

# LAFARGEHOLCIM BANGLADESH LIMITED

DSE: LHBL

BLOOMBERG: LHBL:BD

## Company Overview

LafargeHolcim Bangladesh Limited, the only cross border commercial venture between Bangladesh and India, was incorporated in Bangladesh on November 11, 1997. In February 2017, the Company has changed its name to "LafargeHolcim Bangladesh Limited (LHBL)" from "Lafarge Surma Cement Limited" following the merger of Lafarge Surma Cement (Bangladesh) Ltd. and Holcim Cement (Bangladesh) Ltd. In January 2018, the Company completed the acquisition of 100% shares of Holcim Cement (Bangladesh) Limited (HBL) with the remittance of BDT 5,047.82 million.

The Company is engaged in manufacturing and marketing of cement, clinker, ready-mix concrete in the local market. The combined manufacturing plants of the Company are located at Sunamganj, Narayangong and Mongla. The Company is marketing its product under the brand Supercrete, Powercrete, Plastercrete and Holcim.

The Company has two subsidiaries in India – Lafarge Umiam Mining Pvt. Ltd. (100% ownership) which supplies limestone and sells from mines to cement plant situated in Bangladesh and Lum Mawshun Minarals Pvt. Ltd. (74% ownership) which obtains land rights and mining leases.

To conduct its operation, it extracts and processes the basic raw materials limestone from its own quarry in Meghalaya, India. The raw materials are transported through a 17-km cross-border conveyor belt from the quarry to the plant. Other key raw materials are Clay, Gypsum, Iron Ore, Sand, Slag etc. Around 71% of raw materials consumed were imported in 2020 which was 78% in last year.

## Capacity & Utilization

The annual cement production capacity of the Company stands at 4.2 mn tonnes after the merger.

(Million Tonnes)	2016	2017	2018	2019	2020
Gray Cement	1.50	1.50	1.50	1.50	4.03
Cement Clinker	1.40	1.40	1.40	1.40	1.29
Holcim Cement	1.90	1.90	1.90	1.90	--*
<b>Utilization</b>					
Gray Cement	97%	77%	82%	82%	62%
Cement Clinker	99%	100%	91%	91%	91%
Holcim Cement	57%	62%	70%	71%	--

Source: Annual Reports of LafargeHolcim Bangladesh Limited.

\*After amalgamation with Holcim Cement (Bangladesh) Limited, the year 2020 was the first full year of operations as a combined entity.

## Consolidated Revenue Composition

Sales (BDT mn)	2017	2018*	2019	2020	2021 (Q1)~
Gray Cement	7,748	16,272	17,530	15,926	5,953
Cement Clinker	2,945	359	310	296	16%
<b>Total</b>	<b>10,819</b>	<b>16,632</b>	<b>17,840</b>	<b>16,222</b>	<b>5,953</b>
<b>Composition</b>					
Gray Cement	72%	98%	98%	98%	--
Cement Clinker	27%	2%	2%	2%	--
<b>Growth</b>					
Gray Cement	-13%	110%	8%	-9%	16%
Cement Clinker	59%	-88%	-14%	-4%	--

\*Growth in 2018 came from the combined capacity;

~Growth in 2021 considers 3 months data over the same of the last year.

## Company Fundamentals

Market Cap (BDT mn)	66,430.6
Market Weight   Sector Weight	1.5%   56.6%
Free-float (Public + Inst. + Foreign)	35.3%
No. of Shares Outstanding (mn)	1,161.4
Paid-up Capital (BDT mn)	11,613.7
3 Months Average Turnover (BDT mn)	229.8
3-month Return (Free-float Adjusted)	-0.7%
Current Price (BDT)	57.2
52-Week Price Range (BDT)	35.9 – 70.0
Sector Forward P/E	13.0

	2018*	2019	2020	2021 (3M Ann.)
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### Financial Information (BDT mn):

Sales	16,632	17,840	16,222	25,271
Gross Profit	4,100	4,532	4,606	7,497
Operating Profit	2,476	2,960	2,954	5,439
Profit After Tax	1,115	1,737	2,361	4,141
CAPEX	803	972	775	92
Cash & Cash Equiv.	446	302	1,373	4,565
Assets	26,888	26,924	26,219	28,874
Long Term Debt	984	194	66	52
Short Term Debt	2,661	1,163	37	38
Retained Earnings	3,666	4,242	5,442	6,478
Equity	15,578	16,199	17,289	18,300

