

## ENVOY TEXTILES LIMITED

<b>DSE Ticker</b>	<b>ENVOYTEX</b>
<b>Bloomberg Ticker</b>	<b>ENTL:BD</b>
<b>Fair Value*</b>	<b>BDT 75.77</b>
<b>Convergence Period</b>	<b>By April 2015</b>
<b>Rating*</b>	<b>Overweight</b>

### Company Fundamentals

Industry	Textile
Price (26/08/2014)	BDT 51.8
Market Cap (DSE)	BDT 7184 mn USD 92.81 mn*
52-week range	BDT44-63.8
#Share Outstanding	140.6 mn
Free-float Shares	53.85%
Paid-up Capital	BDT 1406.0 mn USD 18.16 mn*
3-month Avg Turnover (BDT mn)	20.46
3-month Return	-0.2%

\* Exchange rate: USD 1 = BDT 77.44 (as on August 26, 2014)

### Key Financial Statistics (BDT million)

	2013A	2014E	2015E
Sales	3983	4839	7751
Op. Profit	683	673	1277
Net Profit	436	345	783
Assets	8901	10190	13488
LT Debt	781	2188	2972
Equity	5324	5476	5888
EPS*	3.10	2.45	5.57
DPS*	1.70	1.80	2.50
NAVPS*	37.9	38.8	41.9
P/E	16.7	21.1	9.3
P/B	1.4	1.3	1.2
EV/EBITDA	15.7	15.4	8.6

\*per share data

### Selected Ratios

	2013A	2014E	2015E
GP Margin	21.9%	19.0%	21.3%
OP Margin	17.1%	13.9%	16.5%
PAT Margin	10.9%	7.1%	10.1%
ROA	5.5%	3.6%	6.6%
ROE	9.4%	6.4%	13.8%
Debt-Equity	16.2%	56.2%	76.3%
Payout	55%	73%	45%

Envoy Textile Limited (ETL) is the first denim project in Bangladesh with rope-dyed technology and one of the Country's leading companies in the textile sector. It is a 100% export oriented company incorporated in 1995 and went into commercial operation in 2008. ETL offers a wide range of high quality denim products in various shades of indigo and black with a specialization in 6 oz to 14 oz ring and open-end denim. It also put a lot emphasize on Research and Development for new product innovation and color customization for exclusive customers. In June 2012, ETL accumulated fund of BDT 900 million, by issuing 30 million ordinary shares, from the capital market and enlisted with the bourses.

**The Company's expansion project (additional 26 million yards per year) is under installation** and of which 50% expanding capacity is in trial production process. We assumed 80% capacity utilization of 13 million yards for last six months of 2013-14. The Management expects that, from Q1 of 2014-15 the project will be fully operational.

**Recently, the BOD of ETL has finalized the plan to setup a yarn manufacturing project "ETL Spinning Unit"** with a production capacity of 17,500 ton. Around 70% of raw materials can be sourced from this project on completion. The Company's Management anticipates that, "ETL Spinning Unit" will reduce the COGS, as percentage of sales, by 1.5% to 2% range. They also expects that, commercial operation of the project will start by 1st quarter of 2016 and will increase yearly profit by BDT 400-450 million from expected turnover of USD 50 million p.a.

**ETL obtained foreign loan at lower interest rate** e.g., HSBC Bangladesh Limited arranged USD 10.00 million at an interest rate of three month LIBOR + 4.20%. It also got USD 20 million loan for spinning project under offshore financing arrangement from HSBC Bank Ltd. and BRAC Bank Ltd. for maximum 5 years tenor.

However, despite these positive features some uncontrollable issues like political turmoil can create significant hindrance in production process, delivery schedule as well as buyer's propensity to place new order.

**We conducted a valuation on Envoy Textile Limited based on both Discounted Cash Flow method and Relative Valuation methods while assuming next 5-Year CAGR of revenue will be 18.1%. Currently, ETL is traded at price of BDT 51.80 (as on 26 August 2014). In our valuation, the fair value of ETL is determined to BDT 75.77 registering 49.75% expected total return. We expect that ETL will converge to our fair value within eight month (April 2015) time frame from our valuation date.**

\*Disclaimer of ILSL & the Analysts and the Stock Rating definition is located at the end of this report.

## Bangladesh Textile Sector

Enjoyed 6% GDP growth, on an average, over the last ten years

Bangladesh has experienced economic growth of 6%, on an average, over the last ten years. In 2014-15, the size of the National budget is BDT 2,505.06 billion aiming 7.3% targeted GDP growth and below 7% inflation. Current GDP size of the country is BDT 13,395 billion. Export earnings and remittance from expatriates are the two strong pillars of the Country's economy growth. The Government has set an export target of USD 33.2 billion for 2014-15 fiscal, eyeing a 10.02% rise from the last fiscal. To achieve the targeted export growth various steps have been taken by the Government. Textile sector is the largest contributor of export earnings.

