

LAFARGEHOLCIM BANGLADESH LIMITED

DSE: LAFSURCEML
BLOOMBERG: LAFCEM:BD

Company Overview

LafargeHolcim Bangladesh Limited (LHBL), the only cross border commercial venture between Bangladesh and India, was incorporated in Bangladesh November 11, 1997. In February 2017, the Company has changed its name from "Lafarge Surma Cement Limited" to "LafargeHolcim Bangladesh Limited" through merger of Lafarge group and Holcim group in the global level. In January 2018, the Company completed the acquisition of 100% of the 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 and clinker in the local market. The annual cement production capacity of the Company stands at 3.7 million tonnes from 1.5 million tonnes along with 1.4 million cement clinker after the merger. The combined manufacturing plant of the Company is located at Sunamganj, Narayangong and Mongla. Recently, it launched 'Plastercrete', specialized cement for plastering, in addition of its existing brand Supercrete, Powercrete and Holcim.

Capacity* (Thousand MT) & Utilization

	2013	2014	2015	2016	2017
Gray Cement	1,200	1,200	1,200	1,500	1,500
Cement Clinker	1,150	1,150	1,150	1,400	1,400
Utilization					
Gray Cement	101%	120%	117%	97%	77%
Cement Clinker	112%	116%	117%	99%	100%

*Before acquisition of Holcim Cement (Bangladesh) Ltd.

Revenue Composition

Sales Volume (BDT mn)	2013	2014	2015	2016	2017
Gray Cement	8,531	9,343	8,989	8,876	7,748
Cement Clinker	2,799	2,240	1,979	1,853	2,945
Revenue (BDT mn)	11,330	11,583	10,968	10,729	10,819
Composition					
Gray Cement	75%	81%	82%	83%	72%
Cement Clinker	25%	19%	18%	17%	27%
Growth					
Gray Cement	-1%	10%	-4%	-1%	-13%
Cement Clinker	36%	-20%	-12%	-6%	59%

In 2017, the Company includes limestone and slag sales to HBL in its revenue which is 1.16% of total revenue.

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 87% of raw materials and spare parts consumed were imported in 2017 which was 85% in earlier year.

The Company ensured backward linkage with its two subsidiaries registered in India – Lafarge Umiam Mining Pvt. Ltd. (100% ownership) which supplies limestone and sale from mines to cement plant situated in Bangladesh and Lum Mawshun Minarals Pvt. Ltd. (74% ownership) which obtains land rights and mining leases. Holcim Cement (Bangladesh) Ltd. (HBL) became a subsidiary (100% ownership) of the Company from 07 January 2018.

Company Fundamentals

Market Cap (BDT mn)	64,107.8
Market Weight	1.9%
Free-float (Public +Inst.)	35.3%
No. of Shares Outstanding	1,161.4
Paid-up Capital (BDT mn)	11,613.7
3 Months Average Turnover (BDT mn)	47.6
3 Months Return	-2.2%
Current Price (BDT)	55.2
52-Week Price Range (BDT)	51.0 - 72.1
Sector Forward P/E	36.6

