited for her constant support and cooperation. I would also like to thank the other members of the Investment Banking team Ms. Sharmeen Hossain, Deputy Manager, Mr. Arunav Chowdhury, Senior Executive and Mr. Iftekhar Alam, Executive of BRAC EPL Investments Limited for their guidance. Without their help, this report wouldn't have been possible.

TABLE OF CONTENTS

Particulars	Pages
Executive Summary	i
PART 1: Introduction	
1.1 Introduction	1
1.2 Objective	1
1.3 Scope	1
1.4 Methodology	1
PART 2: Organization	
2.1 Organization Overview	2
2.2 Services offered by the Organization	3
2.3 Investment Banking Overview	6
2.4 Job Responsibility	7
2.5 My learning	8
PART 3: Valuation Methods	
3.1 Book Building Method	9
3.2 Fixed Price Method	15
3.3 Similarities and Differences between Book building and Fixed Price Method	19
3.4 Effect of book building on stakeholders	22
3.5 Effect of Fixed Price on stakeholders	23
PART 4: Recommendation and Conclusion	
4.1 Recommendation:	25
4.2 Conclusion	26
BIBLIOGRAPHY	27
GLOSSARY	

EXECUTIVE SUMMARY

Formerly EPL (Equity Partners Limited), BRAC EPL Investments Limited is a subsidiary of BRAC Bank Limited which provides a wide range of services ranging from Corporate Advisory to Issue Management. Since its inception it has shown tremendous growth in profitability, customer base and so on. One of the most important departments is the Investment Banking which primarily does the act of Issue Management and Corporate advisory. Being an intern there, I had opportunity to learn how an issue management is done and what are the processes involved.

The main methods of valuation are Book building and Fixed Price method. Both are discussed in detail as per rules of SEC. Whereas Book building considers the demand for the company shares the Fixed price method takes the fundamentals into consideration. There are many similarities as well as differences. Then the impacts of the pricing methods on the stakeholders are discussed along with a set of recommendations.

PART 1: Introduction

1.1 Introduction:

This term paper is named “Methods of Share Valuation” and is a detailed discussion of the types of valuation techniques, their impact on the stakeholders. This report is a requirement for the completion of Internship procedure.

1.2 Objective:

The main objective of this report is to know about the Valuation techniques of the company shares. To be more specific, the report contains:

- Detailed description of the valuation methods.
- Similarities and differences between these methods.
- Their impact on the stakeholders.
- The appropriateness of the Valuation methods.

1.3 Scope:

The scope of the report was mainly to know about the valuation techniques and their details.

1.4 Methodology:

The search for information was all primary. Other than that, information for writing this report was acquired through:

- Discussion with Investment Banking team members.
- Public Issue Rules 2006.
- News and articles.

PART 2: Organization

2.1 Organization Overview

BRAC EPL Investments, a subsidiary of BRAC Bank was established in October 1, 2009 after BRAC Bank acquired 51% of the shares of Equity Partners Limited (EPL) in August 2009. EPL was formed in the early 2000 as a merchant bank with the consent of Securities and Exchange Commission (SEC).

BRAC Bank, an institution belonging to BRAC Enterprise has been one of the fastest growing banks of Bangladesh in terms of customer base and market capital. The goal of the bank is to work with a two way approach by operating profitably as well as contributing to the society. Since inception in July 2001, its customer base has expanded to include 465,000 deposit accounts and 187,000 advance accounts till December 2008. Throughout the years, the bank plans to go for further expansion in terms of operation by opening ATM Counters, branch offices and introduction of new banking products.

BRAC EPL Investments Limited come in with an in depth knowledge of the capital market of Bangladesh. The organization has a disciplined and detailed approach towards carrying out investment operations and doing investment research. The On the other hand, BRAC Bank renders to the company its excellent network of blue-chip clients, access to low-cost capital, outstanding IT capabilities and affiliation to an internationally regarded brand name. BEIL has a distinct competence in equity placements (i.e. pre and post-IPO private placement to foreign and local investors).The organization can partner with international investment banks, i.e. Merrill Lynch, Barclays Capital, if required to carry out transactions for multinational companies.

The shareholding structure of the institution goes as follows:

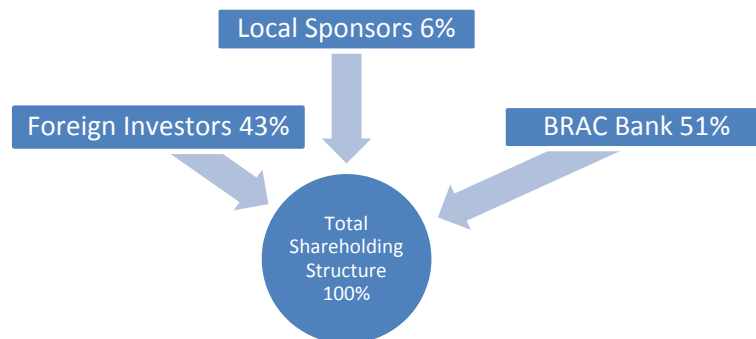


Fig 2.1 Shareholding Structure f BEIL

2.2 Services offered by the Organization

BEIL delivers a whole range of Investment Banking services including traditional merchant banking activities such as:

- Debt Syndication
- Merger and Acquisition
- Issue Management
- Corporate Advisory
- Corporate Finance
- Underwriting and Portfolio Management

BEIL shall also delivers value-added services such as Wealth Management and introduce a new operational department like Sustainable Investment Banking at a later date. One of the prime focuses of the organization is to offer investment services to NRBs.

