

# IPO Note on

## ADN Telecom Limited

IPO Size: 570 mn

Offer Price: BDT 27, Cut-off Price: 30

DSE Ticker: ADNTEL

Sector: IT

19.79 million shares are tradable on debut trading day

### IPO Summary

IPO Size (BDT mn)	570
IPO Size (Shares in mn)	19.79
Offer Price Per Share (BDT)	27
Cut-off Price	30
Authorized Capital (BDT mn)	2000
Pre-IPO Paid up Capital (BDT mn)	448.6
Post IPO Paid up Capital (BDT mn)	646.5
Year End	June
Revenue Size in 2018-19 (BDT mn)	1016.3
Net Profit in 2018-19 (BDT mn)	127.11
Total Assets 2018-19 (BDT mn)	1516.59
Retained Earnings 2018-19 (BDT mn)	411.84
Annualized. Post-IPO EPS (Q1, 2019-20)	1.84
Post-IPO NAV per Share (Q1, 2019-20)	23.85
Issue Managers: ICB Capital Management Ltd	
Registrar to the Issue: Roots Investment Limited	

Source: BASL Research and Company Prospectus

### IPO utilization Plan

Particulars	BDT (mn)	As (%)
BMRE for infrastructure development	326,660,018	57.31%
Data center setup	93,236,609	16.36%
Loan Repayment	120,603,373	21.16%
IPO Expenses	29,500,000	5.18%
<b>Total</b>	<b>570,000,000</b>	<b>100%</b>

Source: BASL Research and Company Prospectus

### IPO Shareholding Composition

Category	(%)	No. of Stocks
Eligible Investors (EIs)	MF & CIS (10%)	1,979,167
	Other EIs (50%)	9,895,833
General Public	NRBs (10%)	1,979,167
	Gen. Public (30%)	5,937,500
<b>Total</b>		<b>19,791,666</b>

Source: BASL Research and Company Prospectus

### Company Overview

ADN Telecom Limited (ADNTEL), started its journey in 2003, is a one of the leading IT and telecommunication service providers in Bangladesh offering a wide range of data, voice, and Internet services to its local and international clients. The principal activities of the company is to provide seamless, secured data and internet connectivity to various grades of customers using fiber, satellite and wireless solutions. BTRC has also allocated several radio frequencies in different bands in favor of ADNTel, for its access and transmission networks. These have driven the company to deploy the updated wireless technologies for countrywide Broadband Services. Leading global telecom operators such as, SingTel, TATA Communications and Orange Business Service are ADNTel's business alliances.

Source: BASL Research and Company Prospectus

### Corporate Profile

Incorporation	September, 2003
Commercial Operation	2003

#### Chairman: Asif Mahmood

Mr. Asif Mahmood is the founder Chairman of ADNTel since its inception. He holds a B.Sc. in Engineering from NIT, India. He has enriched with more than 26 years of experience in IT, ICT and Telecommunications, Mr. Mahmood is among the pioneers of systems integration in Bangladesh. Mr. Asif Mahmood is a member of Dhaka Chamber of Commerce & Industry (DCCI) and Korea Bangladesh Chamber of Commerce and Industry (KBCCI). He is also the founder member of Wireless Internet Broadband Association (WIBA) and Bangladesh Association of Call Center & Outsourcing (BACCO).

#### Managing Director: Henry Hilton

Mr. Henry Hilton is the Ex. Officio Managing Director of ADN Telecom Limited and has been with ADN for over 11 years. Prior to this, he was serving the Company as Head of Sales. He has more than 21 years of experience in corporate sector and before becoming a part of ADN, he worked with Cosmos Group, Heidelberg Cement Bangladesh Limited and Agni Systems Limited. Mr. Henry holding MBA degree from USA and attends a number of workshops& seminars at home and abroad.