### Margin:

Gross Profit	24.7%	25.40%	28.4%	29.7%
Operating Profit	14.9%	16.6%	18.2%	21.5%
Pretax Profit	11.3%	15.0%	17.6%	21.5%
Net Profit	6.7%	9.7%	14.6%	16.4%

### Growth:

Sales	53.7%	7.3%	-9.1%	55.8%
Gross Profit	57.8%	10.5%	1.6%	62.8%
Operating Profit	94.8%	19.6%	-0.2%	84.1%
Net Profit	38.4%	55.9%	35.9%	75.4%

### Profitability:

ROA	4.6%	6.5%	8.9%	15.0%
ROE	7.2%	10.9%	14.1%	23.3%

### Operating Efficiency:

Inventory Turnover	8.9	7.1	6.7	11.4
Receivable Turnover	9.7	8.8	8.2	15.2
A/C Payable Turnover	3.5	2.8	2.3	3.0
Total Asset Turnover	0.7	0.7	0.6	0.9
Fixed Asset Turnover	1.2	1.1	1.0	1.5

### Leverage:

Debt Ratio	13.6%	5.0%	0.4%	0.3%
Debt-Equity	23.4%	8.4%	0.6%	0.5%
Int. Coverage	5.7	11.3	23.8	171.2

### Dividend History

Dividend (C/B)%	10/-	10/-	10/-	-/-
Dividend Yield	2.3%	3.0%	2.1%	-/-
Dividend Payout	104.2%	66.8%	49%	-/-

### Valuation:

Price/Earnings	60.1	38.6	28.1	16.0
Price/BV	4.3	4.1	3.9	3.6
EPS (BDT)	1.0	1.5	2.0	3.6
NAVPS (BDT)	13.4	13.9	14.9	15.8

\*2018 figures are included of Holcim Cement (Bangladesh) (HBL) Ltd after acquisition.

### Production Performance

Company has 4.2 mn tonnes cement production capacity per annum, with a fully integrated cement and clinker plant in Chhatak, and three (3) grinding plants near Dhaka and Khulna. The limestone quarry in Meghalaya, India has permits to produce up to 5 mn tonnes per annum.

Cement Production ('000 MT)					
	2016	2017	2018	2019	2020
Meghnaghat & Mongla Plant	1,089	1,170	1,324	1,481	1,416
Growth	11.1%	7.4%	13.2%	11.9%	-4.4%
Surma Plant	1,457	1,161	1,231	1,223	1,057
Growth	3.8%	-20.3%	6.0%	-0.6%	-13.6%
Limestone Quarry	2,139	2,317	2,186	2,291	2,105
Growth	--	8.3%	-5.7%	4.8%	-8.2%

#### Performance of Surma Plant:

In 2020, despite the loss of forty (40) production days and restricted production hours due to the pandemic, the Company produced 1.18 mn tonnes of clinker and 1.06 mn tonnes of cement which was lower by 6.94% & 13.57% respectively over last year. **Reasons for declining trend of production** of clinker and cement are attributed to: (i) **no Excess Gas** supplied by Jalalabad Gas Transmission and Distributions System Ltd. under the Gas Sales Agreement, and (ii) production of Supercrete cement in the Grinding units for more optimized and cost effective production, & (iii) **pandemic situation** in 2020.

#### Meghnaghat 1, Meghnaghat 2 And Mongla Plants Production:

In 2020, Meghnaghat & Mongla Plants achieved the second highest cement production of 1.42 mn tonnes and dispatch volume 1.41 mn tonnes in the history of the Company overcoming the production hours lost due to the restrictions of the pandemic. Cement production at Meghnaghat and Mongla plants were 4.39% lower over last year.

#### Limestone Quarry at Meghalaya, India:

In 2020, Lafarge Umiam Mining Pvt. Ltd., the subsidiary of the Company, exported 2.10 mn tonnes of limestone, marginally lower compared to the 2.29 mn tonnes in 2019. The Quarry operations stopped for 45 days due to COVID 19 lockdown imposed.