The company showed tremendous growth since the day of its operation. The Profit after tax of the company grew to 194.78 million BDT in 2010 from 92.75 million BDT in 2009. The company EPS also grew accordingly along with the other variables like the customer base, the Assets, the Return in Assets and so on.

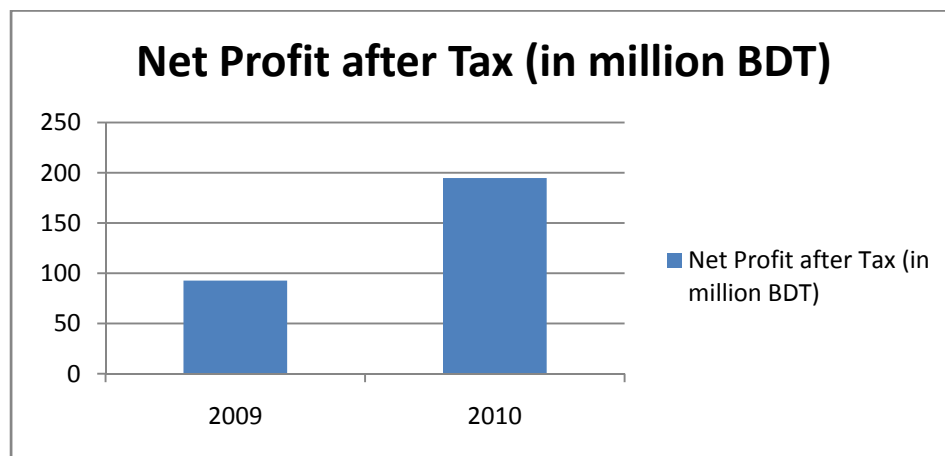


Fig 2.2: Net Profit after Tax in 2009 and 2010

There are various departments dedicated towards the operational activities of the organization. Each of the departments comprise of a head and team members who carry out the activities as required by the department. The heads of the departments communicate with the Chief Operating Officer and Managing Director of the company. The Organizational hierarchy goes something like this:

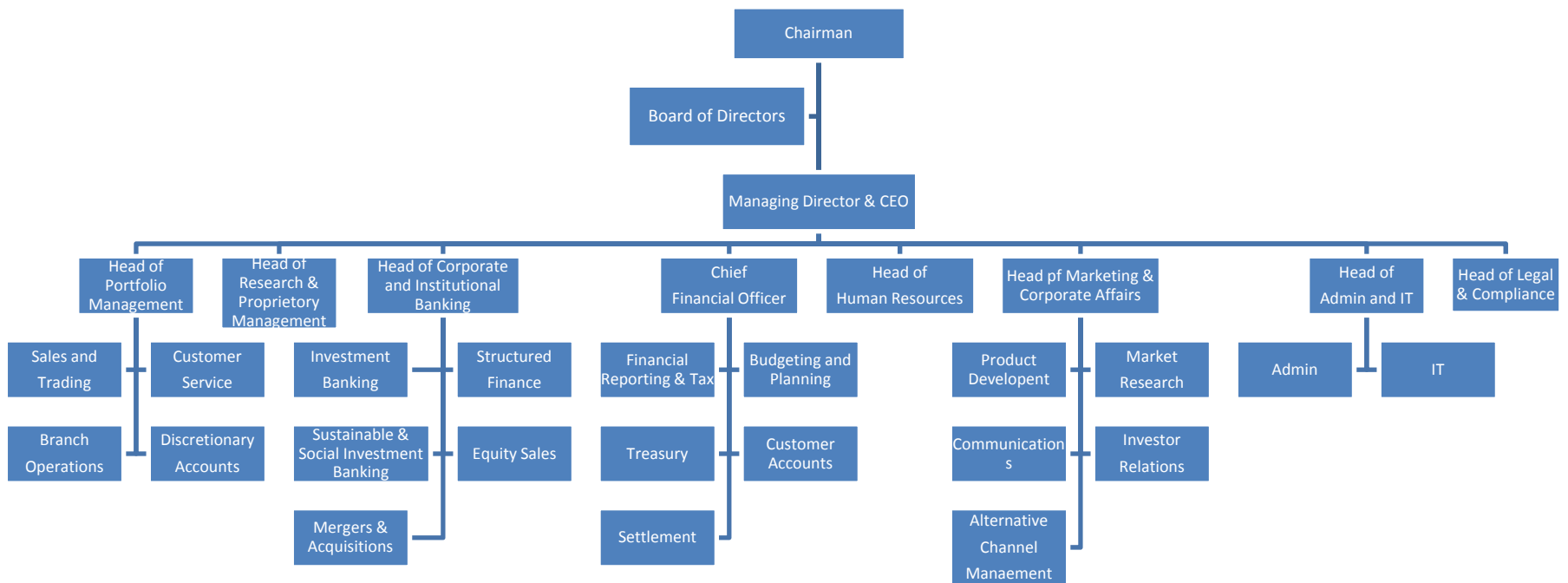


Fig 2.3: Organizational Hierarchy of BRAC EPL Investments Limited

2.3 Investment Banking Overview

Needless to say, the IB Department plays a significant role as part of the BRAC EPL Investments Limited. With 16 IPOs and M&As totaling over BDT 4.5 billion under its belt, BRAC EPL has ample transaction experience in the local market. Their current mandates include IPOs of a company operating in the hospitality industry worth BDT 6 billion, a textile company worth BDT 2 billion, a chemical and a Telecommunication company worth over BDT 8 billion, among others. Some of their prime achievements are as follows:

