

## RECKITT BENCKISER (BANGLADESH) LIMITED

DSE: RECKITBEN  
BLOOMBERG: REKIT:BD

### Company Overview

Reckitt Benckiser (Bangladesh) Limited was established on 15 April, 1961. Earlier, the Company was known as Reckitt & Colman Bangladesh Ltd. However, in 2000, it changed its name to Reckitt Benckiser (Bangladesh) Limited after the completion of merger with Benckiser. The Company is engaged in manufacturing and marketing of household and toiletries products, pharmaceuticals products and food products. Some of the flagship brand names of the Company are Dettol, Harpic, Lizol, Veet, Mortein, Moov, Disprin, Trix etc. The registered office of the Company is located at Nasirabad Industrial Area, Chattagram, Bangladesh.

### Revenue Composition & Growth:

Particulars	(BDT mn)	Growth			Composition
	2019	2018	2019	4-yr CAGR	2019
Household and toiletries	3,832	-4.2%	16.9%	8.6%	92.9%
Pharmaceuticals	294	13.6%	3.2%	22.3%	7.1%
<b>Total</b>	<b>4,126</b>	<b>-3%</b>	<b>16%</b>	<b>9.4%</b>	<b>100%</b>

In 2019, gross profit margin of household and toiletries products was 55.7% which was 51.1% in 2018. Gross profit margin of Pharmaceuticals Products was 38.1% in 2019 against 46.8% in last year.

The Company's main raw material is Soap Noodles, Cetyl Trimethyl Amm, Esbiothrin TG, LABSA, Hydrochloric acid, BIS/2 Hydroxy Ethyl Oleylamine etc. and packing materials are Plastic container, Outer and cartons, Label, Skillet etc. In 2019, around 65% of raw materials and 35% of packing materials were imported.

### Production Capacity

Particulars	Unit	Capacity			Utilization (in units / %)	
		2018	2019	Growth	2018	2019
Household & toiletries	T. Ltr*	17,189	31,623	84%	10,396	11,224
	MT	10,080	16,316	62%	4,915	6,985
Pharmaceuticals	T. Ltr*	2,914	661	-77%	995	607
					34%	92%

\*Thousand Litre

### Shareholding Structure:

The firm was listed in the DSE on 1987 and in the CSE on 1995.

As on	Sponsor	Govt.	Instt.	Foreign	Public
29-Feb-20	82.96%	3.77%	3.49%	3.04%	6.77%
31-Dec-19	82.96%	3.77%	3.41%	3.03%	6.83%
31-Dec-18	82.96%	3.77%	4.67%	2.98%	5.62%
31-Dec-17	82.96%	3.77%	5.95%	2.70%	4.62%

### Company Fundamentals

Market Cap (BDT mn)	14,621.5
Market Weight   Sector Weight	0.6%   3.2%
Free-float (Public + Inst. + Foreign)	13.3%
No. of Shares Outstanding (mn)	4.7
Paid-up Capital (BDT mn)	47.3
3 Months Average Turnover (BDT mn)	12.3
3-month Return (Dividend & Free-float Adjusted)	13.1%
Current Price (BDT)	3,094.5
52-Week Price Range (BDT)	2,070.6 – 3,380.0
Sector Forward P/E	15.2

	2017	2018*	2019	2020 (3m Ann)
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### Financial Information (BDT mn):

Sales	3,670	3,562	4,126	4,806
Gross Profit	1,955	1,806	2,248	2,694
Operating Profit	560	530	879	717
Profit After Tax	381	331	619	455
Cash & Cash Equiv.	714	950	1,341	1,795
Assets	1,538	1,812	2,385	2,800
CAPEX	203	158	141	30
Long Term Debt	-	-	13	11
Short Term Debt	-	-	16	22
Equity	304	386	674	788
Retained Earnings	256	338	627	740

### Margin:

Gross Profit	53.3%	50.7%	54.5%	56.1%
Operating Profit	15.2%	14.9%	21.3%	14.9%
Pretax Profit	14.8%	14.7%	21.3%	15.4%
Net Profit	10.4%	9.3%	15.0%	9.5%

### Growth:

Sales	10.3%	-2.9%	15.8%	16.5%
Gross Profit	9.9%	-7.6%	24.5%	19.8%
Operating Profit	18.6%	-5.3%	65.9%	-18.5%
Net Profit	28.7%	-13.1%	87.0%	-26.5%

### Profitability:

ROA	25.6%	19.8%	29.5%	17.5%
ROE	141.1%	96.0%	116.9%	62.3%

### Operating Efficiency:

Inventory Turnover	12.9	12.4	11.0	11.6
Receivable Turnover	50.0	33.1	64.1	83.3
A/C Payable Turnover	1.7	1.6	1.5	1.4
Total Asset Turnover	2.5	2.1	2.0	1.9
Fixed Asset Turnover	12.4	9.5	8.9	9.7

### Leverage:

Debt Ratio	0.0%	0.0%	0.7%	0.8%
Debt-Equity	0.0%	0.0%	2.4%	2.8%
Int. Coverage	-	-	405.8	-

### Dividend History

Dividend (C/B)%	790/-	700/-	1250/-	-/-
Dividend Yield	4.5%	3.3%	4.0%	-/-
Dividend Payout	98.0%	100%	95%	-/-

### Valuation:

Price/Earnings	39.0	44.9	24.0	32.7
Price/BV	49.0	38.6	22.1	18.9
EPS (BDT)	80.6	70.1	131.1	96.3
NAVPS (BDT)	64.3	81.6	142.6	166.7

\*The Company has restated the Income Statement for the year 2018.