### Powerhouses of the economic growth

Around 80% of export income comes from textile sector

Textile and Apparel Sector of Bangladesh contributes more than 16% of GDP. This sector has generated employment of 3.6 million people directly, 80% of them are women. About 80% of export income comes from this sector. According to BB's provisional data, during July – June 2013-14, total export earnings from textile sector were about USD 24,491.88 million. Currently, 145 countries are using knit garments and 126 countries are using Bangladesh's woven products.

### Competitive Advantages

Lower labor cost and higher production capacity compared to competitors

Bangladesh's clothing industry has significant advantage in labor cost. According to a report published in The Economist "Its labor costs less than any of its Asian rivals': even a near tripling in the minimum wage, to \$100 a month, as garment workers are demanding from the government, would not change this." This sector also has advantage of production in scale: it has 5,000 factories, compared with 2,500 in Indonesia and 2,000 in Vietnam. Garments produced in Bangladesh enjoy duty-free access in the European Union, while the similar products from China, India and Sri Lanka do not get such privilege.

### Government's patronization

Several initiatives have been taken to stimulate the export

Bangladesh Government endorses the Country's export unswervingly; especially textile sector get most of the facilities. Various initiatives like, tax benefits, Export Development Fund (EDF) facility, Cash benefit etc., have been taken to stimulate the export. Recently, the government has reduced tax at source to 0.30% from the existing 0.80% until June 2015 and also provides 5% cash subsidy for exporters against advance TT.

### Auspicious denim sector

Prospective sub-sector in the textile industry with growing export demand

Denim industry is a promising sub-sector in textile industry with a total investment of BDT 70 billion. Bangladesh exports around 180 million pieces of denim annually and currently holds second place after China as largest denim producer. According to Bangladesh Textile Mills Association (BTMA) data, currently there are 25 Denim fabric manufacturers. Some major players in the denim sector are – Partex denim, Ha-Meem Denim Mills Ltd., Envoy Textiles Ltd. and Shasha Denims Ltd. etc.

Two denim companies are listed in the Country's capital market i.e., Envoy Textile Ltd. and Argon Denim Limited. In 2013, Envoy Textile Ltd. utilized around 87% of its 37 mn yards production capacity and Argon Denim Limited utilized around 62% of its 18 mn yards production capacity.

For the local market and exports, monthly demand for denim fabrics is assessed nearly 60 million yards of which around 30 million yards are produced locally while the rest is sourced through imports. Bangladesh earns around USD 600 million a year by exporting denim fabrics and denim-made garments. According to BGMEA data, in last ten months 2013-14 (July-April), the country exported nearly 150 million pairs of denim jeans in men's and boys' category.

#### Recent misfortunes

Buyers showed concern about compliance issues due to some recent occurrences

In the last few years some tragic events i.e., Tazrin, Rana plaza etc., brought forward the compliance issues of the garments factories. As a result, USA freezes the GSP facility while European Union (EU) is considering the fulfillment of compliance issues seriously. Meanwhile, poor work environment and irregular payment of benefit to workers creates labor dissatisfaction. However, to mitigate these problems various steps have already been taken. For example about 150 European brands, retailers and companies formed an accord to ensure work-place safety in the country's apparel units industry for a period of five years.

#### Competitive structure of the denim industry

##### The threat of new entrants in the industry

**High** threat of new entrants

Positive Demand-Supply Gap, Governments encouragement and above average profit opportunity will definitely attract new players. So, in the recent future more new denim manufacturers are expected to mobilize, indicating **high** threat of new entrants in the industry.

##### The threat of substitute products

**Low** threat of substitute products

Switching cost of the product, in terms of money, is low. However, denim is a customized fabric; hence, buyers' propensity to substitute the product is less likely. As a result, the threat of substitute products is **low**.

##### The bargaining power of buyers

**Moderately high** bargaining power of buyers

EU (European Union) and USA are the two major buyers of the Country's garments. They have bargaining leverage over the industry as well as they also displayed price sensitivity. Overall, the bargaining power of buyers is **moderately high**.

##### The bargaining power of suppliers

**High** bargaining power of suppliers

There are few major suppliers in the Country's denim market. Unsurprisingly, the bargaining power of suppliers is quite **high**.

##### The degree of rivalry among existing competitors

**Moderate** degree of rivalry among existing competitors

The denim industry is enjoying growth phase. Therefore, there is enough room for everyone to expand operation. As a result, the degree of rivalry among existing competitors is **moderate**.

## Envoy Textiles Limited - Company Overview

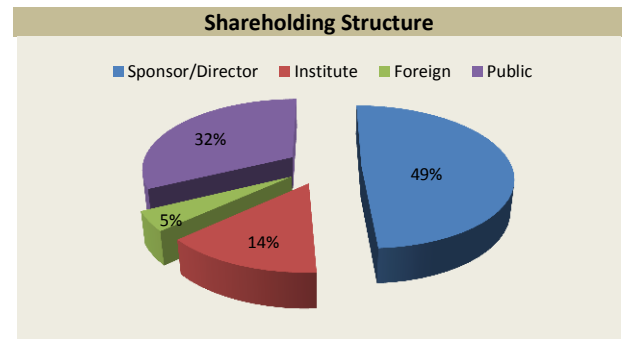
100% export oriented  
Denim Fabric manufacture

Envoy Textiles Limited (ETL) is a 100% export oriented denims fabric manufacturer. It is the pioneer of Rope Dying technology in Bangladesh. It has started its commercial operation on March 01, 2008. In 30 September 2009, with the consent of the Honorable High Court Division of the Supreme Court, ETL has taken over the business, all assets and liabilities of Edge Denims Ltd. The production facility of the Company is situated in Jamirdia, Bhaluka, Mymensingh with the total area of 117.12 Bighas of land.

