MJL BANGLADESH LIMITED

DSE: **MJLBD**
BLOOMBERG: **MJL:BD**

Company Overview

MJL Bangladesh Limited (MJLBD), a Joint Venture in the downstream petroleum industry between Jamuna Oil Company Ltd. (owns 19.45%) and EC Securities Ltd (owns 52.06%), subsidiary of the East Coast Group, was incorporated in 1998. The Company started its commercial operation in 1999. The Company initiated as a lubricating oil marketing Company of Mobil brand but later in 2003 with the introduction of Lube Oil Blending Plant (LOBP), it also got engaged in blending lubricant and grease products. MJLBD procures base oils from ExxonMobil while the additives are sourced from other global suppliers. The base oils are blended in the country to produce the desired grade of lube oil. The Company also imports the finished lubricant products to meet the local as well as the foreign market demand.

The Company has more than 220 SKUs (Stock Keeping Unit) of different products for different sectors. MJLBD uses 16 depots, 560 filling stations, 1,067 agents and 248 packed point dealers of Jamuna Oil Company Ltd. and its own appointed 76 wholesalers to distribute its products.

Subsidiaries and Associate:

Omera Petroleum Limited (OPL) (62.5% stake) is engaged in the storage and bottling of liquefied petroleum gas (LPG) and started its commercial production in March 2015 with a capacity of 100,000 MT per annum. OPL marketed its products to railways, power plants, automobiles, marine, aviation process and industrial lubricant at manufacturing plants.

Omera Cylinders Limited (OCL) (100% stake) serves as backward integration of OPL, engaged in manufacturing and marketing of cylinders, commenced commercial production in April 2015 with a capacity of 600,000 units per annum. It sold 218,281 units cylinder in 2016-17 which was 162,776 units in last year.

MJL & AKT Petroleum Limited (51% stake) carries its business as the authorized importer, dealer and distributor of Exxon Mobil Engine Oil in Myanmar.

MJLBD has also formed an associate company in Singapore by the name of MJL (S) PTE Ltd on May 18, 2016 to act as a trading and investment arm of MJLBD.

Revenue Composition & Growth:

Particulars	2016-17 (BDT mn)	Growth	Composition	
		2016-17	2016-17	2017-18 (Q1)
Oil Tanker Unit	1,232	16.9%	9%	4%
Manufacturing Unit	3,561	4.6%	25%	22%
Trading Unit	3,287	-2.8%	24%	21%
OPL	5,793	161.3%	41%	52%
MJL & Akt Pt. Ltd	107	52.4%	1%	1%

Sales of OCL are adjusted with the sales of OPL.

The Company was enlisted with the DSE and the CSE on June 2011. Historical shareholding status:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-17	71.53%	0.00%	14.56%	1.01%	12.90%
31-Dec-16	71.53%	0.00%	14.18%	1.70%	12.59%
30-Jun-16	71.53%	0.00%	14.12%	1.95%	12.32%
31-Dec-15	71.53%	0.00%	13.19%	0.69%	14.59%

Company Fundamentals

Market Cap (BDT mn)	33,877.4
Market Weight	0.9%
No. of Shares (mn)	301.7
Free-float (Public + Inst.)	28.5%
Paid-up Capital (BDT mn)	3,016.7
3 Months Average Turnover (BDT mn)	22.1
3 Months Return	0.8%
Current Price (BDT)	112.3
52-week Price Range (BDT)	103.1 – 127.7
Sector Forward P/E	11.5

