

# IPO Note on S.S. Steel Limited

## Key IPO Facts

IPO Size (BDT mn)	250
IPO Size (Shares in mn)	25
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	2500
Pre-IPO Paid up Capital (BDT mn)	2200
Post IPO Paid up Capital (BDT mn)	2450
Year End	June
Sector	Engineering
Revenue Size in 2016-17 (BDT mn)	3003
Net Profit in 2016-17 (BDT mn)	265
Total Assets (BDT mn)	6096
Retained Earnings (BDT mn)	469
Annualized. Post-IPO EPS (Q1, 2018-19)	1.28
Post-IPO NAV per Share (Q1, 2018-19)	16.53
Issue Date of Prospectus	Oct 03, 2018
Issue Managers:	Citizen Securities & Investment Ltd

## Company Overview

S.S. Steel Limited, incorporated in 2001, is mainly engaged in manufacturing of high class MS-BAR (ROD), MS-Billets, MS-Ingot in Bangladesh and marketing and selling of product in the domestic Market. Currently the company has the capacity to produce 108,000 Metric Ton yearly. The Company collects a small amount of its major raw materials (iron scrap) from local sources and imports significant volume of iron scrap materials from USA, UAE, China, Australia and India. S. S. Steel Limited does not involve with any future prospects regarding export because, currently it is Aiming to fulfill the country's local demand.

### Corporate Profile

<b>Incorporation</b>	December 22, 2001
<b>Commercial Operation</b>	December 22, 2001
<b>Key</b>	Chairman
	Javed Opgenh affen
<b>People</b>	MD
	Md Shirajul Islam
<b>Factory Location</b>	Tongi Industrial Area, Gazipur, Bangladesh.
<b>Subsidiary/Associate</b>	None

## Products and Services

Product	Type
Ms-Billets	
Ms-Ingnot	400W & 500W
Ms bar (Rod)	(Local Market)

Source: BASL Research and Company Prospectus

## IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for acquisition of Plant & machinery, Construction of new 4 storied building (60 feet height steel structure shed) and for IPO expenses. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Plant & Machinery	214,312,500	86%
Construction of new building	15,120,000	6%
IPO Expenses	20,567,500	8%
<b>Total</b>	<b>250,000,000</b>	<b>100%</b>

The IPO project will be implemented within 18 months after receiving IPO fund.

## 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
MS-Bar (Rod)	Installed (MT))	108,000	108,000	108,000	120,000
	Utilization (MT)	64,346	70,780	85,220	90,350
	Utilization (%)	60%	65.54%	78.90%	75.29%

Source: BASL Research and Company Prospectus

## Shareholding Structure

### Share Holding:

Shareholder Type	No. of Stocks		Post IPO Holding (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	79,205,000	79,205,000	32.33%
Other than Director & Sponsor	140,795,000	140,795,000	57.47%
Mutual Fund & Institution	0	2,500,000	1.02%
EI excluding mutual funds and CIS	0	10,000,000	4.08%
NRBs	0	2,500,000	1.02%
General Public	0	10,000,000	4.08%
<b>Total</b>	<b>220,000,000</b>	<b>245,000,000</b>	<b>100%</b>

### IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
<b>Eligible Investors (EIs)</b>	10% for Mutual Funds & Institutions	2,500,000
	50% for Other EIs	10,000,000
<b>General Public</b>	10% for NRBs	2,500,000
	30% for Other Gen. Public	10,000,000
<b>Total</b>		<b>25,000,000</b>

Source: BASL Research and Company Prospectus

## Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	79,205,000	October 03, 2021
Private Placement Holders	140,795,000	October 03, 2019
	6,250,000	January 17, 2019
Institutions (Post-IPO)	3,125,000	April 03, 2019
	3,125,000	July 03, 2019
Public (Post-IPO)	12,500,000	January 17, 2019
<b>Total</b>	<b>245,000,000</b>	

\* Issue of prospectus date is on October 03, 2018.

\* 18,750,000 Shares will be tradable on 1st trading day.

Source: BASL Research and Company Prospectus

## Industry Insights

With increasing demand and consumption of steel and steel products the country's Steelmakers are establishing new plants which is helping the Bangladesh steel sector to expand fast. Per capita steel consumption in Bangladesh has grown more than 54 percent to 37kg in the last eight years due to the government's large infrastructure projects and the booming housing sector. According to market players, per capita steel use was 37kg in 2017. There are 400 big, medium- and small-sized steel mills in the country with a combined production capacity of 80 lakh tonnes, among them three big steelmakers: BSRM, Abul Khair Steel and KSRM – supply more than 50% of the country's annual need of steel.