Highlight	Client	Issue amount (BDT)
First Convertible Preference Share Issue for a Listed Company	Agni Systems Limited	90,000,000
First Cross border Brand Acquisition in Bangladesh and IPO of the fastest growing FMCG company	Marico BD Ltd.	643,509,000
Largest offering in 2001	Modern Cement Limited	100,000,000
First IPO under Book Building Method	RAK Ceramics Ltd.	1,656.480,000
One of the Largest IPOs in the Banking Sector	The Premier Bank Limited	844,955,000
The only Greenfield Project listed in the Stock Market.	Lafarge Surma Cement Ltd.	893,900,000

Fig 2.4: Highlights of Investment Banking

The prime activities of the department include Issue management and Underwriting as well as Corporate advisory services. The Issue management Service is mainly applicable for when the Issuer is mainly going for IPO, RPO or Rights Issue etc. There are a wide number of activities covered by the Issue Management service. They are the following:

- Capital Restructuring
- Structuring the size of the public offer
- Determine the Issue price
- Valuation of the Issuer using various financial models
- Assistance in the preparation of relevant documents for the IPO process.

- Coordination of other professionals i.e. Auditors and Credit Rating Agencies.
- Ensuring Compliance with the regulatory bodies such as SEC or CDBL.
- Dealing on behalf of the Issuer with the regulatory bodies.
- Arranging bankers to the Issue.
- Arranging the underwriting Syndication
- Coordination of the post Management Issues.

Of all the services it quite obvious that the Issue Management Service is major source of income when it comes to the operation of the Investment Banking Department. The earning structure goes as follows:

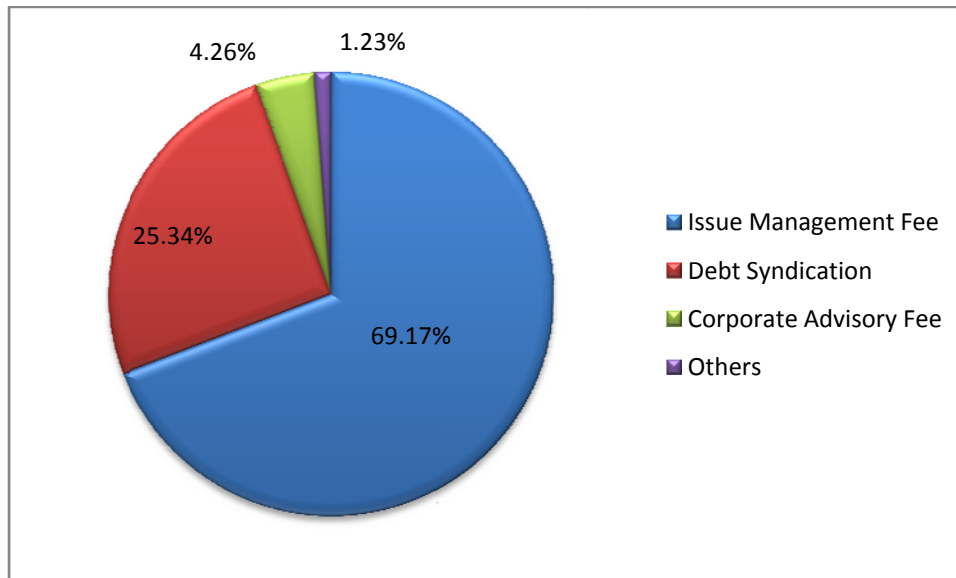


Fig 2.5: Income Structure of Investment Banking

2.4 Job Responsibility

Being an Intern in the Investment Banking (IB), my job was mainly to assist my supervisor prepare the documents necessary for issue management. As a result, I went through the process of preparing initial papers like Name Clearance, Offer Letter, Information Memorandum, Credit Information Bureau (CIB) papers and Share issue Prospectus for companies that were subject to Initial Public Offerings (IPOs). I also went through valuation methods and got to do comparative

analysis for companies. Alongside my advisor, I also assisted other members by doing News runs on particular sectors of the economy.

2.5 My learning

So far I got the feeling that I learned things that were really important. Going through the phase of dealing with the papers and people was an important phase. I believed that I was more of an introvert, but because I had to communicate with people at times, I feel that I had overcome my hesitation of dealing with people to some extent. People were very nice and friendly and always helped when I needed. Dealing with the numbers practically was another learning I got. Unlike the finance subject problems we solved during our university days, the information was always not readily available. The methodology of gathering numbers from various accounts and papers was also an important learning. It's not that I didn't face problems in the beginning, but my advisor and the other members of IB cooperated a lot which made my learning easier. There were changes in the SEC rules and there were brainstorming sessions where members of the IB team also communicated ideas that could be proposed to the SEC. We were also present there and I was lucky to be updated with the knowledge the IB team members communicated during the brainstorming session. We also got to sit for a brief session with the Legal and Compliance Department about the general rules of the SEC. Other than that, I was also acquainted to an Organizational culture, the shared meanings and values, common terminologies etc. To sum it up, I had the feeling that I was more resourceful now.