	2015 (Jan-Dec)	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)	2017-18 (Q1 Ann.)
Financial Information (BDT mn):				
Net Sales	8,951	10,046	13,979	16,256
Gross profit	2,354	3,340	4,558	4,593
Operating Profit	1,582	2,395	3,330	3,930
Profit After Tax	1,049	1,715	2,129	2,298
Assets	19,062	20,233	25,288	27,063
Long Term Debt	1,301	1,639	1,402	1,223
Short Term Debt	4,690	3,902	5,554	6,481
Equity	9,619	9,860	11,150	11,725
Margin:				
Gross Profit	26.3%	33.2%	32.6%	28.3%
Operating Profit	17.7%	23.8%	23.8%	24.2%
Pretax Profit	13.2%	19.9%	20.8%	19.8%
Net Profit	13.2%	17.1%	15.0%	12.6%
Growth*:				
Sales	7.9%	--	39.1%	16.3%
Gross Profit	7.9%	--	36.5%	0.8%
Operating Profit	-11.4%	--	39.0%	18.0%
Net Profit	13.1%	--	22.7%	-3.8%
Profitability:				
ROA	6.5%	8.8%	9.2%	7.8%
ROE	13.0%	17.7%	20.0%	17.9%
Leverage:				
Inventory TO**	4.6	6.4	10.0	10.2
Receivable TO	18.8	11.9	11.2	13.0
A/C Payable TO	10.3	9.3	17.7	18.9
Total Asset TO	0.5	0.5	0.6	0.6
Fixed Asset TO	1.1	0.8	1.0	1.0
Leverage:				
Debt Ratio	31.4%	27.2%	26.1%	27.2%
Debt-Equity	62.3%	55.8%	59.2%	62.9%
Int. Coverage	4.4	6.1	7.8	5.5
Dividend History				
Dividend % (C/B)	-/-	60/10*	45/-	-/-
Dividend Payout	--	85.5%	65.1%	--
Dividend Yield	--	6.2%	3.7%	--
Valuation:				
Price/Earnings	28.7	19.7	16.1	16.5
Price/BV	3.5	3.6	3.2	3.1
Rest. EPS (BDT)	3.9	5.7	7.0	6.8
Rest. NAVPS (BDT)	32.1	30.8	34.9	36.6

**TO indicate turnover; *Growth for 2015-16 is not calculated due to unavailability of data; Dividend for 2015-16 is of 18 months; N.B.: The Company has changed the reporting period to July-June from January-December.

Industry Overview

Bangladesh lubricants industry is the inherent part of the countries core sectors as the lubricants is being used across wide range of industries. The lubricant industry in Bangladesh can be segmented into three categories – industrial lubricant, commercial vehicle lubricant and private vehicle lubricant. The automotive sector accounts for 67% of the total lubricant consumption and the industrial sector the remaining 33%. The sale of private cars has increased sharply in the country due to easy access to auto loan and increasing vehicle availability. A total of 20,304 new cars were registered by Bangladesh Road Transport Authority in 2016 and as many as 16,160 cars were registered in the Jan-Aug of 2017. It is estimated that heavy-duty vehicles will become the largest energy-consuming segment of the transport segment by 2030.

Around 75 brands of lubricants including renowned multinationals have entered into the market where 7-8 brands accounts for as much as 54% of the total business. The Bangladeshi lubricants market is growing at almost 3% a year and the annual demand today stands at 100,000 tonnes. The market for lubricants has nearly doubled over the last decade to more than BDT 22,000 million from BDT 11,000 million on increasing customer awareness leading to strong and sustainable demand.

In Bangladesh there is severe competition in the lubricants market with the presence of 50 companies. The lubricant market is led by the MJLBD with 34% market share, followed by British Petroleum at 11%, French brand 'Total' at 6%, Castrol and Caltex with 3% each, Shell at 2% and the other 3% share has been secured by Omera Petroleum Ltd. The remaining 41% share of the market is controlled by over 70 brands.

Liquefied petroleum gas (LPG) is a flammable mixture of hydrocarbon gases used as a fuel in heating appliances and vehicles. Currently, more than 80% of the LPG demand is met by imports and the state-run Bangladesh Petroleum Corporation supplies the rest 20%. The government has moved to increase production capacity of state-run LPG to 120,000 tonnes (mt) from existing 20,000 mt to cater to the mounting demand of the fuel. Basundhara, Jamuna, Omera, TK Gas are local companies whereas Total Gaz and Laugfs Gas are foreign companies who engaged in the business of LPG. Under the private sector, the gas is mainly imported from Singapore, Malaysia, Saudi Arabia, Kuwait and some other countries. Bangladesh has much potential in terms of LPG consumption as only 6% of the entire population has access to the natural gas, mostly in urban areas. In 2016, total LPG market in Bangladesh was around 275,000 MT and the demand was estimated to 500,000 MT in 2017. It is expected that LPG market of Bangladesh will reach 1.4 million MT by 2022.

On the other hand, there is a demand of 1,000,000 units' cylinders every year. Omera Cylinders has the capacity of producing 600,000 units per annum. Bashundhara, Omera and Jamuna make their own LPG cylinders, while the others import them. To boost up this industry, National Board of Revenue (NBR) has exempted 15% value-added tax on import of composite LPG cylinder capacity below 5,000 litres up to June 2030. Composite cylinder is environment friendly. On the other hand, local producer of the traditional cylinder will get VAT exemption on import of raw materials and different components of the product of cylinder.

