

# IPO Note on Aman Cotton Fibrous Limited

## Key IPO Facts

IPO Size (BDT mn)	800.0
IPO Size (Shares mn)	30.0
Cut-off Price	40
Public Offer Price Per Share (BDT)	36
Authorized Capital (BDT mn)	2,000.0
Pre-IPO Paid up Capital (BDT mn)	8,00.0
Post IPO Paid up Capital (BDT mn)	1,008.3
Year End	June
Sector	Textile
Revenue Size in 2016-17 (BDT mn)	1,734.3
Net Profit in 2016-17 (BDT mn)	277.0
Total Assets (BDT mn)	4,337.9
Retained Earnings (BDT mn)	2,063.9
Latest Anlzd. Post IPO EPS (Q3-2017-18)	2.57
Latest NAV per Share-Q3-2017-18	40.90
Issue Date of Prospectus	May 07, 2018
Issue Manager:	ICB Capital Management Ltd Register to the Issue:
	Prime Bank Investment Ltd

Source: BASL Research and Company Prospectus

## Company Overview

Aman Cotton Fibrous Limited (ACFL), incorporated in 2005, is primarily engaged in manufacturing of high quality combed and carded yarn in the domestic market as deemed export. ACFL mainly works as backward linkage to textile industry for knitting and fabric weaving purposes. The Company manufactures 100% cotton Carded, Combed & Semi-combed ring spun grey yarn for knitting as well as weaving. The company possesses an installed capacity of producing 6,780 MT of cotton yarn per year.

### Corporate Profile

<b>Incorporation</b>	December 28, 2005
<b>Commercial Operation</b>	November 01, 2007
<b>Key People</b>	Chairman: Md. Shofiqul Islam MD: Md. Rafiqul Islam
<b>Factory Location</b>	Sreepur, Gazipur, Bangladesh
<b>Subsidiary/Associate</b>	None

Source: BASL Research and Company Prospectus

## Products and Services

Name of Principal Products	Markets
Combed and carded yarn	Domestic market as deemed export

Source: BASL Research and Company Prospectus

## IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for acquisition & installation of brand new European machineries for expansion of existing project for increasing its capacity, repayment of existing long-term loan and defraying the IPO expenses. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Acquisition of Machinery & Equipments	663,375,000	83%
Loan Repayment	101,625,000	13%
IPO Expenses	35,000,000	4%
<b>Total</b>	<b>800,000,000</b>	<b>100%</b>

Source: BASL Research and Company Prospectus

The IPO project will be implemented within 12 months after receiving IPO fund. The commencement of the project within three months of implementation.

## 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.

Capacity	Existing (2016-17)	Forecasted 2017-18E	2018-19E
Installed (M Ton)	6,780.0	6,780.0	15,280.0
Utilization (M Ton)	6,310.0	6,441.0	10,904.0
Utilization (%)	93%	95%	71%

Source: BASL Research and Company Prospectus

## Shareholding Structure

### Share Holding:

Shareholder Type	No. of Stocks		Post IPO (%)
	Pre-IPO	Post-IPO	
Director & Sponsor	72,800,000	72,800,000	72.20%
Other than Director & Sponsor	7,200,000	7,200,000	7.14%
MF & Institutions		12,500,000	12.40%
NRBs		2,083,333	2.07%
General Public		6,250,000	6.20%
<b>Total</b>	<b>80,000,000</b>	<b>100,833,333</b>	<b>100.00%</b>

### IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
Eligible Investors (EIs)	10% for Mutual Funds & Institutions	2,083,333
	50% for Other EIs	10,416,667
General Public	10% for NRBs	2,083,333
	30% for Other Gen. Public	6,250,000
<b>Total</b>		<b>20,833,333</b>

Source: BASL Research and Company Prospectus

## Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	72,800,000	May 07, 2021
Private Placement Holders	7,200,000	May 07, 2019
Institutions (Post-IPO)	6,250,000	August 06, 2018
	3,125,000	August 07, 2018
	3,125,000	November 07, 2018
Public (Post-IPO)	8,333,333	August 06, 2018
<b>Total</b>	<b>100,833,333</b>	

\* Issue of prospectus date is on May 07, 2018.

\* 14,583,333 Shares will be tradable on 1st trading day.