### Shareholding Composition:

The Company became enlisted with the DSE and CSE in 2003.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-May-21	64.68%	0.00%	17.05%	0.77%	17.50%
31-Dec-20	64.68%	0.00%	16.14%	0.82%	18.36%
31-Dec-19	64.68%	0.00%	15.19%	0.99%	19.14%
31-Dec-18	64.68%	0.00%	15.64%	0.92%	18.76%

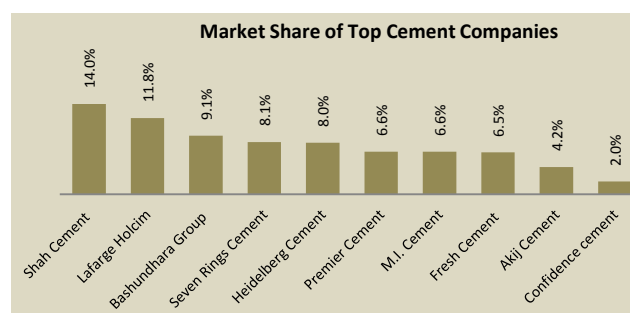
#### Composition of Shareholders as of December 2020:

Name of the Shareholders	Nationality	Number of Shares (in mn)	Holding (%)
Surma Holding B.V.	The Netherlands	683.70	58.87%
Sinha Fashions Limited	Bangladesh	35.10	3.02%
Islam Cement Limited	Bangladesh	31.91	2.75%
Others Shareholders	Bangladesh & NRB	410.67	35.36%
<b>Total</b>		<b>1,161.37</b>	<b>100.00%</b>

### Industry Overview

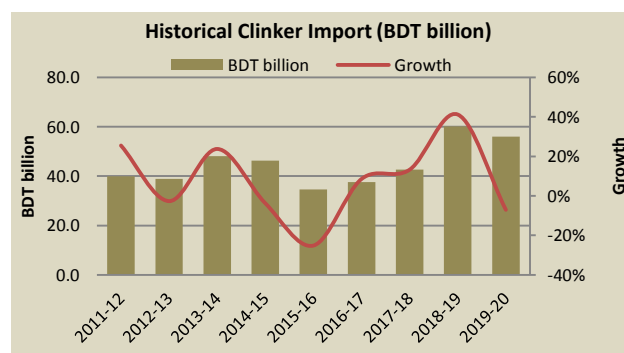
Cement industry of Bangladesh is running with excess capacity and total yearly production capacity is 68 million tons. According to Cement Manufacturer association, nearly 35 million tons cement is being produced at present. On an average, the utilization rate of cement manufacturing companies is currently around 51%. The investment in the sector is about BDT 420.00 billion and annual sales of the cement sector are BDT 255.00 billion (The Daily Star, February 21, 2021 and June 06, 2021).

**Market share:** The industry is oligopoly in nature. At present there are 37 active cement manufacturers in the country including four multinational companies Top 10 players held almost 81% of total market share. Major players are now trying to utilize their additional capacity that continues to exert pressure on selling prices. As a result, the spiraling cost cannot be passed to the customers.



Source: The Dhaka Tribune, July 08, 2019

**Raw materials and business margin:** Bangladesh has no source of cement clinker which makes it one of the largest importers of clinker and limestone. According to Bangladesh Bank, Bangladesh imported clinkers of BDT 55.96 billion in the year 2019-20 decreased by 7.01% over last year mainly from India, Thailand, Indonesia, the Philippines and China. So profitability of the sector largely depends on uninterrupted import facility and favorable foreign exchange condition. The recent rise in raw materials prices in international market squeezed the profitability of the cement companies. As of June 2021, the current shipping cost of one tonne of clinker is around \$63 while it was \$56 just a few weeks ago (The Daily Star, June 06, 2021).



Source: Bangladesh Bank

**Consumption and driving force:** Even though the demand for cement increased, per capita cement consumption still remains at the lowest level in Bangladesh. The per capita consumption of cement in the country currently stands at 210 kgs while it is a whopping 1,700 kgs in China, 690 kgs in Malaysia, 620 kgs in

Thailand, 517 kgs in Vietnam, 412 kgs in Sri Lanka, and 305 kgs in neighbouring India. (The Daily Star, June 06, 2021). Of the total consumption, individuals account for 25%, real estate and commercial developers 30% and the government 45%.