	2015	2016	2017	2018* (Q1 Ann.)
Financial Information (BDT mn):				
Sales	10,968	10,729	10,819	18,484
Gross Profit	3,919	3,770	2,599	3,874
Operating Profit	2,891	2,884	1,271	1,845
Profit After Tax	2,290	2,226	805	914
Assets	20,695	20,980	21,551	28,479
CAPEX	229	556	319	45
Long Term Debt	2,395	2,371	--	1,500
Short Term Debt	1,086	524	559	2,435
Equity	14,361	15,372	15,274	15,505
Margin:				
Gross Profit	35.7%	35.1%	24.0%	21.0%
Operating Profit	26.4%	26.9%	11.7%	10.0%
Pretax Profit	25.7%	27.5%	12.5%	8.2%
Net Profit	20.9%	20.8%	7.4%	4.9%
Growth:				
Sales	-5.3%	-2.2%	0.8%	70.8%
Gross Profit	-12.3%	-3.8%	-31.1%	49.1%
Operating Profit	-23.5%	-0.2%	-55.9%	45.2%
Net Profit	-18.8%	-2.8%	-63.8%	13.5%
Profitability:				
ROA	11.3%	10.7%	3.8%	3.7%
ROE	16.6%	15.0%	5.3%	5.9%
Operating Efficiency Ratio:				
Inventory Turnover	7.3	8.0	8.4	10.3
Receivable Turnover	12.4	9.5	7.5	11.6
A/C Payable	3.0	2.9	3.1	3.7
Total Asset Turnover	0.5	0.5	0.5	0.7
Fixed Asset Turnover	0.9	0.9	0.9	1.3
Leverage:				
Debt Ratio	5.2%	2.5%	2.6%	13.8%
Debt-Equity	7.6%	3.4%	3.7%	25.4%
Int. Coverage	15.8	40.4	30.7	5.3
Dividend History				
Dividend (C/B)%	10/-	10/-	10/-	-/-
Dividend Yield	1.3%	1.2%	1.7%	-/-
Dividend Payout	51%	52%	144%	-/-
Valuation:				
Price/Earnings	28.6	29.4	81.3	70.2
Price/BV	4.6	4.3	4.3	4.1
EPS (BDT)	2.0	1.9	0.7	0.8
NAVPS (BDT)	12.4	13.2	13.2	13.4

*2018 figures are included Holcim Cement (Bangladesh) (HBL) Ltd as LafargeHolcim acquired HBL on January 2018.

Shareholding Structure:

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

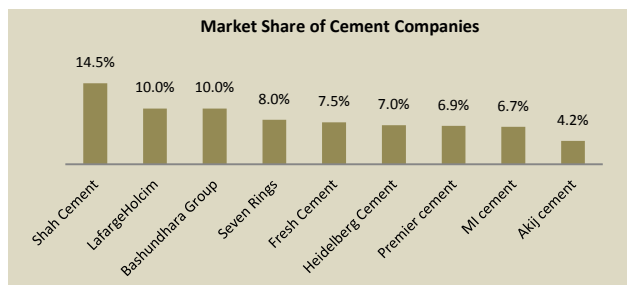
As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Apr-18	64.68%	0.00%	15.02%	1.17%	19.13%
31-Dec-17	64.68%	0.00%	14.32%	1.30%	19.70%
31-Dec-16	64.68%	0.00%	14.26%	1.38%	19.68%
31-Dec-15	64.64%	0.00%	13.18%	1.58%	20.61%

Industry Overview

Cement industry of Bangladesh is running with excess capacity. At present there are 32 cement manufacturers in the country including four multinational companies and total yearly production capacity is 40 million tons. According to information of Cement Manufacturer association's nearly 32 million tons cement are being produced now. On an average the utilization rate of cement manufacturing companies is currently around 75.0-80.0 per cent. Even though the demand for cement increased, per capita cement consumption still remains at the lowest level in Bangladesh which is only 137 kg and average per capita cement consumption in the world is 500 kg. Whereas the per capita cement consumption in China, Malaysia and India are 1700kg, 700 kg and 250kg respectively.

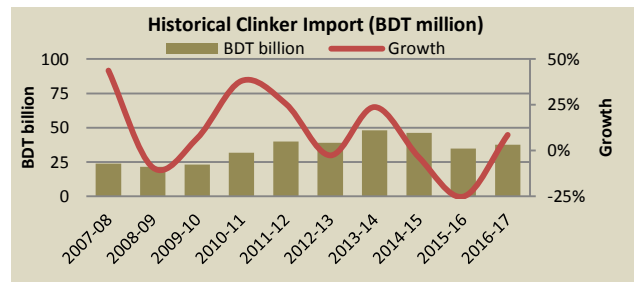
Government projects and real estate developers are the main users of cement. The demand for cement is expected to rise driven by the government's undertaking of several large infrastructural projects, real estate sector and individual home building. The cement sector of Bangladesh is has been considered as the 40th largest market in the world.

