

IPO Note on M.L. Dyeing Limited

Key IPO Facts

IPO Size (BDT mn)	200
IPO Size (Shares mn)	20
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	2,100
Pre-IPO Paid up Capital (BDT mn)	1,404
Post IPO Paid up Capital (BDT mn)	1,604
Year End	June
Sector	Textile
Revenue Size in 2016-17 (BDT mn)	2,295
Net Profit in 2016-17 (BDT mn)	222
Total Assets in 2016-17 (BDT mn)	3,626
Total Equity in 2016-17 (BDT mn)	3,329
Retained Earnings in 2016-17 (BDT mn)	1,925
Annualized. Post-IPO EPS (Q3, 2017-18)	1.39
Post-IPO NAV per Share (Q3, 2017-18)	23.05
Issue Date of Prospectus	June 12, 2018
Issue Managers: NBL Capital & Equity Management Limited & Rupali Investment Limited	

Company Overview

M.L. Dyeing Limited (MLDL), incorporated in 2001, is a manufacturer & supplier of dyes acrylic & cotton yarn for 100% export-oriented Sweater industries 100% export-oriented garments industries in Bangladesh (as deemed exporter), USA, Germany, Sweden, Italy, Canada since inception. The company holds an installed capacity of producing Yarn Dyeing: 19,840,000 lbs/Year per year.

Corporate Profile		
Incorporation	March 21, 2001	
Commercial Operation	July 01, 2002	
Key People	Chairman	Faiaz Kader (8.09%)
	MD	Golam Azam Chowdhury (4.02%)
Sponsor	Alhaj Abdul Kader Faruk (4.33%)	
	Al-Haj Mustafizur Rahman (0.01%)	
	Mrs. Shirin Faruk (4.33%)	
Factory Location	Bhaluka, Mymensingh, Bangladesh.	
Subsidiary/Associate	Associate- R.N. Spinning Mills Ltd. (8.81% stake)	

Products and Services

Revenue Segments	Market Type
Dyed yarn	Deemed export

IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for acquisition of capital machinery and IPO expenses. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Acquisition of Machinery & Equipments	178,300,000	89%
IPO Expenses	21,700,000	11%
Total	200,000,000	100%

The IPO project will be implemented within 21 months after receiving IPO fund. Expected commencement date of operation of this project is in August, 2020.

Capacity & Utilization

The company has projected that Capacity will be increased as new plants and machineries will be introduced. Capacity utilization will be increased for new machinery installation and efficient use of machinery.

Product	Capacity	Existing	Forecasted		
		(2016-17)	2017-18E	2018-19E	2019-20E
Dyed Yarn	Installed (lbs))	19.84	19.84	22.89	23.73
	Utilization (lbs)	16.20	16.32	18.91	20.38
	Utilization (%)	81.65%	82.26%	82.61%	85.88%
Capacity Increase by			0.00%	15.00%	5.00%

Source: BASL Research and Company Prospectus

Shareholding Structure

Share Holding:

Shareholder Type	No. of Stocks		Post IPO (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	50,371,000	50,371,000	31.40%
Other than Director & Sponsor	90,039,000	90,039,000	56.13%
Mutual Fund & Institution		10,000,000	6.23%
NRBs		2,000,000	1.25%
General Public		8,000,000	4.99%
Total	140,410,000	160,410,000	100.00%

Note: Lee Jung Kook invested Tk 522 mn holding 35,108,352 stocks (25% in exchange of purchasing capital Machineries)

IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
Eligible Investors (EIs)	10% for Mutual Funds & Institutions	2,000,000
	40% for Other EIs	8,000,000
General Public	10% for NRBs	2,000,000
	40% for Other Gen. Public	8,000,000

Source: BASL Research and Company Prospectus

Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	50,371,000	June 12, 2021
Private Placement Holders	90,039,000	June 12, 2019
	5,000,000	September 17, 2018
Institutions (Post-IPO)	2,500,000	December 12, 2018
	2,500,000	March 12, 2018
Public (Post-IPO)	10,000,000	September 17, 2018
Total	160,410,000	

* Issue of prospectus date is on June 12, 2018.

* 15,000,000 Shares will be tradable on 1st trading day.