The government is providing 2% incentive on money remitted by expatriate Bangladeshis from FY 2019-20 onwards. Remittance inflow grew by 11.84% to hit record BDT 15.43 billion in FY 2019-20. In 2018-19 fiscal year remittance was BDT 13.80 billion. Cement consumption by Individual Home Builders' (IHB) may increase following such surge in remittance. The demand for cement is expected to rise driven by the government's undertaking of several large infrastructural projects, real estate sector and individual home building. The cement sector of Bangladesh has been considered as the 40<sup>th</sup> largest market in the world.

**Export:** Over capacity of production in this sector uncovered the export opportunity in 2003. According to Bangladesh Export Promotion Bureau (EPB), Bangladesh's cement industry has earned export revenue of \$9.14m in the FY19-20 compared to \$10.41m bagged in FY 18-19, a significant contraction of 12.2% Year to Year. MI Cement controls more than 50% of cement exports.

Bangladesh exports cement to India, Myanmar, Sri Lanka, Nepal, and the Maldives. The northeastern states like Assam and Tripura represent the biggest market for Bangladeshi cement companies due to the remote location of these states from the manufacturing hubs of India. With transit facility, India is now being able to shift cement at lower costs to the "Seven Sister States" of north-eastern India through Bangladesh. Hence, cement export to India might decline in coming days. Exports have seen double-digit growth over the past few years. Despite the rise, the export volume makes up less than 1 percent of the total production. The LightCastle informed that annually Bangladeshi companies produce around 68 million bags of cement from which only 400 to 500 thousand bags are exported.

**Seasonality:** The demand for cement sharply declines during the monsoons due to slowdown in construction activities. Cement sector in Bangladesh experiences high seasonality. Peak season is considered during the winter season (November to April) while demand for cement goes slow during the monsoon (June to October) period. The demand for cement sharply declines during the monsoons due to slowdown in construction activities.

#### Investment Positives

- The Company has **commenced commercial production of clear size graded aggregate** (graded limestone chips having uniform size and shape conforming to international standards) **from January 9, 2021**. The Company has set up state-of-the-art cone shaped crushing unit with ancillary equipment, **with a capacity to produce 1.2 million tons of clear sized graded aggregate per annum** within the premises of the Company's existing integrated clinker and cement manufacturing plant at Chhatak, Sunamganj **with an investment of BDT 401.00 million**. The entire investment is made **from the Company's own fund**.
- LHBL is the second largest Company in the country with 11.8% market share** (The Dhaka Tribune, July 8th, 2019).

- The **amalgamation** of Holcim Cement (Bangladesh) Limited by LafargeHolcim Bangladesh Limited **has opened up new avenues and demand for the limestone**. The Company has a **unique combination of production facilities, with the only clinker production facility in Bangladesh and four grinding plants across the country**. The Surma plant of the Company is producing more clinker than it can grind and HBL is having underutilized grinding capacity. This combination is optimizing its production facility and creates more cost-effective routes to the market. The quarry team **introduced new dumpers to improve efficiency and reduce operational costs**. The quarry in Meghalaya supplies limestone to the Surma Plant with the production requirement.
  - In 2020, the **Company received 2.10 million tons of limestone** to the plant at Chattak which was **marginally lower compared to 2.29 million tons** in last year. This was due to the **temporary discontinuance of quarry operations for 45 days due to COVID 19 lockdown** imposed by Government of India. The Company is permitted to transport 5.0 million tonnes limestone to the cement plant of the Company's Chhatak plant, Bangladesh from India.
- The Company has been **maintaining higher profit margins** over the years compared to its competitors mainly **due to having the limestone quarry of its own at Meghalaya, India**. In 2020, **gross profit margin has increased to 28.4% which was 25.4% in last year**. This was due to **lower cost of limestone after amalgamation with Holcim Bangladesh Limited**. Finance cost has reduced substantially due to diminution of both long-term loan and short-term loan. Efficiency improvement projects for both inbound and outbound logistics and innovation delivered better discipline in logistic costs and reduced variable and fixed costs in enhancing the margin. With the well planned and bold initiatives, the logistics fixed cost has been reduced by 34% compared to 2019 and overall distribution cost reduced by 19% compared to 2019.