The industry is oligopoly in nature. According to the latest report, top 10 players held almost 81% of total market share and Pricing control.



Bashundhara Group comprises with Meghna Cement & Bashundhara Cement
Source: The Daily Prothom Alo, Dec 2016

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 BDT 36.64 billion in the year 2016-17 increased by 8.57% 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 depreciation of BDT against USD and rise in raw materials prices in international market squeezed the profitability of the cement companies.



Source: Bangladesh Bank

Over capacity of production in this sector uncovered the export opportunity in 2003. Bangladesh exports 40,000 to 50,000 MT of cement a month to the seven-sister market in India. Indian manufactures are now offering cement at lower rates than Bangladeshi companies due to tax benefits. Currently, Bangladeshi cement makers cannot compete with Indian manufacturers as there is a price gap of BDT 50 to BDT 70 a bag between Indian cement and Bangladeshi cement. However, experts expect the cement industry to grow by an annual average of 15%-20% over the next five years due to infrastructure mega projects, rising homebuilding in rural areas and suburbs.

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

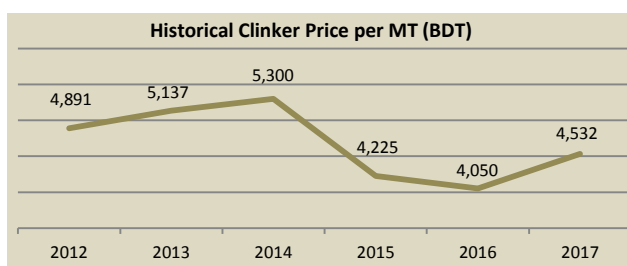
- With the acquisition of Holcim Cement (Bangladesh) Limited (HBL), the annual cement production capacity of the Company has increased from 1.5 million tonnes to 3.7 million tonnes (146.67% increased) along with 1.4 million cement clinker. It would be the second largest Company in the country in terms of market share. Before merger, Lafarge Surma Cement and Holcim Cement captured around 5.7% & 4.3% respectively of total market share. 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 synergy will enable the Company to optimize its network of production facility and create more cost-effective routes to the market.
- In November 28, 2016, the Company received the permission from Indian Government to enhance the limestone production and transportation from 2.0 million MT to 5.0 million MT per year from India to the cement plant of the Company's Chhatak plant, Bangladesh. In 2017, the Company's limestone import was 2.317 million tonnes increased by 1.55% as compared to 2016.
- The Company enjoyed, on an average, around 35% gross profit margin over the last few years; whereas other players in the industry maintain a gross profit margin up to 25%. The reason is the firm has competitive edge in getting raw materials through its own resources while others have to import the raw materials from abroad.

However, in recent period the gross profit margin has decreased to 21% due to increased costs of raw materials and depreciation of BDT against USD.

- Increase in clinker price in international market will contribute positively to the revenue as the Company is selling clinker to the local market players. In 2017, clinker sale was 27% of its total turnover, grew by 59% than that of last year due to the increased price of clinker in international market.
- Cement industry is expected to grow at an average rate of 15% in the next 5 years, resulting from the significant increase in infrastructural investment and also in the private sector investment.
- The Company has replaced the old belt of its 17-kilometre-long conveyor with a new one to ensure the noise-free movement of limestone from its mine in India to its cement plant in Bangladesh and keep up production. The plant makes use of a waste management service called Geocycle, aligned with LafargeHolcim's plan to promote eco-friendly waste management.