## Industry Overview

The FMCG (Fast Moving Consumer Goods) industry is one of the largest sectors in the economy and creates employment for millions of people. FMCG includes personal care, house hold care, toiletries, packaged foods and beverages, tobacco etc. which are frequently purchased.

**FMCG Companies:** Currently, more than 60 companies are operating in FMCG business. The popular FMCG firms in the country are - Unilever Bangladesh, Nestle Bangladesh, Square Foods & Beverages, Square Toiletries, Pran RFL Group, City Group, ACI Group, Sajeeb Group, Meghna Group, Kazi Firms, Olympic Industries, Keya Cosmetics, Marico Bangladesh, Reckitt Benckiser Bangladesh, Kohinoor Chemical Co. (BD), Bashundhara Food and Beverage, British American Tobacco, Coca-cola Bangladesh etc. The industry is an emerging sector with vast local demand for its segregated products line. In Bangladesh, the industry is mostly controlled by a small number of large Multinational Companies (MNCs). Low capital requirements and simple manufacturing process lead the growing of local entrepreneurs in the industry. Generally, local producers used to produce beauty soap, laundry soap, detergent powder, coconut oil and other cosmetics & toiletries products.

**Drivers of the Business:** Several factors to drive the business of FMCG industry, such as, increase in the working age population, increasing disposable income, Government's continual spending on social sectors and shift toward value added products as well as mobility of funds and growth of overall financial sectors. The growth of FMCG sector is commonly correlated with the population and purchasing power of the consumers. Bangladesh is a highly populated country, which is the eighth largest in the world. This large number of population of the country makes the FMCG segment more potent. Besides, Bangladesh's per capita income rose to USD 1,900 and gross domestic product (GDP) growth reached 8.13% in 2018-19 fiscal year. Characteristic of this category of population pyramids, the vast majority of people are below the age of 35. As of 2018, 43% of the total population is below the age of 25. According to the Boston Consulting Group, 2.0 million Bangladeshis are joining the ranks of the middle income class every year. By the year 2025, the number of people belonging to middle income class is expected to nearly triple to 34.0 million from 12.0 million in 2017.

**Abundant Raw Materials and Cheap Labor:** FMCG products in Bangladesh mainly include livestock, fruits, vegetables and other staples of the Bengali lifestyle. Due to its climate and geographic positioning, Bangladesh represents a gold mine of raw materials for companies in the FMCG industry. Cheap labor has additionally allowed the industry to grow further. Urban population of the country, growing middle class, labor force & participation rate, growth in rural consumption, availability of raw materials & low labor cost may make Bangladesh a favorable investment destination for new FMCG entrants or may witness further investment by existing players.

**FMCG Market Segment:** The FMCG market can be divided into two segments – urban and rural. The urban segment is characterized by high penetration levels and high spending tendency of the urban resident. The rural segment is mainly agrarian, with relatively lower levels of penetration and a large unorganized sector. The FMCG industry caters to the needs of the consumers both in urban and rural segments with a well-

developed and efficient supply chain model. During the last decades, growing of urban economy in the country helps to the growth of the sector. Increasing purchasing power of the rural people together with perception of branded FMCG products in this market have provided the Industry players an opportunity for driving growth.

The growth of urban population of the country is remarkable and represents 35% of the total population. Like urban population, growth of middle income people is also contributing to the FMCG industry of the country. Consumption expenditure in rural areas is also another growth driver of FMCG industry. According to BBS, expenditure of rural consumption was 103% of total income in 2015 where urban consumption was 86% of the total consumption.

**Impact of COVID-19:** Although there is short-term high spike in demand of cleansing and hygiene products, the industry is not equipped to meet unnatural growth in demand as such. Soap, handwash, hand sanitizer and personal care categories in general will see an artificial increase in demand. However, global supply chain disruptions in raw material sourcing will become a challenge for most manufacturers, leading to shortage of products and a potential surge in pricing.

## Investment Positives

- The Company has several blockbuster products in household and toiletries segment e.g., Harpic, Dettol, Veet, Lizol; which ensure sustainable revenue flow for the Company. **The demand for the Company's cleansing and hygiene products has increased due to the exceptional conditions created by COVID-19 which will ensure greater product penetration.**
- **Capacity of household & toiletries segment has been increased by 84% in thousand litre unit and 62% in metric ton unit in 2019 over last year.** This will ensure both the topline and bottom line growth in the coming days.
- **The Company has exhibited steady growth in its revenue over the period. 4 Year CAGR (Compound Annual Growth Rate) of revenue is 9.4%.** 4 Year CAGR of household and toiletries segment was 8.6% which contributed around 93% to the revenue in 2019.
- The Company is basically an all equity firm; hence possibility of default risk due to debt obligation payment is virtually absent.
- The Company pays handsome cash dividend to the investors. It disburses around 100% as dividend payout where dividend yield is around 4%.