PART 3: Valuation Methods

3.1 Book Building Method:

The book building method is one of the two valuation methods of the share price. It was mainly built by the Securities and Exchange Commission (SEC) in collaboration with the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) to represent the fair value of the share price of a company. It is popular with the organization because of the lesser requirements and the chances of high prices by the eligible institutional investors. There are always three parties involved namely the Issuer, the Issue manager and the Eligible Institutional Investors (EII). According to the rules of SEC, EIIs come under the following category:

- a) Merchant bankers excepting the issue manager concerned to the proposed issue
- b) Foreign institutional investors registered with or approved by the Commission
- c) Recognized pension funds and provident funds
- d) Bank and non-bank financial institutions under regulatory control of Bangladesh Bank;
- e) Insurance companies regulated under Insurance Act, 1938 (Act No. IV of 1938)
- f) Institutional venture capital and institutional investors registered with or approved by the Commission
- g) Stock Dealer registered with the Commission and
- h) Any other artificial juridical person permitted by the Commission for this purpose.

The whole process includes Issue managers who arranges underwriters on behalf of the issue and acts on behalf of the issuer company and deals with the EIIs. The whole process could be elaborated as below:

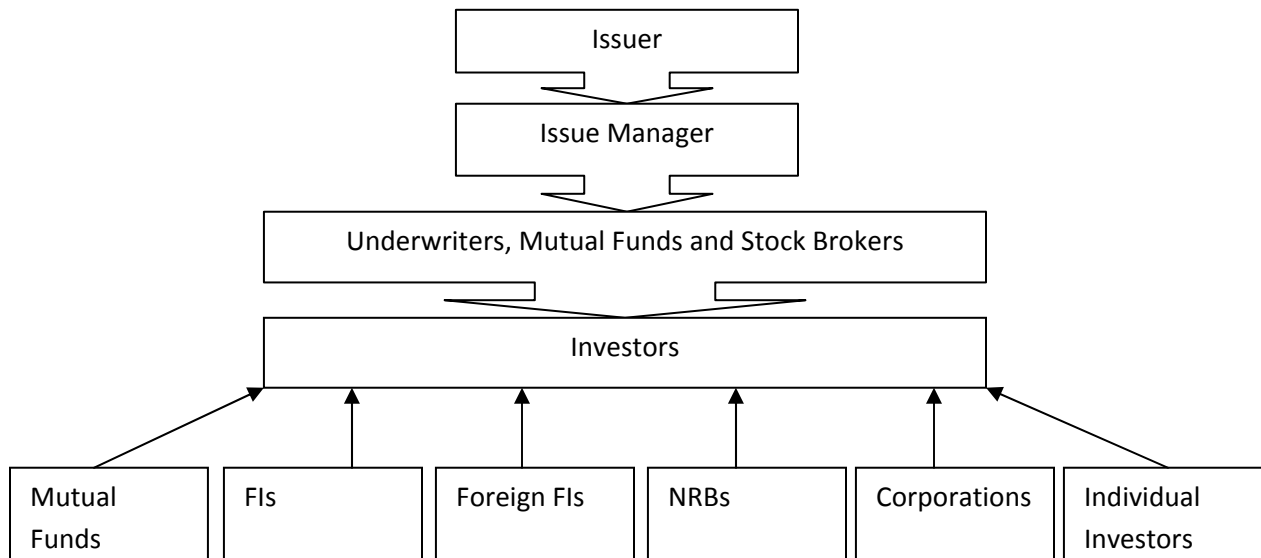


Fig 3.1 : Common Book building procedure

There are eligibility issues also involved for the company for Initial Public offering using Book building method of share price valuation. Here are the basic rules:

- The net- worth of the company has to be minimum BDT 300 million.
- Offering at least 10% of the paid up capital or BDT 300 million at face value, whichever is higher.
- Has to be in commercial operation for at least immediate last 3 years.
- Must earn profit in 2 years out of the immediate last 3 completed financial years.
- No accumulated loss at the time of application.
- Regular in holding AGM.
- Must audit at least its latest financial statements by a firm of chartered accountants from the panel of auditors of the Commission.
- Appointment of separate person as issue manager and registrar to the issue
- Compliance with the public Issue Rules 2006 to prepare prospectus for the public offer.