Factory Location	n/a
Subsidiary/Associate	None

Source: BASL Research and Company Prospectus

### Capacity Utilization

#### Current Capacity (in Mbps)

Product		2015	2016	2017
Internet	Installed	1000	1800	3200
Bandwidth	Utilization	790	1350	2390
	Utilization (%)	79%	75%	75%
	Installed	6744	9244	12366
Network	Utilization	5100	7100	9500
	Utilization (%)	76%	77%	77%

#### Projected Capacity

Product		2018	2020	2021
Internet	Installed	8000	15000	25000
Bandwidth	Utilization	6200	12050	19500
	Utilization (%)	78%	80%	78%
	Installed	17366	30000	40000
Network	Utilization	13200	23500	31000
	Utilization (%)	76%	78%	78%

Source: BASL Research and Company Prospectus

### Shareholding of Sponsor & Directors (Post-IPO)

Name of Directors and Sponsors	% held	No. of Shares
Asif Mahmood	19.18%	12,400,000
Md. Moinul Islam	10.07 %	6,510,000
Md. Mahfuz Ali Sohel	10.07%	6,510,000
Niaz Ahmed	2.08%	1,345,000
Waqar Ahmad Choudhury	2.06%	1,333,334
Md. Abu Yousof Zakaria	2.64%	1,705,000
Mohammad Ali Sarker	2.64%	1,705,000
Mamonoor Rashid	2.64%	1,705,000
<b>Total</b>	<b>31.54%</b>	<b>137,234,220</b>

Source: BASL Research and Company Prospectus

### Lock-In Free Shares & period

Type	Lock-in Shares	Lock-in Free Date
Directors/Sponsors	33,337,334	January 06, 2023
Private Placement Holders	11,522,666	January 06, 2021
Institutions (Post-IPO)	11,875,000	January 06, 2020
Public (Post-IPO)	7,916,666	January 06, 2020
<b>Total</b>	<b>64,651,666</b>	

Source: BASL Research and Company Prospectus

### Industry Insights

At present Information Technology (IT) is a subject of widespread interest in Bangladesh. The Government has declared IT as a thrust sector Computer training centre will be set up in each divisional and district headquarters of Bangladesh as part of digitalization strategy. A tremendous activity is going on in every sector including e-commerce, e-governance, computer networking, Internet, web browsing, web applications, multimedia product development etc.

The ISPs' role in providing nationwide Internet and data connectivity will be radically expanded soon after the launching of Bangabandhu-1 satellite. The ISPs having in-house capacity to operate VSAT hubs will be at the forefront of delivering the satellite connectivity at the remotest corners of Bangladesh. It will unlock new opportunities to tap by the ISPs. The blended bandwidth of two submarine cables and Bangabandhu-1 satellite will take the resilience of connectivity to an unprecedented level.

User growth percentage of 80,383 % represents the increase in the number of Internet users between the years 2000 and 2017. It shows that there is huge untapped potential in this high growth market. Bangladesh has steadily developed its infrastructure and capacity to enjoy the fruits of information in the near future.

There are currently 499 entities operating ISP business, including 117 nationwide, 73 in Dhaka and adjoining areas, 57 in zones in the rest of the country, 175 in divisional towns, 29 in districts and 48 in upazilas. There are about 53 lakh active internet connections linked to ISPs as of November using over 350 Gbps of bandwidth, according to the BTRC. The country's total bandwidth consumption is about 530 Gbps.

The revenue size of related listed companies engaged in same industries in Bangladesh are:

### Revenue Composition

Major Competitors	Turnover (mn)
ADN Telecom Limited	1,016.30
aamra technologies limited	1457.69
Agni Systems Limited	379.80
BDCOM Online Limited	602.10
Daffodil Limited	601.21
Intech Limited	119.11
IT Consultants Limited	925.43