Source: BASL Research and Company Prospectus

Industry Insights

Textile sector is the leading industry of our country with remarkable growth. It is also the 2nd largest industry of the world. Bangladesh is looking forward to earn 50 billion US dollar from this industry in near future. The textile sector is largest contributor to the GDP and contributes to a major portion of the total foreign exchange earned by the country. Abundant availability of raw materials' demand and cheap labor has made the country a sourcing hub. This sector generates the maximum employment among all the industries. This sector has remarkable growth and huge contribution to the overall export of the country.

With the improvement of the Textile & RMG sector in Bangladesh a lot of backward linkage industries have been established to support the Textile & RMG sector. Dyeing industry is one of the most important backward linkage industries for the Textile & RMG sector. The demand of dyeing industry is increasing day by day considering the development of the Textile & RMG sector. As dyeing industry, a backward linkage of RMG sector, the sector has the bright opportunity to expand to cope up with the growing export.

MLDL has many direct competitors. Name of the major competitors of MLDL are as follow with relative sales are as follows:

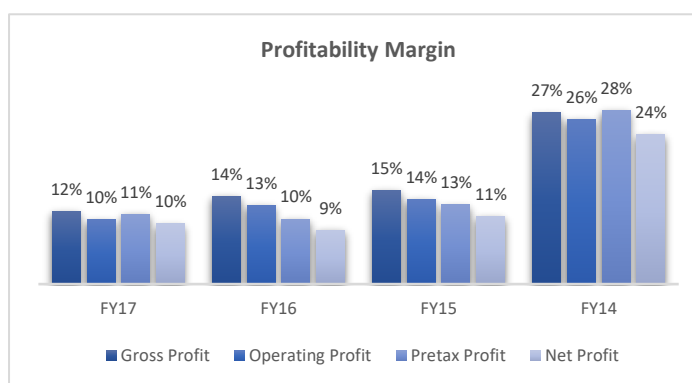
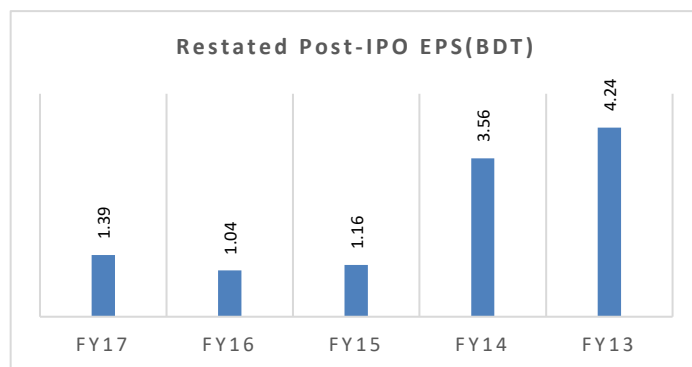
	Major Competitors	Sales (2016-17)
Listed	Dragon Sweater & Spinning Ltd	951
	Tung Hai Knitting & Dyeing Ltd	729
	Anlima Yarn Dyeing Ltd	145
	Queen South Textile Mills Ltd	3,340
	Nurani Dyeing & Sweater Ltd	1,110
	Shepherd Industried Ltd	1,775
Non-Listed	Ring Shine Ltd	-
	Dongbeng Ltd	-
	Belly Yarn Dyeing Ltd	-
	F M Yarn Dyeing Ltd	-

Source: BASL Research and Company Prospectus

Financial Information (BDT mn) and Key Ratio

Figure (mn)

Financials	FY17	FY16	2015	2014
Sales	2,296	1,924	1,713	2,379
Operating Profit	237	243	233	628
Profit After Tax	257	200	218	664
Assets	3,627	3,430	3,714	3,595
Long Term Debt	-	-	-	113
Short Term Debt	31	32	79	81
Equity	3,329	3,107	3,292	3,105
Dividend (C/B) %	-	-	-	-
Margin Ratio (%)				
Gross Profit	12%	14%	15%	27%
Operating Profit	10%	13%	14%	26%
Pretax Profit	11%	10%	13%	28%
Net Profit	10%	9%	11%	24%
Growth (%)				
Sales	19%	12%	-28%	-6%
Gross Profit	-1%	5%	-60%	-23%
Operating Profit	-2%	4%	-63%	-24%
Net Profit	34%	-8%	-67%	-16%
Profitability (%)				
ROA	6%	5%	5%	16%
ROE	7%	5%	6%	18%
Debt Ratio				
Debt Ratio	1%	1%	5%	8%
Debt-Equity	1%	1%	5%	10%
Int. Coverage	34.8	12.2	8.0	14.1
Valuation				
Rstd. EPS(BDT)	1.39	1.04	1.16	3.56
Post-IPO NAVPS	20.8	19.4	20.5	19.4



