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Asia Frontier Insights

Bangladesh at 50: ready to close the gap with Vietnam

Looking for attractive equity markets in large economies with strong, stable growth? Yes, Vietnam is one…

…but don't forget the lesser-known Bangladesh market, which is where Vietnam was five years ago

We compare and contrast these two Asian frontier markets

This is an abridged version of a report by the same title published on 4-Jun-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Play video with Devendra Joshi

Disclosures & Disclaimer: This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Executive summary

Bangladesh, one of Asia's most exciting long-term demographics stories, is celebrating its 50th anniversary. We compare this large, stable economy with Vietnam, the frontier market we have long favoured that now has higher trading turnover than Singapore. The Bangladesh stock market is where Vietnam's was five years ago and it is well placed to start closing the gap.

A quick learner. Bangladesh was one of the poorest countries in the world when it became independent in 1971. Fifty years later, income per person is approaching India's and economic growth exceeded 7% for four years in a row before the pandemic, outpacing India and even China; primary education is almost universal and literacy rates have soared (The Economist, 27 March 2021). This report compares and contrasts Bangladesh and Vietnam on a number of different metrics to help investors who are less familiar with the compelling growth stories unfolding in these vibrant Asian frontier equity markets.

Bigger, faster. Bangladesh is on a similar growth trajectory to Vietnam, the frontier market we have long favoured that now has higher trading turnover than Singapore. But it has a larger economy and population and is also growing at a faster pace, despite power shortages, poor infrastructure, a banking sector struggling with soured loans, and political issues. Bangladesh also has a sound macro position and a robust external balance sheet – external debt is low and FX reserve coverage high.

The demographic dividend. Bangladesh is one of Asia's most exciting long-term demographic stories, in our view. With a population of around 165m – there are as many Bangladeshis as there are Thais and Vietnamese combined – we think the country is on the cusp of an industrial revolution as incomes rise and technology plays an ever-increasing role in the economy. Urbanisation, smaller households and more women at work are powerful consumption drivers that support high levels of growth.

The two markets. With a market cap-to-GDP ratio of only 14%, we think Bangladesh deserves more attention than it gets. Yes, the market is small, illiquid and not that easy to access, but so was Vietnam's five years ago. The two markets were similar in size until 2015, but Vietnam has grown 4x since then. We think Bangladesh is ready to close the gap. It is less correlated with global macro and equity themes than Vietnam and also receives far less attention from analysts, creating opportunities for fund managers looking for diversification and 'hidden gems'.

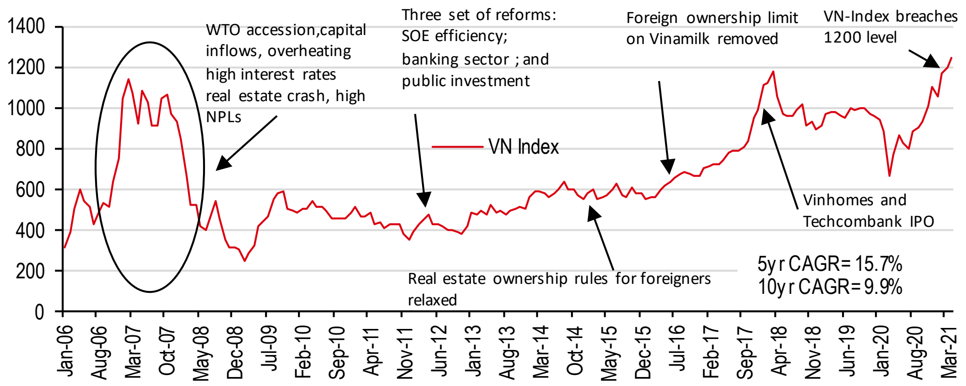
Market snapshot

The Bangladesh and Vietnam markets in numbers

	Bangladesh	Vietnam
Total mkt cap of market (USD bn)	55.5	200.1
Avg trading value of the market (USD m)	81.2	714.6
Mkt cap/GDP	13.9%	115.7%
No of stocks with more than 1 bn mkt cap	7	33
No of stocks with mkt cap between 500m-1bn	7	16
No of stocks with mkt cap between 250m-500m	20	38
No of stocks with mkt cap between 250m-100m	40	60
5yr CAGR index return	5.6%	15.7%
3 biggest sectors (Index weight %)	Financials (26.1%), Communication services (14.2%), Healthcare (13.9%)	Financials (33.8%), Real estate (26.1%), Consumer staples (11.0%)
Total number of listed companies	321	392
GDP (USDbn)	329.8	271.2
GDP per capita (USD)	1,970	2,777
Population (m)	163.0	96.4

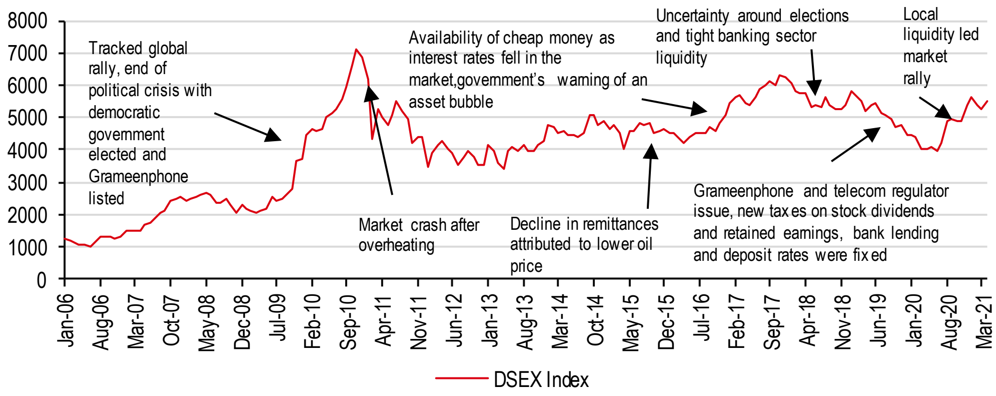
Source: Bloomberg, Refinitiv Datastream, CEIC, HSBC