Source: BASL Research and Company Prospectus

### Financial Highlights (BDT mn)

Financials	FY16	FY17	FY18	FY19
Sales	757	829	920	1,016
Operating Profit	141	176	201	176
Profit After Tax	88	106	120	127
Assets	1,069	1,238	1,429	1,517
Short Term Debt	38	56	63	73
Long Term Debt	102	93	64	26
Equity	594	724	843	943
Dividend (C/B) %				
<b>Margin Ratio (%)</b>				
Gross Profit	39%	42%	44%	40%
Operating Profit	19%	21%	22%	17%
Pretax Profit	17%	18%	20%	16%
Net Profit	12%	13%	13%	13%
<b>Growth (%)</b>				
Sales		10%	11%	47%
Gross Profit		17%	17%	35%
Operating Profit		25%	14%	17%
Net Profit		22%	20%	42%
<b>Profitability (%)</b>				
ROA	8%	9%	8%	8%
ROE	15%	15%	14%	13%
<b>Debt Ratio</b>				
Debt Ratio	13%	12%	9%	6%
Debt-Equity	23%	21%	15%	10%
Int. Coverage	8.6	6.1	8.2	8.7
<b>Valuation</b>				
Rstd. EPS(BDT)	0.55	1.17	1.27	0.97
Post-IPO NAVPS	6.4	7.6	15.2	16.1

Source: BASL Research and Company Prospectus

### Investment Rationale

- The company is showing a positive growth in revenue and profitability over the last few years particularly.
- With the IPO fund, the company will invest Tk. 327 million in a BMRE project and Tk. 93 million in Data Centers. These will escalate profitability for the company in future. Additionally, the company will repay loan amount of BDT 121 million. For this, the financial expense will decrease in the coming years.
- Debt ratio and Debt to ratio of the company is decreasing over years. In FY2019 Debt ratio of the company stood at 6% while it was 13% in FY2017 whereas the Debt to Equity ratio was 10% against 23%
- The devaluation of currency may have positive impact in revenue as the company generates 48.28% revenue of from export services.
- The company has alliance with reputed international telecom brands like Singtel, Orange, TATA communications and Bharti Airtel, British American Tobacco Bangladesh, Huawei Bangladesh, Chevron etc.

### Risk Factors

- As per prospectus, 43% of the revenue is generated from only two customers (SingTel and Equant Networks Limited). So, there will have a significant effect in revenue if the company lose its competitiveness to these two companies.
- Again, the company generates 48.28% revenue of from export services and hence the revenue of the company may be significantly affected by exchange rate risk.
- Any kind of change in economic recession, and entrance of new technology, changes in government monetary & industrial policy, increasing competition, power supply disruption and political unrest may affect the business of the Company.

### Stock Pricing

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	19.6	36.1
Peer Forward P/E	26.0	47.8
Price to Book Value	2.0	46.9
Market Forward P/E	12.2	22.4
Latest Post-IPO NAV (Q1-2019-20)		23.9
Last twelve months avg. Price of Peer Companies		32.7
<b>Pricing Sensitivity at Different PE</b>		<b>Value</b>
Stock at 15x PE		28
Stock at 20x PE		37
Stock at 25x PE		46
Stock at 30x PE		55
Stock at 35x PE		64
Stock at 40x PE		74

Source: BASL Research, Dhaka Stock Exchange Ltd and Company Prospectus

Note: AAMRATECH, AGNISYS, BDCOM, DAFODILCOM and ITC are considered as peer companies of ADNTEL.

As per relative valuation, the fair value of ADNTEL ranges from 22.4 to 47.8. And the last twelve months average price of peer companies is 32.7.

