Foreign Exchange Investment Department
Bangladesh Bank
Head Office
Dhaka
www.bb.org.bd

FEID Circular No.- 1 Date: May 06, 2018

All Authorized Dealers in
Foreign Exchange in Bangladesh

Dear Sirs,

Transfer of shares and repatriation of sale proceeds of shares in favor of non-resident in private/public limited companies not listed with stock exchanges.

Please refer to Paragraph 3(B), Chapter 9 of the Guidelines for Foreign Exchange Transactions- 2018 (GFET) Volume 1 on the captioned subject.

02. Paragraph 3(B), Chapter 9 of GFET stated that the sale proceeds of non-resident equity investment in public limited companies not listed with the stock exchanges and private limited companies are repatriable abroad with prior Bangladesh Bank approval as on the date of share sales, based on latest audited financial statements. In accordance with GFET Bangladesh Bank would accept fair value of the shares as on the date of sale based on appropriate combination of three valuation approaches (viz. net asset value approach, market value approach and discounted cash flow approach) depending on the nature of the company.

03. To bring rationalization and simplicity in valuation process, it has been decided that-

a) In case of transfer of shares from non-resident to resident in public limited companies not listed with the stock exchanges and private limited companies, the Memorandum of Understanding (MoU) for share sale-purchase agreement between buyer and seller needs to be concluded on receipt of approval from Bangladesh Bank regarding determination of the fair value of shares. Bangladesh Bank will accept the fair value of the shares as repatriable abroad /or for re-investment in Bangladesh determined as on the date of MoU for share sale-purchase agreement based on the latest audited financial statements of the target company. The fair value of the shares shall be determined by weighted average calculation of all the 3 (three) valuation approaches (viz. net asset value approach, market value approach and discounted cash flow approach) or on any of the suitable approaches depending on the nature of the company, having justified ground.

The MoU shall be executed at the fair value approved by Bangladesh Bank, subject to observance of the following instructions-

(i) Permission requests for transfer of shares and repatriation of sale proceeds of shares shall be submitted to the Foreign Exchange Investment Department, Bangladesh Bank, Head Office, Dhaka with a Valuation report issued by a Merchant Banker licensed by Bangladesh Securities and Exchange Commission (BSEC) or a Chartered Accountant experienced in company valuation and listed by Bangladesh Bank and/or BSEC for auditing banks, financial institutions and listed companies;

(ii) Professional valuation report is not mandatory if the applied value for the repatriation does not exceed BDT 1.00 (One) million. Also such report is not mandatory in case the net asset value is higher than the deal value. In such cases Bangladesh Bank will work out the fair value of share based on the audited financial statements and the documents enclosed in **Annexure-B** of the target company;

(iii) The valuation certificates by eligible valuer will have to be supported by full explanation justifying the fair value arrived at. If not fully satisfied about appropriateness of the valuation arrived at, Bangladesh Bank reserves the right to reassess the value, based on financial statements submitted along with the application;

(iv) Authorized Dealer (AD) shall forward the permission request for repatriation of sale proceeds of shares in favor of non-resident only after being satisfied that the target company has complied with the provision of Paragraph 2(A) and 2(B), Chapter 9 of GFET regarding issue and transfer of shares in favor of or by non-resident.

b) Sale of shares owned by resident shareholder to non-resident is subject to fair value determined by Merchant Banker licensed by BSEC or a Chartered Accountant, for sales/transfer value of shares exceeding BDT 1.00 (One) million. Resident shareholder receiving payment against sales of shares shall submit valuation report to the AD and MoU for share sale-purchase agreement together with Form-C for encashment of inward remittances on account of sales proceeds of shares. AD shall report the share transactions to the Foreign Exchange Investment Department, Bangladesh Bank, Head Office, Dhaka giving details of documents within 14 days of transfer of shares as per Paragraph 2(B), Chapter 9 of GFET.

c) Transfer of shares from non- resident to non-resident is also subject to fair value of shares as pursuant to 'b' above. Within 14 days of the transfer of shares, target company shall arrange through AD to report to the Foreign Exchange Investment Department, Bangladesh Bank, Head Office, Dhaka as per Paragraph 2(B), Chapter 9 of GFET with copy of valuation report of shares and MoU for share sale purchase agreement.

d) The valuer shall maintain requirements regarding valuation in particular, though not exclusively, such as:

(i) A report and fairness opinion confirming that the valuation has been undertaken in accordance with the internationally best practices and that they have maintained the fundamental principles of ethical conduct namely integrity, objectivity, competence, confidentiality and professional behavior regarding the valuation;

(ii) The revalued amounts of assets and liabilities shall be included in the financial statements in accordance with the applicable provisions of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted in Bangladesh;

(iii) The valuer shall be independent from the target company, its directors, auditors and other stakeholders;

(iv) The valuer shall be responsible for any anomalies in the valuation.

e) **Annexure-A** to this circular provides indicative guidelines for arriving at fair value.

f) Application to Bangladesh Bank shall also be supported by documents as noted in **Annexure-B.**

g) With the issuance of this circular, FE Circular No. 32, dated August 31, 2014 as contained at appendix 6/3 of GFET shall stand amended.