Vietnam's market journey: a gradual rise



Source: Bloomberg, HSBC

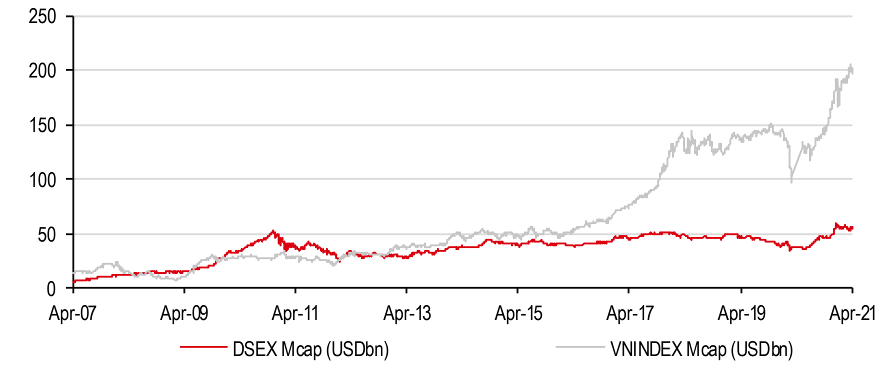
Bangladesh's market journey: not as volatile as you think



Source: Refinitiv Datastream, HSBC

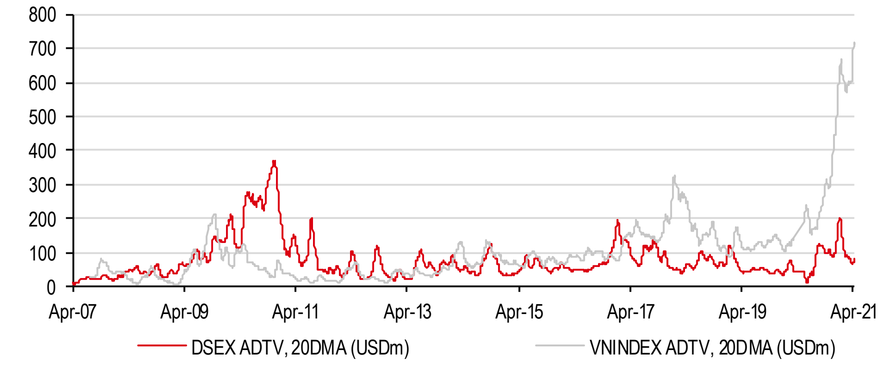
The Vietnam and Bangladesh markets were similar in size and movement until 2015; Vietnam has grown 4x since then

Vietnam's market has grown 4x over the last 5 years. Bangladesh's has been stagnant



Source: Bloomberg, HSBC

Vietnam is more liquid than Singapore



Source: Bloomberg, DSEX, HSBC

Sizing the markets

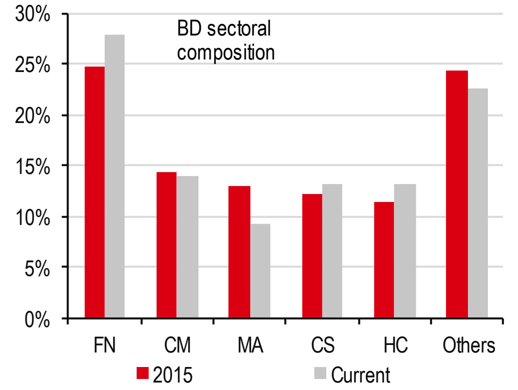
- The two equity markets were similar in size until 2015.
- Since then, the Vietnam market cap has increased 4x, reaching a record high of cUSD200bn. Bangladesh's is only USD55bn.
- Since 2015, 38 companies have listed on the Bangladesh exchange and 80 in Vietnam.
- Most of the large unlisted businesses in Bangladesh are family owned, while in Vietnam these are SOEs or conglomerates.

Bangladesh is illiquid while Vietnam's liquidity is hitting record highs…

- Vietnam's liquidity in terms of daily trading value has risen strongly, hitting USD714m in April 2021, driven by new retail investors. Liquidity has surpassed that of Singapore, Indonesia, Malaysia and the Philippines.
- The Bangladesh market is much less liquid, with a daily trading value of USD81m. This is up 70% y-o-y, but is where Vietnam was five years ago.
- In Vietnam, rising incomes have led to more participation by retail investors.