### Shareholding Structure

Sponsors held 49% shares and numbers of free float shares are 71.71 million.

In July 2012, ETL offered 30 million ordinary shares at an issue price of BDT 30 (including BDT 20 premium) and raised BDT 900 million to expand its existing business. The Firm was enlisted with the DSE and the CSE on 09 December 2012. Of its total 140.60 million outstanding numbers of shares, numbers of free float shares are 71.71 million.



Source: DSE website

As per 2012-13 annual report, the Board of Directors is consisted of eight members including two independent directors.

### Board of Directors

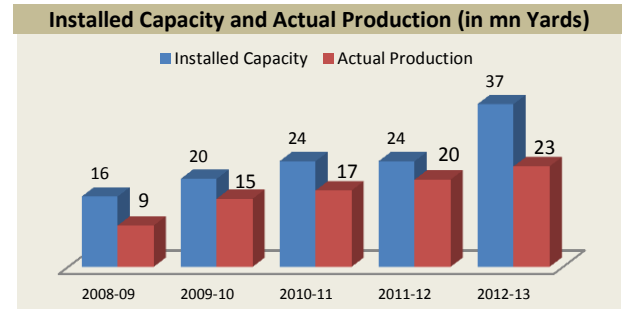
Mr. Kutubuddin Ahmed	Chairman
Mr. Abdus Salam Murshedy	Managing Director
Mrs. Rashida Ahmed	Director
Mrs. Sharmin Salam	Director
Mr. Tanvir Ahmed	Director
Ms. Shehrin Salam Oishee	Director
Mr. Abul Kalam Azad, FCA	Independent Director
Mr. Sk. Bashir Ahmed	Independent Director

Source: ETL Annual Report 2012-13

### Production Capacity

Production capacity is increased from 24 million yards to 50 million yards

The Company gradually increased its production capacity from 16 million yards per year in 2008-09 to 24 million yards per year in 2011-12. In July 2012, it has raised BDT 900 million from capital market through IPO (Initial Public Offering) and utilized the fund for establishing its 2nd unit of denim plant to increase its production capacity by 26 million yards per year.



Source: ETL Annual Report 2012-13 & ILSL Research

Slower pace for project implementation

The expansion project is under installation process and of which 50% (13 mn yards) expanding capacity is in trial production. As per the IPO Prospectus, the new unit should have come into operation by May 2013. But slower pace of importing capital machinery as well as unavoidable political instability caused the Company to lag way behind its targeted completion time. Up to 30 September 2013, only 1,757,287 yards or 13.52% was utilized of new 13 mn yards production capacity.

### Corporate Governance

Upholds effective corporate governance practices

The Company upholds effective corporate governance practices. Most of the issues, mentioned in Bangladesh Security & Exchange Commission's (BSEC) Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012, are fulfilled by the Company. Some of these practices are –

- The board of directors is consisted of eight members of which two are independent directors. Both independent directors are professionally qualified.
- The Chairman and the Chief Executive Officer are different persons. The role of the Chairman and the CEO are independent and separate.
- For the post of CFO, Head of Internal Audit and Company Secretary three separate persons, each of different specialized discipline, have been appointed with their corresponding duties and responsibilities.
- Executive committee and audit committee were working within their respective responsibilities.
- The BSEC's guidelines are being strictly followed to appoint statutory Auditors.

Regular board meeting are conducted. In 2012-13, total twelve (12) board meetings were held.

### Revenue

Produces both basic and premium denim

Envoy Textile produces both basic and premium denim in a range from 6.5oz to 15oz that comes in a variety of shades and cast basic indigos and sulphur topping or bottoming in 100% cotton and a variety of blends. ETL specializes in 6 oz to 14 oz ring and open-end denim.

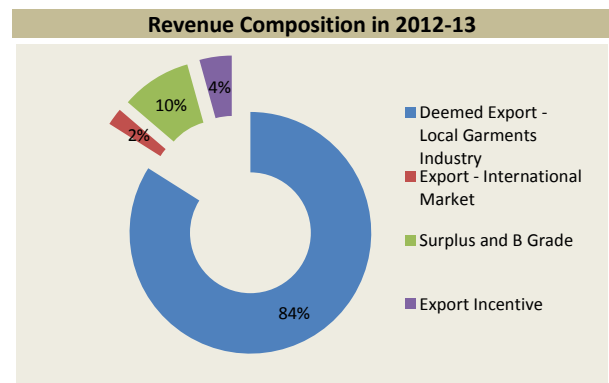
Around 84% of its revenue came from selling denim to local RMG exporters

In 2012-13, around 84% of its revenue came from selling denim to local RMG exporters (who convert fabrics to garments in

Bangladesh and then export to abroad), while only 3% of total revenue comes from direct export. However, the Company has intention to increase its revenue proportion from direct export to 10%. ETL exports directly to countries like Cambodia, Egypt, Germany, India, Italy, Kenya, Nepal, Turkey, Sri Lanka and USA.