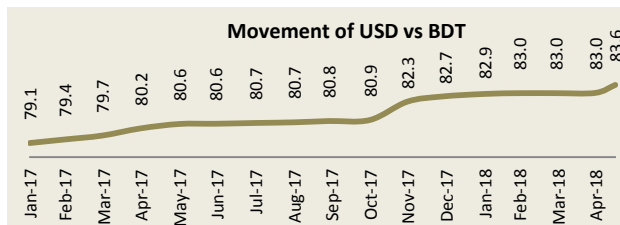
Investment Negatives

- **In 2017, consolidated net profit of the Company has decreased by 63.8% as compared to 2016. This was because of increase of costs of goods sold and operating expenses.** Costs of Goods Sold have gone up by 11.53% compared to last year (2016) due to increase of raw material costs. Toll manufacturing cost also fueled up the cost of sales in 2017. The toll manufacturing cost increased by 1,123% to BDT 1,005.75 million in 2017 which was BDT 82.23 million in 2016. The portion of toll manufacturing cost was 12.23% to the total cost of sales in 2017 which was only 1.19% in 2016. Operating expenses increased due to the rise in salary, allowances and benefits of employees and marketing team. **Consolidated net profit in the first quarter of 2018 has declined by 26.2% over the same period of last year.** This was because of increased cost of sales, operating expenses and finance cost. Finance cost increased as the Company availed BDT 1.5 billion long term loan to complete its acquisition process.
- **Turnover of the Company is in declining trend since 2015. This was because of decline of clinker prices in the international market which led to the drop in the prices of cement along with the fierce price competition from the competitors to gain market shares though there was 3% higher sales volume in 2016 over 2015.** Meanwhile, the Company witnessed a flat growth in its turnover in 2017 though there was the highest rainfall in the country over the last 40 years that causing floods. As the construction works are largely hampered during the rainy seasons, the sales and production also reduced in that time.



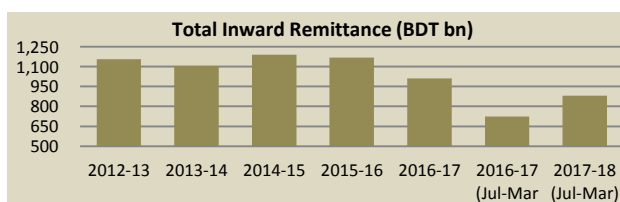
Source: Financial Statements of MI Cement Factory Ltd.

- **In 2017, the gross profit margin has dropped to 24.02% which was 35.55% in last year.** Costs of goods sold increased due to the production and maintenance cost and toll manufacturing costs. The prices of raw materials i.e. clinker, limestone, slag, gypsum increased in international market along with a depreciation of BDT against USD. In 2017, the Bangladeshi Taka depreciated by 4.07% against USD. Around 87% of raw materials and spare parts & other supplies consumed are imported.



Source: Bangladesh Bank

- **The Company availed long term loan of BDT 1.5 billion in the first quarter of 2018 which increased the debt ratio to 13.8% as of March 2018 which was 2.6% as of December 2017.** This increased debt ratio lowered the interest coverage ratio to 5.3x in March 2018 from 30.7x in December 2017.
- **The government is moving forward to increase the gas and electricity prices which will have an adverse impact on the business performance of the Company.** Meanwhile, upon supply of LNG to the market, natural gas price will also rise which will increase the production cost. Power and fuel costs account for 16.62% of total cost of goods sold in 2017.
- **In 2017, net profit of Lafarge Umiam Mining Pvt. Ltd. (100% ownership) has decreased to INR 571.32 million, 13% lower over 2016.** The decline was mainly attributed to the appreciation of Indian Rupee to the US Dollar in 2017 which has negatively impacted on the overall profitability of the Company. In addition, there have been increases in wages costs on account of significant increase in notified wages rate in 2017 by the Ministry of Labour, Government of India and reduction in the contribution of other income in 2017.
- **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.
- The remittance inflow into Bangladesh dropped to \$12.76 billion in the 2016-17, marking a 14.48% decline year-on-year which was also the lowest in the last five years. However, the remittance inflow is taking a reverse trend in the current FY 2017-18. In Jul-Mar 2017-18, total receipts of worker remittances increased by 17.04% as compared to that of last fiscal year. The remittance inflow is positively correlated with the use of building materials and cement consumption for their home buildings.