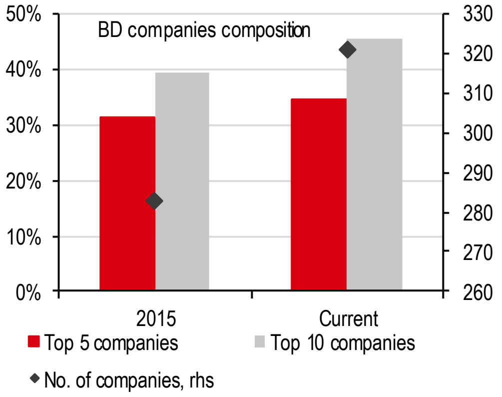
Bangladesh is more diversified with no foreign ownership limits; Vietnam's market is skewed towards banks and property

Bangladesh: The share of pharma and consumer led businesses in the index has risen



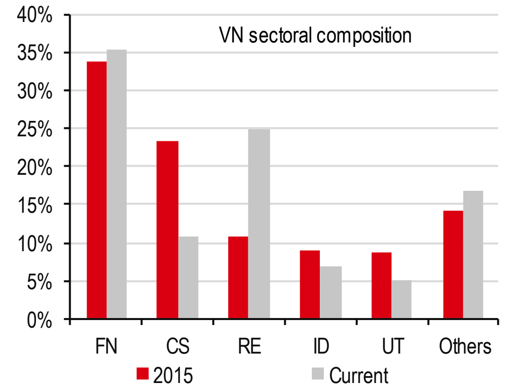
Source: Bloomberg, HSBC

Both are relatively diverse markets…



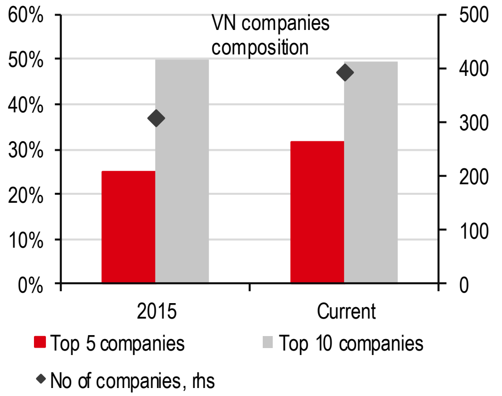
Source: Bloomberg, HSBC

…but Vietnam continues to tilt to finance



Source: Bloomberg, HSBC

…and market concentration is largely unchanged



Source: Bloomberg, HSBC

Sector composition – Bangladesh

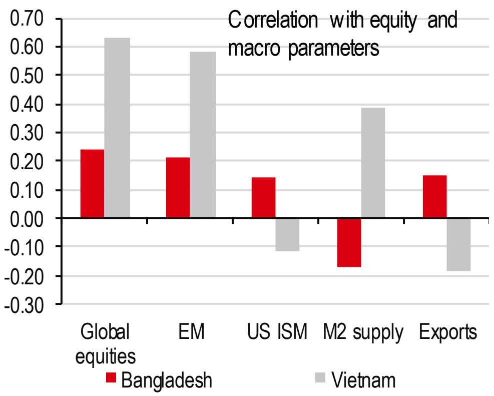
- The Bangladesh DSEX index has long been dominated by financials, but the weight of consumer and healthcare companies is increasing.
- The top 10 companies constitute almost half of the index weight (45.4%), led by Grameenphone and Square Pharma.

Sector composition – Vietnam

- Financials and real estate continue to dominate the index in Vietnam, supported by the listings of private sector banks and real estate companies. The top 10 companies constitute 50% of the index, with the top five dominated by real estate companies like Vingroup and Vinhomes.

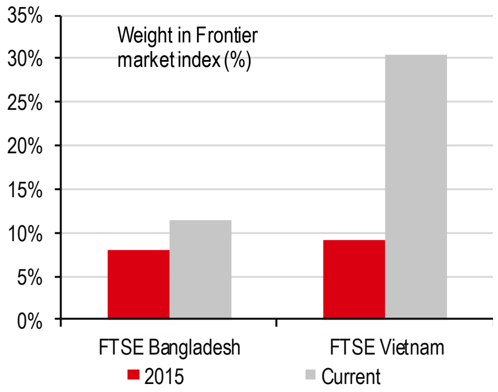
Bangladesh uncorrelated with global macro and equities, while Vietnam has become more correlated

Bangladesh offers excellent opportunities for diversification



Source: Refinitiv Datastream, CEIC, HSBC

Vietnam is the largest frontier market, while Bangladesh has increased its weighting in frontier index



Source: Refinitiv Datastream, HSBC

Market drivers

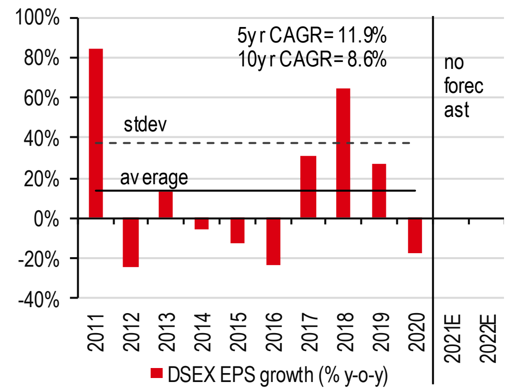
- While Vietnam is highly correlated with global and emerging market equities, Bangladesh is not, providing investors with opportunities to diversify their portfolios.
- Local money supply has had an impact on movements in the Vietnam market, more so than in Bangladesh.
- Although exports play a key role in both economies, they don't have much impact on the two markets.

Vietnam, the highest weighting in the frontier market index

- Vietnam is the largest frontier market with a 30% weighting in the frontier market index, up from 9% five years ago.
- Bangladesh has a lot of catching up to do.

