ADVANCED CHEMICAL INDUSTRIES (ACI) LIMITED

DSE: **ACI**
BLOOMBERG: **ACI:BD**

Company Overview

ACI Limited (ACI) was established as a subsidiary of Imperial Chemical Industries (ICI) on January 24, 1973. In 1992 ICI Plc divested its shareholding through a management buyout and the Company was renamed from ICI Bangladesh Manufacturers Limited to Advanced Chemical Industries (ACI) Limited. The conglomerate has 14 subsidiaries, 3 associates and 2 joint ventures investment.

Revenue Composition of ACI & its major Subsidiaries:

	Ownership	Contribution	Growth		Pretax Margin	
		2017-18	2016-17*	2017-18	2016-17	2017-18
ACI Pharma	--	16%	25%	10%	19%	14%
ACI Retail Chain	76%	16%	56%	3%	-15%	-14%
ACI Motors	68%	16%	143%	45%	10%	9%
ACI Consumer	--~	12%	28%	26%	-5%	7%
ACI Pure Flour	95%	7%	36%	4%	6%	4%
ACI Food	95%	7%	296%	22%	-4%	-8%
ACI Animal Health	--~	6%	42%	14%	10%	2%
ACI Premiaflex	87%	5%	35%	29%	16%	5%
Consolidated			**52%**	**18%**	**5%**	**3%**

*Growth for 2016-17 (Jul-Jun) is calculated over 2015 (Jan-Dec); ~Data not available

Consolidated net profit of ACI continued to decline since the first quarter of 2017-18 despite healthy growth in its revenue. The underlying reasons are stated below:

Continued loss in ACI Logistics Limited (76% owned subsidiary) eating up a significant portion of the consolidated net profit despite having positive growth in revenue.

Particulars (BDT mn)	2015 (12M)	2016 (6M)	2016-17 (12M)	2017-18 (12M)	2018-19 (3M)
Revenue	5,677	3,336	8,917	9,099	2,326
Loss Before Tax	(1,075)	(605)	(1,297)	(1,295)	(335)
% of Revenue	-18.9%	-18.1%	-14.5%	-14.2%	-14.4%

- ✓ **Consolidated finance costs increased significantly** over the years as the Company has to borrow funds (both long term and short term) for incremental working capital obligation to support the sales growth along with increased interest rate.

Particulars (BDT mn)	2015 (12M)	2016 (6M)	2016-17 (12M)	2017-18 (12M)	2018-19 (3M)
As % of OP*	47%	48%	44%	69%	70%

* Finance Expenses as % of profit before interest and tax

- ✓ **Recent depreciation of BDT against USD pushed up the import bills** hurt the cost structure. The Company imported around 41% of its raw materials consumed in 2017-18.
- ✓ **Share of profit of equity accounted investees are also in decreasing trend**. In 2017-18, profit share was BDT 35.43 million which was BDT 143.91 million in last year.
- ✓ **Withdrawal of import duty on rice led to huge importation of rice** that impacted rice processing business. Loss before tax of ACI Food was BDT 278.70 million in 2017-18 which was BDT 107.27 million in last year.
- ✓ **Consolidated higher income tax expenses also led to lower the net profit of the Company**. In the first quarter of 2018-19 effective tax rate was 90% which was 71% & 53% in 2017-18 & 2016-17 respectively.

Company Fundamentals

Market Cap (BDT mn)	16,278.9
Market weight	0.5%
No. of Share Outstanding (in mn)	48.2
Free-float Shares (Public+Institution+Foreign)	54.5%
Paid-up Capital (BDT mn)	482.0
3-month Average Turnover (BDT mn)	11.5
3-month Return	-2.7%
Current Price (BDT)	326.3
52-week price range (BDT)	324.6 - 478.0
Sector's Forward P/E	18.0

