

IPO Note on VFS Thread Dyeing Limited

Key IPO Facts

IPO Size (BDT mn)	220
IPO Size (Shares mn)	22
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	1,000
Pre-IPO Paid up Capital (BDT mn)	627
Post IPO Paid up Capital (BDT mn)	847
Year End	June
Sector	Textile
Revenue Size in 2016-17 (BDT mn)	881
Net Profit in 2016-17 (BDT mn)	141
Total Assets (BDT mn)	1,440
Retained Earnings (BDT mn)	621
Annualized. Post-IPO EPS (Q3, 2017-18)	1.48
Post-IPO NAV per Share (Q3, 2017-18)	18.44
Issue Date of Prospectus	May 27, 2018
Issue Managers:	Citizen Securities & Investment Ltd & First Security Islami Capital & Investment Ltd

Company Overview

VFS Thread Dyeing Ltd (VFSTDL), incorporated in 2010, is a manufacturer & supplier of high-quality Sewing Thread products to apparel industries in Bangladesh. The company is primarily engaged business of dyeing and finishing of sewing thread of different types for 100% export oriented ready-made garments. The Company manufactures the Spun Polyester Yarn, Poly Core Spun and Textured Polyester (Synthetic Filament Yarn). The company possesses an installed capacity of producing 6,780 MT of cotton yarn per year.

Corporate Profile

Incorporation	April 20, 2010
Commercial Operation	July 12, 2012
Key	Chairman
People	MD
Factory Location	Gazipur Sadar, Gazipur, Bangladesh.
Subsidiary/Associate	None

Products and Services

Revenue Breakdown (2016-17)	Sales (BDT,mn)	As (%)
Spun Polyester and Sewing Thread	704.67	80%
Textured Polyester	44.04	15%
Poly Core Spun	132.12	5%
Total	880.83	100%

Source: BASL Research and Company Prospectus

IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for acquisition of capital machinery, repayment of partial long-term loan and for IPO expenses. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Acquisition of Machinery & Equipments	177,403,108	81%
Loan Repayment	25,092,728	11%
IPO Expenses	17,504,164	8%
Total	220,000,000	100%

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 (mn) (2016-17)	2017-18E	2018-19E	2019-20E	2020-21E
Spun Polyester and Sewing Thread	Installed (lbs))	3.51	3.51	5.26	5.26	5.26
	Utilization (lbs)	2.34	2.34	3.42	3.68	3.94
	Utilization (%)	66.67%	66.67%	65.02%	69.96%	74.90%
Textured Polyester	Installed (lbs))	0.22	0.22	0.33	0.33	0.33
	Utilization (lbs)	0.15	0.15	0.21	0.21	0.21
	Utilization (%)	68.18%	68.18%	63.64%	63.64%	63.64%
Poly Core Spun	Installed (lbs))	0.66	0.66	0.99	0.99	0.99
	Utilization (lbs)	0.43	0.43	0.64	0.69	0.74
	Utilization (%)	65.15%	65.15%	64.65%	69.70%	74.75%

Source: BASL Research and Company Prospectus

Shareholding Structure

Shareholder Type	No. of Stocks Pre-IPO	Post-IPO	Post IPO (%)
Director & Sponsor	41,664,800	41,664,800	49.18%
Other than Director & Sponsor	21,050,000	21,050,000	24.85%
Mutual Fund & Institution		11,000,000	12.98%
NRBs		2,200,000	2.60%
General Public		8,800,000	10.39%
Total	62,714,800	84,714,800	100.00%

Share Holding:

IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
Eligible Investors (EIs)	10% for Mutual Funds & Institutions	2,200,000
	50% for Other EIs	8,800,000
General Public	10% for NRBs	2,200,000
	30% for Other Gen. Public	8,800,000

Source: BASL Research and Company Prospectus

Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	41,664,800	May 27, 2021
Private Placement Holders	21,050,000	May 27, 2019
	5,500,000	September 09, 2018
Institutions (Post-IPO)	2,750,000	November 27, 2018
	2,750,000	February 27, 2019
Public (Post-IPO)	11,000,000	September 09, 2018
Total	84,714,800	

* Issue of prospectus date is on May 27, 2018.

* 16,500,000 Shares will be tradable on 1st trading day.

Source: BASL Research and Company Prospectus

Industry Insights

Garment sector is the leading industry of our country. 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. This sector generates the maximum employment among all the industries.

Spinning is mostly a sub-sector of Bangladesh's textile and clothing industry termed as Primary Textile Sector (PTS). PTS provides the backward linkage for both the knit and woven sectors. The Government of Bangladesh also promote this Primary Textile Sector by extending various facilities such as Bonded Warehouse, Cash Assistance in lieu of Bonded Warehouse, Import of Capital Machinery, some Spare Parts, raw materials at a concessionary rate of duty and preferential tax rate.