Source: BASL Research and Company Prospectus

## Industry Insights

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 primary job of spinning mills is to produce yarn from raw cotton. As per Bangladesh Textile Mills Association web site (BTMA), there are 424 yarn manufacturers. Out of 424, there are 341 yarn manufacturers which are currently in operation. Annual yarn spinning capacity of this industry is 2410 million kg. Key raw material of this sector is raw cotton which is mostly imported from USA, Australia, India, Pakistan, China, Central America, East & West Africa etc. During last fiscal year (2015-16), 1,375,257 Ton raw cotton was imported.

According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the total fabric requirement in the captive market is about 3 billion yards, of which roughly 85 to 90 percent is imported from abroad. Fabric as well as Yarn demand is increasing at an average rate of 20 percent per year. Under this context, it is likely that there will be new entrants in the market to make it more competitive. As per BTMA, annual yarn spinning capacity is 2410 million kgs. which is capable of meeting 90% of total demand. The rest of the demand is fulfilled by importing yarn from abroad.

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 major competitors of the company are Square Spinning Mills Limited, Viyellatex Spinning Mills Limited, Maleque Spinning Mills Limited, Badsha Spinning Mills Limited, Naheed Cotton Mills Limited, Saiham Cotton Mills Limited, Maksons Spinning Mills Limited, Arif Knit Spinning Limited, Matin Spinning Mills Limited, Apex Spinning & Knitting Mills Limited, Delta Spinners Limited and Zaheen Spinning Limited. The turnover and market share of listed peer companies for the FY17 are described below:

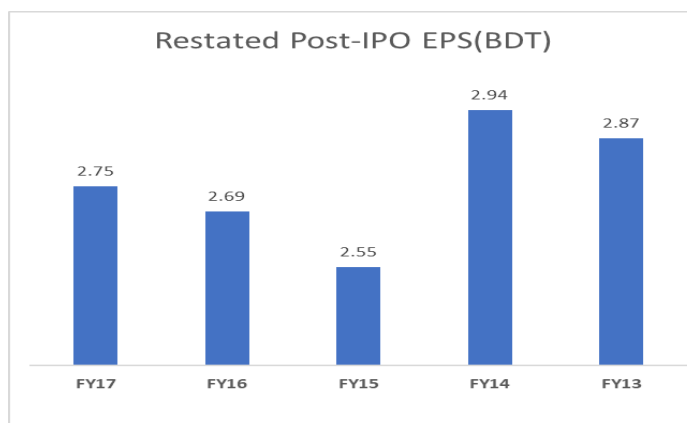
Company	Turnover (Tk in crore)	Paid-up Capital (Taka in crore)
APEXSPINN	431.9	8.4
DELTASPINN	107.7	137.6
DSSL	79.4	60.0
MATINSPINN	200.5	97.5
MHSML	106.1	89.8
ZAHEENSPIN	106.1	85.7

Source: BASL Research and Company Prospectus

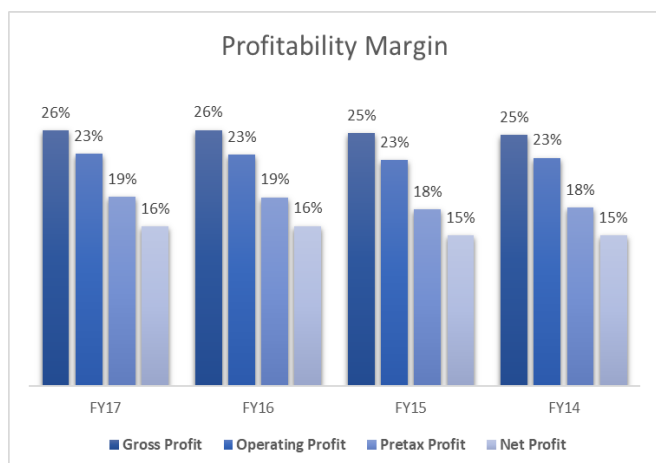
## Financial Information (BDT mn) and Key Ratio

Figure (mn)