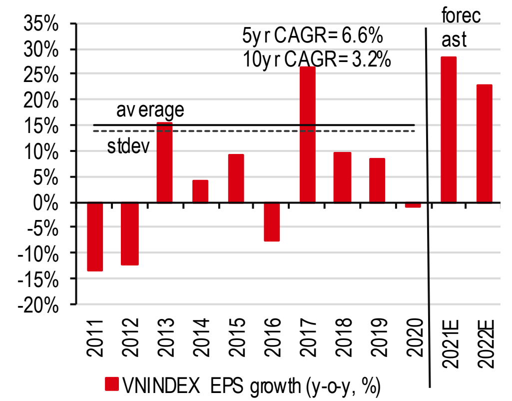
An opportunity to find 'hidden gems': Bangladesh has higher earnings growth but sell-side stock coverage is limited

Bangladesh earnings: a 12% CAGR in the past 5 years



Source: Bloomberg, HSBC

Vietnam earnings: a 6.6% CAGR in the same period

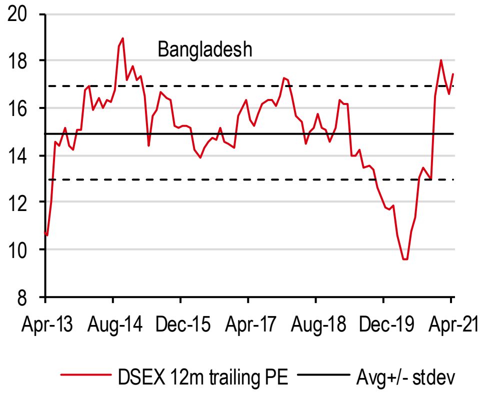


Source: Bloomberg, HSBC

Earnings trajectory and consensus coverage

- Earnings have been more volatile in Bangladesh than in than Vietnam over the last decade, reflecting periods of economic volatility, largely related to political and policy newsflow.
- There is a large catch-up consumer market in Bangladesh because few people own ACs, washing machines, and smartphones.
- Large Vietnamese companies are covered by the sell-side. This is not the case in Bangladesh, which is fertile ground for fund managers looking for 'hidden gems'.

Bangladesh looks expensive at the moment



Source: DSEX, CEIC, HSBC

Vietnam still offers good value

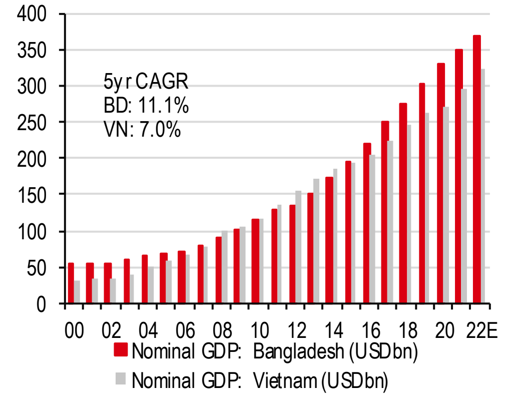
Source: Bloomberg, HSBC

Valuations

- The VNINDEX is trading at a 12m trailing PE of 17.3x, above its 5-year average of 16.5x.
- The DSEX trades at a 12m trailing PE of 17.4x, above its 5-year average of 14.6x.

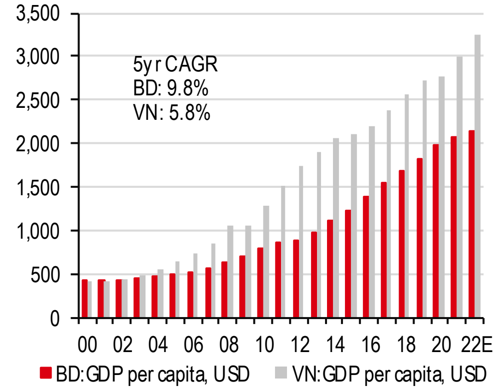
Bangladesh's economy is larger and faster-growing than Vietnam's; its capital market will have to catch up to sustain growth

Bangladesh's economy is bigger than Vietnam's…



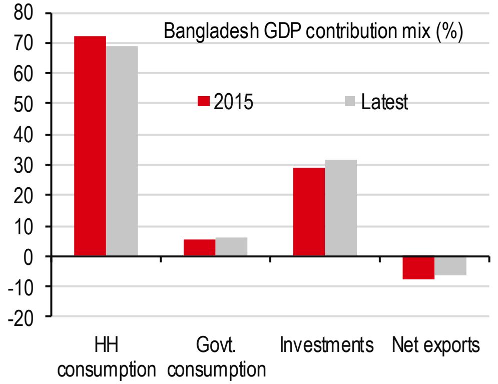
Source: CEIC, HSBC

…and has grown at a faster pace



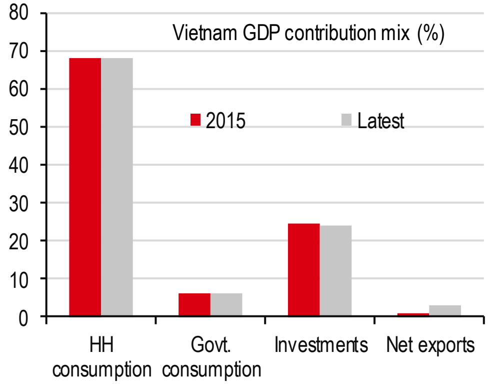
Source: CEIC, HSBC

Bangladesh is geared towards domestic consumption…



Source: CEIC, HSBC

…as is Vietnam



Source: CEIC, HSBC

Bangladesh: growing faster

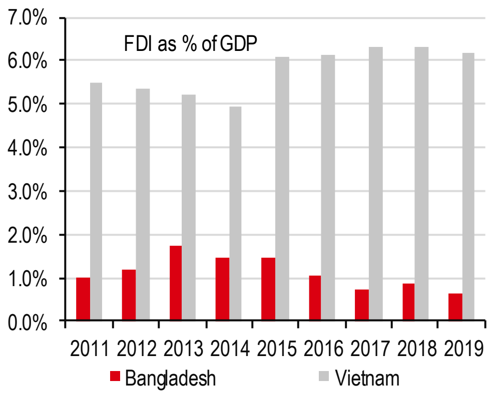
- Bangladesh's economy is larger than Vietnam's and is growing at a faster pace.
- It is the world's eighth most populous country and has posted consistently high economic growth for a decade.
- More importantly, the volatility of growth has been below the regional average. For a country facing such big challenges – infrastructure, power supply, poverty, and floods – Bangladesh's economy has proved to be very resilient.
- The growth momentum has set the stage for Bangladesh to be upgraded from the UN's category of Least Developed Country (LDC) to a developing country in 2026.

