

GOLDEN HARVEST AGRO INDUSTRIES LIMITED

DSE: **GHAIL**
BLOOMBERG: **GHAIBD**

Company Overview

Golden Harvest Agro Industries Limited (GHAIL) was incorporated in August 2004 and started its commercial operation in May 2006. The Company is mainly engaged in producing and marketing of Frozen Food and Vegetables, Frozen Ready to Cook Vegetables, Frozen Ready to Cook Fishes, Premium Ice Cream Products, Liquid Milk & Milk based products, and Domino's Pizza etc. The Company has developed its own Cold Chain network in collaboration with USAID. GHAIL is the only TESCO (Second largest British multinational Grocery in the world) approved food processing factory in Bangladesh. The products are marketed under the brand name - 'Golden Harvest', 'Bloop' and 'Domino's Pizza'. The Company's factory is located at Monipur, Gazipur.

The Company has one subsidiary and two associates company. GHAIL holds **75% stake in Golden Harvest Dairy Ltd.** (GHDL, incorporated in February 2015 at Sylhet on 7 acres of land) which produces milk and milk based products like butter, cream, cheese, yogurt, etc.

The Company holds **45% share in Golden Harvest Ice Cream Ltd.** (GHICL, incorporated in January 2005 at Gazipur) which is engaged in manufacturing and marketing of ice cream and dairy based products.

GHAIL also has **30% share in Golden Harvest Quick Service Restaurant Ltd.** (GHQSR, incorporated in February 2015), branded as "2GO" which is involved in fast food business. In association with Jubilant Foodworks Ltd. (a Jubilant Bhartia Group Company), GHQSR **launched the operation of Domino's Pizza** in Bangladesh in March 15, 2019.

The Company has consolidated one subsidiary company named GHDL in its consolidated financial statements for 2019-20. On the other hand, the comparative financial information shown for the corresponding 2018-19 with the consolidation of two subsidiaries named GHDL and GHICL. Hence, previous year's financial information is not fully pertinent in respect to the financial information of the current period's consolidated financial statements as GHICL was not excluded from previous year's consolidation and comparatives.

Capacity Utilization:

Figures in '000'	2017-18	2018-19	2019-20
GHAIL			
Capacity in KG/year (Dairy)	668	668	668
% Utilized	74.8%	82.59%	53.95%
Capacity in KG/year (Frozen)	2,409	2,489	2,489
% Utilized	73.2%	98.86%	87.87%
GHDL (Milk Production)			
Capacity in KG per year	1,512	1,512	1,512
% Utilized	20.3%	49.36%	52.72%

Revenue Contribution & Growth:

	Sales (BDT mn)	Growth			
		2019-20	2017-18	2018-19	2019-20
Frozen Unit	610	3.0%	24.2%	15.8%	8.3%
Dairy Unit	228	46.9%	9.4%	-34.1%	15.4%
GHDL	47	10.3%	79.5%	6.8%	166.2%*

*4-year CAGR for GHDL

Company Fundamentals

Market Cap (BDT mn)	3,604.5
Market Weight Sector Weight	0.1% 1.2%
Free-float (Public + Inst. + Foreign)	67.1%
No. of Shares Outstanding (mn)	215.8
Paid-up Capital (BDT mn)	2,158.0
3 Months Average Turnover (BDT mn)	5.44
3-month Return (Dividend & Free-float Adjusted)	-0.9%
Current Price (BDT)	16.7
52-Week Price Range (BDT)	13.5 – 23.8
Sector Forward P/E	20.7

	2017-18	2018-19	2019-20*	2020-21 (3M Ann.)
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Financial Information (BDT mn):

Sales	1,871	2,240	885	471
Gross Profit	837	1,011	368	125
Operating Profit	627	755	169	(73)
Profit After Tax	223	243	8	(293)
Cash & Cash Equiv.	15	370	405	561
Assets	6,601	7,748	5,382	5,210
CAPEX	838	648	323	61
Long Term Debt	2,069	1,968	974	900
Short Term Debt	1,464	1,859	856	846
Equity	2,438	3,243	3,245	3,168
Retained Earnings	921	952	865	790