Financials	FY17	FY16	FY15
Sales	1,734	1,694	1,710
Operating Profit	402	392	386
Profit After Tax	277	271	257
Assets	4,338	4,085	3,872
Long Term Debt	73	84	73
Equity	3,129	2,850	2,551
Dividend (C/B)%	-	-	-
<b>Margin Ratio</b>			
Gross Profit	26%	26%	25%
Operating Profit	23%	23%	23%
Pretax Profit	19%	19%	18%
Net Profit	16%	16%	15%
<b>Growth (%)</b>			
Sales	2%	-1%	-13%
Gross Profit	2%	0%	-13%
Operating Profit	3%	2%	-14%
Net Profit	2%	5%	-13%
<b>Profitability Ratio</b>			
ROA	6%	7%	7%
ROE	9%	9%	10%
<b>Debt Ratio</b>			
Debt Ratio	23%	24%	26%
Debt-Equity	32%	35%	39%
Int. Coverage	6.4	6.5	5.0
<b>Valuation</b>			
Rstd. EPS(BDT)	2.75	2.69	2.55
Post-IPO NAVPS	31.0	28.3	25.3



Source: BASL Research and Company Prospectus



Source: BASL Research and Company Prospectus

## Investment Rationale

- The company has positive Sales growth, stable financial position and there would have a positive and significant impact on the revenue and sales volume with the introduction of new machineries in its production process.
- The company has established market position, stable customer profile, good product quality, tag with captive consumption of yarn reflect continuous capacity utilization of average 96.0% in last six years.
- The company with stable financial position, having net profit margin stable to 15-16% in last four years, maintaining positive operating cash flow, strong equity base.
- The company has strong presence in the cotton yarn market of the Country on the back of long-standing relationships with clientele through its diversified product range and product quality in last one decade.
- 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

- In the last few years, the price of cotton and yarn has fallen significantly in the international market that resulted in decrease in sales. So, the revenue of the Company may be affected adversely due to decrease in selling price.
- 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.
- Since the company is a backward linkage company. Hence, there is chance of having own backward linkage by the garments companies.
- 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	20.7	53.3
Peer Forward P/E	27.4	70.5
Price to Book Value	1.5	62.1
Market Forward P/E	15.1	38.9
Latest Post-IPO NAV (Q3-2017-18)		40.9
Last twelve months average Price of Peer Companies		40.2
Pricing Sensitivity		
Stock at 15x PE	15	39
Stock at 20x PE	20	51
Stock at 25x PE	25	64
Stock at 30x PE	30	77
Stock at 35x PE	35	90
Stock at 40x PE	40	103

Source: BASL Research and Company Prospectus

As per relative valuation, the fair value of ACFL ranges from 38.9 to 70.5. And the last twelve months average price of peer companies is 41.9.

### Income Statements (Amount in BDT mn)

Particulars	FY17	FY16	FY15	FY14	FY13
Revenue	1,734,266,045	1,694,452,484	1,709,964,382	1,970,153,083	1,973,611,382
Cost of goods sold	1,291,717,191	1,260,904,822	1,277,876,133	1,476,265,229	1,479,412,627
<b>Gross profit</b>	<b>442,548,854</b>	<b>433,547,662</b>	<b>432,088,249</b>	<b>493,887,854</b>	<b>494,198,755</b>
<b>Operating expenses</b>	<b>40,477,243</b>	<b>41,378,198</b>	<b>45,717,363</b>	<b>44,393,945</b>	<b>27,268,251</b>
Administrative Expenses	26,562,639	25,597,344	23,665,546	21,331,851	17,174,152
Selling Expenses	13,914,604	15,780,854	22,051,817	23,062,094	10,094,099
<b>Profit from Operation</b>	<b>402,071,611</b>	<b>392,169,464</b>	<b>386,370,886</b>	<b>449,493,909</b>	<b>466,930,504</b>
Add: Other Income	5,130,123	3,763,007	8,674,461	1,255,809	-11,134,062
Less: Financial Expenses	63,023,368	60,511,204	78,027,512	82,160,265	81,951,103
Contribution to WPPF	16,389,446	15,972,441	15,096,087	17,551,879	17,802,159
<b>Net Profit before Tax</b>	<b>327,788,920</b>	<b>319,448,826</b>	<b>301,921,748</b>	<b>351,037,574</b>	<b>356,043,180</b>
<b>Income Tax Expenses</b>	<b>50,755,844</b>	<b>48,689,549</b>	<b>45,208,451</b>	<b>54,672,263</b>	<b>66,887,174</b>
Current Tax	39,724,602	38,311,791	37,073,679	44,234,558	39,857,656
Deferred Tax	11,031,242	10,377,758	8,134,772	10,437,705	27,029,518
<b>Net Profit after Tax</b>	<b>277,033,076</b>	<b>270,759,277</b>	<b>256,713,297</b>	<b>296,365,311</b>	<b>289,156,006</b>
<b>EPS (Post-IPO)</b>	<b>2.75</b>	<b>2.69</b>	<b>2.55</b>	<b>2.94</b>	<b>2.87</b>