The GDP mix is changing...

- The contributions to GDP by consumption and investment remain stable in Vietnam, while net exports are making a larger contribution to economic growth.
- Net exports contribute negatively to GDP in Bangladesh. Constraints to investment by the public and private sectors, such as power shortages and poor infrastructure, are starting to be addressed.

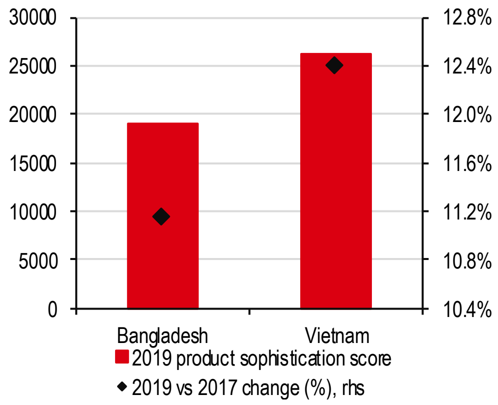
Vietnam is an FDI-driven growth story; there are signs that FDI in Bangladesh will start to rise from a low base

FDI remains low in Bangladesh, but we expect this to improve



Source: World Bank, HSBC calculations

Bangladesh is moving up the value-added ladder – fast

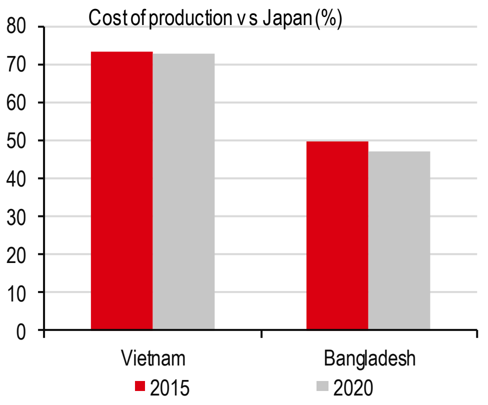


Source: US Census Bureau, World Bank, HSBC calculations

FDI and exports favourable for Vietnam but Bangladesh progressing too

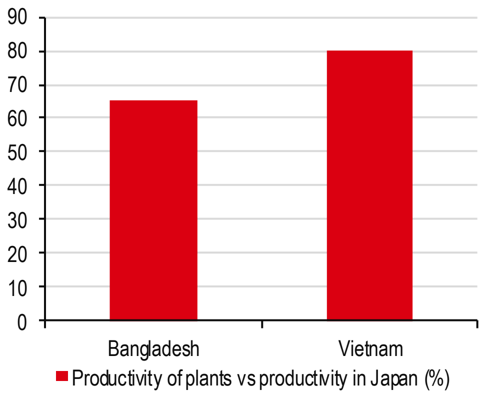
- Vietnam has been an attractive destination for supply chains, given its export sophistication, lower production costs and favourable business environment.
- This is not the case with Bangladesh. Exports are one of the growth drivers, but their contribution remains lower than in Vietnam.
- While Bangladesh is one of the cheapest places to manufacture goods in Asia, it will need to diversify away from garments. There are signs of progress. Large blocks of land are being made available to set up special economic zones; Samsung and Honda have built production facilities; and pharma companies have received approval to export to developed markets. Some home-grown consumer brands have started to export overseas.

Bangladesh has lower production costs…



Source: JETRO Survey, HSBC. Note: Japan is considered as 100 and the countries are represented as percentage of Japan's cost of production.

… while worker productivity is only marginally lower



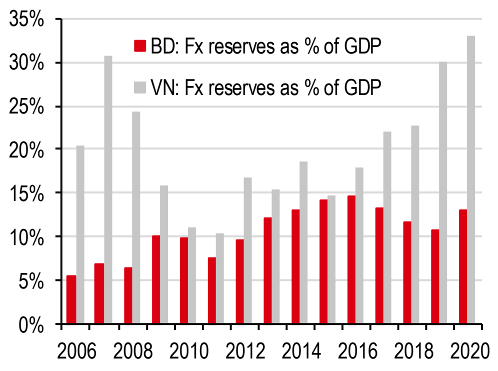
Source: CEIC, HSBC. Note: Japan is considered as 100 and the countries are represented as percentage of Japan's productivity.

Vietnam and Bangladesh both offer an attractive trade-off between productivity and cost of production

- Manufacturing costs in Bangladesh are 50% of what they would be in Japan, vs 72% in Vietnam.
- The cost of production in Bangladesh has declined in the last 5 years; in Vietnam it has been flat.
- Worker productivity in Vietnam remains higher than in Bangladesh.