	2015 (Jan-Dec)	2016-17 (Jul-Jun)	2017-18 (Jul-Jun)	2018-19 (3M Annu)
Financial Information (BDT mn):				
Sales	31,383	47,668	56,123	58,527
Gross Profit	9,840	14,104	15,866	17,685
Operating Profit	2,520	3,285	3,245	4,030
Profit After Tax	2,795	1,036	411	115
Assets	31,036	46,970	55,446	57,186
CAPEX	1,662	1,872	1,372	148
Long Term Debt	1,955	5,151	7,972	7,829
Short Term Debt	12,123	21,372	26,093	26,828
Equity	10,053	10,639	11,020	11,127
Margin:				
Gross Profit	31.4%	29.6%	28.3%	30.2%
Operating Profit	8.0%	6.9%	5.8%	6.9%
Pretax Profit	12.5%	4.6%	2.5%	1.9%
Net Profit	8.9%	2.2%	0.7%	0.2%
Growth*:				
Sales	21.5%	51.9%	17.7%	4.3%
Gross Profit	22.2%	43.9%	12.5%	11.5%
Operating Profit	6.1%	30.4%	-1.2%	24.2%
Net Profit	483.3%	-62.9%	-60.4%	-72.0%
Profitability:				
ROA	10.5%	2.5%	0.8%	0.2%
ROE	39.0%	10.1%	3.8%	1.0%
Operating Efficiency Ratio:				
Inventory Turnover	4.5	5.0	5.0	4.9
Receivable Turnover	6.8	6.6	5.8	5.0
A/C Payable	9.5	16.5	17.5	15.8
Total Asset Turnover	1.2	1.1	1.1	1.0
Fixed Asset Turnover	3.0	2.8	2.7	2.5
Leverage:				
Debt Ratio	45.4%	56.5%	61.4%	60.6%
Debt-Equity	140.0%	249.3%	309.1%	311.5%
Int. Coverage	2.1	2.3	1.5	1.4
Dividend History				
Dividend* (C/B)%	-/-	115/10	115/3.5	-/-
Dividend Yield	-/-	1.9%	3.2%	-/-
Dividend Payout	-/-	55.4%	111.0%	-/-
Valuation:				
Price/Earnings	52.0	15.7	31.4	66.8
Price/BV	1.6	1.5	1.5	1.5
EPS (BDT)	6.3	20.8	10.4	4.9
NAVPS (BDT)	197.4	213.3	220.9	223.0

** Profit after tax has a significant increase in the year 2015 because the Company has an extra-ordinary gain from the sale of brand. Growth for 2016-17 (Jul-Jun) is calculated over 2015 (Jan-Dec.) *The Company declared dividend for the year 2015 in 2016 which includes 18 months as the Company has changed the reporting year to July-June from January-December.*

Shareholding Structure:

The Company was listed with DSE and CSE in 1976 and 1995 respectively. Historical shareholding status:

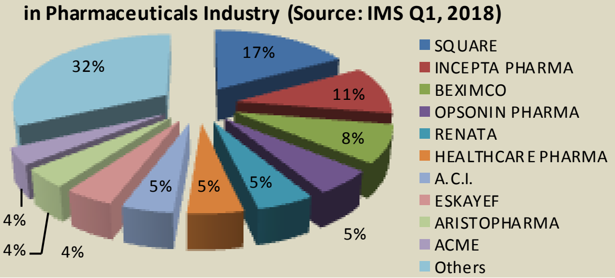
As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Oct-18	45.49%	0.00%	28.72%	0.00%	25.79%
31-Dec-17	44.24%	0.00%	29.39%	0.00%	26.37%
31-Dec-16	34.79%	0.00%	33.04%	0.00%	32.17%
31-Dec-15	34.79%	0.00%	31.84%	0.00%	33.37%

Industry Overview

Pharmaceutical Industry is one of the most developed manufacturing industries in Bangladesh which is considered second largest sector in terms of contribution of government exchequer. Moreover, this industry contributes nearly 1% of the total GDP. In the first quarter of 2018, the market size of pharmaceutical products in Bangladesh was $2.35 billion and year-on-year growth rate was 8 percent and the market is growing by double digit for the last few years. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

According to IMS Report Q1, 2018, top 10 companies occupy 68.04% of the total market share and top 20 manufacturers grabbed 87.01% of total market.