Recent performance has been dampened due to political turmoil

Historically, ETL enjoyed growth in its revenue over the years. However, in the Q1 (Oct-Dec) of 2013-14, revenue suffered severely due to political turmoil. In Q2 (Jan-Mar) and Q3 (Apr-Jun) of 2013-14 the Company tried to retrieve some of its lost position. In particular, Q3 was a good come back. The Company reported revenue growth of 22% in Q3 of 2013-14 compared to revenue in Q3 of 2012-13. Although nine months total revenue of 2013-14 is only 5% higher compared to nine months total revenue of 2012-13.



Source: ETL Annual Report 2012-13 & ILSL Research

### Raw Materials

Yarns are procured via Back to Back LC from local market

Major raw materials of the Company are yarn and chemicals which consisted 79.81% and 10.05% respectively of total COGS in 2012-13. Yarn is mainly procured via Back to Back LC from local market. There are several raw material suppliers for open-end denim whereas only two firms provides raw materials for ring denim. In case, the rate of yarn in the international market is lower than that of local market, then it is procured from foreign market.

A spinning unit with 17,500 ton production capacity is planned to setup

After full implementation of unit-2, around 24,000 ton yarn will be required. However, recently ETL has declared its plan to set up a spinning mill with a capacity of producing 17,500 ton yarn per year. After initiating the operation in the spinning unit, ETL can source around 70% of its required raw material internally.

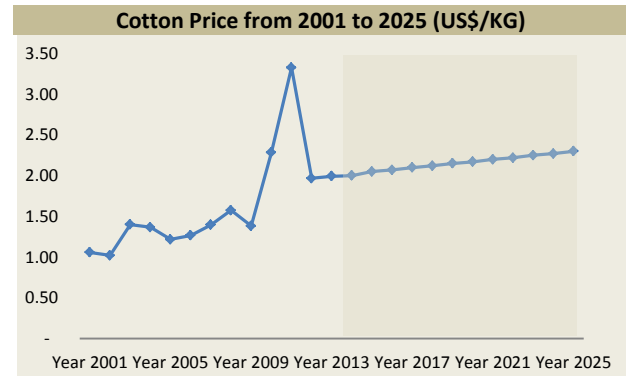
Chemicals are entirely imported

On the other hand, chemicals are entirely imported mainly from Thailand, HongKong, Indonesia, India, China and Singapore. In 2012-13, the firm has consumed 3,037.73 ton of dyes and chemicals. On an average, ETL needed around 67 days, which has displayed increasing trend, to convert its inventory into sales.

Yarn price is more volatile between these two major raw materials as price of yarn is directly correlated with cotton production. World Bank has forecasted cotton price in its commodity market outlook (along with historical trend) July 2014 which is displayed in the above chart.

Denim Production & Yarn Consumption			
	2010-11	2011-12	2012-13
Actual Production of Denim (in '000 yards)	17,385	19,824	22,845
Consumed Yarn (in '000 ton)	10,131	10,849	12,030

Source: ETL Annual Report & ILSL Research



Source: World Bank & ILSL Research

### Financial Performance

#### Liquidity Position

Faster growth rate of current liabilities than that of current assets caused weakening liquidity position over the period

Both current assets and current liabilities increased over the period mainly due to higher accounts receivables and short term loan respectively. However, the growth rate of current liabilities exceeded than that of current assets resulting weakening liquidity position of the Company.

	2010-11	2011-12	2012-13
<b>Current Ratio</b>	1.68	1.07	0.88
<b>Quick Ratio</b>	1.18	0.84	0.63

Source: ILSL Research



### Operating Efficiency

Operating efficiency increased whereas higher fixed assets causing lower asset turnover ratios

The Company managed to collect cash faster from its customers compared to paying cash to its supplier i.e., increased operating efficiency as indicated by reducing cash conversion cycle. Production capacity expansion (unit-2) increased total assets base particularly fixed assets which caused lower asset turnover ratios in 2012-13.

	2010-11	2011-12	2012-13
<b>Receivable Turnover</b>	5.9	5.4	4.9
<b>Inventory Turnover</b>	3.8	3.4	3.5
<b>Receivable Collection Period</b>	95.0	105.9	104.1
<b>Inventory Conversion Period</b>	60.8	67.2	72.4
<b>Operating Cycle (Days)</b>	155.8	173.1	176.5
<b>Payables Turnover</b>	3.6	2.8	1.9
<b>Payables Payment Period</b>	100.3	127.8	190.6
<b>Cash Conversion Cycle (Days)</b>	55.5	45.3	(14.1)
<b>Total Asset Turnover</b>	59.8%	58.7%	50.4%
<b>Fixed Asset Turnover</b>	84.7%	89.5%	73.2%

Source: ILSL Research

### Profitability Scenario

Profit margins showed slightly declining trend due to political instability

Profit margins showed declining trend somewhat. Price fluctuation of raw materials, increased administrative expenses and expiration of tax holiday facility are the underlying reasons for downward profit margins. As the growth rate of assets and the growth rate of equity are higher than that of net profit, ROA and ROE dropped over the periods.