Source: BASL Research and Company Prospectus

Investment Rationale

- The company is operating with stable financial position, having net profit margin stable to 9-11% in last three years, maintaining positive sales growth, strong equity base.
- The company will implement a project with the IPO fund to increase the capacity by 15% in FY2019 and 5% in 2020. According to their projection, revenue will grow by 2.99%, 18.19% and 9.91% respectively in the next three years in 2018, 2019 and 2020 respectively.
- The Garments, Textile and backward linkage industries are enjoying special tax rates, Tax holidays and subsidies from the government for the development of this sector. The company is exempted from all types of VAT on its sales according to Govt. Gazette (General Order No. 25/VAT/2013 dated 6th June, 2013) because the company is 100% export oriented.
- Debt to equity ratio and Debt ratio of the company is very low. According to statement 2016-17, the debt ratio and debt to equity ratio was 1% both in last two years. The company has no long-term loan for last three years. Furthermore, the company has Tk. 3.1 mn short term only in 2016-17.
- The recessionary global outlook even though might be continued. Because of costly labor and production cost of competitive countries and trade war, Bangladesh get enjoy competitive advantage over other countries to capture more market share in near future.
- Government regulations are mostly investment-friendly for RMG sector.
- R.N. Spinning Mills Ltd. (43.35%) is not always the real scenario

Risk Factors

- One of the key raw materials of the company is yarn and the price of yarn in international market was increasing trend. The COGS of the company increased sharply to 88% in 2016-17, 86% in 2015-16 and 85% in 2014-15 respectively.
- It has an investment in associate (R.N. Spinning Mills Ltd.) holding 8.81% share. R.N. Spinning Mills Ltd. incurred loss in 2015-2016, that impacted the net profit negatively. So, the performance of the R.N. Spinning Mills Ltd was not stable in recent years. So, any negative performance of this associate company may impact negatively.
- The company couldn't form WPPF fund which is mandatory requirement for a 100% export-oriented company.
- The sponsors and top shareholders of the company had record of Penalty by the Bangladesh Securities and Exchange Commission (BSEC) for the non-compliance activities in the right share issue of R.N. Spinning Mills Ltd.
- There is common management in the supplying company, i.e. FAR Chemical Industries Limited and R.N. Spinning Mills Ltd. The decision in the supplying company may impact the company.
- The textile industry may face vulnerability in terms of exchange rates and cotton price fluctuations; fragmented industry structure with intense competition from both local and foreign company. Major textiles & apparel export destination of Bangladesh is EU. Upward local currency fluctuation as against Euro could be a big threat in terms of export remittance.
- 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 based on Relative Valuation

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	19.8	27.4
Peer Forward P/E	19.2	26.6
Price to Book Value	1.9	42.8
Market Forward P/E	15.3	21.2
Latest Post-IPO NAV (Q3-2017-18)		23.1
Last twelve months average Price of Peer Companies		25.1
Pricing Sensitivity at Different PE		Value
Stock at 15x PE		21
Stock at 20x PE		28
Stock at 25x PE		35
Stock at 30x PE		42
Stock at 35x PE		49
Stock at 40x PE		55

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

As per relative valuation, the fair value of MLDL ranges from 21.2 to 42.8. And the last twelve months average price of peer companies is 25.1.