Market shares of Top 10 Companies in Pharmaceuticals Industry (Source: IMS Q1, 2018)



Export is a promising but untapped segment for the country's pharmaceutical sector. According to DGDA (Directorate General of Drug Administration), Bangladesh exports drugs to 87 countries. In 2017, the Country exported BDT 31.96 billion pharmaceutical products which were 29.69% higher than that of 2016.

However, supply side of this industry mostly depends on import. Around 80% of required raw materials are imported from China and India whereas some local companies – Beximco Pharmaceuticals Ltd., Square Pharmaceuticals Ltd., Opsonin Chemicals Ltd. Drug International Ltd., Globe Pharmaceuticals Ltd., Gonoshashtaya Pharmaceuticals Ltd, Sunipun Pharmaceuticals Ltd. etc. – produce certain APIs on smaller scale for mainly in-house use.

WTO (World Trade Organization) member courtiers have extended the deadline to comply with the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement, allowing LDCs to avoid applying and enforcing IP (Intellectual Property) rights on pharmaceutical products until 2033.

The FMCG (Fast Moving Consumer Goods) industry is one of the largest sectors in the economy and creates employment for millions of people. The sector grew at the rate of 10.3% in 2016-17 compared to 9% in 2015-16 in line with the steady growth of the GDP at 7.28%. FMCG includes personal care, house hold care, packaged foods and beverages, tobacco etc. which are frequently purchased. The growth of FMCG sector is commonly correlated with population and purchasing power of the consumers. Bangladesh is a very populated country, which is the eighth largest in the world. This large number of population of the country makes the FMCG segment more potential. Besides, Bangladesh's per capita income rose to USD 1,751 and gross domestic product (GDP) growth reached 7.86% in 2017-18 fiscal year.

Bangladesh motor industry has three types of motorcycle suppliers: importers, assemblers and manufacturers. The industry has three divisions: CBU (Completely Build-up Unit), CKD or SKD (Completely or Semi Knocked Down) and manufacturing. The demand for vehicles in Bangladesh is in increasing trend. As of December 2017, a total of 420,398 nos of vehicles has been registered which was 160,639 nos in December 2014. As of March 2018, it was 119,778 nos of vehicles according to Bangladesh Road transport Authority (BRTA). According to industry insiders, around 30,000 commercial vehicles are sold in the country each year; out of which, around 12,000 vehicles belong to the medium and heavy vehicle category. Of them, approximately 86 per cent are imported and 15 to 16 per cent are manufactured locally.

Investment Positives

- **ACI Motors Limited (67.5% owned subsidiary of ACI) has shown a phenomenal growth over the years and is expected to maintain the trend in the coming days.**

Operational Performance of ACI Motors Limited

Particulars (BDT mn)	2015 (12M)	2016 (6M)	2016-17 (12M)	2017-18 (12M)	2018-19 (3M)
Revenue	**2,620**	**1,485**	**6,458**	**9,398**	**2,299**
Growth*	**40%**	**41%**	**147%**	**45%**	**26%**
Gross Profit Margin	25.2%	26.2%	24.1%	23.8%	--
Operating Profit Margin	13.1%	12.3%	12.7%	13.0%	--
Pre-tax Profit Margin	9.2%	9.2%	9.8%	9.3%	11.3%
Net Profit Margin	5.7%	5.9%	6.1%	5.8%	--

*Growth for 2016 is calculated for 6 months over the same period of last year, 2016-17 is calculated over 2015 and 2018-19 for 3 months over the same period of last year.

