

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 vegetables, Frozen Ready to Cook Vegetables, Frozen Ready to Cook Fishes and Premium Ice Cream Products etc. GHAIL is the only TESCO (Second largest British multinational Grocery in the world) approved food processing factory in Bangladesh. The company's factory is located at Monipur, Gazipur.

GHAIL is the market leader of frozen food manufacturing industry. GHAIL is the country's first company to develop its own Cold Chain network in collaboration with USAID. According to the annual report, the Company holds 25% of the market shares frozen food manufacturing industry. The company has two subsidiaries and one associate company. The Company holds 99.99% share in Golden Harvest Ice Cream Ltd. (GHICL) which is engaged in manufacturing and marketing ice cream and dairy based products. GHAIL holds 75% stake in Golden Harvest Dairy Ltd. (GHDL) which produces milk and milk based products like butter, cream, cheese, yogurt, etc. The Company also has 30% share in Golden Harvest Quick Service Restaurant Ltd. (GHQSRL), branded as "2GO" which is involved in fast food business. GHQSRL is a forward integration for GHAIL as it sells ready to cook products which are produced by GHAIL and its subsidiaries.

Revenue Contribution & Growth:

	Revenue	Contribution	Growth*		
BDT mn	2016-17	2016-17	2014-15	2015-16	2016-17
GHAIL	627	41.1%	10.3%	20.0%	0.4%
GHICL	878	57.5%	38.8%	213.2%	9.4%
GHDL	22	1.5%			2276.5%

Capacity Utilization:

Figures in '000'	2014-15	2015-16	2016-17
GHAIL (Snacks & Vegetable)			
Capacity in KG/year (Snacks)	750	750	750
% utilized (Snacks)	53.1%	47.8%	47.8%
Capacity in KG/year (Vegetable)	2,500	2,500	--*
% utilized (Vegetable)	58.4%	52.6%	--
GHICL (Ice cream)			
Capacity in KG per year	5,400	5,400	7,500
Growth	--	--	38.9%
% Utilized	34.8%	83.4%	68.2%
GHDL (Milk production)			
Capacity in KG per year	--	1,512	1,512
% utilized	--	1.0%	18.4%

*Vegetable unit's data is not available for 2016-17.

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

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-17	33.03%	0.00%	31.97%	1.64%	33.36%
30-Jun-17	35.03%	0.00%	42.44%	0.57%	21.96%
31-Dec-16	35.03%	0.00%	31.75%	0.89%	32.33%
30-Jun-16	35.03%	0.00%	31.75%	0.89%	32.33%

Company Fundamentals

Market Cap (BDT mn)	4,294.95
Market Weight	0.1%
Free-float	67.0%
No. of Shares Outstanding (mm)	109.0
Paid-up Capital (BDT mn)	1,090.1
3 Months Average Turnover (BDT mn)	59.7
3 Months Return	1.1%
Current Price (BDT)	39.4
52-Week Price Range (BDT)	37.0 - 58.5
Sector Forward P/E	27.6

	2014-15	2015-16	2016-17	2017-18 (HY Ann.)
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Financial Information (BDT mn):

Sales	777	1,428	1,527	1,635
Gross Profit	365	655	698	782
Operating Profit	293	480	499	532
Profit After Tax	101	172	184	198
Assets	4,007	4,313	5,981	6,045
Long Term Debt	713	1,294	1,550	1,572
Short Term Debt	966	683	1,699	1,585
Equity	1,942	1,998	2,207	2,307

Margin:

Gross Profit	47.0%	45.9%	45.7%	47.9%
Operating Profit	37.7%	33.6%	32.7%	32.5%
Pretax Profit	16.2%	15.7%	15.6%	15.9%
Net Profit	13.0%	12.1%	12.0%	12.1%

Growth:

Sales	18.3%	83.8%	6.9%	7.1%
Gross Profit	17.4%	79.3%	6.6%	12.2%
Operating Profit	47.3%	64.0%	3.9%	6.7%
Net Profit	3.8%	70.8%	6.6%	7.9%

Profitability:

ROA	2.7%	4.1%	3.6%	3.3%
ROE	5.3%	8.7%	8.7%	8.8%

Operating Efficiency Ratio:

Inventory Turnover	3.8	6.0	4.5	3.6
Receivable Turnover	3.4	5.6	2.1	1.6
A/C Payable Turnover	5.3	9.9	11.1	10.0
Total Asset Turnover	0.2	0.3	0.3	0.3
Fixed Asset Turnover	0.5	0.7	0.6	0.5

Leverage:

Debt Ratio	41.8%	45.5%	53.6%	51.6%
Debt-Equity Ratio	86.2%	98.2%	145.3%	135.1%
Int. Coverage Ratio	1.7	1.9	1.9	2.0

Dividend History

Dividend (C/B)%	-/10	-/10	-/10	-/-
Dividend Yield	-/-	-/-	-/-	-/-
Dividend Payout	-/-	-/-	-/-	-/-

Valuation:

Price/Earnings	28.1	6.8	15.4	14.3
Price/BV	1.5	1.4	1.3	1.2
EPS (BDT)	0.9	1.6	1.7	1.8
NAVPS (BDT)	17.8	18.3	20.2	21.2

Industry Overview

Rapid growth of urbanization and lifestyle in Bangladesh, upward mobility of income class, need for convenience and hygiene foods are creating the demand for frozen food products in Bangladesh. The industry has observed considerable demand in packaged and processed food in recent years. In financial year (FY) 2016-17, Bangladesh's per capita income (GNI) increased to USD 1,610 from 1,465 in the previous FY 2015-16. With the rapidly growing current middle class population of over 30 million, the food processing sector in Bangladesh is expected to grow in the future. For Bangladesh plausible lucrative export destinations are USA, Canada, Australia, Middle-East and Europe.