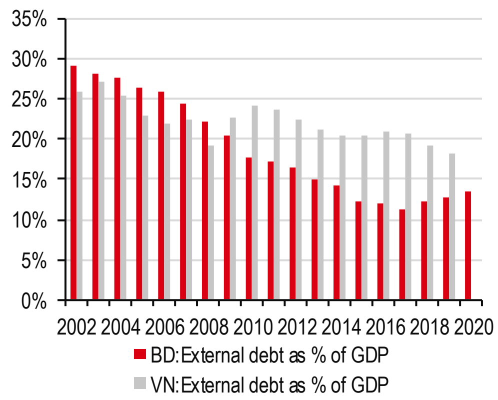
Macro indicators – stable for both markets

Both countries are accumulating more FX reserves…



Source: CEIC, HSBC

…and external debt is low

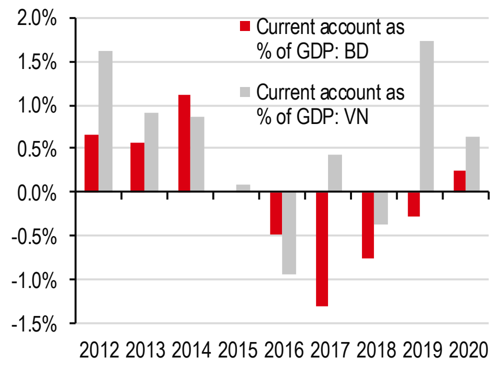


Source: CEIC, HSBC

External macro stability

- Both markets have stable macro positions.
- Strong economic growth can eventually be limited by a weakening external position. This is less of an issue in Bangladesh due to strong FX inflows from exports and remittances. Bangladesh has a strong fiscal position and a robust external balance sheet (low external debt, high FX reserve coverage ratios). It is also one of the least exposed economies in the region to portfolio flows, sheltering its exchange rate from volatility.

The current account hasn't been a drag on either market



Source: CEIC, HSBC

Bangladesh and Vietnam have similar credit ratings

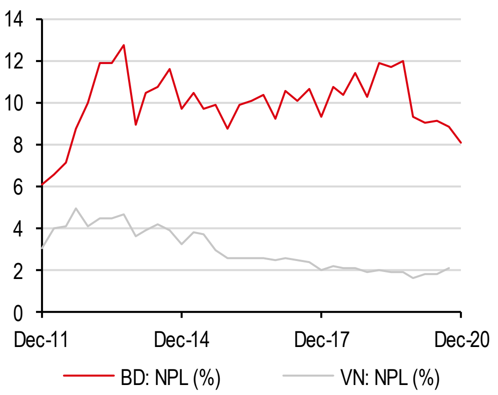
Sovereign Credit Ratings	Bangladesh	Vietnam
Standard & Poor's	BB-	BB
Moody's	Ba3	Ba3
Fitch	BB-	BB

Source: Bloomberg, HSBC

- While Moody's gives both countries the same credit rating, S&P and Fitch score Vietnam a notch higher than Bangladesh.

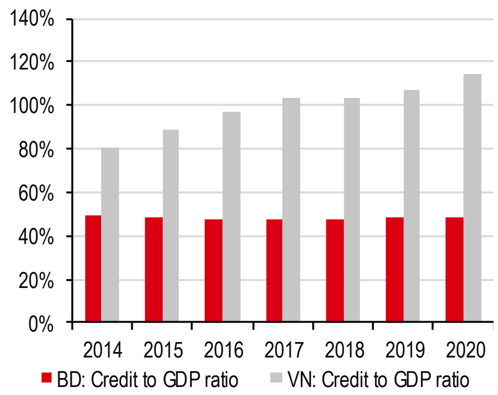
Banks: Asset quality has improved in Vietnam but is still a problem in Bangladesh

Bangladesh's banking sector has asset quality issues; Vietnam has improved in this area…



Source: CEIC, HSBC

…but the credit to GDP ratio is lower in Bangladesh, which means growth is not credit intensive

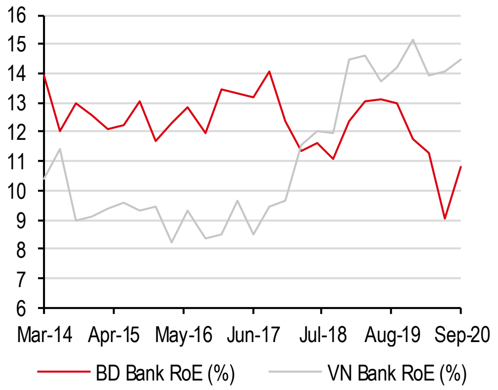


Source: CEIC, HSBC

NPLs – still an issue in Bangladesh

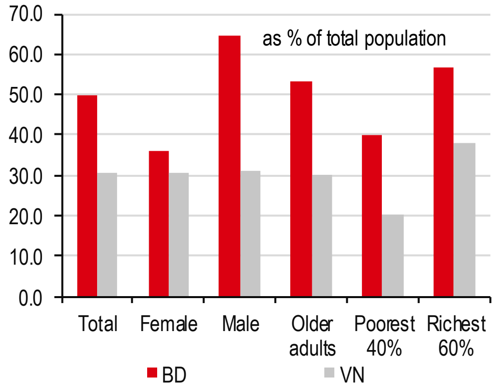
- Vietnam's banks used to have a problem with non-performing loans but thanks to strong growth and profitability their balance sheets are now stronger.
- In Bangladesh, the NPL level is above 8%, centred around agriculture, large industrials, and garment companies. The main issue is a sub-standard credit information system and recovering loans is complex and time consuming.
- The weak asset quality of Bangladesh banks, especially in the public sector, remains a concern. However, the banking sector is not the driving force in the economy – the credit to GDP ratio is 48% vs 114% in Vietnam.