Please bring the instructions of this circular to the notice of all your concerned clientele.

Yours faithfully,

(Md. Ali Akbar Faraji)
Deputy General Manager
Phone : 9530352

Annexure-A

Indicative guidelines on determination of fair value of shares of unlisted company

Asset Based Approach

This method is considered most appropriate for resource firms, financial services firms, investment companies (real estate investment trusts, closed-end investment companies) and small businesses with limited intangible assets or early stage companies.

This valuation method is seldom used for going concern firms as it is difficult to value intangible assets, special purpose tangible assets and individual assets. However, depending on the type of business and industry this is important for the valuation process.

This valuation method, however, should be followed for a concern that has been continually suffering losses for the past few years since the earnings methods will not be appropriate for such companies.

General instructions to be followed for applying asset based approach:

In general, the principles of fair market value as laid down under IAS and IFRS should be fully complied with. Time-lag between two valuations for the same class of assets shall not be less than three years; provided that no upward revaluation of an asset shall be made within two years of its acquisition. In case of revaluation of freehold land, revalued amount shall reflect fair value of the land. However, Bangladesh Bank reserves the right to reassess the valuation if overvaluation of the land is observed.

The following assets will, however, not be allowed for revaluation -

(i) Leasehold lands and buildings on such lands having no transferring rights, total lease period below 99 years and remaining lease period below 10 years cannot be revalued;

(ii) Plants and machineries acquired in second hand conditions, acquired in brand new condition but having remaining economic life of less than 50% of its total useful life, as estimated at acquisition;

(iii) Tin-shed buildings, buildings having remaining economic life of less than 50% of its total useful life, as estimated at construction;

(iv) Vehicle, furniture & fittings, office equipments, loose tools and intangible assets.

For ‘The Sample Company’, asset based approach gives a fair value of BDT 22,370 million derived from the Balance Sheet as follows:

BDT in million

Particulars	20AC
Current Assets	
Cash & Cash Equivalent	381
Accounts Receivable & prepayments	3,561
Inventories	3,691
Total Current Assets	**7,633**
Total Long Term Investment	5,103
Total Fixed Assets	**14,520**
Total Assets	**27,256**
Current Liabilities	
Accounts Payable	7
Liabilities for other expense	1,426
Short Term Bank Loan	1,302
Current Portion of Long Term Debt	540
Total Current Liabilities	3,275
Total Non-Current Liabilities	1,611
Total Liabilities	**4,886**
Shareholder's Equity	
Share Capital (BDT 10 each)	3,708
Share Premium	2,035
Reserve	826
Retained Earnings	15,801
Total Shareholder's Equity	**22,370**
Total Liabilities & Shareholder's Equity	**27,256**

Net Asset Value of Equity **=** Total Assets – Total Liabilities

= BDT 27,256 m – BDT 4,886 m = BDT 22,370 m

Net Asset Value per share = BDT 22,370 m / 370.8 m = BDT 60.33

Market Value Approach

Multiple based analysis or comparable analysis is one of the widely used tools in private company valuation. Comparable company trading multiples analysis utilizes the valuation multiples of similar or comparable publicly or privately traded companies to value a target unlisted company. The multiples can be equity based multiples like Price to Earnings (P/E), Price to Book Value of Equity (P/B), Price to Sales (P/S) etc. The most popular and widely used equity based multiple is earnings multiple.

General instructions to be followed for applying Market approach:

Peers can be grouped generally based on the similar products. If peer company or sector multiple is not available then the overall market multiple shall be based on the nature of the company.

Discard extreme values/ratio of companies in peer group. Preferably values/ratios beyond the range of mean ± 2.5 standard deviation should be disregarded. Consider values (Earnings, Book value, sales etc) of Companies both in target and peer group listed in the stock exchange(s) based on audited financial statements. Earning and Sales shall be considered based on the last three years audited financial statements whilst Book Value shall be based on the latest audited financial statement.

Market value should be average of one year month end average values of companies of peer group prior to the MoU for share sale purchase agreement signing date between buyer and seller.

Price to Book Value of Equity (P/B) method shall be appropriate for financial service companies such as banks, stock brokerage, Merchant Banks etc.

The startups and technological companies are growing globally. These companies in general would incur losses for many years due to big upfront investment need. Technological companies also do not have much fixed assets and thus the net asset value approach will also not help in such cases Price to Sales (P/S) may be applicable.