	2010-11	2011-12	2012-13
<b>Gross Profit Margin</b>	21.0%	21.0%	21.9%
<b>Operating Profit Margin</b>	18.7%	17.5%	17.1%
<b>Net Profit Margin</b>	13.2%	11.3%	10.9%
<b>Return on Total Assets</b>	7.9%	6.6%	5.5%
<b>Return on Equity (ROE)</b>	12.3%	11.0%	9.4%

Source: ILSL Research

### Decomposition of ROE

Net profit margin has most significant impact on ROE

Further effort was given to provide better insights on Return on Equity (ROE). For this purpose DuPont analysis and a sensitivity analysis were done.

	2010-11	2011-12	2012-13
<b>Net Profit Margin</b>	13.2%	11.3%	10.9%
<b>Total Asset Turnover</b>	59.8%	58.7%	50.4%
<b>Financial Leverage</b>	1.6	1.7	1.7
<b>ROE</b>	<b>12.3%</b>	<b>11.0%</b>	<b>9.4%</b>

Source: ILSL Research

Net profit margin and total asset turnover displayed dipping trend whereas financial leverage increased somewhat over time. A sensitivity analysis was conducted which pointed out that, net profit margin has most significant impact on ROE.

### Leverage & Coverage Ratios

Put emphasizes on equity based financing which is reflected on the firm's leverage ratios

ETL emphasizes on equity based financing which is reflected on the firm's leverage ratios. Due to less dependency on debt it also exhibited strength to pay off its debt obligation.

	2010-11	2011-12	2012-13
<b>Debt to Asset</b>	21.6%	20.0%	16.2%
<b>Debt to Equity</b>	33.9%	35.2%	27.2%
<b>Times Interest Earned</b>	3.83	3.58	4.03

Source: ILSL Research

**SWOT Analysis**

Strengths	Weakness
<ul style="list-style-type: none"> <li>Enhanced production capacity</li> <li>Concentration on research and new product development</li> <li>Wide product range</li> <li>Good corporate governance</li> <li>State-of-the-art technology</li> <li>Seasoned management</li> </ul>	<ul style="list-style-type: none"> <li>Slow pace of project implementation</li> <li>Non-Diversified revenue source – high dependency on export</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Strong global demand for denim fabric</li> <li>Untapped high end product market</li> <li>Forward linkage into garment production</li> </ul>	<ul style="list-style-type: none"> <li>Political instability</li> <li>Price fluctuation of raw materials</li> <li>Adverse changes in the Government's policy regarding export</li> <li>Stiff competition for export with regional players</li> <li>Exchange rate fluctuation</li> </ul>

**Technical indicators & performance in the DSE**

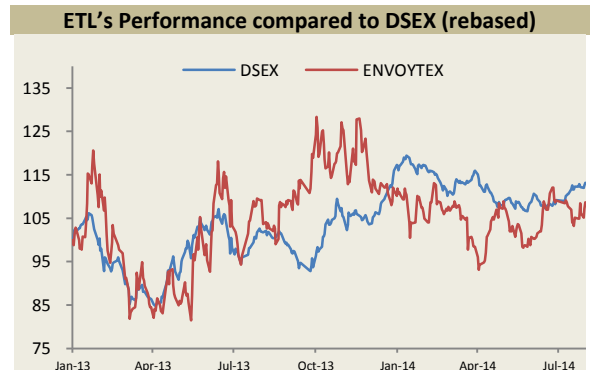
Most of the time ETL underperformed in the DSE compared to broad based index - DSEX.

ETL displayed moderate correlation (0.40) with DSEX in period of January 2013 to August 2014.

During the year 2014 the stock has been traded within a range of BDT 45 to BDT 54. At the end of August 2014, the last 200 Day Simple Moving Average (SMA) of the stock was 51.96 while the last 50 Day Simple Moving Average (SMA) was 49.97 indicating a lack of momentum. Besides at daily chart, the MACD (12,26) is below the Signal (12,26,9) Line confirming the lack of bullish bias. However, current level of RSI (15) is 45.74, which is lower than current month's (August '14) high of 57.34.

Return in DSE: DSEX Vs ENVOYTEX		
	DSEX	ENVOYTEX
1-Year Return	11.8%	-0.5%
6-Months Return	-3.4%	3.6%
3-Months Return	4.8%	-0.2%
1-Month Return	3.7%	-0.4%
15-days Return	1.4%	4.4%
1-Week Return	0.3%	3.6%

Source: DSE & ILSL Research



Source: DSE & ILSL Research



## Envoy Textiles Limited - Valuations & Key Assumptions

To discover the fair value of Envoy Textiles Ltd., Discounted Cash Flow (DCF) method is used along with P/E Multiple methods and P/B Multiple method.