The market of sewing thread is wide because garments sector in our country is very large. Sewing thread is an integral component of the garments' product. Day by day garments sector enhance their market so automatically demand of sewing thread will also enhance. There is no available published data for future forecast but the Company own view demand of product of VFS Thread dyeing limited is increasing with the increased demand of market. With the increase of demand, supply also will increase consecutively.

VFSTDL has many direct competitors. The market share of VFS TDL is approximately 6%. Name of the major competitors of VFS Thread Dyeing Limited are as follow with relative market shares are as follows:

Major Competitors	Market Share (Approx.)
Etafil (Bangladesh) Limited	9%
Simtex Industries Limited	9%
Coats Bangladesh Limited	11%
Well Thread Limited	8%
Active Industries Limited	5%
American & Efird (Bangladesh) Ltd	7%

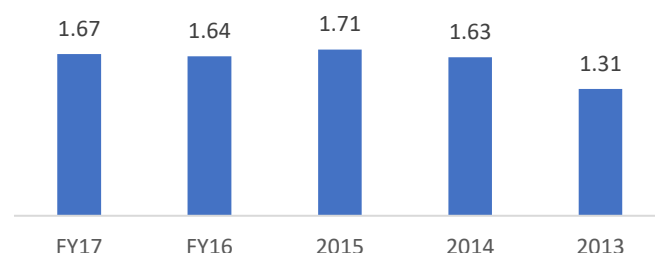
Source: <http://www.bgapmea.org> & BASL Research

Financial Information (BDT mn) and Key Ratio

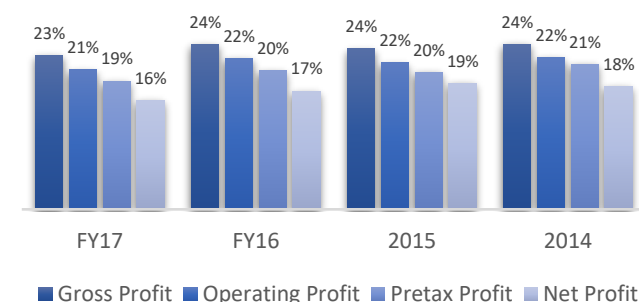
Figure (mn)

Financials	FY17	FY16	2015	2014
Sales	881	800	782	765
Operating Profit	181	178	169	171
Profit After Tax	141	139	145	138
Assets	1,440	1,330	1,258	1,011
Long Term Debt	32	56	53	30
Equity	1,248	1,108	1,040	888
Dividend (C/B) %	-	-	-	-
Margin Ratio (%)				
Gross Profit	23%	24%	24%	24%
Operating Profit	21%	22%	22%	22%
Pretax Profit	19%	20%	20%	21%
Net Profit	16%	17%	19%	18%
Growth (%)				
Sales	10%	2%	2%	20%
Gross Profit	3%	5%	-1%	18%
Operating Profit	2%	5%	-1%	20%
Net Profit	1%	-4%	5%	25%
Profitability (%)				
ROA	10%	10%	12%	14%
ROE	11%	13%	14%	16%
Debt Ratio				
Debt Ratio	6%	10%	10%	4%
Debt-Equity	7%	13%	13%	5%
Int. Coverage	11.9	11.7	13.6	19.2
Valuation				
Rstd. EPS(BDT)	1.67	1.64	1.71	1.63
Post-IPO NAVPS	14.7	13.1	12.3	10.5

Restated Post-IPO EPS (BDT)



Profitability Margin (%)



Source: BASL Research and Company Prospectus

Investment Rationale

- The company with stable financial position, having net profit margin stable to 16-19% in last four years, maintaining positive operating cash flow, strong equity base.
- The company will implement a project with the IPO fund to increase the capacity (49.86% for Spun Polyester and Sewing Thread unit, 50% for Poly Core Spun unit and Textured Polyester) of the existing production units. According to their projection, revenue will grow by 10%, 20% and 7.5% respectively in the next three years after IPO.
- 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 of the company is decreasing over years. According to statement in Q2, 2017-18, debt ratio of the company was 6.9% against 7.3% in 2016-17. Furthermore, the company is going to repay BDT 25.09mn debt using IPO fund which will also decrease the ratio further and the debt burden will be lower than the previous years.
- 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.
- Yarn products are the basic raw material of Textiles industry in and related, Bangladesh Textiles market is considered to be more promising in coming years.

Risk Factors

- The company is operating in the industry for a very short life history as it has started its commercial operation from 2012.
- One of the key raw materials of the company is yarn and the price of yarn in international market is increasing. The COGS of the company has increased for last quarter and it will increase in coming quarters.
- 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.
- 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.
- 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.

