

# ADVANCED CHEMICAL INDUSTRIES (ACI) LIMITED

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

## Company Overview

ACI Limited 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 as per 2016-17 annual report. These includes ACI Formulations Ltd. (53.5% ownership), ACI Logistics Ltd. (76% ownership), ACI Healthcare Ltd., ACI Salt Ltd. (78% ownership), ACI Foods Ltd. (95% ownership), ACI Pure Flour Ltd. (95% ownership), Premiaflex Plastics Ltd. (87.32% ownership), ACI Motors Ltd. (67.5% ownership), etc. Moreover, ACI Ltd. has joint venture business in Agrovat (50% ownership) and Tea (50% ownership) business.

### Operating Segments of ACI Limited:

Segments	Nature of Business
Pharmaceuticals & crop care	Manufacturing and marketing of healthcare crop care products
Animal Health	Manufacturing and marketing of veterinary and fisheries products
Consumer Brands	Manufacturing and marketing consumer products
Motors	Buying and selling of agricultural equipment
Pure Flour	Buying, milling, processing of wheat flour products
Retail Chain	Facilitating modern self-service shopping
Salt	Manufacturing and marketing of iodized salt
Foods	Manufacturing and marketing of food items
Premiaflex Plastic	Manufacturing and marketing of plastic products

### Revenue Composition of ACI & its major Subsidiaries:

	Contribution		Growth		Pretax Margin	
	2015	2016 -17	2015	2016- 17*	2015	2016 -17
ACI Pharma	21%	18%	17%	25%	20%	19%
ACI Retail Chain	18%	18%	42%	56%	-19%	-15%
ACI Motors	8%	13%	40%	143%	9%	10%
ACI Consumer	13%	11%	12%	28%	1%	-5%
ACI Pure Flour	9%	8%	6%	36%	8%	6%
ACI Corp Care & Public Health	6%	5%	20%	16%	15%	16%
ACI Food	2%	6%	19%	296%	-21%	-4%
ACI Animal Health	7%	7%	31%	42%	9%	10%
ACI Salt	5%	5%	14%	51%	6%	12%
ACI Premiaflex	5%	4%	6%	35%	14%	16%
<b>Consolidated</b>			<b>22%</b>	<b>52%</b>	<b>12%</b>	<b>5%</b>

\*Growth for 2016-17 (Jul-Jun) is calculated over 2015 (Jan-Dec)

As per annual report 2016-17, 125%, 137% & 83% of the production capacity in units pack per 8hr/per month has been utilized in Pharmaceuticals, Consumer-Brand and Animal Health business. Around 51% of its consolidated raw materials consumed are imported in 2016-17.

### Shareholding Structure:

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

As on	Sponsor	Govt.	Instt.	Foreign	Public
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%
30-Jun-16	34.79%	0.00%	33.04%	0.00%	32.17%
31-Dec-15	34.79%	0.00%	31.84%	0.00%	33.37%

## Company Fundamentals

Market Cap (BDT mn)	19,406.9
Market weight	0.6%
No. of Share Outstanding (in mn)	48.2
Free-float Shares (Public+Institution+Foreign)	55.8%
Paid-up Capital (BDT mn)	482.0
3-month Average Turnover (BDT mn)	26.2
3-month Return	-12.0%
Current Price (BDT)	405.5
52-week price range (BDT)	382.0 - 638.4
Sector's Forward P/E	19.2