Margin:

Gross Profit	44.7%	45.1%	41.5%	26.6%
Operating Profit	33.5%	33.7%	19.1%	--
Pretax Profit	17.5%	14.7%	0.9%	--
Net Profit	11.9%	10.8%	0.9%	--

Growth:

Sales	22.5%	19.7%	--	--
Gross Profit	19.9%	20.8%	--	--
Operating Profit	25.8%	20.4%	--	--
Net Profit	21.4%	9.0%	--	--

Profitability:

ROA	3.5%	3.4%	0.1%	-5.5%
ROE	9.6%	8.5%	0.2%	-9.1%

Operating Efficiency:

Inventory Turnover	3.6	3.0	1.3	0.9
Receivable Turnover	1.6	2.0	0.8	0.5
A/C Payable Turnover	9.9	12.0	7.2	6.3
Total Asset Turnover	0.3	0.3	0.1	0.1
Fixed Asset Turnover	0.5	0.6	0.3	0.3

Leverage:

Debt Ratio	53.1%	49.1%	34.0%	33.5%
Debt-Equity	143.6%	117.2%	56.4%	55.1%
Int. Coverage	2.1	1.7	0.9	(0.5)

Dividend History:

Dividend (C/B)%	-/10	7/5	-/-	-/-
Dividend Yield	--	3.14%	--	--
Dividend Payout	--	62.2%	--	--

Valuation:

Price/Earnings	16.2	14.8	476.4	--
Price/BV	1.5	1.1	1.1	1.1
EPS (BDT)	1.0	1.1	0.04	(1.36)
NAVPS (BDT)	11.3	15.0	15.0	14.7

*Comparative consolidated financial statements is not available as the Company did not exclude Golden Harvest Ice-cream Limited from last year's consolidation.

Raw Materials:

The Company procures its raw materials on contract farming basis directly with the farmers who supply around 95% of raw materials. It has established a backward integration, Golden Harvest Dairy Ltd., in Sylhet in 2015 to procure milk.

Shareholding Structure

The Firm was enlisted in the DSE and the CSE on March 2013.

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Nov-20	32.88%	0.00%	39.76%	0.09%	27.27%
31-Dec-19	33.03%	0.00%	43.53%	1.30%	22.14%
31-Dec-18	33.03%	0.00%	42.71%	0.00%	24.26%
31-Dec-17	33.03%	0.00%	31.97%	1.64%	33.36%

Directors Shares Holding as of June 2020

Name of Directors	Position	Shares Held (mn)	% of Total
Mr. Enamuzzaman Chowdhury	Chairman	4.32	2.00%
Mr. Ahmed Rajeeb Samdani	Managing Director	47.35	21.94%
Mr. Mohius Samad Choudhury	Director	4.32	2.00%
Ms. Nadia Khalil Choudhury	Director	4.32	2.00%
Mr. Azizul Huque	Director	4.88	2.26%
Mr. Moqsud Ahmed Khan	Director	5.31	2.46%
Total	--	70.50	32.66%

Industry Overview

The Food & Beverage Industry, particularly the packaged food is getting impetus gradually for all the segments of urban, semi-urban & rural consumers. Rapid growth of urbanization and changing lifestyle in Bangladesh, upward mobility of income class, need for convenience and hygiene foods are creating the demand for the frozen food products in Bangladesh.