Stock Pricing based on Relative Valuation

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	20.3	30.0
Peer Forward P/E	22.1	32.6
Price to Book Value	1.9	35.3
Market Forward P/E	15.4	22.7
Latest Post-IPO NAV (Q3-2017-18)		18.4
Last twelve months average Price of Peer Companies		30.5
Pricing Sensitivity at Different PE		Value
Stock at 15x PE	15	22
Stock at 20x PE	20	30
Stock at 25x PE	25	37
Stock at 30x PE	30	44
Stock at 35x PE	35	52
Stock at 40x PE	40	59

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

As per relative valuation, the fair value of VFSTDL ranges from 22.7 to 35.3. And the last twelve months average price of peer companies is 30.5.

Income Statements (Amount in BDT mn)					
Particulars	FY17	FY16	2015	2014	2013
Revenue	880,833,240	800,062,695	781,912,757	765,421,890	635,248,796
Cost of goods sold	681,178,034	605,703,468	597,364,510	579,575,180	477,122,369
Gross profit	199,655,206	194,359,227	184,548,247	185,846,710	158,126,427
Operating expenses	18,801,150	16,824,784	15,915,248	15,049,207	15,266,689
Administrative Expenses					
Selling Expenses					
Profit from Operation	180,854,056	177,534,443	168,632,999	170,797,503	142,859,738
Add: Other Income	458,310	1,145,857	1,213,376	1,216,305	1,146,604
Less: Financial Expenses	15,225,379	15,229,887	12,395,487	8,901,157	13,474,046
Contribution to WPPF					
Net Profit before Tax	166,086,987	163,450,413	157,450,888	163,112,651	130,532,296
Income Tax Expenses	25,004,710	24,342,538	12,488,110	24,710,159	19,837,831
Current Tax					
Deferred Tax					
Net Profit after Tax	141,082,277	139,107,875	144,962,778	138,402,492	110,694,465
EPS (Post-IPO)	1.67	1.64	1.71	1.63	1.31

Statement of Financial Position (Amount in BDT mn)					
Particulars	FY17	FY16	2015	2014	2013
Assets:					
Non-Current Assets	805,175,967	783,989,824	744,065,186	602,700,628	630,060,588
Property, Plant & Equipment	804,404,467	783,218,324	743,293,686	601,929,128	629,289,088
Security deposits	771,500	771,500	771,500	771,500	771,500
Capital Work-In-Progress					
Current Assets	634,562,149	545,628,667	514,041,295	408,082,437	270,701,604
Inventories	228,032,743	192,934,494	206,290,427	166,326,914	150,345,614
Trade and Other Receivables	369,467,815	328,201,465	300,356,426	237,095,917	117,713,250
Accounts Receivable	-	-	-	-	-
Advances, Deposits & Prepayments	35,860,857	22,497,375	4,248,797	2,805,338	641,876
Loan to Sister Concern	-	-	-	-	-
Cash & Cash Equivalents	1,200,734	1,995,333	3,145,645	1,854,268	2,000,864
Total Assets	1,439,738,116	1,329,618,491	1,258,106,481	1,010,783,065	900,762,192
Shareholders Equity & Liabilities:					
Shareholders' Equity	1,247,787,185	1,107,659,496	1,040,036,433	888,189,900	749,787,408
Share Capital	627,148,000	627,148,000	627,148,000	627,148,000	627,148,000
Retained Earnings	620,639,185	480,511,496	412,888,433	261,041,900	122,639,408
AFS Reserve	-	-	-	-	-
Revaluation Surplus	-	-	-	-	-
Liabilities:					
Non-Current Liabilities	58,611,448	72,208,098	64,920,065	48,650,860	50,253,645
Long Term Loan	32,356,039	56,052,180	53,317,592	30,394,876	43,369,854
Deffered Tax Liability	26,255,409	16,155,918	11,602,473	18,255,984	6,883,791
Current Liabilities	133,339,483	149,750,898	153,149,983	73,942,305	100,721,139
Short Term Borrowings	58,826,719	83,332,142	77,923,127	10,754,981	30,607,412
Current Portion of Long term loan	16,722,000	10,660,000	19,597,011	11,760,000	11,760,000
Creditors & Accruals	4,024,515	3,337,979	2,994,746	3,017,990	6,559,733
Provision for Taxation	47,781,460	32,876,241	14,380,370	13,125,040	12,741,114
Trade and Other Payables	5,984,789	19,544,536	38,254,729	35,284,294	39,052,880
Total Equity & Liabilities:	1,439,738,116	1,329,618,492	1,258,106,481	1,010,783,065	900,762,192
Post-IPO Net Asset Value (NAV) per share	14.7	13.1	12.3	10.5	8.9

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