	2015 (Jan-Dec)	2016 (Jan-Jun)	2016-17 (Jul-Jun)	2017-18 (HY Annu)
<b>Financial Information (BDT mn):</b>				
Sales	31,383	17,853	47,668	56,667
Gross Profit	9,840	5,663	14,104	16,552
Operating Profit	2,520	1,128	3,285	3,862
Profit After Tax	2,795	312	1,036	774
Assets	31,036	36,070	46,970	54,001
Long Term Debt	1,955	2,741	5,151	6,320
Short Term Debt	12,123	15,376	21,372	25,064
Equity	10,053	9,846	10,639	10,995
<b>Margin:</b>				
Gross Profit	31.4%	31.7%	29.6%	29.2%
Operating Profit	8.0%	6.3%	6.9%	6.8%
Pretax Profit	12.5%	4.8%	4.6%	3.4%
Net Profit	8.9%	1.7%	2.2%	1.4%
<b>Growth*:</b>				
Sales	21.5%	--	51.9%	18.9%
Gross Profit	22.2%	--	43.9%	17.4%
Operating Profit	6.1%	--	30.4%	17.6%
Net Profit	483.3%	--	-62.9%	-25.3%
<b>Profitability:</b>				
ROA	10.5%	0.9%	2.5%	1.5%
ROE	39.0%	3.1%	10.1%	7.2%
<b>Operating Efficiency Ratio:</b>				
Inventory Turnover	4.5	2.2	5.0	4.9
Receivable Turnover	6.8	3.2	6.6	5.9
A/C Payable	9.5	7.6	16.5	15.3
Total Asset Turnover	1.2	0.5	1.1	1.1
Fixed Asset Turnover	3.0	1.3	2.8	2.9
<b>Leverage:</b>				
Debt Ratio	45.4%	50.2%	56.5%	58.1%
Debt-Equity	140.0%	184.0%	249.3%	285.4%
Int. Coverage	2.1	2.1	2.3	2.1
<b>Dividend History</b>				
Dividend* (C/B)%	-/-	115/10	115/10	-/-
Dividend Yield	-/-	2.5%	1.9%	-/-
Dividend Payout	-/-	15.8%	47.3%	-/-
<b>Valuation:</b>				
Price/Earnings	6.8	62.7	18.9	25.4
Price/BV	1.9	2.0	1.8	1.8
EPS (BDT)	59.7	6.5	21.5	16.0
NAVPS (BDT)	208.6	204.3	220.7	228.1

\* Profit after tax has a significant increase in the year 2015 because the Company has an extraordinary gain from the sale of brand. Growth for 2016-17 (Jul-Jun) is calculated over 2015 (Jan-Dec) Dividend for the year 2016 includes 18 months.

N:B: The Company has changed the reporting year to July-June from January-December.

## 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. As per 2015-16 annual report of The ACME Laboratories Ltd., Pharma Industry is valued at BDT 156 billion which is expected to be BDT 200 billion by the year 2020. Prior to 1982, there were about 10 multinational companies securing 80% of total market share. At present, this industry primarily produces generics drugs of around 8,300 different brands that furnish up to 98% of the domestic demand. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

According to IMS Report 2017, top 10 companies occupy 68.68% of the total market share and top 20 manufacturers grabbed 86.21% of total market.



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 FY 2015-16, the Country exported USD 82.11 million pharmaceutical products which were 13% higher than that of FY 2014-15. According to Export Promotion Bureau, the export target for FY 2016-17 is USD 95 million. So far in July to September 2016, export earnings from pharmaceuticals product were BDT 1,487 mn which was BDT 1,288 mn at the same time of previous year.

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. The local companies usually run the relatively easier final chemical synthesis stage with API intermediaries, instead of the complete chemical synthesis.

WTO (World Trade Organization) member countries 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. Bangladesh will get more benefit from the extension of drug patent waiver as the country is more capable of manufacturing pharmaceutical products than any other LDCs.

FMCG (Fast Moving Consumer Goods) industry of Bangladesh has been showing an increasing trend over the last decade. The growth of the FMCG market is mostly dependent on population growth and purchasing power of consumers. As per AC Nielsen Data, the annual market size of Bangladeshi branded FMCG industry is BDT 268.7bn as on June 2016 and the market has

grown at 12.8% CAGR (Cumulative Annual Growth Rate) over the last five years.

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. According to Bangladesh Road Transport Authority (BRTA) statistics, 240,000 motorcycles were registered in 2015, but the number increased to 332,000 in 2016. Of them, approximately 86 per cent are imported and 15 to 16 per cent are manufactured locally.