Company Name	BDT mn	Margin		EPS	NAVPS
	Net Revenue	Gross Profit	Net Profit		
<b>LHBL</b>	<b>16,222</b>	<b>28.4%</b>	<b>14.6%</b>	<b>2.03</b>	<b>14.89</b>
HEIDELBCEM	11,681	11.6%	-0.7%	(1.43)	68.10
PREMIERCEM	10,461	14.4%	2.6%	2.55	49.00
MICEMENT	17,876	8.0%	-0.7%	(0.89)	46.38
MEGHNACEM	7,736	9.8%	0.7%	2.08	32.73

\*The financial results of LHBL and HEIDELBERG as on December 2020 and the rest as on June 2020

- The Company has **reduced the imported raw materials inventory** significantly. This helped to reduce the exposure to Net Working Capital without disruptions in operations.

	Raw Materials Consumption					
	2015	2016	2017	2018	2019	2020
<b>(BDT mn)</b>						
Imported	3,487	3,301	3,366	3,118	2,941	3,061
Indigenous	610	549	470	523	568	935
<b>In %</b>						
Imported	79%	79%	81%	80%	78%	71%
Indigenous	14%	13%	11%	13%	15%	22%

- Cement industry is expected to grow at an average rate of 10% in the next 5 years as per the industry experts, resulting from the significant increase in infrastructural**

investment like bridges, rail lines, power plants, metro rail and also in the private sector investment. This will have a positive impact on the profitability of the Company being the second largest company in terms of market share.

- The government has proposed to **15% increase the ADP** in the budget for FY 2021-22 with the aim of achieving higher growth. In line with this goal, the government will strive for timely implementation of all nationally important projects including mega projects in the infrastructure sector.
- The budget also proposed to **reduce the rate of tax deduction at source on supply of cement** from 3% to 2% and to **reduce the rate of tax on import of raw materials** related to cement production from 3% to 2%. These initiatives will have positive impact on the profitability of the Company.
- The Company has **focused to increase the sales volume of cement in line with market growth**. Increasing coverage in white spaces through setting up new distributors, expanding retail coverage, improving sales productivity on constant basis, aggressive implementation of strategy for Sylhet market were some of the key success areas in 2019. In 2020, to reach the untapped areas, the Company has **focused on expansion with over 7,000 retailers, 500 dealers and 400 business to business customers**. The Company aims to increase network optimization and introduce further digital platforms in the coming years.

#### Investment Negatives

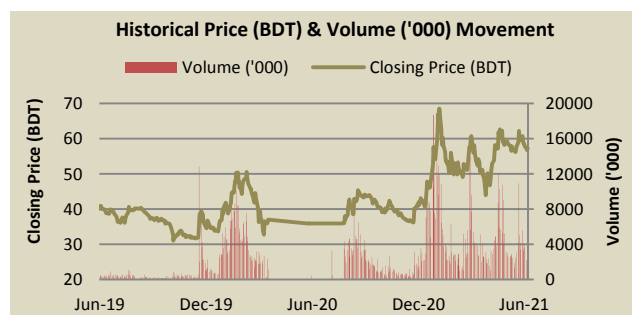
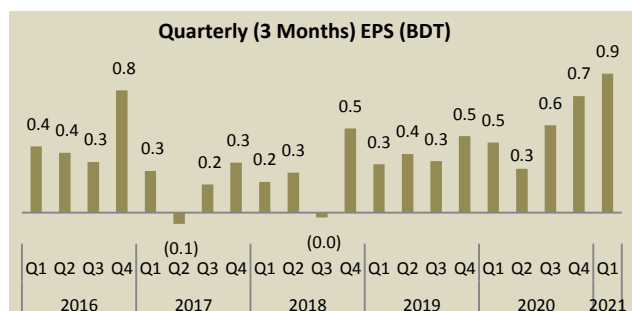
- Upon **dispute over the Ceiling Price of gas under the Gas Sales Agreement (GSA) between LHBL and Jalalabad Gas Transmission and Distributions Systems Ltd. (JGTDS)**, the Honorable Appellate Division of the Supreme Court of Bangladesh directed the Company to pay to JGTDS of all gas bills issued by JGTDS as per Gas Tariff fixed by Bangladesh Energy Regulatory Commission along with the **total disputed dues of BDT 902.51 million** out of which BDT 100.00 million shall have to be paid within one (1) month along with regular bills and balance amount shall have to be paid in quarterly installments of BDT 100.00 million. **Subject to fulfillment of the above conditions, JGTDS shall maintain supply of gas** to the Company under the GSA.
- **The Company's one of the major risks lies in cross border operations**. Any interruption of limestone supply from its Indian subsidiary company might affect the gross margin of the Company.
- Bangladesh is a cement capacity surplus market. The big **market players have already expanded their production capacity by almost 100%** or even more projecting the future demand for cement driven by infrastructure investment in the country. Moreover, **Saudi Arabian company Engineering Dimensions (Pvt) Ltd. are planning to build a large modern cement factory** in northeastern Chhatak of Sunamganj district. These attributes may fuel the rivalry among the market players which might have negative impact on the profitability of the cement manufacturers.
- The availability of clinker in Asia impacts the **price of clinker imports, which has a significant impact on the level of cement prices** in the market and hence on the Company's profitability.