According to World steel association, the production of this sector expected to double about 8.0 million Mt on 2022 by the industrialists whereas in the last year, the total production is 5.5 million MT. however this year up to October the production is 7 million tonnes & the capacity is about 8 million MT which indicates gradually expansion of steel industry in our country. The steel industry in Bangladesh can be categorized into two classes of products: long steel (MS rod/TMT bar) and flat steel (mainly CI sheet and CR coil). The primarily source of raw materials is the ship-breaking industry in Chittagong and also imported billets.

Bangladesh still faces some key challenges for the development of steel industry since it does not have resources like coal mine or iron ore mine and has to depend on imports. Moreover, Availability of raw materials, transportation due to lack of facility in the port, delay shipment of raw materials like scraps are the major obstacles for the country's steel sector. Power interruption and tariff barriers in import of raw materials like billets also incurs huge loss to the country's steel sector.

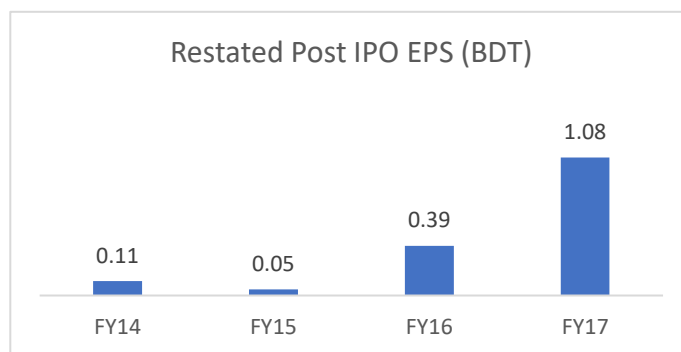
Major Competitors	Turnover (mn)
BSRM Steels Limited	37,996
GPH Ispat Ltd.	7,955
Ratanpur Steel Re-Rolling Mills Limited	7,488

Source: BASL Research and Company Prospectus

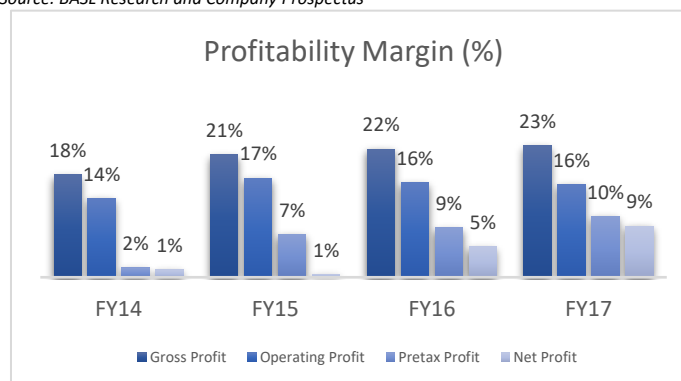
## Financial Information (BDT mn) and Key Ratio

Figure (mn)

Financials	FY14	FY15	FY16	FY17
Sales	2,105	2,144	1,819	3,003
Operating Profit	286	366.04	297.09	480
Profit After Tax	28	12	95	265
Assets	2,620	2,985	5,022	6,096
Short Term Debt	1,477	1,061	798	1,433
Long Term Debt	-	128	487	397
Equity	671	610	3,150	3,415
Dividend (C/B) %	-	-	-	-
<b>Margin Ratio (%)</b>				
Gross Profit	18%	21%	22%	23%
Operating Profit	14%	17%	16%	16%
Pretax Profit	2%	7%	9%	10%
Net Profit	1%	1%	5%	9%
<b>Growth (%)</b>				
Sales		2%	-15%	65%
Gross Profit		22%	-11%	70%
Operating Profit		28%	-19%	62%
Net Profit		365%	-2%	103%
<b>Profitability (%)</b>				
ROA	1%	0%	2%	4%
ROE	4%	2%	3%	8%
<b>Debt Ratio</b>				
Debt Ratio	56%	40%	26%	30%
Debt-Equity	220%	195%	41%	54%
Int. Coverage	0.1	0.1	0.7	1.7
<b>Valuation</b>				
Rstd. EPS(BDT)	0.1	0.0	0.4	1.1
Post-IPO NAVPS	2.7	2.5	12.9	13.9