- ✓ **The subsidiary has made an agreement with Foton Motor, a Chinese vehicle manufacturer, to set up a plant in Bangladesh by next year to assemble commercial vehicles** like pick-up van, double cabin pick-up, school van, dump truck, transit mixer, bulk cement carrier, fire service vehicle, cleaning vehicle, and heavy crane. But Foton Motor did not disclose the amount that will be investing in the assembly plant. (The Daily Star, August 28, 2018). **ACI Motors believes that this partnership will enable it to grab 10 percent of the market of commercial vehicles within the next three years.**
- ✓ **The subsidiary will manufacture YAMAHA brand motorcycle of Japan in Bangladesh through a fully CKD (Completely Knocked Down) assembling plant. The estimated production capacity of the plant will be 50,000 units/p.a. and the revenue is projected to be BDT 5,000.00 million/p.a.**

- **The pharmaceutical business of ACI has grown at a compound annual growth rate (CAGR) of 13.09% over the last 5 years.** This was because of balanced growth across the different therapeutic segments. The gross profit margin of the business has slightly decreased to 43.21% in

2017-18 which was 44.77% in last year due to price hike of raw materials in international market and adverse volume variance in product mix. ACI expanded its product range through introduction of 15 new molecules in different therapeutic classes. Pharmaceuticals business has crossed major hurdles to set up sales and distribution business in the US as well as strengthen its exports.

Particulars (BDT mn)	2014 (12M)	2015 (12M)	2016-17 (12M)	2017-18 (12M)	2018-19 (3M)
Revenue	**5,744**	**6,727**	**8,379**	**9,204**	**2,638**
*Growth**	*15.4%*	*17.1%*	*24.6%*	*9.8%*	*25.2%*
Pre-tax Margin	**21.9%**	**19.8%**	**18.7%**	**14.2%**	**18.4%**

*Growth for 2016-17 is calculated over 2015 and 2018-19 for 3 months over the same period of last year.

- The Company has approved a plan of its subsidiary, Premiaflex Plastics Limited (PPL) (87% owned) on April 07, 2018 where PPL will manufacture and market household plastic products including furniture and other allied plastic articles. **The initial investment in this regard would be BDT 486.88 million with a projected sale of BDT 1,301.00 million, BDT 1,893.00 million and BDT 2,011.00 million during the years 2018-19, 2019-20 and 2020-21 respectively.** In 2017-18, revenue was BDT 2,866.05 million against BDT 2,338.97 million in last year.
- ACI Logistics Ltd., a Retail Chain, (76% owned subsidiary of ACI Limited) continued aggressive expansion during 2017-18 with the opening of 10 new outlets. Currently, it has 73 outlets across the country. Shwapno has entered into the e-commerce business in 2017 with the launch of Shwapno.com and also ventured in backward integration projects to work closely with the manufacturers and farmers around the country. ACI Logistics, as the first retailer in South East Asia continues to work with Global G.A.P., the leading private sector body addressing the crucial objectives of ensuring safe, sustainable agriculture worldwide.

Particulars (BDT mn)	2014 (12M)	2015 (12M)	2016 (6M)	2016-17 (12M)	2017-18 (12M)	2018-19 (3M)
Revenue	**3,989**	**5,677**	**3,336**	**8,917**	**9,099**	**2,333**
Growth*	125%	142%	22%	157%	2%	0.7%

*Growth for 2016 is calculated for 6 months over the same period of last year, 2016-17 is calculated over 2015 and 2018-19 for 3 months over the same period of last year.

- The contribution of ACI Consumer Brands (toiletries, home care products, electrical goods, paints, salt, flour, foods and edible oils) is increasing to the consolidated revenue, grew by 26% in 2017-18 over 2016-17.

Particulars (BDT mn)	2014 (12M)	2015 (12M)	2016-17 (12M)	2017-18 (12M)	2018-19 (3M)
Revenue	3,587	4,022	5,131	6,472	1,731
*Growth**	*45.5%*	*4.9%*	*25.8%*	*26.1%*	*11.5%*
Profit/Loss before Tax	118	57	-245	426	-125
*Growth**	*20.4%*	*-51.7%*	*-529.8%*	*273.6%*	*-104.8%*

*Growth for 2016-17 is calculated over 2015 and 2018-19 for 3 months over the same period of last year.