The process involved in Book building procedure is pretty detailed. There are a number of process and documentation involved in the matter. The whole process can be summed up to s follows:

- Indicative price - issuer indicates this price in the draft prospectus with input from eligible institutional investors on which the bidders bid for final determination of price
- The following types of institutional investors registered with the Commission qualify to determine indicative price of the securities-
 - a. Merchant bankers excepting the issue manager
 - b. Foreign institutional investors; Recognized pension funds and provident funds
 - c. Bank and non-bank financial institutions under regulatory control of Bangladesh Bank
 - d. Insurance companies regulated under Insurance Act, 1938 (Act No. IV of 1938)
 - e. Institutional venture capital and institutional investors
 - f. Stock Dealer registered with the Commission and
 - g. Any other artificial juridical person permitted by the Commission for this purpose
- Issuer invites for indicative price offer from the EII through road show/presentation/seminar
- Invitation to road show/presentation/seminar are issued to the EIIs both in written and through publication in at least 5 national daily newspapers
- Information Memorandum (IM) containing all relevant information are sent to eligible institutional investors (EII) to facilitate them to offer an indicative price for the securities
- The EII will submit indicative price to the issuer/issue manager, signed jointly by the Chief Executive Officer (CEO) and the Financial Analyst, highlighting the

factors taken into consideration in support of the indicative price within 3 working days from the date of road show

- the Eligible Institutional Investors (EII) shall not be allowed to participate in the bidding unless they participate and quote price in the Road Show for setting the indicative price of concerned issue. The EII participating in the Road Show and quote price must also participate in the bidding
- The issuer and issue manager will jointly submit the attendance sheet and the quoted price by the EII along with the draft prospectus to the Commission;
- The 20% band of the indicative price is determined as per price indications obtained from at least 15 eligible institutional investors covering at least 3 different categories including at least 5 (five) registered merchant bankers
- The issuer will mention the indicative price in the draft prospectus on which the bidders bid for final determination of price.
- The issuer will disclose in detail about the qualitative and quantitative factors justifying the indicative price
- Upon approval of the SEC, the issuer will invite eligible institutional investors for bidding. If institutional quota is not cleared at 20% price below the indicative price, the issue will be cancelled unless the floor price is further lowered above the face value of the security.
- Provided that, the issuer will be given only one chance to lower the price
- The general investors- i.e. general public, NRB and mutual funds will apply for the securities at the cut-off price.

The bidders have to abide by some basic rules and regulations that are required by the Book building procedure. The common findings are:

- Bidding period for institutional investors will be 3 to 5 working days (may be changed with the approval of the Commission)

- An institutional investor cannot quote for more than 10% of the total securities offered for sale, subject to maximum of 5 bids
- The bidding will be handled through a uniform and integrated automated system of the stock exchanges, or any other organization as decided by the Commission, especially developed for book building method
- The volume and value of bid at different prices will be displayed on the monitor of the said system without identifying the bidder
- Institutional bidders shall deposit their bid with 20% of the amount of bid in advance to the designated bank account. The rest amount must be deposited within 5 working days before the date of opening subscription for general investors. In case of failure to deposit the rest amount, 50% of the bid money deposited by them shall be forfeited by the Commission. The securities earmarked for the bidder who defaulted in making payment will be added to the general investor quota.
- Subscription for general investors will open after 25 working days or as determined by the Commission, of the closure of bidding by the institutional investors. Subscription period for general investors will be specified by the Commission. General investors will place their application through bankers' to the issue.

The allotment of the shares of the company has to be on the basis of the following ratios.

Size of Total Issue (in million BDT)	Eligible Institutional Investors' Quota	General Investors' Quota		
		Mutual Fund Portion	NRB Portion	Public Portion
300 to 500	20%	10%	10%	60% or balance amount
Over 500 to 1000	30%	10%	10%	50% or balance amount
Over 1000 to 5000	40%	10%	10%	40% or balance amount
Over 5000	50%	10%	10%	30% or balance amount

Fig 3.2: Allotment of shares as per PIR 2006

So far, there only had been three companies who went for IPO using the Book building procedure of share valuation. They are mainly the follows:

- RAK Ceramics: The issue was made by BRAC EPL and IDLC Finance jointly. The issue price totaled to Tk.48 of which Tk. 38 was considered premium. The company had a total issue size of 34510000 worth Tk.1656.48 million.
- M.I Cement Factory Limited: The issue was made by Banco Trans World (BD) Limited. The issue price was Tk. 93 which included Tk.83 worth premium. The issue size was 30,000,000 shares worth Tk. 2970 million.
- Mobil Jamuna Lubricants: The company went for IPO of 40,000,000 with a face value of Tk. 10 and the indicative price stood at Tk.127 which included a premium of Tk.117. The issue was worth 25 billion taka. The manager to the issue was Prime Finance and Investments Limited.

3.2 Fixed Price Method:

The Fixed Price method is considered more suitable by the general public as the company's share price is mainly determined through its fundamentals. The SEC approval with the price is considered a major factor here. There is no indicative price as decided by the EIIs under Book building method, but the offering price directly as approved by the SEC. Like Book building method, there are also some basic requirements for a company to be eligible to value its shares under this method:

- Minimum paid-up capital (existing + proposed) requirement for public issue (i.e. IPO) is BDT 300 million
- Minimum size of IPO is Tk. 120 million (at face value) or 10% of the total paid up capital (existing + proposed) whichever is higher
- Upon the consent of the SEC, the issuer invites application from general public, NRB and Mutual Funds upon SEC approval
- In case of oversubscription, issuer arranges lottery to select the shareholders.