Investment Positives

- The Company is the **market leader in the lubricant industry** in Bangladesh. With more than 220 product portfolios, the Company solely owns **64% of industrial lubricant market and 34% of the total lubricants market** as per annual report 2015-16.
- **In 2016-17, consolidated revenue has increased by 39% over last year.** This was because of the robust growth in the LPG unit (OPL) which contributes around 41% to the consolidated revenue. The business of LPG registered a revenue growth of 161% in 2016-17 over last year.
- **Omera Petroleum Limited (OPL) achieved breakeven in 2016-17** and contribute 41% of the consolidated revenue which facilitated to secure 17% of the total market share in the Liquefied petroleum gas (LPG) market. As per 2016-17 annual report, **OPL has doubled its capacity to 200,000 MT and has the plan to scale-up to 300,000 MT in 2018 to meet the emerging demand.**
- **Omera has formed Omera Gas One Limited (OGL) to supply bulk LPG to local industries** with Japanese LPG giant, Saisan Co. Ltd., which is specialized to supply industrial LPG solutions. OGL supplies bulk LPG to Fu-Wang Ceramics, ACI Limited, Utah Group, etc.
- **Omera has signed a MOU on November 21, 2016 to facilitate bulk supply of industrial LPG and fuels to the factories to be established in the Mirsarai Economic Zone Area** with the Bangladesh Economic Zone Authority **which is due to be completed in 2019**. OPL will invest BDT 130,000 million to implement the project. Within the zone, Omera will also lease 200 acres of land to set up a LPG Import Terminal and Reforming Process Unit.
- Omera Cylinders Ltd. (OCL) will **double the Company's consolidated cylinder sales** to capture a larger share of the market that is fixed at 1,200,000 units per annum. **OCL is expecting to achieve net-level breakeven by the end of June 2018.**
- OCL has taken several strategic decisions to achieve efficiency and increase its sale:
  - Switched-over the import of HR coil (basic raw material) suppliers from Europe to China to take advantage of lower costs, maintain quality and quicker deliveries.
  - Looking forward to third party cylinders sale with enhanced utilization.
  - Planning to export cylinders as buyers from African continent and United States have already shown their interest to purchase cylinders from OCL.
- MJLBD embraced a Packaging Excellence Project (PEP) in December 2016 to prevent the adulteration of the products and making highest quality products for the entire range of Mobil products. The Company has invested around USD 500,000 for the said project.
- MJLBD launched Mobil Delvac Super 1400 in December 2016 to fill a key gap in the truck and bus space of specific thickness requirement. The two new product packages were introduced in 2016-17 including Intermediate Bulk Containers (IBC) and 20,000 litre flexi-bags that enabled superior customer service through providing bulk customers with logistically cost efficient manner and pass on price benefit to the customers.
- The Company offers handsome dividend to the investors (as mentioned in the above table).

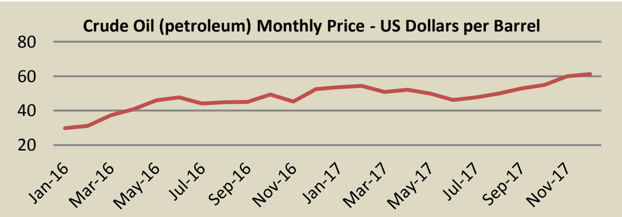
Investment Negatives

- **Net profit margin of Omera Petroleum Limited (OPL) is very low though it has achieved breakeven in 2016-17. In 2016-17, net profit margin was only 1.77%. This was because of increased cost of sales, administrative and finance expenses. Finance expenses increased because of increased short term loan and advance lease rental against cylinder. Such a low margin is a concern for the business.**

	GPM	OPM	PPM	NPM	Contribution in revenue
Oil Tanker Unit	55.5%	50.3%	50.3%	--*	8.8%
Manufac. Unit	42.8%	36.2%	36.0%	--*	25.5%
Trading Unit	28.2%	21.6%	21.4%	--*	23.5%
MJL	39.4%	32.9%	32.8%	24.6%	57.8%
OPL	***20.6%***	***10.3%***	***3.4%***	***1.8%***	***41.4%***
MJL& AKT Pt. Ltd	--	--	15.1%	11.3%	0.8%

*Data not available; GPM= Gross Profit margin; OPM= Operating Profit margin; PPM= Pre-Tax Profit margin; NPM= Net Profit margin;

- The movement of crude oil price in the international market has a direct impact on the Company as the Company procures base oils from international market and blended in the country to produce the lube oil. The upward trend of the crude oil price will hamper the profitability.