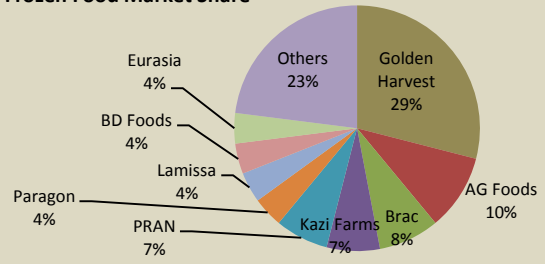
In general, the performance of the FMCG industry serves as a powerful indicator of economic progress. **In 2020 as the local FMCG industry experienced a tough year**, as demand for non-essential goods fell amidst lower disposable incomes brought about by a culmination of factors, including weak economic conditions amid covid-19 pandemic.

Urbanization & middle class income: The industry has observed a considerable demand in packaged and processed foods in recent years. Around 40% of the population is living in the urban areas of which the median age is 28 years. In FY 2019-20, Bangladesh's per capita income (GNI) increased to USD 2,064 which was USD 920 in 2012. With the rapidly growing current middle class population, the food processing sector in Bangladesh is expected to grow in the future.

Branded Frozen Market Share: The organized-branded frozen processed food industry in Bangladesh is estimated to be around BDT 2,850 million. There are other small unorganized players along with imported brands who are coexisting with the national brands in a smaller scale. The main market for frozen products is still lying in the major cities due to the absence of a cold chain system and proper infrastructural facilities. The market is predominantly meat (chicken) based market, with very little fish and vegetable based products. This ready to cook local snacks market consists of veg and non-veg products with some key categories like a. Morning snacks (mainly veg neutral products, e.g. Paratha, Atta Rooti, Rice Rooti, etc.), b. Local snacks (both veg and non-veg, e.g. Singara, Samosa, Dal Puri, Aloo Puri, etc.), c. Quick fix western snacks (both veg and non-

veg, e.g. Nuggets, Sausage, Spring Roll, French Fries, Meat ball, Wings & Drumlets, etc.).

Branded Frozen Food Market Share



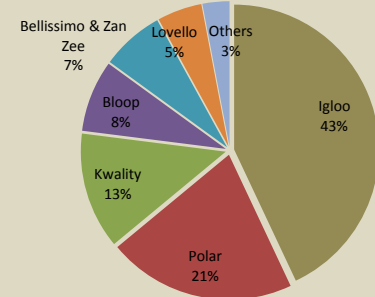
Source: Annual Report 2020 of Golden Harvest Agro Industries Ltd.

Ice-cream Segment: Bangladesh's ice cream industry is not comparable to any other industry, nor to any other region. In Bangladesh, a vested interest group raised alarm against the consumption of ice cream by circulating that the consumption of ice cream triggers the possibility of COVID-19.

The **market size of branded ice-cream** grows fast because of rapid penetration of electricity across the country and changes of social structure and food habit. The estimated market size of domestic organized branded ice-cream in Bangladesh is around BDT 14,000 million. Alongside the national brands, there are numerous local brands with limited geographic presence and low to non-existent brand image. Even though the size of this unorganized sector was large in past, in last 5 years it became smaller in face of aggressive expansion in distribution by the national players. Though the branded ice cream controls around 97% of the market, they cannot provide nationwide coverage.

It is expected that growing middle class, improving electricity conditions, the hot and humid weather of Bangladesh and the improved distribution network will boost the ice cream industry in the future.

Branded Ice-cream Market Share



Source: Annual Report 2020 of Golden Harvest Agro Industries Ltd.

Export: Bangladesh usually exports frozen sea food, frozen meat & poultry, frozen fruits and vegetables to different countries including USA, Canada and European Countries. But in Bangladesh, Frozen Meat, Sea Food, Snacks and Vegetables are available in the market. Bangladesh exports frozen foods to around 55 countries worldwide.

Growth Drivers: The consumption of processed products is seeing a pickup due to improvement in disposable income of the consumers and life style changes. The per capita consumption of these products is low compared to the regional markets and see an upside of increase in consumption and consumer base in the medium term. The growth of the modern trade channel across the country would be leveraged to improve the visibility and availability of the products range. The strategies implemented during the year which proved

successful in achieving a significant growth in our profitability will be further consolidated for future growth. A change in lifestyle, rising dual-income families, diminishing culinary skills and numerous food delivery apps - has triggered a transition from the Ready to Cook to the Ready To Eat segment.