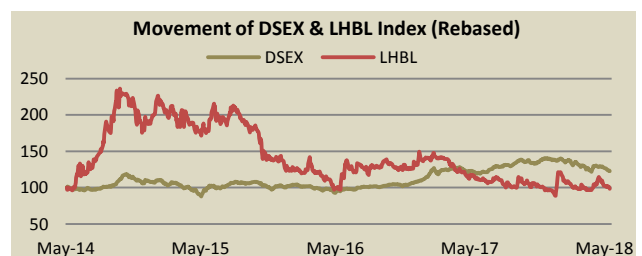
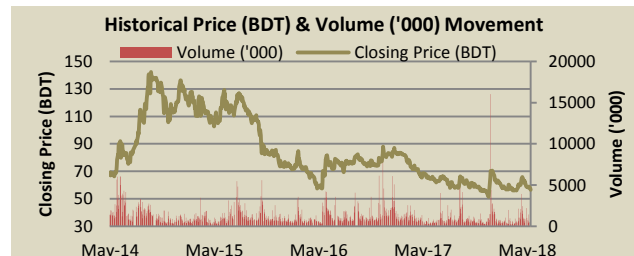
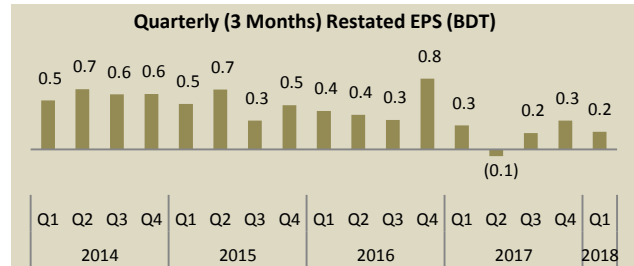
Source: Bangladesh Bank

Latest Quarter Update - Consolidated

Particulars (BDT mn)	Jan-Mar 2018	Jan-Mar 2017	Growth
Revenue	4,621	2,435	89.8%
Gross Profit	968	688	40.7%
<i>Margin</i>	<i>21.0%</i>	<i>28.3%</i>	
Operating Profit	461	459	0.6%
<i>Margin</i>	<i>10.0%</i>	<i>18.8%</i>	
Net Profit	228	310	-26.2%
<i>Margin</i>	<i>4.9%</i>	<i>12.7%</i>	

NB: Comparative figures of 2017 consists only LafargeHolcim Bangladesh Limited with its subsidiaries (LUMPL and LMMPL). 2018 figures are included Holcim Cement (Bangladesh) Limited since LafargeHolcim Bangladesh Limited acquired Holcim Cement (Bangladesh) Limited dated on 7 January 2018.

- **Turnover of the Company has increased by 90% in the first quarter of 2018 over the same period of last year as the turnover is consolidated with HBL's.** HBL became the 100% owned subsidiary of the LafargeHolcim Bangladesh limited from January 07, 2018.
- **Gross profit margin has decreased to 21% in the first quarter of 2018 which was 28.3% in the same period of last year.** This was because of the increase in raw materials prices in international market as well as sliding of BDT against USD. Around 87% of raw and other materials consumption was imported in 2017.
- Net profit in the reported period declined by 26.2% over the same period of last year though there was 90% increase in turnover. This was due to the decline in gross profit margin, increase in operating and finance expenses. Operating expenses increased due to increase in salary, allowances and benefits of the employees and marketing team. Finance expenses increased significantly as the Company availed loan for acquisition of the subsidiary company.


Concluding Remark

LafargeHolcim Bangladesh Ltd. is the market leader in building materials in terms of production capacity. The Company has reported phenomenal performance in recent years. Meanwhile, the acquisition of Holcim Bangladesh will enable the Company to optimize its network of production facility and create more cost-effective routes to the market.

Source: Annual Reports, DSE news, Lafarge Holcim's website, Holcim Bangladesh's website, newspaper news, ILSL Research

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