In case of the valuation under the fixed price method, the company can go for some techniques as stated below:

- The Net Asset value of shares.
- Earning based value of the shares
- Projected Earning per share / Book value
- Average Market price per share of similar stock for the last 1 year prior to the issuance of ordinary shares
- Any other method taken into account to justify premium by the issuer

Provided that the premium shall not exceed the amount of premium charged on shares issued (excluding bonus shares) within immediately preceding one year.

There were numerous IPOs that followed this format of valuation and share pricing. Few of them are as follows:

- Marico Bangladesh Limited: It had an issue of around Tk. 1,492,100 ordinary shares of Tk. 10 at an issue price of Tk 90 each, including a premium of Tk. 80/- per share totaling to Tk. 134,289,000. The Issue Managers IDLC Finance and Equity Partners Limited.
- United Airways: They went for an IPO of around 10,000,000 ordinary shares of Tk.100.00 each at par totaling Tk. 1,000,000,000. The manager to the issue was AAA Consultants & Financial Advisers Limited.

A common format of the share price determination of a company (e.g. textile) is given below:

% growth					
Method 2: Share price based on Earnings per share					
Calculation of MP Spinning's last twelve month earnings per share (EPS)					
Particulars	Profit	No. of Shares	EPS	Weightings	Weighted EPS
Net profit after tax for Fiscal 2009					
Net profit after tax for Fiscal 2010					
Net profit after tax for Fiscal 2011					
Multiple					

Determination of Offering Price					
Method -1: Share price based on Net Asset Value (NAV) per share as of June 30,2011					
Shareholders' equity and net asset value per share		2011		2010	
Particulars	No.	No.	No.	No.	No.
No. of shares outstanding					
	Taka	Taka			
Par value per share					
Share Capital					
Share Money Deposits					
Retained Earnings					
Shareholders' equity					
Net asset value per share					

The average price earnings ratio (P/E) for all the companies listed on the Dhaka Stock exchange during the same period from July 2010 to July 2011										
Month End Figures	P/E		Monthly Average Prices							
	Market (DSE)	Textile	Tallu Spinning	Apex Spinning	Delta Spinners	Safko Spinnings	Metro Spinning	Maksons Spinning Mills	R.N. Spinning Mills Limited	Malek Spinning Mills Ltd.
July	24.55									
August	25.81									
September	26.29									
October	28.46									
November	29.71									
December	29.16									
January	26.66									
February	17.79									
March	19.34									
April	17.79									
May	16.3									
June										
Total	261.86									
Twelve Month Average										

Share price = 12 month average EPS X DSE P/E ratio	
	Taka
Share price = 12 month average EPS X Adjusted Sector P/E ratio	
	Taka
Share price = 12 month average EPS X IM Assumed P/E Multiple of 15	
	Taka

Method 3&4: Share price based on Similar Stocks Trading in the DSE						
Names of Similar Stocks	Face Value	Average Mkt. Price	NAV/Share	EPS	P/E	P/BV
Tallu Spinning						
Apex Spinning						
Delta Spinners						
Safko Spinnings						
Metro Spinning						
Makson Spinning Mills						
R.N Spinning Mills						
Malek Spinning Mills						
Average						
					Derived Values	
Applied to Issuer's Figures					-	-

Analysis 2: Calculation of Average Price of Shares of par value of Tk. 10			
	Taka	Weights	Values
Method 1: Net Asset Value		0.3	
Method 2: Last Twelve Month EPS based DSE P/E		0.4	
Method 3: Similar Stock NAV		0.15	
Method 3: Similar Stock EPS		0.15	
Total			
Average Price			
Discount			
Tentative Price			

Fig 3.3: A Fixed Price Method Format

3.3 Similarities and Differences between Book building and Fixed Price

Method:

Common Ground:

1. Both methods are used under Public Issue Rules 2006. The PIR 2006 rules of the year say that the company shares have to be valued based on either one of the valuation methods. Thus, both forms of valuations are approved under the SEC rules during the period.
2. Contents of the Prospectus are quite similar although certain variations are inevitable for Book Building Method. The basic prospectus of the company for IPO is the same despite the differences in the valuation methods. They require the same information, though the process of the Book building is a bit more detailed.
3. Compared to direct listing, where the company takes initiatives to go for listing itself, the Issue manager acts on behalf of the company to issue its shares, whether book-building or fixed price method is followed.
4. Due Diligence Process is mandated after signing of agreement between Issuer and the Issue Manager under both methods. Due Diligence is the process of investigation by the Issue manager in order to inspect the company assets and liabilities.
5. The shares are available to the general investors, mutual funds and organizations in case of both methods of valuation.
6. Underwriter is required to be appointed for both types of listing. The Underwriting process is the same for both types of valuation. The issue process goes through the underwriting irrespective of the type of valuation method followed.
7. Justification of Pricing by Qualitative and Quantitative Means are required. The company has to take the help of numbers and facts to justify its pricing method.

8. Methods for pricing are same for both under Public Issue Rules 2006 and no differentiation was prescribed in the rules. The basic fundamentals like EPS, NAV, P/E ratio are used throughout the procedures.
9. Submission of required Documents is mandated and the requirements are same except for certain pricing issues.
10. SEC may prescribe rules and regulations by notifications, orders, etc. for changes in the requirements for listing.
11. Being a Public limited company is the prerequisite for consideration of both the valuation methods.
12. Requirement of Paid up Capital: The requirement for minimum paid up capital in case of company that is going for issue through book building or Fixed Price method is Tk. 300 million.