### Statement of Financial Position (Amount in BDT mn)

Particulars	FY17	FY16	FY15	FY14	FY13
<b>Assets:</b>					
<b>Non-Current Assets</b>	<b>1,794,381,963</b>	<b>1,694,546,466</b>	<b>1,423,180,208</b>	<b>1,403,827,936</b>	<b>1,370,367,592</b>
Property, Plant & Equipment	1,442,587,677	1,381,113,217	1,272,133,079	1,320,515,041	1,370,367,592
Stock of Machineries					
Capital Work-In-Progress	351,794,286	313,433,249	151,047,129	83,312,895	
<b>Current Assets</b>	<b>2,543,511,142</b>	<b>2,390,719,882</b>	<b>2,448,831,433</b>	<b>2,320,330,269</b>	<b>2,038,181,862</b>
Inventories	981,166,296	958,845,202	1,006,523,507	978,635,108	989,433,514
Investment in Listed Securities	6,404,575	4,080,480	3,933,220	5,489,069	5,102,456
Accounts Receivable	843,778,786	775,314,538	811,075,653	990,446,869	990,981,270
Advances, Deposits & Prepayments	483,276,839	481,846,578	615,226,630	336,401,599	40,696,435
Loan to Sister Concern	189,896,835	129,376,835			
Cash & Cash Equivalents	38,987,811	41,256,249	12,072,423	9,357,624	11,968,187
<b>Total Assets</b>	<b>4,337,893,105</b>	<b>4,085,266,348</b>	<b>3,872,011,641</b>	<b>3,724,158,205</b>	<b>3,408,549,454</b>
<b>Shareholders Equity &amp; Liabilities:</b>					
<b>Shareholders' Equity</b>	<b>3,129,326,452</b>	<b>2,850,201,690</b>	<b>2,551,343,162</b>	<b>2,295,925,367</b>	<b>2,000,418,254</b>
Share Capital	800,000,000	800,000,000	800,000,000	800,000,000	800,000,000
Retained Earnings	2,063,982,851	1,786,949,775	1,516,190,498	1,259,477,202	963,002,733
AFS Reserve	-38,637	-2,130,323	-2,262,857	-967,356	
Revaluation Surplus	265,382,238	265,382,238	237,415,521	237,415,521	237,415,521
<b>Liabilities:</b>					
<b>Non-Current Liabilities</b>	<b>151,789,290</b>	<b>150,854,123</b>	<b>157,971,915</b>	<b>184,503,634</b>	<b>262,338,138</b>
Long Term Loan	73,442,949	83,771,435	73,314,994	107,730,056	196,002,265
Deffered Tax Liability	78,346,341	67,082,688	84,656,921	76,773,578	66,335,873
<b>Current Liabilities</b>	<b>1,056,777,363</b>	<b>1,084,210,535</b>	<b>1,162,696,566</b>	<b>1,243,729,204</b>	<b>1,145,793,062</b>
Short Term Borrowings	924,138,221	903,116,174	918,432,430	987,464,257	924,762,809
Long Term Loan (Current Maturity)	33,385,425	59,799,522	77,198,235	113,439,082	110,739,082
Liabilities For Expenses	36,037,680	39,077,004	28,388,427	29,613,967	28,019,943
Provision for Taxation	60,009,050	78,647,169	135,651,089	108,178,084	75,400,849
Trade and Other Payables	3,206,987	3,570,666	3,026,385	5,033,814	6,870,379
<b>Total Equity &amp; Liabilities:</b>	<b>4,337,893,105</b>	<b>4,085,266,348</b>	<b>3,872,011,643</b>	<b>3,724,158,205</b>	<b>3,408,549,454</b>
<b>Post-IPO Net Asset Value (NAV) per share</b>	<b>31.0</b>	<b>28.3</b>	<b>25.3</b>	<b>22.8</b>	<b>19.8</b>

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