## Investment Positives

- **The pharmaceutical business of ACI has grown by 25.37% in 2016-17 (Jul-Jun) over the year 2015 (Jan-Dec). This was because of balanced growth across the different therapeutic segments.** The gross profit margin of the business has increased to 44.77% in 2016-17 from 37.09% in 2012 due to higher proportionate sale of higher margin products.
- **As per DSE news 18 march 2018, ACI Motors Limited (67.5% owned subsidiary) will manufacture YAMAHA brand motorcycle 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.** Meanwhile, as per agreement on June 2016, the Company is selling and distributing Indian YAMAHA brand motorcycles and parts in Bangladesh for an initial term of 3 years.

Particulars (BDT mn)	2014 (Jan-Dec)	2015 (Jan-Dec)	2016 (Jan-Jun)	2016-17 (Jul-Jun)
<b>Revenue – ACI Motors</b>	<b>1,869</b>	<b>2,620</b>	<b>1,485</b>	<b>6,458</b>
<b>Growth*</b>	<b>25%</b>	<b>40%</b>	<b>41%</b>	<b>147%</b>
Gross Profit Margin	27.4%	25.2%	26.2%	24.1%
Operating Profit Margin	14.1%	13.1%	12.3%	12.7%
Pre-tax Profit Margin	9.1%	9.2%	9.2%	9.8%
Net Profit Margin	5.9%	5.7%	5.9%	6.1%

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

- **The Company under its Electronics Business of Consumer Brands launched a range of Smart and Feature Mobile handsets and accessories in the name of STYLUS in 2016-17. The Company is expecting an initial sales target of BDT 720.00 million.** ACI Electronics offers the world-renowned brand 'Panasonic' and homegrown brand 'Sparkle' registered a significant growth of 28% in 2016-17 due to introducing new range of appliances.
- ACI Logistics Ltd., a Retail Chain, (76% owned subsidiary of ACI Limited) continued aggressive expansion during 2016-17 with the opening of 12 new outlets. Currently, it has 63 outlets across the country. As per 2016-17 annual report, performance of the Retail Chain, Shwapno, in Q1 of 2017-18 was close to the operational break-even level.

Particulars (BDT mn)	2014 (Jan-Dec)	2015 (Jan-Dec)	2016 (Jan-Jun)	2016-17 (Jul-Jun)
<b>Revenue – Retail Chain</b>	<b>3,989</b>	<b>5,677</b>	<b>3,336</b>	<b>8,917</b>
<b>Growth*</b>	<b>125%</b>	<b>142%</b>	<b>22%</b>	<b>157%</b>

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

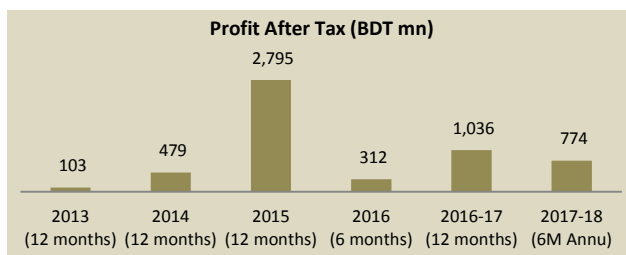
- ACI Foods has launched rice business in 2016 by setting up a state-of-the-art rice mills at Naogoan. As a part of the expansion business, a new unit was also established in early 2017 for procuring aromatic rice. The business reached to the topline of BDT 1,750.43 million during its first fiscal of 2016-17.
- 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) strengthens 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).
- As per DSE news published on 24 October 2017, the Company will further invest BDT 247.00 million into its subsidiary ACI Foods Limited and BDT 40.00 million into its Joint Venture Company, Tetley ACI (Bangladesh) Limited as additional equity against rights offer for 2,470,000 ordinary shares and 400,000 ordinary shares respectively of BDT 100.00 each subject to approval from BSEC.

### Investment Negatives

- Consolidated Net profit margin of the Company is very low which is around 2.0% over the years.**
- Net Loss of ACI Logistics Limited in 6 months of July – December 2017 stood at BDT 547.09 mn which was BDT 626.09 mn over the same period of last year. Though the concern had experienced 13.06% growth in revenue during the period, net loss before tax further amplified due to higher cost of sales, operating and financial expenses.