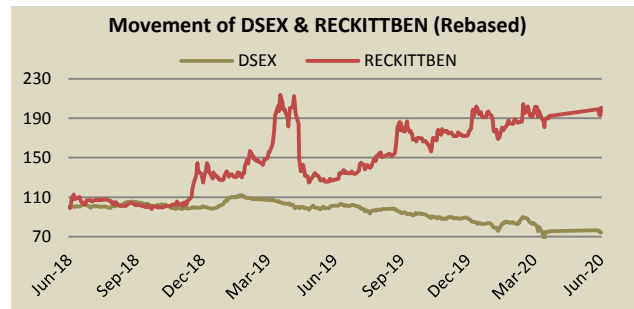
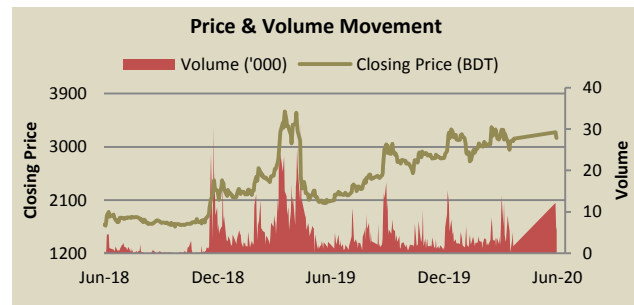
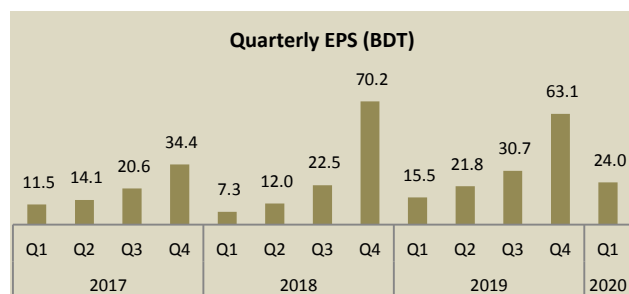
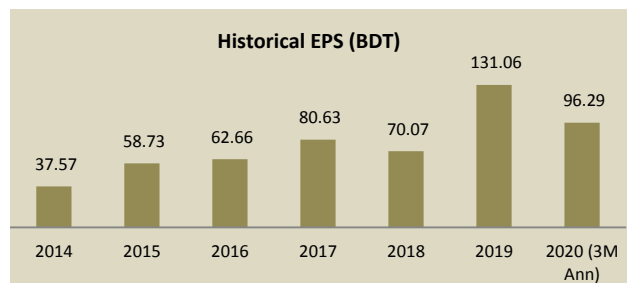
## Investment Negatives

- **The Company has to import raw materials around 65% of costs of goods sold from international markets in USD.** Soap Noodles (one of the key raw materials) accounted for around 35% of raw materials consumed in 2019.
- The Company earns interest income from FDR investment which was 5.28% of operating income in 2019 against 4.00% in last year; therefore drop in deposit rate negatively affect the income stream from this source.
- Only 13% shares of the Company are free-floated. Hence, liquidity of the shares is low.

**Latest Quarter Update – March 2020 (Q1)**

Particulars (BDT mn)	Jan-Mar 2020	Jan-Mar 2019	Growth
<b>Turnover</b>	<b>1,201</b>	<b>1,039</b>	<b>15.6%</b>
<b>Gross Profit</b>	<b>674</b>	<b>558</b>	<b>20.8%</b>
<i>Margin</i>	<i>56.1%</i>	<i>53.7%</i>	
<b>Operating Profit</b>	<b>179</b>	<b>132</b>	<b>35.6%</b>
<i>Margin</i>	<i>14.9%</i>	<i>12.7%</i>	
<b>Net Profit</b>	<b>114</b>	<b>73</b>	<b>56.2%</b>
<i>Margin</i>	<i>9.5%</i>	<i>7.0%</i>	

- Revenue has increased by 15.6% in the first quarter of 2020 over the same period of last year **because of exceptional demand for the health and hygiene products for COVID-19.**
- Gross profit margin has increased during the reported period over the same period of last year due to optimizing cost of sales and **increased sale of better margin products.**
- Net profit margin has increased during the reported period than that of last year due to the increase in finance income.


**Concluding Remark**

Reckitt Benckiser (BD) Ltd. is an established multinational company in the Country's FMCG sector. The Company has strong presence in household and toiletries market segment in the country. Since, for cleansing and hygiene purpose, the products will enjoy sustainable demand in the foreseeable future, the Company is continuously trying to launch new products which will not only strengthen its topline potential but also help to secure its market position.

Source: Annual Report, the Financial Express, the Daily Star, Company's Website and ILSL Research

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