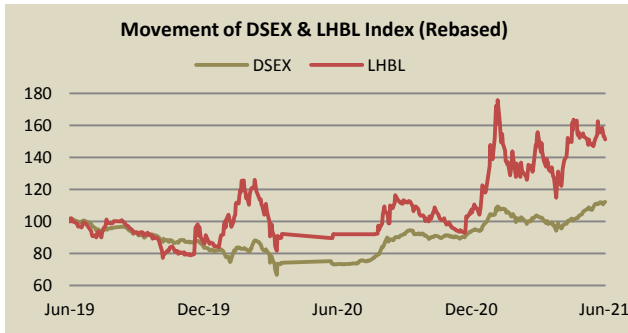
- There are **contingent liabilities** on account of unresolved disputed corporate tax assessments, VAT and Custom claims by the authority **aggregating to BDT 2,287 million** from LafargeHolcim Bangladesh Limited (Annual Report 2020).

#### Latest Quarter Update: Q1, 2021

Particulars (BDT mn)	Jan-Mar 2021	Jan-Mar 2020	Growth
<b>Consolidated Turnover</b>	<b>6,318</b>	<b>5,128</b>	<b>23.2%</b>
<b>Gross Profit</b>	<b>1,874</b>	<b>1,134</b>	<b>65.4%</b>
<i>Margin</i>	29.6%	22.0%	--
<b>Operating Profit</b>	<b>1,360</b>	<b>664</b>	<b>104.9%</b>
<i>Margin</i>	21.5%	12.9%	--
<b>Net Profit</b>	<b>1,035</b>	<b>522</b>	<b>98.2%</b>
<i>Margin</i>	16.4%	10.2%	--
<b>EPS (BDT)</b>	<b>0.89</b>	<b>0.45</b>	--

- Consolidated turnover of the Company has increased by 23% during the first quarter of 2021 over the same period of last year due to the increased consumption of cement in the rural areas, rapid urbanization and resumption of construction works of large infrastructural projects after remaining halted for the covid-19 lockdowns.
- Gross profit margin has jumped to 29.6% during the period which was 22.0% than that of last year because of the Company's rigorous cost optimization initiatives and implementation of new marketing and sales strategy.
- Operating profit margin has improved during the period because of lower administrative and selling expenses in percentage of sales as the sales has increased during the reported period over the same period of last year.
- Net profit margin has increased during the reported period because of lower finance expenses. Finance cost has reduced substantially due to lower base of both long-term loan and short-term loan.





### Concluding Remark

LafargeHolcim Bangladesh Ltd. is the market leader in building materials in terms of production capacity. The acquisition of Holcim Cement Bangladesh Ltd. enabled the Company to optimize its network of production facility and create more cost-effective routes to the market. Amid encouraging industry growth outlook and in the coming years propelled by investments focus in large infrastructure development projects undertaken by the Govt. of Bangladesh, foreign investment and higher remittance flow, the strategy and focus of the dedicated teams for B2B shall boost up the profitability of the Company.

Source: Annual Reports, DSE news, Lafarge Holcim website, newspaper news and ILSL Research

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