Differences:

1. Consistent with the term “Book Building Process”, price is determined through justification of indicative prices obtained from Eligible Institutional Shareholders who would set the cut off price at which stock will be listed on the country’s stock exchanges whereas price is justified by the Commission’s board approval for fixed pricing.
2. Period of Commercial Operation is different for the companies in this case. In case of the Book Building method, it is required that the company presents the Audited Financial Statements for the previous 3 consecutive years. It is also required that the company at least goes profitable for the two years out of three. In case of the valuation under Fixed Price method, it is required that the company is in operation for at least five years.
3. Profitability Requirement: The profitability requirement under book building method is two years of the three years of operation. There isn’t any consolidated loss allowed summing up all the years. In case of the Fixed Price method, there is no such requirement for the issue.

4. Paperwork: the paperwork pattern is different in both cases of valuation techniques. Although the ultimate goal is to go for Initial Public Offering, the company does have to present different documents and place different parameters for the share prices.
5. Price in case of Book building usually tends to be higher compared to FP existing within the same industry. Given that the other factors are same, the involvement of EIIs in case of the pricing for profitable companies pushes up the price of the shares in case they are more interested with the purchasing of the shares.
6. Book building pricing is market driven and the Fixed Pricing is driven by the fundamentals. The main concept Book building is to determine the price the investors are willing to pay. Therefore, the Issuer involves EIIs to participate in the price setting from the beginning to end. Whereas, in case of Fixed pricing method of share valuation, the company does not involve outside investors to participate in the pricing. The pricing is more detailed on fundamentals and after SEC approval; the shares are available for trading to the public.
7. In case of book building, SEC plays the role of monitoring the whole process of valuation and pricing. The Book building uses the market demand for the shares to determine the price. SEC just monitors whether the whole phase went fairly. In case of the pricing under the Fixed Price method, the pricing solely depends on the SEC approval of the pricing. The company just goes through the valuation techniques and presents them in front of the SEC for their approval. Unlike Book building method, there is no indicative price and the fixing of the upper and lower limits of 20%.
8. Quota for investors is fixed in case of Book building, whereas there aren't any such rules for Fixed Price method. Going back to the allotment for the shares, we can see that the company has particular shares allotted for various types of investors. There are also rules set that no single EII can acquire more than 10% of the shares of the Issuer. In case of Fixed Price method, there is no such allotment quotas stated.

9. Book building procedure takes greater time compared to the Fixed Price. The procedure involved in Book Building takes greater time mainly due to the bidding process and greater party's involvement. There is a bidding process involved in the process and the issuer has to wait for a greater time for the issue.

3.4 Effect of book building on stakeholders:

Pros:

- Provision of book building can attract bigger companies/MNCs to launch shares in the stock exchange, causing the investors to be benefitted. Big company like RAK Ceramics used book building method to increase its capital base, which ultimately enhanced the market.
- Smaller companies can be benefitted if the investors are positive that the company would be more profitable in the upcoming years. If a company is promising or carries an established brand name, it can have a positive impact on the EIIs and thus can achieve greater price to increase capital base for operation, benefitting the share market.
- Demand and Supply mechanism is somewhat working which is an incentive for companies to go for healthy competition. The demand and supply mechanism can positively influence companies to outperform each other. In this case the stakeholders and the general customers are also benefitted.
- Rules and amendments over the years by the SEC has somewhat helped the process to be fairer. Regulatory bodies like SEC have been doing amendments in order to make the process fairer, like increasing the lock-in period from 15 days to six months, ensuring the participation of 15 EIIs from 5 EIIs and so on.

Cons:

- For larger issues, the quota of shares for EIIs is greater. Thus, they can significantly manipulate the share prices, hurting the individual investors.
- There are chances of companies being undervalued or overvalued. Way too much demand can push up the share prices and vice versa.

- Given the time taken in the process, the requirement of financial statements is lower compared to the Fixed Price method.
- Although no EIIs can have more than 10 percent of the shares, there is a little chance that this will prevent them from influencing the company share price mechanism. They can influence the price from the beginning given the SEC rules.
- There is no assurance that the company shareholders would be better off using the method. Bidders can suffer if they buy the shares at a high price and later find out the price falling.
- Fundamental analysis may not work to a great extent. The demand and supply tends to work to a greater extent causing the

3.5 Effect of Fixed Price on stakeholders:

Pros:

- The company financials are greatly taken into account, which helps the pricing to be somewhat justifiable. As the company financials are more taken into account, the chance of being a share over valued or undervalued isles likely to happen.
- The SEC has authority over the price approval, thus the issuer and the issue manager has to put greater efforts for a justified pricing. Unlike the prices indicated by the EIIs, the prices here are mostly based on the fundamentals and any non-compliance can be subject to cancellation.
- The company financials are greatly taken into account. Apart from the demand and supply consideration for the company shares, the fundamentals of the issuer is taken into account.
- The bureaucracy involved is somewhat lower compared to the issue process under the book building method of valuation. The book building process has to go through road shows and bidding process, and ten reviewed by the regulatory authorities. However, in case of Fixed price method, the company has to somewhat calculate the pricing method and present it to the regulatory body for approval.