- The Company sold the brands under the categories of Insect Control, Air Care and Toilet Care products to S.C. Johnson & Son, Inc., USA in 2015 and continuing as the distributor of the products until April 2020.
- ACI Biotech Limited incorporated in November 2016 as a subsidiary of ACI Limited (80% holding) to strengthen the healthcare portfolio. The Company is manufacturing and marketing biotech products, biotech specialty, monoclonal antibody, cell culture, anticancer, hormones, steroids, and other alike products in the country and abroad. Already two biotech products Recogen and Ropenia, are now widely used in the Combined Military Hospitals (CMHs) and the hospitals of Border Guard Bangladesh (BGB). The Company has planned to establish a plant in line with the standards of USFDA, MHRA, WHO, cGMP and other relevant agencies of that nature.

Investment Negatives

- **The Company reported a massive decline in consolidated earnings in every quarter of the FY 2017-18 and the first quarter of FY 2018-19 over the same period of last year though the turnover maintained the steady growth.**

Quarterly Consolidated Turnover and Restated EPS of ACI

	2017-18				2018-19
Particulars	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Turnover (BDT bn)	**12.6**	**15.7**	**14.5**	**13.3**	**14.6**
Growth*	**26%**	**28%**	**17%**	**3%**	**16%**
Restated EPS (BDT)	2.4	5.6	1.0	1.7	1.2
Growth*	-39%	-30%	-91%	-72%	-47%

*Growth has calculated for the respective quarter over the same period of last year.

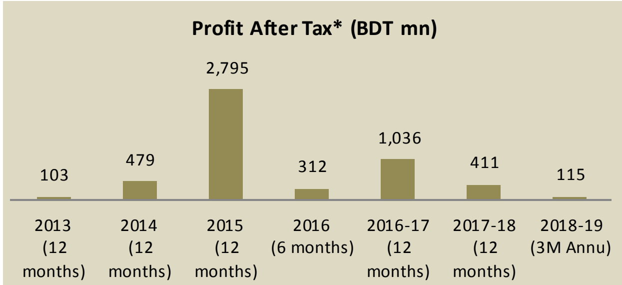
- ✓ **Gross profit margin decreased due to the increase in price of raw materials in international market, depreciation of BDT against USD by about 5%, higher proportionate sale of low margin products, start-up cost of new product launch (baby diaper), unfavorable product mix in pharmaceutical, Crop-care and public health businesses, initial set up and product development cost for HealthCare project.**
- ✓ China decided to shut down thousands of its polluting factories and ACI sourced raw materials from many of them and thus the products became scarce and costly.
- ✓ **Operating profit margin came down to 5.8% as of June 2018 which was 9.2% in December 2014.** Operating expenses increased due to the increase in salary and allowances of employees and marketing team.
- ✓ **Borrowing costs increased as the Company receives more short term and long term loan for incremental working capital requirement to support sales growth.** Furthermore, lending rates were in upward movement during the FY 2017-18.
- ✓ **Profit share from associates and joint ventures has become less than half of the profit for the same period last year** due to adverse volume variance resulting from the de-growth of high contributing SKUs along with increased raw material prices which was not covered by increase in selling prices.
- ✓ **Massive duty reduction of rice has impacted the EPS of the food business.** There was 22% import duty on rice but the government brought it down to 2%, hence rice has become a loss-making product for the Company. The Company launched its rice business in 2016.
- ✓ Income tax rate has also made a toll in sliding its net profit. **In 2017-18, income tax expense as percentage of profit before tax was 71% which was 53% in 2016-17.**

- **The Company is exposed to high leverage. Interest expense eats up 68.75% of its consolidated operating profit in 2017-18 and 70.26% on Jul-Sep of 2018-19.** As of September 2018, debt-equity ratio of the Company stood at 311.5% and interest coverage ratio was 1.4x.
- The Company is exposed to foreign exchange risk in terms of payables for raw & packing materials and finished goods import which was around 41.2% of raw materials consumed in 2017-18 which was 63.4% in last year. **Depreciation of BDT against USD by about 6% as of November 2018 over January 2017 also pushed up the Company's import bills for raw materials.**