Market for convenient frozen food in Bangladesh is growing at a decent rate. GHAIL is the market leader securing around 25% market share followed by Harvest Rich, Euroasia and Aftab having more than 10% of the market share. Other participants e.g., CP, BRAC chicken, Bombay Foods held less than 10% each of the total market share in the processed ready to cook food market in Bangladesh. 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.

On the other hand, market survey depicts that the ice cream market size of Bangladesh is of approximately BDT 5 billion in 2015, which is untapped with only 2 major brands. Though branded ice cream controls around 70% 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.

Investment Positives

- **The Sales of Golden Harvest Ice Cream Ltd. have achieved a CAGR of 43% in last four years.** GHICL's contribution to the total revenue also increased from 33.1% to 57.5% over the last four years. According to the annual report of the company, the company holds 9% of the market share.
- The Company has done backward integration by establishing the subsidiary company Golden Harvest Dairy Ltd., which is currently operating with utilization of 18.4% of its capacity. It is expected that in coming years the revenue contribution of this unit will increase considerably as heifers are becoming milkable cows. Revenue generation from meat processing and calf selling are also expected to increase.
- The company has also done forward integration by establishing an associate Golden Harvest Quick Service Restaurants Limited, branded as "2GO". Currently it has 10 outlets at various locations in the capital. For making "2GO" as the most accessible and visible fast food chain the Company is focusing on increasing the number of franchises to 60
- The Company has strong distribution network having more than 21,000 retail outlets all over Bangladesh and it also exports its products to USA, Canada, Australia, Middle East and some of the European countries.

Investment Negatives

- The Company is exposed to high leverage. The Company's debt ratio is in increasing trend for last few years. High

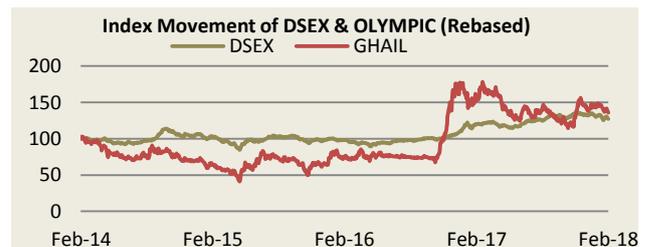
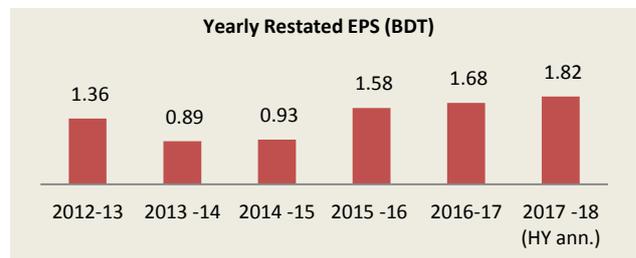
interest expense eats up a major part of its operating income. The company's interest coverage ratio during the year 2017-18 was 2x only.

- Though the Company is providing freezing facilities to the dealers and retailers, it is not deploying power generators to the distributors and sellers. As a result, the company faces high risk of food defrosting.
- The Company lacks in having strong customer base in the market due to limited target market; mostly sold in the capital city.

Latest Quarter Update –December 2017 (Q 2)

Particulars (BDT mn)	Jul-Dec 2017	Jul-Dec 2016	Oct-Dec 2017	Oct-Dec 2016
Revenue	817	748	346	308
<i>Growth</i>	9.2%	--	12.3%	--
Gross Profit	391	354	167	148
<i>Margin</i>	47.8%	47.3%	48.3%	48.1%
<i>Growth</i>	10.5%	--	12.8%	--
Operating Profit	270	246	108	94
<i>Margin</i>	33.0%	32.9%	31.2%	30.1%
<i>Growth</i>	9.8%	--	%	--
Net Profit	99	78	34	21
<i>Margin</i>	12.1%	10.4%	9.8%	6.8%
<i>Growth</i>	26.9%	--	61.9%	--

- Consolidated gross turnover of the Company has increased by 9.2% in the Jul-Dec of 2017-18 over the same period of last year due to the increase in demand.
- Net profit margin increased to 12.1% in the Jul-Dec of 2017-18 from 10.4% over the same period of last year because of increase in finance income and decrease in salaries & distribution expense and finance expense.



Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	28.0	50.4
Sector Trailing P/E	30.0	54.0

Concluding Remark

GHAIL is the first ever built frozen vegetables and snack food processing plant in Bangladesh. With the increasing urban population the Company is also 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 driving the growth of the company. The company's forward and backward integration will also help the company to boost its revenue in coming days.

Source: Annual Reports, Prospectus, DSE Website, the Financial Express, the Daily Star, Company's website and ILSL Research

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