### Assumptions for DCF Valuation

3 year CAGR of revenue was 27.7%. Optimal capacity utilization over the period and growth rates are assumed for revenue forecast

**Revenue:** ETL has exhibited, on an average, 9% revenue growth in the last two years. For revenue forecast Unit-1 was expected to run at optimum capacity i.e. 88% whereas capacity of unit-2 will speeded up over

	Projected Capacity Utilization				
	2013-14	2014-15	2015-16	2016-17	2017-18
Unit 1	88%	88%	88%	85%	84%
Unit 2	80%	80%	82%	85%	88%

the time. For 2013-14, 50% capacity of Unit-2 is assumed to be fully utilized for the last 6 months only. In the meantime, per unit price is projected to be slightly higher than current price. In the year 2015-16, year 2016-17 and year 2017-18, revenue is assumed to increase by 7%, 6% and 4% growth rate respectively.

Scheduled backward linkage may result to decline the COGS by around 1% - 2% as a percentage of sales

**COGS:** As per discussion with the Management, we considered several factors like in-house raw materials production facility through spinning unit, expected cotton price in international market, established relationship with the suppliers and benefit obtained from EDF facility. All these factors should have positive impact on the COGS. Therefore, for the valuation purpose we assumed the forecasted COGS (as percentage of sales) to be declined by 1% - 2% over the period.

As a percentage of sales

**Administration & General Expenses:** 3 years average, as percentage of sales, was 3% with an increasing trend. Extended production capacity will increase the variable cost in proportion to the turnover. We anticipated that, overall expenditure will reduce slightly in future due to operating efficiency.

As a percentage of sales

**Selling & Distribution Expenses:** 3 years average, as percentage of sales, was 0.60% and it showed upward trend. For forecasting purpose we assumed it to be 0.95% as percentage of sales.

Competence to avail foreign loan at lower cost brought ETL's weighted average effective interest rate at 7.45%.

**Interest Rate:** ETL availed foreign loan facility @ three month LIBOR+4.20% arranged by HSBC Bangladesh Limited. On 20 August 2014, it also got approval for USD 20 million loan facilities under offshore financing arrangement from HSBC Bank Ltd. and BRAC Bank Ltd. As per management discussion, large portion of long term loan endured low interest rate which brought its weighted average effective interest rate at 7.45%. This estimated interest rate is used for valuation purpose.

Effective tax rate was measured as 13.75%

**Effective Tax Rate:** The marginal tax rate of the Company is 27.5%. However, since the company is 100% export oriented, 50% of trading income is exempted from tax under paragraph 28 of Part A of the Sixth Schedule of the Income Tax Ordinance 1984. Therefore, effective tax rate was measured as 13.75%.

Weighted Average Cost of Capital (WACC) was **12.04%**

**Weighted Average Cost of Capital (WACC):** Cost of equity was calculated by using Build up Method. We considered ETL's operating risk and financial risk to estimate a risk premium and add this risk premium with risk free rate. Cut off yield of 5-year T-bond (August 20, 2014) was used as risk free rate.

Determination of WACC		
Particulars	Rate	Weight
Risk Free Rate	9.82%	
Equity Risk Premium	5.00%	
<b>Cost of Equity</b>	<b>14.82%</b>	<b>67%</b>
<b>Cost of Debt</b>	<b>7.45%</b>	<b>33%</b>
<b>WACC</b>	<b>12.04%</b>	

Terminal growth is assumed to be 3.5%

**Terminal Growth Rate:** 5 years average ROE (8.9%) and Retention ratio (45%) of the year 2013 indicated terminal growth rate of 4%. Here for the valuation purpose, terminal growth rate was assumed to be 3.5%.

### DCF Valuation

Value per share on DCF Valuation method is BDT 78.53

For Discounted Cash Flow (DCF) valuation five years forecast of free cash flow to the firm (FCFF) was made along with a terminal value. Then Enterprise Value was calculated by discounting the FCFFs and the terminal value to present value. To get equity value of the firm net debt was subtracted from enterprise value. Then equity value of the firm was divided by outstanding number of shares and determined the Value per Share to **BDT 78.53**.

### Sensitivity Analysis

Sensitivity of discount rate and terminal growth rate on DCF value was examined

Sensitivity analysis of DCF value per share on discount rate and terminal growth rate was checked. We considered discount rate with a range of 11.5% to 12.5% and terminal growth rate with a range of 3.0% to 4.0%. As a result, we got a value range from **BDT 68.34** to **BDT 91.40**.

Sensitivity Analysis						
		Discount Rate				
		11.5%	11.8%	12.0%	12.3%	12.5%
Terminal Growth Rate	3.0%	80.25	77.02	73.96	71.07	68.34
	3.3%	82.79	79.39	76.18	73.15	70.29
	3.5%	85.48	81.90	<b>78.53</b>	75.35	72.35
	3.8%	88.34	84.57	81.02	77.68	74.53
	4.0%	91.40	87.40	83.66	80.15	76.84

Source: ILSL Research

### Scenario Analysis

Scenario analysis exhibited a value range from **BDT 57.09** to **BDT 99.03**

The value per share from DCF method is further examined by scenario analysis. Two peripheral situations – optimistic scenario and pessimistic scenario were considered. By changing assumptions in the variables, like, Terminal growth rate, COGS, Administrative & General Expenses and Selling & Distribution Expenses, we got BDT **57.09** under pessimistic scenario and **BDT 99.03** in optimistic scenario.