Income Statements (Amount in BDT mn)					
Particulars	FY17	FY16	FY15	FY14	FY13
Revenue	2,295,718,352	1,923,513,063	1,712,845,768	2,379,356,874	2,538,284,589
Cost of goods sold	2,027,375,221	1,652,894,831	1,454,826,153	1,726,328,867	1,691,808,367
Gross profit	268,343,131	270,618,232	258,019,615	653,028,007	846,476,222
Operating expenses	31,141,530	27,364,700	25,204,056	25,003,939	24,180,007
Operating Profit	237,201,601	243,253,532	232,815,559	628,024,068	822,296,215
Non Operating expenses	7,384,678	16,388,875	27,283,948	46,991,366	94,900,178
Financial Expenses	7,384,678	16,388,875	27,283,948	46,991,366	94,900,178
Non Operating Income	27,138,124	-26,478,556	12,290,528	82,508,966	62,986,126
Other Income	796,647	740,778	878,754	1,216,305	1,146,604
Share of Profit/(Loss) of associate	26,341,477	-27,219,334	11,411,774	81,292,661	61,839,522
Net Profit Before Tax	256,955,047	200,386,101	217,822,139	663,541,668	790,382,163
Income tax expenses	34,751,364	34,283,410	31,137,306	93,248,813	109,539,383
Current Tax	27,281,521	21,320,634	5,077,589	87,611,020	109,539,383
Deffered Tax	7,469,843	12,962,776	26059717	5,637,793	0
Net Profit after Tax	222,203,683	166,102,691	186,684,833	570,292,855	680,842,780
Earnings Per Share (Post-IPO)	1.39	1.04	1.16	3.56	4.24

Statement of Financial Position (Amount in BDT mn)					
Particulars	FY17	FY16	FY15	FY14	FY13
Assets:					
Non-Current Assets	2,109,992,566	2,223,826,611	2,337,901,538	1,799,128,288	1,823,665,594
Property, Plant & Equipment	1,752,126,466	1,892,301,988	1,966,402,617	1,451,796,105	1,557,626,072
Investment in Associate Progress	357,866,100	331,524,623	358,743,957	347,332,183	266,039,522
Capital Work-In-Progress	-	-	12,754,964	-	-
Current Assets	1,516,837,529	1,206,414,693	1,376,579,871	1,795,523,697	1,443,887,332
Inventories	614,768,683	463,206,216	575,615,098	824,925,150	520,872,205
Trade and Other Receivables	839,444,477	694,212,049	743,683,581	936,515,077	893,365,963
Accounts Receivable	-	-	-	-	-
Advances, Deposits & Prepayments	37,217,036	34,898,190	14,099,829	11,885,295	13,250,071
Loan to Sister Concern	-	-	-	-	-
Cash & Cash Equivalents	25,407,333	14,098,238	43,181,363	22,198,175	16,399,093
Total Assets	3,626,830,095	3,430,241,304	3,714,481,409	3,594,651,985	3,267,552,926
Shareholders Equity & Liabilities:					
Shareholders' Equity	3,329,479,662	3,107,178,433	3,292,195,233	3,105,368,937	2,535,070,498
Share Capital	1,404,100,000	1,404,100,000	1,404,100,000	1,404,100,000	702,050,000
Other Comprehensive Income	169,327	71,781	166,272	24,809	19,225
Retained Earnings	1,925,210,335	1,703,006,652	1,887,928,961	1,701,244,128	1,833,001,273
Liabilities:					
Non-Current Liabilities	118,095,275	110,625,432	97,662,656	118,180,669	207,487,623
Long Term Loan	-	-	-	112,542,876	207,487,623
Deffered Tax Liability	118,095,275	110,625,432	97,662,656	5,637,793	-
Current Liabilities	179,255,158	212,437,439	324,623,520	371,102,379	524,994,805
Trade and Other Payables	88,769,710	140,328,376	103,786,878	76,516,988	204,287,053
Current Portion of Long term loan	-	-	101,619,025	108,000,000	108,000,000
Short term Loan from Bank	31,179,680	31,585,225	78,814,022	81,217,604	9,624,171
Creditors & Accrues	8,551,508	6,585,880	12,086,271	11,162,906	55,940,957
Provision for Income tax	50,754,260	33,937,958	28,317,324	94,204,881	147142624
Current Account with Sister Concern	-	-	-	-	-
Dividend Payable	-	-	-	-	-
Provision for Income Tax	-	-	-	-	-
Total Liabilities:	297,350,433	323,062,871	422,286,176	489,283,048	732,482,428
Total Shareholders' Equity & Liabilities:	3,626,830,095	3,430,241,304	3,714,481,409	3,594,651,985	3,267,552,926

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