Investment Positives

- GHAIL is the **market leader** in the branded frozen and packaged food (processed, ready to cook) industry of Bangladesh **with 29% market shares** (annual report 2019-20) **with 122 varieties of premium quality frozen food products** of snacks, ready to eat foods, finger fruits etc. The contribution of Golden Harvest Agro segment to the consolidated revenue are shown below:

Particulars (BDT mn)	2016-17	2017-18	2018-19	2019-20
Revenue From Agro	627	740	873	838
Contribution to Consolidated Revenue	41.1%	39.6%	39.0%	94.7%
Growth	0.4%	18.1%	17.9%	-4.0%
Gross Profit Margin	48.8%	47.8%	48.0%	42.1%
Operating profit Margin	37.1%	40.0%	40.2%	19.6%
Net Profit Margin	18.6%	30.1%	27.8%	0.9%

*The Company didn't include GHICL in the consolidated financial statements for the FY year 2019-20

- Golden Harvest Ice Cream Ltd. (GHICL)** was able to capture the branded ice-cream market within a short span of incorporation with the **brand name 'Bloop'**. The Company holds **9% market share in the branded ice-cream market** in Bangladesh (annual report 2019-20). The Company is **expecting to raise its position to 3rd within the next two years**. To achieve the milestone, the Company is introducing a large **product line consisting of 85 variants** of premium and regular segment of stick, cone, cup, tub and mini-series of ice-cream and **planned to penetrate rural areas very vigorously** targeting the middle income and low income group of people with **different varieties of ice-creams priced as low as BDT 5.0** (Annual report 2019-20). The contribution of ice-cream segment to the consolidated revenue are shown below:

Particulars (BDT mn)	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue from Ice-cream	256	802	878	1,106	1,323
Contribution to Consolidated Revenue	33%	56%	57%	59%	59%
Growth	39%	213%	9%	26%	20%
Gross Profit Margin	43%	42%	44%	43%	44%
Operating profit Margin	31%	32%	30%	30%	30%
Net Profit Margin	4%	9%	9%	10%	9%

Notes: The Company didn't disclose the details financial information for the FY 2019-20

- GHAIL through its subsidiary company, Golden Harvest Ice Cream Ltd (GHICL), has **formed a joint venture company Cold Chain Bangladesh Limited (CCBL) with joint promoters IFC (International Finance Corporation) and Golden Harvest Foods Ltd. where GHAIL has 18% stake**. This is the first cold chain network in the country. CCBL, USD \$21.71 million equity based project (**30% IFC : 70% Golden Harvest**), expects to serve a diverse customer base from 13 storage locations across the country using its temperature-controlled transportation fleet. **This integrated cold chain and temperature-controlled, third-party logistics Service Company is the first of its kind in**

Bangladesh. At present, there is no integrated temperature controlled third party logistics service provider in the country.

- The Company has been **expanding its existing production facilities and distribution channels** which is expecting to **start commercial operation by December 2021**. It raised its capital amounting to BDT 899.32 million for the expansion purpose through issuance of rights shares in December 2019.
- As part of diversification of business, Golden Harvest QSR Ltd. (30% owned associate of GHAIL), **branded as "2GO"**, in association with Jubilant Foodworks Ltd. (a Jubilant Bhartia Group Company) **launched the operation of Domino's Pizza in Bangladesh in March 15, 2019**. In the joint venture, Golden Harvest QSR Ltd. (GHQL) will hold 49% shares. Currently it has **10 outlets** at various locations in the capital city and is focusing on **increasing the number of franchises to 50 within 2021**.
- Golden Harvest Ice Cream Ltd. established backward integration **Golden Harvest Dairy Ltd. (GHDL)** in February 2015 in Sylhet. Revenue generation from meat processing and calf selling is expected to increase. GHDL is **selling its products to large buyers and wholesalers only**. Meanwhile, the Company is **selling of milk products including the ½ liter packs to the retailers** which will ultimately led to income growth by making the dairy products readily available to the household customers. The contribution of dairy segment to the consolidated revenue are shown below:

Particulars (BDT mn)	2016-17	2017-18	2018-19	2019-20
Revenue From Dairy	22	25	44	47
Growth	2,276.5%	10.3%	79.5%	6.8%
Contribution to Consolidated Revenue	1.5%	1.3%	2.0%	5.3%*
Net Profit	-6.8	-4.6	-0.33	-4.9
Gross Profit Margin	16.8%	20.3%	34.0%	31.9%
Operating profit Margin	71.1%	70.2%	62.6%	48.3%
Net Profit Margin	--	--	--	--

Notes: The Company didn't include GHICL in the consolidated financial statements for the FY year 2019-20

- The Company has **increased its focus on storage and improved distribution channel** which helped the Company to strengthen its market position. The Company is also **planning to invest and launch E-commerce platform** for the convenient of the customers (Annual report 2019-20).
- The consumption of processed products is seeing a pickup due to **improvement in disposable income of the consumers and life style changes**. The growth of the modern trade channel across the country would be leveraged to improve the visibility and availability of GHAIL's product range.
- The Company has been **continuously diversifying the product portfolio**. It has expanded the business to frozen vegetables, Paste Spices, ready to eat food items like: morog polao, tehari etc. and has enormous demand for Paratha and Roti segment. To meet the demand and supply, the Company has invested in new paratha machine. The market is expected to expand with shift in habit of consumers preferring out of home lunch over bringing in lunch from home for further convenience.
- Around 36% sales of the Company come from HORECA (hotel, restaurant, café) channels. As the channel is

reviving after COVID-19 pandemic, revenue is expected to spark up in the coming quarters.

- The Company is **in the process of attaining Halal Certification** for all of its products. This certification will deepen the trust of the customers as well as open the export opportunities especially in the Middle Eastern countries. Meanwhile, the Company has **started to export** frozen products which will give a positive impact on the profitability of the Company.

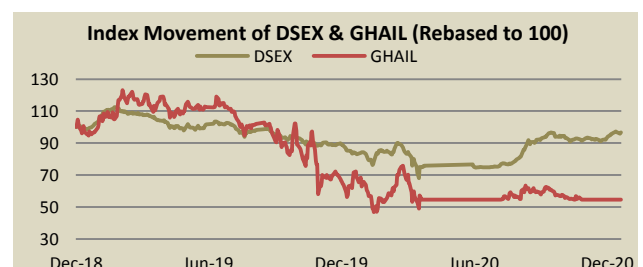
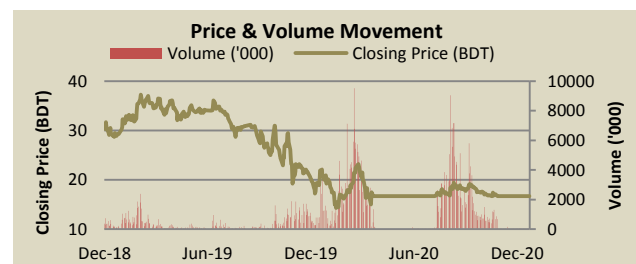
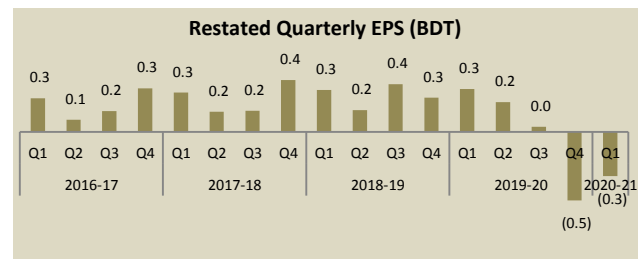
Investment Negatives