To select the comparable universe or peer group for a given unlisted company it must be ensured that its peers share group should be in similar product. Principles regarding market price determination and sales as mentioned above shall be followed.

The fair value of ‘The Sample Company’ is as follows:

BDT in million

Particulars	Years		
	Year-1	**Year-2**	**Year-3**
Sales	18,245	19,887	21,876
Cost of Goods Sold	11,586	12,628	13,891
Gross Profit	6,659	7,259	7,985
Administrative Expenses	2,997	3,266	3,593
EBITDA	3,663	3,992	4,392
Depreciation	1,185	1,250	1,320
Other income	120	105	112
EBIT	2,598	2,847	3,184
WPPF	165	178	182
Interest Expenses (income)	320	370	420
EBT	2,113	2,299	2,582
TAX @ 40%	845	920	1,033
Profit After Tax	1,268	1,380	1,549
No. Shares (in millions)	198.5	220.5	370.8
EPS in BDT	6.39	6.26	4.18
Average EPS in BDT			5.61

One year month end average P/E value of peer group prior to the MoU for share sale purchase agreement signing date between buyer and seller = 12

Fair Market Value per share = Average EPS * P/E Ratio

= BDT 5.61*12 = BDT 67.28

<u>Discounted Cash Flow (DCF)/Income Approach</u>

Valuation of unlisted companies in the income approach is highly sensitive to assumptions of future cash flows. In practice, income approach is not used in isolation and used as one of the drivers to determine the final price. Since Income Approach is highly subjective, this method is discouraged even if Bangladesh Bank considers this method of valuation. Discounted Cash Flow approach may be applicable for valuation of the companies operating based on intellectual property such as technological, E-commerce, start-up companies etc.

Difference between the forecasted growth rate and historical growth rate of Free Cash Flow (FCF) should be reasonable. The growth rate of the target company shall make economic sense. In case a valuer uses this method, Bangladesh Bank will go over the calculations and assumptions in detail.

Income approach is primarily driven by three key inputs i.e. FCF, Terminal Value and Discount rate; valuer needs to carefully verify all the inputs, validating these with rational assumptions. Making valuation for the target company involves the following steps:

1. Identify the historical growth pattern of the industry;
2. Forecast the industry outlook in next five years through analysis of industry trend with opinions from industry experts;
3. Identify the key success factors for the company;
4. Make rational assumptions on the sales growth based on irrevocable sales contracts, if any, capital expenditure and working capital management;
5. Calculate terminal value by forecasting terminal growth rate;
6. Forecast future free cash flow based on the assumptions;
7. Calculate present value of future free cash flow to estimate the fair value of the firm;
8. Calculate the discount rate using the Weighted Average Cost of Capital (WACC) based on the latest audited financial statements or the yield rate on 20-year Bangladesh Government Treasury Bond (*BGTB*) as on the signing date of MoU for share sale-purchase agreement, whichever is higher. If there is no debt for the Target Company, the yield rate on 20-year BGTB as on the signing date of MoU for share sale-purchase agreement shall be used as discount rate.

9. Calculate the cash flow growth rate (g) of the company generally from the average of the average of 5-year historical and average of 5-year forecasted growth rate based on the financial statements. If the company is in operation for the period less than 5-year, then average of the average of 3-year of historical and average of 5-year of forecasted growth rate may be considerable.
10. Calculate the value of the company using the following procedures:

Enterprise Value = Present value (PV) of FCF in forecast period + PV of Terminal Value

Terminal value = Terminal Free cash flow*(1 + Average of historical and forecasted growth rate) / (discount rate - Average of historical and forecasted growth rate).

Where:

FCF = Operating Cash Flow –Sustaining Capital Expenditure

r = Discount rate

g = Average of historical and forecasted growth rate

Following these steps, one can estimate the cash flow for each period, including the terminal value of 'The Sample Company' as below:

(BDT million)

	Historical					**Forecasted**				
Particulars	**20AA**	**20AB**	**20AC**	**20AD**	**20AE**	**Year-1**	**Year-2**	**Year-3**	**Year-4**	**Year-5**
EBIT*(1-TAX) (1)	1,278	1,458	1,559	1,708	1,910	2,025	2,146	2,275	2,412	2,556
Depreciation (2)	1,070	1,050	1,185	1,250	1,302	1,390	1,445	1,480	1,480	1,480
Capital Expenditure (3)	900	960	1,120	1,240	1,375	1,480	1,530	1,570	1,570	1,585
Change in working capital (4)	38	40	42	43	45	47	48	50	52	53
Net Cash Flow (1+2-3-4) (5)	1,410	1,508	1,582	1,675	1,792	1,888	2,013	2,135	2,270	2,398
Terminal Free cash flow										2,398
Free Cash Flow (FCF) (6)	1,410	1,508	1,582	1,675	1,792	1,888	2,013	2,135	2,270	2,398
Growth of FCF	4.84%	6.93%	4.90%	5.93%	6.97%	5.33%	6.65%	6.05%	6.30%	5.67%
Average Growth of FCF (g)					5.91%					6.00%
Growth Rate(g) =Average(historical growth rate and forecasted growth rate)										5.96%