The profitability of Vietnam's banks has risen



Source: World Bank, HSBC

Bangladesh has more banks than Vietnam and a higher rate of banking penetration



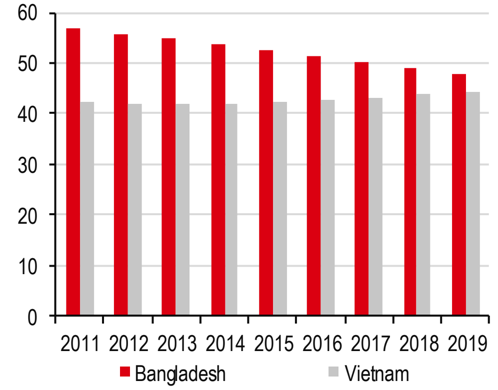
Source: World Bank, HSBC

The banking system

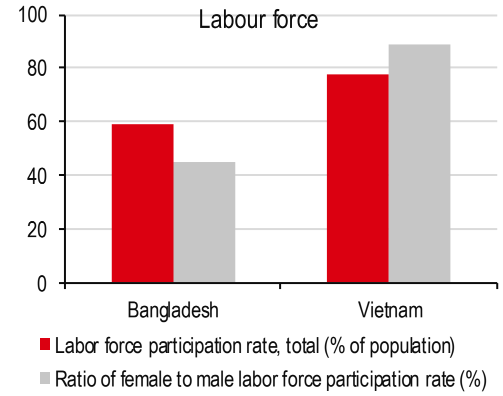
- Bangladesh has 61 registered banks categorised in four segments – 43 private commercial banks, 6 state-owned commercial banks, 3 state-owned specialised banks and 9 foreign commercial banks.
- 50% of the population has a bank account vs only 30% in Vietnam.
- Vietnam has 4 state-owned commercial banks, 33 joint stock commercial banks, 9 wholly foreign-owned banks and 2 policy banks.

Long-term consumption trends – stronger in Bangladesh than in Vietnam

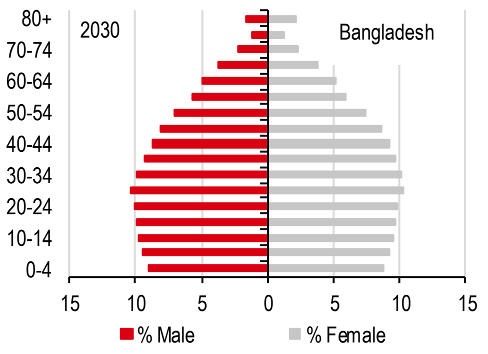
Bangladesh: a decline in the dependency ratio



Bangladesh: more spare labour than Vietnam

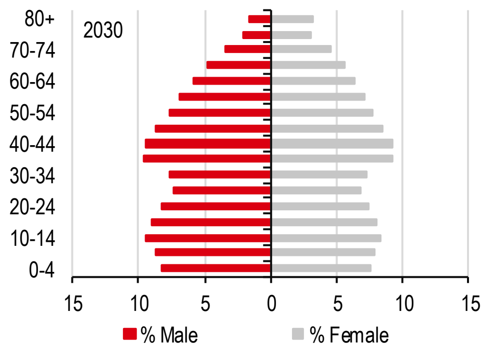


Bangladesh: the working population will grow over the next decade (%)



Source: UN data, HSBC

Vietnam: the percentage of the working population will decline by 2030



Source: UN data, HSBC

Labour supply

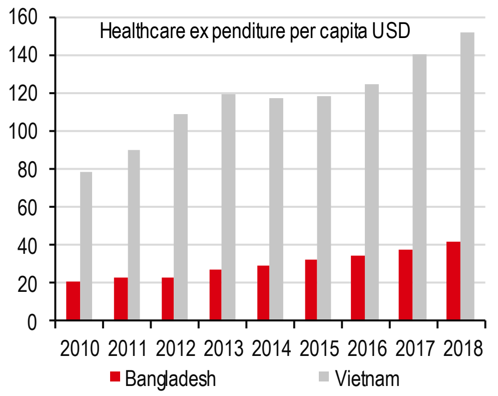
- Increasing growth in both countries has led to more employment opportunities and higher incomes.
- Bangladesh's dependency ratio has declined, leading to fewer people to support and increasing savings and investment. Female labour participation is important – it's higher in Vietnam – because it raises household income and reduces the dependency ratio.
- Land and labour shortages are an issue in Vietnam. With the increase in manufacturing firms, demand for labour is rising and employment is shifting from low-value agriculture to higher value-added industries.
- Bangladesh has a large labour force but most work in low income jobs, mainly in garment factories.

Demographics

- Demographics are important to equity markets. The number of people in a country, their income levels, and household composition all are important to the way they shop and spend.
- According to the UN, those of working age (15-59) in Bangladesh constitute 61.1% of the total population, which should rise to 65.5% by 2030. The demographic trends are positive – urbanisation, smaller households, more women in paid work, and more children in schools. This means fewer mouths to feed for every wage earner and an increased ability to save and indulge in discretionary spending. Sales of air conditioners, washing machines, and computers are on the rise.
- Vietnam's population is still young but the working age population is set to decline.