Source: BASL Research and Company Prospectus



## Investment Rationale

- The company is pursuing stable financial position in the latest year along with 65% sales growth, net profit margin of 9% from 1% in three years ago and maintaining positive operating cash flow and decent equity base.
- Debt to equity ratio of the company is decreasing over years. According to statement in FY18, debt ratio of the company was 54% against 220% in FY17.
- According to the experts, the steel industry in Bangladesh has growth potential as the country is riding on major investments in various infrastructure projects throughout the country as well as the rapid expansion of the country's shipbuilding and real estate sector.
- The company is going for acquisition of Plant & Machinery and Construction of new building. After enhancement, the company will be the medium largest mill steel mill of its kind in the country and the revenue will increase by 8%, 4% and 3% respectively for next three years.

## Risk Factors

- The revenue and profit growth for last few years is cyclical in nature. Return on equity and asset is lower than industry average. Interest coverage ratio is also lower to service its debt.
- As per the prospectus, the utilized production capacity of finished product-MS Rod is 59.58% which is not higher than the installed capacity. The production Capacity of intermediate product is MS Billet/Ingot is about 90% which is not befitting with the company's MS-ROD production due to low capacity.
- Major revenue of the company is generated from SS STIGER 500W TMT MS-BAR (ROD). Any change in demand, supply or other market factors regarding these products can affect the business performance significantly.
- Though the company has nearly 17 years of experience in the steel industry but there are some strongest brand and market leader in the local industry. So the risk of substitute product is high.
- Major portion of raw materials of the company is being imported. Scarcity or price hike of raw materials due to any political turmoil may lead to production disruption.
- 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	15.0	19.2
Peer Forward P/E	12.5	16.0
Price to Book Value	1.2	20.0
Market Forward P/E	15.1	19.3
Latest Post-IPO NAV (Q1-2018-19)		16.5
Last twelve months average Price of Peer Companies		49.8

Pricing Sensitivity at Different PE	Value	
Stock at 15x PE	15	19
Stock at 20x PE	20	26
Stock at 25x PE	25	32
Stock at 30x PE	30	38
Stock at 35x PE	35	45
Stock at 40x PE	40	51

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

*As per relative valuation, the fair value of SS STEEL ranges from 16 to 49.8. And the last twelve months average price of peer companies is 41.8.*

Income Statements (Amount in BDT mn)				
Particulars	FY14	FY15	FY16	FY17
Revenue	2,104,662,407	2,143,818,211	1,818,864,918	3,003,309,524
Cost of goods sold	1,732,652,706	1,691,743,700	1,417,548,023	2,322,695,709
<b>Gross profit</b>	<b>372,009,701</b>	<b>452,074,511</b>	<b>401,316,895</b>	<b>680,613,815</b>
Operating expenses	<b>42,855,037</b>	<b>45,606,800</b>	<b>50,998,189</b>	<b>126,795,163</b>
Administrative Expenses	0	0	0	0
Selling and Distribution Expenses	43,210,716	40,424,548	53,230,995	73,834,265
<b>Operating Profit</b>	<b>285,943,948</b>	<b>366,043,163</b>	<b>297,087,711</b>	<b>479,984,387</b>
Financial Expenses	250,185,644	201,093,903	137,630,642	153,794,703
Non Operating Income	0	0	0	0
Other Income	546,410	1,427,501	3,426,909	4,901,664
Loss on Sale of Property, Plant & equipment	0	133,991	0	0
Loss on Sale of Investment in Shares	0	88,520	0	0
<b>Profit Before Contribution to WPPF &amp; Welfare Fund</b>	<b>36,304,714</b>	<b>166,154,250</b>	<b>162,883,978</b>	<b>331,091,348</b>
Contribution to WPPF & Welfare Fund	214,293	7,920,271	7,783,794	15,766,255
Provision for loss on investment in shares	121,754	-	-	-
<b>Net Profit Before Tax</b>	<b>34,040,007</b>	<b>158,233,979</b>	<b>155,100,184</b>	<b>315,325,093</b>
<b>Income tax expenses</b>	<b>6,364,945</b>	<b>146,650,188</b>	<b>59,620,085</b>	<b>50,306,486</b>
Current Tax				
Deffered Tax				
<b>Net Profit after Tax</b>	<b>27,675,062</b>	<b>11,583,791</b>	<b>95,480,099</b>	<b>265,018,607</b>
<b>Restated Earnings Per Share (EPS)</b>	<b>0.11</b>	<b>0.05</b>	<b>0.39</b>	<b>1.08</b>