Discount Rate = 12.50% (WACC which is higher than the yield rate of 20-year BGTB has been applied)

Terminal value = Terminal Free cash flow *(1+g)/(r-g)

= BDT. 2,398*(1+0.0596)/ (0.125-0.0596)

= BDT. 38,852.00

DCF of Company (Enterprise value) =$[CF_1/(1+r)^1]$ + $[CF_2/(1+r)^2]$ +$[CF_3/(1+r)^3]$ +$[CF_4/(1+r)^4]$ +$[CF_5/(1+r)^5]$ .....+ $[CF_n/(1+r)^n]$

= $[1,888/(1+0.125)^1]$ +$[2,013/(1+0.125)^2]$ + $[2,135/(1+0.125)^3]$ +$[2,270/(1+0.125)^4]$ +$[2,398/(1+0.125)^5]$ +$[38,852/(1+0.125)^5]$

Enterprise value= BDT. 29,075.84

Net Debt=Interest bearing debt (Non-current and Current)-Cash & Cash Equivalents

= BDT. 3,453-381

= BDT. 3,072

Fair value of Equity = Enterprise value- Net Debt
= BDT. 29,075.84-3,072
= BDT. 26,003.84

Fair value per share = Fair value of Equity/ no of outstanding shares

= BDT 26,003.84/370.8 = BDT 70.13

$$\text{WACC} = \frac{E}{V} \times \text{Re} + \frac{D}{V} \times \text{Rd} \times (1 - \text{Tc})$$

Where:

- Re = cost of equity (to be supported by reasonable assumption)
- Rd = cost of debt (Cost of debt shall be the long term bank borrowing rate by the target company)
- E = market value of the firm's equity
- D = market value of the firm's debt
- V = E + D
- E/V = percentage of financing that is equity
- D/V = percentage of financing that is debt
- Tc = corporate tax rate

Finally, after taking into account all three approaches, we derived three separate values for 'The Sample Company' as follows:

Asset based approach (Net asset value)	**BDT 60.33 per share**
Market value approach (Earnings to P/E)	**BDT 67.28 per share**
Income approach (Discounted cash flow)	**BDT 70.13 per share**

"Annexure-B"

Required documents of the target company to be submitted with application for repatriation of sale proceeds of non-resident owned shares in unlisted companies <u>purchased by residents.</u>

1. Share valuation report supported by audited reports and financial statements of the target company for immediate past 5 years;
2. Certificate of Incorporation;
3. Memorandum & Articles of Association;
4. Registration with Bangladesh Investment Development Authority (BIDA) (previously Board of Investment)/Bangladesh Export Processing Zones Authority(BEPZA)/ Bangladesh Economic Zones Authority(BEZA)/ Bangladesh Hi-Tech Park Authority;
5. Annual Summary of share Capital and list of shareholders directors (Schedule-'X');
6. Particulars of the Directors, Manager and Managing Agents and of any change therein (Form XII);
7. Return of Allotment (Form –XV);
8. Instrument of Transfer of shares (Form –117), for transfer of share other than the shares to be transferred;
9. Encashment Certificate in support of shares issued or transferred shares against freely convertible foreign exchange;
10. Authenticated copy of import permit, invoice, bill of lading/air way bill and bill of entry for issue/transfer of share against capital machinery. Payment against such import must be made from abroad;
11. Board Resolution of the Company in favor of transfer of shares;
12. Memorandum of Understanding (MoU) for share sale-purchase agreement;
13. Applicable multiples (P/E, P/B, P/S etc.) of one year month end average values of peer group prior to the MoU for share sale purchase agreement with condition to discard extreme ratios;
14. The Weighted Average Cost of Capital (WACC) with detailed calculations or the yield rate on 20-year BGTB as on the date of MoU for share sale-purchase agreement with documentary evidence;
15. Statement of overdue export proceeds and overdue bill of entry, in case the target company is involved in export-import business;
16. Income tax computation submitted to National Board of Revenue (NBR) along with the income tax return;
17. Tax clearance certificate;
18. CIB Report;
19. Intimation regarding issuance/transfer of share as per Paragraph 2(A) (c) & (B), Chapter 9, Volume1 of Guidelines for Foreign Exchange Transaction-2018.