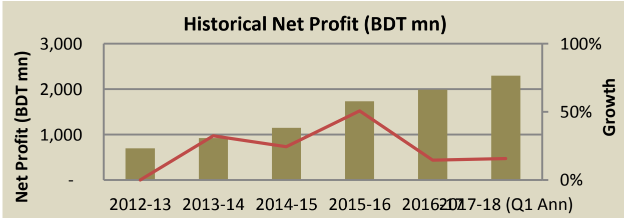
Source: Index Mundi

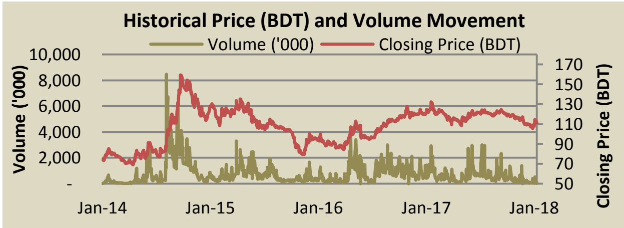
- **In 2016-17 audit report, auditors of the Company have given qualified opinion regarding Workers Profit Participation Fund** stating that a company has to disburse an amount equivalent to 5% of net profit before tax to that fund in each year. As disclosed in note # 2.15(iii) to the financial statements of 2016-17, none of MJL Bangladesh Limited and its subsidiaries has made any provision for the said fund. Had the provision for WPPF been made in these financial statements, **the net profit after tax of the Group as well as of the Company would have been decreased by BDT 144.49 million and BDT 132.44 million respectively. It will have a one-time negative impact on the consolidated net profit in its future earnings.**
- The emergence of new competitors with strong business model could challenge the growth objectives and aspirations of MJLBD. **In 2016, the government issued 38 licenses for LPG storage and distribution business.**
- There is an intense competition in this industry as well as there are some unbranded companies who are cheaply supplying lubricants in the market. Although there is doubt about the quality of unbranded products, it is a threat to the branded Company.
- Shortage of gas supply and power adversely affects the industrial growth which in turn lowers the demand for the industrial lubricant consumption.
- The Company is import dependent for the supply of raw material, consequently has exposure to foreign exchange risk.
- Political turmoil and economic recessions reduces the overall activities of the country which may lower the demand for the products.

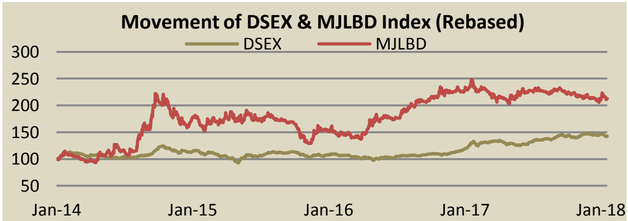
Latest Quarter Update – September 2017 (Q 1)

Particulars (BDT mn)	Jul-Sep 2017	Jul-Sep 2016	Growth
Net Revenue	**4,064**	**2,796**	*45.4%*
Gross Profit	**1,148**	**1,001**	*14.7%*
Margin	*28.3%*	*35.8%*	
Operating Profit	**983**	**810**	*21.4%*
Margin	*24.2%*	*28.9%*	
Net Profit	**574**	**520**	*10.5%*
Margin	*14.1%*	*18.6%*	

- Consolidated net Revenue has increased by 45.4% in Jul-Sep of 2017 over the same period of last year due to the increase in sales volume especially in LPG business.
- In the first quarter of 2017-18, gross profit and net profit margin has dropped to 28.3% & 14.1% from 35.8% & 18.6% respectively over the same period of last year. This was because of increase in ship running expenditure, prices of packaging materials, blending fees, operating and finance expenses and cost of sales of Omera Petroleum Limited.







Pricing* Based on Relative Valuation:

	Multiple	Value (BDT)
Market Forward P/E	17.6	119.4
Market Trailing P/E	18.2	127.0

*Based on latest Quarter Financial Statements (September 2017)

Concluding Remark

MJLBD is the market leader in the lubricant industry of the country and focusing on sustainable growth along with its subsidiaries. The subsidiaries of the Company are expected to contribute favorably in the coming days as there is enormous potential in the industry of LPG and LPG cylinder in Bangladesh. Meanwhile, OPL has already achieved breakeven in 2016-17 and OCL is expected to achieve by June 2018.

Source: Annual Reports, The Company's Website, DSE Website, CSE Website, Newspapers Reports and ILSL Research.

ILSL Research Team:

Name	**Designation**
Rezwana Nasreen	Head of Research
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