- The Company's business had been adversely affected due to the covid-19 pandemic and closed its head office for at least 2.5 months where operated its factory activities at a minimum level. Majority of the products do not have any demand as they are largely used as school tiffin (schools were closed from middle of March to till date). The demand for certain products from hotel, restaurant, café/catering were also had been decreasing. However, the summer season stimulates the demand for ice-cream and the firm enjoys higher earnings during that time.
- Golden Harvest Ice Cream Ltd. (GHICL) contributed around 60% to the consolidated revenue in 2018-19. The Company didn't show the comparative consolidated statements for 2019-20. The ice-cream business fell drastically and incurred a loss of BDT 22.72 million in 2019-20 driven by the alarm against consumption of ice cream, circulating that ice cream consumption would trigger the risk of COVID-19. Moreover, ice-cream industry is one of the most affected industries due to COVID-19 pandemic.
- Despite very low sales, the Company has been paying salaries, utilities, rentals and other operational expenses from the reserves. Receivables remained uncollectable as well which has resulted in reduced cash flow.
- GHAIL is exposed to leverage. As of September 2020, debt ratio was 33.5%. The Company availed loan for financing capital expenditure and working capital requirements. High interest expense eats up a major part of its operating income. The Company's interest coverage ratio turned negative as of September 2020 as the business incurred operating loss during the first quarter of 2020-21.
- The Company lacks in having strong customer base in the market compared to its competitors due to limited target market; mostly sold in the capital city.
- Inconsistency in supply of raw materials and volatility in prices of raw materials especially in vegetables and chicken categories might have negative impact on the profitability of the Company.
- Low consumption of ice-cream due to covid-19 hampered dairy milk production rigorously and the Company was forced to sell some cattle to reduce the overhead cost.

Latest Quarter Update – September 2020 (Q1)

Particulars (BDT mn)	Jul-Sep 2020	Jul-Sep 2019	Growth
Turnover - Consolidated	118	268	-56.0%
Gross Profit	31	128	-75.8%
<i>Margin</i>	26.3%	47.8%	--
Operating Profit	-14	112	-112.5%
<i>Margin</i>	--	41.8%	--
Share of Profit of Associates	-35	20	-275.0%
Net Profit	-73	72	-201.4%
<i>Margin</i>	--	26.9%	--
EPS (BDT)	-0.34	0.33	--

- Consolidated turnover of the Company has decreased during the Jul-Sep of 2020-21 over the same period of last year as the business segments has been affected adversely due to the covid-19 pandemic.
- Gross profit margin plunged severely during the reported period over the same period of last year as the sourcing of raw materials became very hard and shortage of raw materials for certain items. Supply chain broke down makes it difficult and expensive for rendering the product distribution.
- Operating profit margin decreased because of increase in administrative and selling & distribution expenses and decrease in other operating income and fair value gain from biological assets.
- Ice-cream consumption fell drastically driven by propaganda on social media, hand-leaflets and word of mouth that consumption of ice-cream triggers the risk of covid-19.
- The Company incurred a net loss during the reported period as the production and sales plunged for the covid-19 pandemic.



Concluding Remark

GHAIL is the first ever built frozen vegetables and snack food processing plant in Bangladesh. With the increasing urban population and middle class people, the Company is expanding its production volume to secure its market share. The Company operates in a market of stiff competition and high price sensitive market environment, but focus on product differentiation, specialty offering and maintaining standard

quality which is driving the growth of the Company. The forward and backward integration will also help the Company to boost its revenue and profitability in the coming days despite facing difficulty in the current situation amid covid-19 pandemic.

Source: Annual Reports, DSE Website, newspaper news, Company's website and ILSL Research

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