Scenario Analysis			
	Pessimistic Scenario	Most Likely Scenario	Optimistic Scenario
Enterprise Value	10,598	13,612	16,495
Add: Cash	50	50	50
Less: Interest Debt	2,622	2,622	2,622
Equity Value of the Firm	8,026	11,041	13,923
Share Outstanding	140.6	140.6	140.6
<b>Value Per Share</b>	<b>57.09</b>	<b>78.53</b>	<b>99.03</b>

## Relative Valuations

Price/Earnings (P/E) multiple method and Price/Book value (P/B) multiple method were used for relative valuation.

For conducting relative valuation we used two methods – Price/Earnings (P/E) Multiple, and Price/Book Value (P/B) Multiple.

### Method 1: Price/Earnings Multiple

	Benchmark Multiple	Appropriate Variables	Estimated Value
Sector's F.P/E	13.0	5.57	72.38
Market's F. P/E	16.7	5.57	92.98
<b>Estimated Value (Average) (BDT)</b>			<b>82.68</b>

### Method 2: Price/Book Value Multiple

	Benchmark Multiple	Appropriate Variables	Estimated Value
Sector's P/B	1.2	37.9	45.44
Market's P/B	2.0	37.9	75.73
<b>Estimated Value (Average) (BDT)</b>			<b>60.58</b>

## Fair Value

ILSL Fair Value for Envoy Textile Limited is **BDT 75.77**.

To discover the fair value of ETL, each value from DCF method and from relative valuation methods were used. However, higher weights are assigned on DCF valuation compared to relative valuation due to thoroughness of analysis. Assigned weights and respective values are as follows:

	Weights	Value
<b>DCF</b>	60%	78.53
<b>Relative Valuations</b>		
P/E	20%	82.68
P/B	20%	60.58
<b>ILSL Fair Value</b>		<b>75.77</b>

Current market price is expected to converge to the fair value within eight month time frame from valuation date.

**In our opinion, the fair value of Envoy Textiles Limited is BDT 75.77.** We reached this value on the basis of detailed analysis, recent trend in the market and discussion with the Company's Management. If our underlying assumptions remain by and large accurate, we expect that ETL will converge to our fair value within eight months (April 2015) time frame from our valuation date.

**Annexure: 01**

**Envoy Textiles Limited**  
**Statement of Comprehensive Income**

Particulars	2012-13	2013-14E	2014-15E	2015-16E
Revenue	3,983,610,866	4,838,837,379	7,750,668,657	8,293,215,463
Cost of Goods Sold	3,109,944,679	3,919,458,277	6,098,124,129	6,442,060,664
<b>GROSS PROFIT</b>	<b>873,666,187</b>	<b>919,379,102</b>	<b>1,652,544,528</b>	<b>1,851,154,799</b>
<b>Operating Expenses</b>	<b>190,789,290</b>	<b>246,780,706</b>	<b>375,907,430</b>	<b>402,220,950</b>
Administrative & General Expenses	163,067,049	198,392,333	302,276,078	323,435,403
Selling & Distribution Expenses	27,722,241	48,388,374	73,631,352	78,785,547
<b>Profit From Operations</b>	<b>682,876,897</b>	<b>672,598,396</b>	<b>1,276,637,098</b>	<b>1,448,933,850</b>
Financial Expenses	169,339,112	255,456,682	322,627,692	392,410,348
Other Non-Operating Income	15,013,021	10,613,709	11,550,000	13,860,000
Other Non-Operating Expenses	16,090,427	-	-	-
<b>Profit Before WPPF</b>	<b>512,460,379</b>	<b>427,755,423</b>	<b>965,559,406</b>	<b>1,070,383,501</b>
Provision for WPPF	24,402,875	20,369,306	45,979,019	50,970,643
<b>Profit Before Tax</b>	<b>488,057,504</b>	<b>407,386,117</b>	<b>919,580,387</b>	<b>1,019,412,859</b>
Income Tax Expenses	52,514,926	62,471,681	136,782,171	150,695,328
Current Tax	14,477,364	62,471,681	136,782,171	150,695,328
Deferred Tax	38,037,562	-	-	-
<b>Profit After Tax</b>	<b>435,542,578</b>	<b>344,914,437</b>	<b>782,798,216</b>	<b>868,717,531</b>
<b>EPS</b>	<b>3.10</b>	<b>2.45</b>	<b>5.57</b>	<b>6.18</b>