### Statement of Profit or Loss and Other Comprehensive Income

Financials	FY16	FY17	FY18	FY19
<b>Revenue</b>	757,317,248	829,452,281	920,416,440	1,016,304,040
<b>Cost of goods sold</b>	459,998,605	481,879,050	514,702,006	605,817,798
Gross profit	<b>297,318,643</b>	<b>347,573,231</b>	<b>405,714,434</b>	<b>410,486,242</b>
<b>Operating expenses</b>	156,302,461	171,280,645	204,445,993	234,606,094
Operating Income	<b>141,016,182</b>	<b>176,292,586</b>	<b>201,268,441</b>	<b>175,880,148</b>
<b>Other Operating Income</b>	792,457	938,502	4,169,099	6,892,247
<b>Financial Expenses</b>	10,153,204	17,436,964	14,635,505	14,579,313
Net Operating Profit	<b>131,655,435</b>	<b>159,794,124</b>	<b>190,802,035</b>	<b>168,193,082</b>
<b>Contribution to WPPF</b>	6,582,772	7,609,244	9,085,811	8,009,194
<b>Share of profit(loss) of associates</b>	-25925	-14821	596484	829204
Net Profit Before Tax	<b>125,046,738</b>	<b>152,170,059</b>	<b>182,312,708</b>	<b>161,013,092</b>
<b>Income tax expenses</b>	37,284,495	46,233,062	62,682,885	33,903,052
Net Profit after Tax	<b>87,762,243</b>	<b>105,936,997</b>	<b>119,629,823</b>	<b>127,110,040</b>

Source: BASL Research and Company Prospectus

### Statement of Financial Position

Financials	FY14	FY15	FY16	FY17
<b>Asset:</b>				
<b>Non-Current Assets</b>	<b>703,198,387</b>	<b>744,436,103</b>	<b>857,645,363</b>	<b>942,913,217</b>
Property, Plant & Equipment	692,417,813	733,904,274	846,750,235	931,378,634
Intangible Assets	1,419,852	1,185,928	948,743	758,994
Investment	9360722	9,345,901	9,946,385	10,775,589
<b>Current Assets</b>	<b>365,611,598</b>	<b>493,526,228</b>	<b>570,940,963</b>	<b>573,676,037</b>
Inventories	1,572,550	2,363,500	2,399,500	
Accounts Receivable	210,106,835	230,783,227	330,802,481	348,621,452
Advances, Deposits & Prepayments	144,481,947	154,458,616	179,242,766	183,750,861
Cash & Cash Equivalents	9,450,266	105,920,885	58,496,216	41,303,724
<b>Total Assets</b>	<b>1,068,809,985</b>	<b>1,237,962,331</b>	<b>1,428,586,326</b>	<b>1,516,589,254</b>
<b>Shareholders Equity &amp; Liabilities:</b>				
<b>Shareholders' Equity</b>	<b>594,411,567</b>	<b>723,806,491</b>	<b>843,436,314</b>	<b>943,447,637</b>
Share Capital	209,295,830	448,600,000	448,600,000	448,600,000
Share Premium	68626294	83,005,464	83,005,464	83,005,464
Retained Earnings	316,489,443	192,201,027	311,830,850	411,842,173
<b>Liabilities:</b>				
<b>Non-Current Liabilities</b>	<b>241,074,805</b>	<b>225,707,940</b>	<b>222,677,865</b>	<b>189,328,042</b>
Long Term bank Loan	98,950,656	89,072,396	55,281,994	19,322,875
Finance Lease Obligation	2,599,993	3,690,151	8,664,445	6,198,641
Deffered Letter of Credit	31,251,676		158,731,426	163,806,526
Deffered Tax Liability	108,272,480	132,945,393		
<b>Current Liabilities</b>	<b>233,323,613</b>	<b>288,447,900</b>	<b>362,472,147</b>	<b>383,813,574</b>
Current portion of secured Term Loan	22776384	31,854,212	34,395,726	58634967
Finance Lease Obligation	652,914	1,149,324	2,626,710	2,546,257
Short term loan	14,445,213	23,238,981	25,497,177	11,775,905
Accrued Expenses	55,474,945	67,174,555	55,533,886	67,589,653
Provision for WPPF		7,609,244	9,085,811	8,009,194
Accounts Payable	124,271,783	120,392,762	174595973	206,429,645

Source: BASL Research and Company Prospectus



# IPO Note on ADN Telecom Limited

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