Statement of Financial Position (Amount in BDT mn)				
Particulars	FY14	FY15	FY16	FY17
<b>Assets:</b>				
<b>Non-Current Assets</b>	<b>1,237,828,478</b>	<b>1,309,040,994</b>	<b>2,438,552,076</b>	<b>2,800,301,938</b>
Property, Plant & Equipment	1,126,785,014	1,309,040,994	2,171,802,076	2,526,051,938
Investment in Associate Progress	1,392,910	-	266,750,000	274,250,000
Capital Work-In-Progress	109,650,554	-	-	-
<b>Current Assets</b>	<b>1,382,453,410</b>	<b>1,676,344,433</b>	<b>2,583,453,025</b>	<b>3,295,768,115</b>
Inventories	906,168,301	1,002,745,810	1,327,004,447	1,322,158,531
Trade and Other Receivables	0	0	0	0
Accounts Receivable	376,185,727	575,823,571	801,075,542	1,058,198,012
Advances, Deposits & Prepayments	75,929,473	82,194,237	387,207,392	783,187,463
Loan to Sister Concern	-	-	-	-
Cash & Cash Equivalents	24,169,909	15,580,815	68,165,644	132,224,109
<b>Total Assets</b>	<b>2,620,281,888</b>	<b>2,985,385,427</b>	<b>5,022,005,101</b>	<b>6,096,070,053</b>
<b>Shareholders Equity &amp; Liabilities:</b>				
<b>Shareholders' Equity</b>	<b>671,012,421</b>	<b>610,368,125</b>	<b>3,149,561,318</b>	<b>3,414,579,925</b>
Share Capital	99,500,000	99,500,000	2,200,000,000	2,200,000,000
Other Comprehensive Income	-	-	-	-
Revaluation Surplus	487,681,677	409,292,496	748,162,020	736,849,102
Retained Earnings	74,713,373	92,458,258	192,281,927	468,613,452
Tax Holiday reserve	9,117,371	9,117,371	9,117,371	9,117,371
<b>Liabilities:</b>				
<b>Non-Current Liabilities</b>	<b>0</b>	<b>1,010,725,109</b>	<b>760,646,053</b>	<b>693,089,905</b>
longTerm loan	0	128,263,286	486,630,484	397,417,501
Share Money deposit	-	685,175,000	-	-
Deffered Tax Liability	-	197,286,823	274,015,569	295,672,404
<b>Current Liabilities</b>	<b>1,700,575,489</b>	<b>1,364,292,193</b>	<b>1,111,797,730</b>	<b>1,988,400,223</b>
Trade and Other Payables	172,117,370	193,231,459	145,685,022	321,044,699
Accrued Expense	35,884,605	64,691,619	72,005,168	99,775,105
Provision for WPPF	2,142,953	10,234,660	18,594,154	35,754,970
Short term loan	1,305,319,665	978,979,384	767,149,172	1,338,011,053
Long term loan Current Portion	171,595,525	82,048,248	31,049,766	94,862,342
Liabilities for Expenses	0	0	0	0
Provision for tax Liabilities	13,515,371	35,106,823	77,314,448	98,952,054
<b>Total Liabilities:</b>	<b>1,700,575,489</b>	<b>2,375,017,302</b>	<b>1,872,443,783</b>	<b>2,681,490,128</b>
<b>Total Shareholders' Equity &amp; Liabilities:</b>	<b>2,371,587,910</b>	<b>2,985,385,427</b>	<b>5,022,005,101</b>	<b>6,096,070,053</b>

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Bank Asia Securities Limited (BASL) is one of the leading full-service brokerage companies in Bangladesh. The company was formed in 2009 and running its operation as a majority owned subsidiary of Bank Asia Limited. BASL offers full-fledged standard brokerage services for retail, institutional and foreign clients with a dedicated team of skilled professionals. The company is currently providing the brokerage services under the membership of Dhaka Stock Exchange Limited (DSE).

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