**Annexure: 02**
**Envoy Textiles Limited**
**Statement of Financial Position**

	2012-13	2013-14E	2014-15E	2015-16E
<b>Assets</b>				
<b>Non-Current Assets:</b>	<b>6,427,128,721</b>	<b>7,078,641,510</b>	<b>8,664,700,651</b>	<b>9,443,030,324</b>
P,P &E-Carrying Value	3,998,700,636	4,943,343,091	7,104,543,537	8,654,888,921
Deferred Expenses	24,885,326	22,396,793	20,157,114	18,141,403
Capital Work in Progress	2,403,542,759	2,112,901,627	1,540,000,000	770,000,000
<b>Current Assets:</b>	<b>2,474,208,172</b>	<b>3,110,965,212</b>	<b>4,823,750,182</b>	<b>5,275,828,954</b>
Inventories	681,629,585	822,602,354	1,317,613,672	1,409,846,629
Materials In Transit	42,006,091	58,066,049	93,008,024	99,518,586
A/C Receivable	1,052,840,269	1,451,651,214	2,325,200,597	2,487,964,639
Export Incentive Receivable	394,985,136	485,571,251	660,677,442	804,961,123
Advances, Deposits and Prepayments	195,472,902	188,074,344	301,250,447	322,337,978
Investment	76,069,430	75,000,000	90,000,000	108,000,000
Cash and Cash Equivalents	31,204,759	30,000,000	36,000,000	43,200,000
<b>Total Assets</b>	<b>8,901,336,893</b>	<b>10,189,606,722</b>	<b>13,488,450,833</b>	<b>14,718,859,278</b>
<b>Equity &amp; Liabilities</b>				
<b>Shareholders' Equity:</b>	<b>5,323,657,885</b>	<b>5,456,451,321</b>	<b>5,887,762,037</b>	<b>6,334,694,567</b>
Paid up Capital	1,365,000,000	1,405,950,000	1,405,950,000	1,405,950,000
Share Premium	1,120,000,000	1,120,000,000	1,120,000,000	1,120,000,000
Revaluation Surplus	1,749,817,068	1,739,304,433	1,729,000,621	1,718,909,130
Retained Earnings	760,918,627	863,274,697	1,304,889,225	1,761,913,247
Tax Holiday Reserve	327,922,190	327,922,190	327,922,190	327,922,190
<b>Non-Current Liabilities:</b>	<b>780,800,065</b>	<b>2,187,837,618</b>	<b>2,972,005,678</b>	<b>2,811,295,299</b>
Secured Loan	780,800,065	2,187,837,618	2,972,005,678	2,811,295,299
<b>Current Liabilities:</b>	<b>2,796,878,944</b>	<b>2,545,317,784</b>	<b>4,628,683,118</b>	<b>5,572,869,412</b>
Secured Loan (Current Portion)	134,795,636	658,862,382	1,032,444,944	1,251,367,143
A/C Payable	2,011,589,300	1,451,651,214	2,712,734,030	3,151,421,876
Short Term Liabilities	530,263,825	219,838,979	488,079,295	615,822,014
Provision for Expenses	40,319,215	72,582,561	116,260,030	124,398,232
Provision for Current & Deferred Tax	79,910,968	142,382,649	279,164,819	429,860,147
<b>Total Equity &amp; Liabilities</b>	<b>8,901,336,894</b>	<b>10,189,606,722</b>	<b>13,488,450,833</b>	<b>14,718,859,278</b>
<b>NAV per Share</b>	<b>37.9</b>	<b>38.8</b>	<b>41.9</b>	<b>45.1</b>

**Annexure: 03**
**Envoy Textiles Limited**
**Valuation: Discounted Cash Flow (DCF)**

	2012-13	2013-14E	2014-15E	2015-16E	2016-17E	2017-18E	Terminal
<b>Profit After Tax</b>	146,054,984	220,331,388	278,266,385	338,453,925	300,186,943	270,999,369	270,999,369
Add: Interest Expenses After Tax	181,556,859	210,542,499	309,168,037	424,414,773	487,981,952	496,600,051	496,600,051
Add: Depreciation & Amortization	384,274,663	(1,104,234,289)	(250,242,514)	170,642,604	166,011,561	225,767,782	225,767,782
Changes in NWC (Additions to)	(2,150,666,727)	(247,167,155)	(355,227,177)	(432,744,446)	(470,459,006)	(469,169,094)	(469,169,094)
Property, Plant & Equipment	146,054,984	220,331,388	278,266,385	338,453,925	300,186,943	270,999,369	270,999,369
<b>Free Cash Flow to the Firm</b>	<b>(1,003,237,643)</b>	<b>(575,613,119)</b>	<b>764,762,946</b>	<b>1,369,484,387</b>	<b>1,470,347,693</b>	<b>1,563,401,767</b>	<b>18,938,428,326</b>
P.V Adjusted Free Cash flow to the Firm		(513,737,939)	609,184,364	973,621,039	932,961,804	885,371,163	10,725,034,773
Enterprise Value	13,612,435,204						
Plus: Cash	49,876,932						
Less: Interest Debt	2,621,668,941						
<b>Equity Value</b>	<b>11,040,643,195</b>						
No. of Share Outstanding	140,595,000						
<b>Value per Share</b>	<b>78.53</b>						



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**Overweight:** Expected to outperform the broader market averages;

**Market weight:** Expected to equal performance of broader market averages;

**Underweight:** expected to underperform broader market averages.

**Not-Rated:** Currently the analyst does not have adequate conviction about the stock's total return relative to the broader market average

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