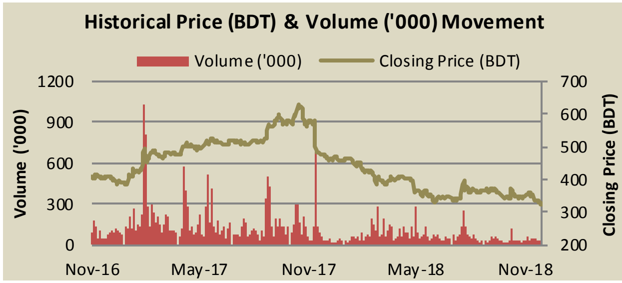
Latest Quarter Update – September 2018

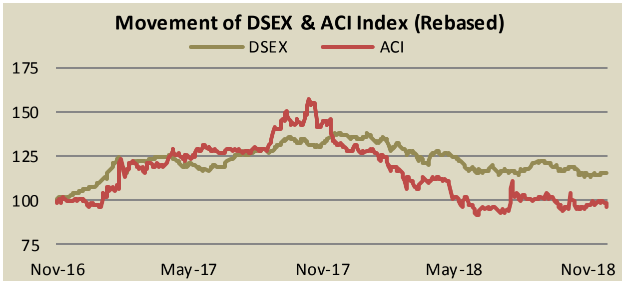
Particulars (BDT mn)	Jul-Sep 2018	Jul-Sep 2017	Growth
Consolidated Revenue	**14,632**	**12,648**	***15.7%***
Gross Profit	**4,421**	**3,739**	***18.2%***
Margin	*30.2%*	*29.6%*	
Operating Expenses	3,520	3,100	*13.5%*
Other Income	106	53	*100.0%*
Operating Profit	**1,007**	**693**	***45.5%***
Margin	*6.9%*	*5.5%*	
Profit from Equity Investment	22	50	*-56.0%*
Net Finance Costs	708	433	*63.5%*
Profit Before Contribution to WPPF	**322**	**310**	***3.9%***
Contribution to WPPF	38	29	
Profit Before tax	**284**	**280**	***1.2%***
Income Tax Expense	255	195	
Net Profit	**29**	**86**	***-66.4%***
Margin	*0.2%*	*0.7%*	
Restated EPS (BDT)	***1.22***	***2.28***	***-46.6%***

- Consolidated turnover has increased by 15.7% in the first quarter of 2018-19 than that of last year due to increased contribution from all of the business segments.
- Operating profit margin has increased to 6.9% in the reported period from 5.5% over the same period of last year due to the decrease in administrative, selling and distribution expenses in percentage of sales and increase in other income (service charge, dividend received, scrap sale, rental income and others).
- Consolidated net profit has decreased by 66.4% in the reported period than that of previous year because of lower contribution from equity accounted investees, increase in finance expenses and high income tax expenses. Finance expenses increased by BDT 274.83 million in the first 3 months of 2018-19 over the same period of last year which ultimately squeezed the net profit margin in the period. Finance expenses increased due to the rise in both long and short term debt along with increased interest rate. Effective income tax rate was 90% in the period which was 69% than that of last year.



** Profit after tax had a significant growth in 2015 because the Company has an extra-ordinary gain from the sale of brand under the categories of Insect Control, Air Care and Toilet Care products to S.C. Johnson & Son, Inc., USA.*





Concluding Remark

Advanced Chemical Industries (ACI) Limited is one of the prominent conglomerates in Bangladesh, with a diversified appearance in Pharmaceuticals, Consumer Products and Agribusiness. Though the net profit trend of the Company is volatile, but every business units of this Company has shown better performances in terms of revenue over the years. Recently, the Company has decided to assemble commercial vehicles and Yamaha brand motor-cycle in the country and to manufacture and market plastics products including furniture and other allied plastic products. Considering all the issues, it is estimated that the Company will be able to demonstrate a decent earnings in the coming years.

Source: Annual Report, the Financial Express, the Daily Star, DSE Website, CSE Website, the Company website, ILSL Research

ILSL Research Team:

Name	**Designation**
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst
Kishan Saha	Executive - Research

To access research through *Bloomberg* use **<ILSL>**
ILSL research is also available on *Thomson Reuters* products and on *FactSet* and Sentieo platform
For any Queries: research@ilslbd.com