Particulars (BDT mn)	2014 (Jan-Dec)	2015 (Jan-Dec)	2016 (Jan-Jun)	2016-17 (Jul-Jun)
Net Loss	(1,027)	(1,092)	(643)	(1,351)
% of Revenue	-25.8%	-19.2%	-19.3%	-15.1%

- The Company is exposed to high leverage. Interest expense eats up 44.38% of its consolidated operating profit in 2016-17. As on December 2017, debt-equity ratio of the Company stood at 285% and interest coverage ratio was 2.1x.
- The Company is exposed to foreign exchange risk in terms of payables for raw & packing materials and finished goods import which was around 50% of costs of goods sold in 2016-17.

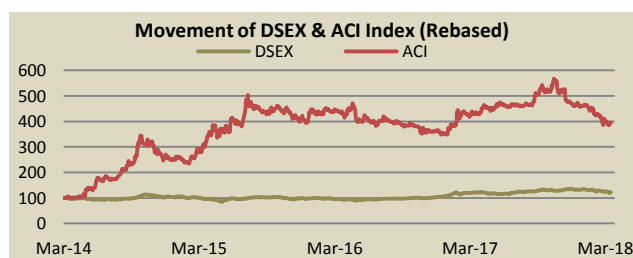
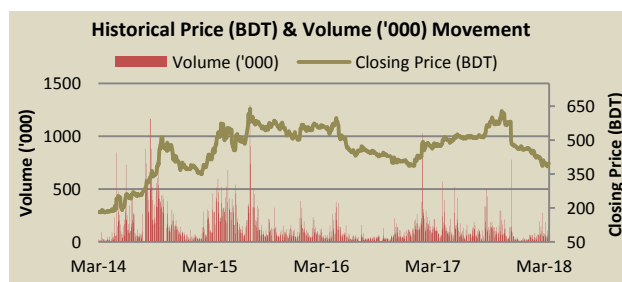


\* Profit after tax has a significant increase in 2015 because the Company has an extra-ordinary gain from the sale of brand under the categories of Insect Control, Air Care and Toilet Care products to S.C. Johnson & Son, Inc., USA

### Latest Quarter Update

Particulars (BDT mn)	Jul-Dec 2017	Jul-Dec 2016	Oct-Dec 2017	Oct-Dec 2016
<b>Consolidated Revenue</b>	<b>28,333</b>	<b>22,296</b>	<b>15,685</b>	<b>12,232</b>
Growth	27.1%	--	28.3%	--
<b>Gross Profit</b>	<b>8,305</b>	<b>6,743</b>	<b>4,537</b>	<b>3,820</b>
Margin	29.3%	30.0%	28.7%	31.1%
Growth	23.2%	--	18.4%	--
<b>Operating Profit</b>	<b>1,931</b>	<b>1,840</b>	<b>1,238</b>	<b>1,184</b>
Margin	6.7%	8.1%	7.6%	9.8%
Growth	4.9%	--	4.6%	--
<b>Net Profit</b>	<b>387</b>	<b>569</b>	<b>301</b>	<b>429</b>
Margin	1.3%	2.6%	1.9%	3.5%
Growth	31.9%	--	29.8%	--

- Turnover of the Company has increased by 27% in the Jul-Dec of 2017-18 over the same period of last year due to increased contribution from all of the business segments.
- Operating profit margin has decreased to 6.7% in the reported period from 8.1% over the same period of last year due to the increase in administrative, selling and distribution expenses. Administrative, selling and distribution expenses rose to 22.6% in percentage of sales from 21.9% than that of last year.
- Consolidated net profit of the Company has decreased by 31.9% than that of previous year because of increase in operating expenses, finance expenses and lower contribution from equity accounted investees. Finance expenses increased by 279 million in the first 6 months of 2017-18 over the same period of last year which ultimately squeezed the net profit in the period.



### 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. 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

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