- There are no quotas involved for EIIs, NRBs Mutual Funds or the individual investors. Investors can buy shares at their free will. This lessens the chance for manipulation by the EIIs. Though EIIs can buy shares at a bigger scale, they can't influence the pricing of the shares from the beginning through indicative pricing.

Cons:

- Given that the pricing is mostly based on the fundamentals, the company shares are subject to over/undervaluation given that there is no demand supply mechanism involved in the beginning.
- Newer companies may not be able to raise capital to a greater extent even if they can perform better in the long run.
- Technical analysis is not somewhat applicable.
- The company balance sheets can be manipulated to some extent (even if the accounts are audited). Thus, the company fundamentals may not show the correct values of indicators for share price valuation.

PART 4: Recommendation and Conclusion

4.1 Recommendation:

Before, I jump to the conclusion; the recent changes as proposed by SEC must be taken into account. According to the Financial Express Bangladesh, there had been some amendments as suggested by the regulatory bodies as proposed by the SEC to help make the book building process fairer when it comes to determine the share price of the issuer. They can be summarized as follows:

- The indicated price by the EIIs is not supposed to cross 15 times the weighted average P/E of the Issuer over the last three years.
- The lock-in period of the shares were reduced to four months from six months. However, until recently, the lock-in period has been increased back to six months.
- The indicative price of the shares should be supported by at least 20 EIIs to avoid price distortion, including at least three quotations from each of six categories: merchant banks, commercial banks, asset management companies (AMCs), stock dealers, insurance companies and NBFIs.
- The IPO (initial public offering) quota for mutual funds has been fixed at 15 per cent, instead of previous 10 per cent.
- The regulator has decided to fix minimum size of an open-end mutual fund at Tk 100 million, instead of previous minimum size of Tk 200 million in a move to encourage the flotation of such type of mutual funds.

The proposed changes have increased the credibility of the share price valuation using Book building method. The limit set on the indicative price of the shares can successfully control the price to some extent. The increase in the quota for mutual funds and the increased requirement for the support of 20 EIIs can also cause the price to be in control. Moreover, the fundamentals are also being considered to some extent.

However, the control continues to be in the hands of the EIIs. The lock-in period still does not affect the EIIs influence to persuade other investors to increase the demand and thus manipulate the price of the shares. The increased quota of the mutual funds can somehow affect the quota of the individual investors. In that case the demand of the individual investors is little taken into account.

I would rather support the Fixed price method of valuation. The company fundamentals are taken into account. The offer seems to be open to all from the EIIs to the general public. There is little manipulation as the Regulatory Authority has the upper hand in case of the share price approval. For the transparency and the use of fundamentals of the shares, Fixed price is preferable. As far as the demand and supply is concerned, the price of the shares is determined by market forces anyway after the time the company comes into operation.

Apart from that, I would have some recommendations for the book building method. The book building method can be improved in some ways as follows:

- The Issuer and the Issue Manager can send the draft prospectus without mentioning the indicative price to the EIIs. The indicative price can be disclosed after the bidding process. This can reduce the influence on the bidders and the price can be more reasonable.
- The bidding time can be reduced by the regulatory authority. This will reduce the time taken by the process as well as hold price increase.
- The financial statements should not be annualized while considering the valuation. The annual outcome can be different.
- The DSE and CSE should take part in the road show process just as a monitor if not the initiator. This can cause more transparency.

4.2 Conclusion:

Each of the pricing methods has its own way of justifying the share price of the Issuer. The company shares can be determined by its performance or the demand or supply mechanism. However, not many shares have been issued using the book building method of valuing shares. SEC has been causing amendments and changes over the years to increase the suitability of the book building method. Hopefully, there will be a time when book building reforms will fulfill the need of the company and the general stakeholders as well.

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GLOSSARY

BEIL: BRAC EPL Investments Limited.

NRB: Non Residential Bangladeshi.

CDBL: Central Depository Bangladesh.

SEC: Securities and Exchange Commission.

NBFI: Non-Bank Financial Institution.

EIIs: Eligible Institutional Investors. They are investors like Asset management companies, NBFIs, Commercial Banks etc.

RPO: Repeat Public Offering.

IPO: Initial Public Offering.

M&A: Mergers and Acquisitions.

Issuer: The Company that is subject to IPO.

Issue Manager: The merchant bank handling the IPO of the Issuer (in this case, BRAC EPL Investments Limited).

Lock-in period: The pre-determined time through which the shareholders can't sell their part of the shares.

IB: Investment Banking.

DSE: Dhaka Stock Exchange.

CSE: Chittagong Stock Exchange.

Indicative Price: The price that the EIIs are willing to pay.

Underwriters: Banks/NBFIs that are taking the responsibility of selling the securities.

Due Diligence: The act of verifying the Issuer assets by the Issue manager bodies.

Road shows: a presentation by the Issue manager to the potential buyers.

Book building: The pricing process where the value of the share price is determined by bidding of the EIIs.

Fixed Price: The method where the price is determined by the Company Fundamentals.