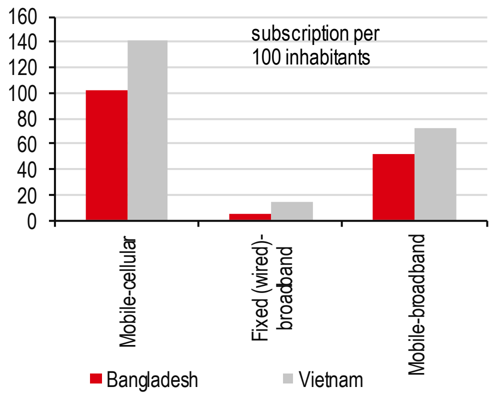
Pharma is growing in Bangladesh. At the broader level, Vietnam scores better on business and governance indicators

Bangladesh's pharma sector is growing rapidly



Source: World Bank, HSBC

Bangladesh is moving up the digital curve, providing plenty of opportunities for new businesses

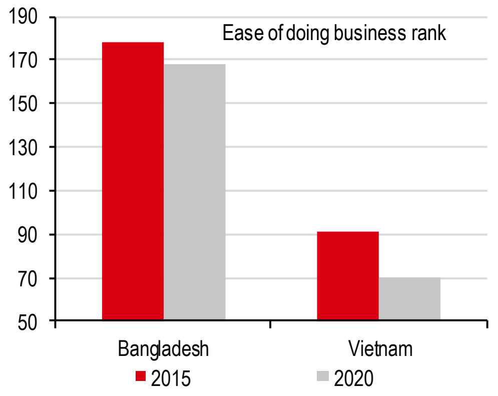


Source: ITU, HSBC

The rise of pharma in Bangladesh

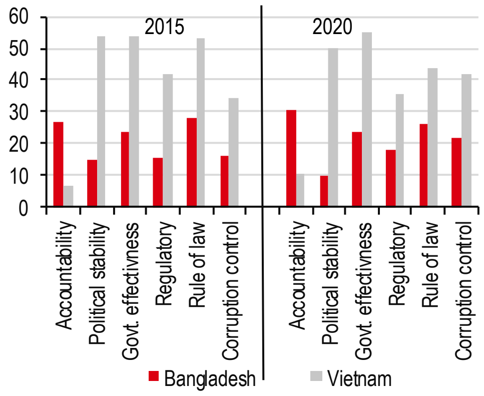
- The Bangladesh pharma market has the potential to grow as the government is easing drug approval policies. Bangladesh sources most of its raw materials from China and India but that's set to change as the government is setting up an industrial park to make these APIs, or active pharmaceutical ingredients. In addition, leading companies have secured US FDA approvals, giving them access to high-margin western healthcare markets.
- **Increasing internet adoption:** Telecom and internet penetration is on the rise, helping to unlock digital services and fintech adoption. The gap should close as the country is adopting 4G and people are becoming more familiar withe-commerce. Bangladesh now has 116m internet subscribers (Business Standard, 16 May 2021).

Business conditions in Vietnam have improved faster than in Bangladesh



Source: World Bank, HSBC

Vietnam has higher scores in most governance indicators



Source: govindicators.org, HSBC

Governance and business indicators

- Vietnam has made it easier to set up a business and simplified land registration and loan processes. This makes the market more attractive for FDI.
- Bangladesh still lags Vietnam but is making efforts to improve the ease of doing business.
- Based on Worldwide Governance Indicators (WGI), Bangladesh scores higher in accountability but Vietnam scores better on all other indicators. Both countries have made progress in terms of corruption control.

Bangladesh – how foreign investors can access the market

The equity market

1. **Stocks:** Bangladesh has the most relaxed policies among frontier markets in order to encourage foreign investment. Foreign investors, institutional and individual, can invest up to 100% of the issued capital in most companies listed on the two stock exchanges. Short selling is not permitted. Foreign investors need to open a special type of cash account, a Non-resident Investor Taka Account (NITA), with any custodian bank to invest in equities, bonds and mutual funds. Funds can then be remitted into the account without prior approval from the central bank. Foreign investors also need to open a foreign currency account for remittances inside and outside the country, as well as a security account with the Central Depository Bangladesh (CDBL).
2. **ETF:** There are no tracker ETFs for Bangladesh that we could find but investors can get exposure through frontier market tracker ETFs.
3. **Depository receipts:** The GDR of Beximco Pharma is listed in London (BXP LN Equity, not rated).

The bond market

Foreign investors can buy Bangladesh government treasury bonds (of all maturity periods) from the primary and secondary markets through primary dealers and other banks. There is no lock-in period and proceeds (coupon payment/redemption) can be repatriated after paying relevant taxes. The corporate bond market is very small, dominated by bonds issued by banks. As of June 2020, government securities as a percentage of GDP stood at 10%, vs 0.3% for corporate bonds and debentures.

FX: the Bangladeshi Taka (BDT)

Bangladesh Bank (BB), the country's central bank, sets foreign exchange and monetary policies, and operates a managed floating regime with day-to-day close monitoring and intervention to maintain price stability. There is no non-deliverable forward (NDF) market for the BDT and the currency is convertible only for current account transactions. Banks quote exchange rates based on prevailing market conditions, while BB intervenes (verbally or directly) on a day-to-day basis to ensure market stability and limit any sharp movements in the exchange rate.

Spot: An active and deep two-way market in USD-BDT has yet to develop. There is also limited activity in other FCY-BDT pairs. While there are no restrictions for interbank participants to transact in the BDT against foreign currencies, corporate and individual customers can transact only for underlying commercial transactions with authorised dealers. The central bank issues licences to scheduled banks to deal in foreign exchange. There are no brokers in the market, and most deals are done over the phone or through the Reuters Dealing System on a bilateral negotiated basis.

Forwards/FX swaps: While there is an active FX swap market, most activity is in short-dated tenors. Most volumes are transacted within one week and are used for the main purpose of funding by banks. FX forwards, which need to be backed by genuine underlying transactions, are traded more often by corporate entities. These are usually for three- to six-month tenors, but longer tenors of up to one year are also transacted on a selective and limited basis.

Disclosure appendix

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The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

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