INTERNATIONAL LEASING SECURITIES LIMITED

SHASHA DENIMS LIMITED

DSE: **SHASHADNIM**
BLOOMBERG: **SDL:BD**

Company Overview

Shasha Denims Ltd. (SDL), a deemed export Company, was incorporated on October 1996 and started its commercial operation from July 2000 in Dhaka Export Processing Zone (DEPZ). The main activities of the Company are manufacturing, dyeing, weaving and finishing of denim fabric. It produces a single product 'denim fabric' of varied specifications, compositions, colors and style as buyers demand. The Company produces denim fabrics weighing from 40z/yd2 to 15oz/yd2 for denim jeans.

Currently, SDL manufactures fabrics for the globally reputed brands including Marks & Spencer, George, Polo, Next, Tesco, Mexx, Walmart, JC Penny, Tommy, Gap, Lee Hang Fat, Adams, Woolworth, Gulden Pfenning, Li & Fung etc.

Shasha Denims has three subsidiaries:

- Energis Power Corporation Ltd. (EPCL, 99.97% owned), a 55 MW HFO fired power plant and supplying the electricity to the National grid; started its operation from 06 May 2010 for 3 years and subsequently renewed on 12 May 2014 for 5 years.

- Shasha Garments Ltd. (SGL, 96.40%) a garment manufacturing unit, i.e. garments, shirts, children wear, female wear, with a capacity of 1,200,000 pieces per year; incorporated in 1991.

- Shasha Textiles Ltd. (STL, 99.57%), a textile & textile related business but the commercial operation is yet to start due to delay of gas connection.

Revenue Composition:

Particulars (BDT mn)	2017-18	Growth	Composition		
		2017-18	2015-16	2016-17	2017-18
Shasha Denims	5,141	18.6%	78.3%	69.3%	68.4%
Shasha Garments	746	17.2%	8.8%	10.2%	9.9%
Energis power	1,624	26.2%	12.9%	20.6%	21.6%

In 2017-18, consolidated net profit has decreased by 6.0% than that of last year despite 20.1% growth in revenue due to increase in costs of goods sold by 21.81%. This was because of increase in yarn price in international market, factory wages & allowances, electricity & gas bill and lease rent in BEPZA plot. Revenue increased due to volume of sales increased. The Company did not increase its selling price in line with increase in raw materials price. Meanwhile, SDL is planning to increase its selling price.

Yarn is the basic raw materials for which it has to depend on import. Around 83% of raw materials of costs of goods sold are imported. Yarn and chemicals are imported from Thailand, Pakistan, Hong Kong, China, Singapore, Germany, Netherlands, Saudi Arabia, India, Turkey etc.

SDL has an annual production capacity of 21.60 million Yards.

Shareholding Structure:

The Company became enlisted with the DSE and CSE in February 18, 2015 and January 17, 2015.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-18	44.41%	0.00%	14.45%	3.45%	37.69%
31-Dec-17	46.52%	0.00%	14.66%	4.28%	34.54%
30-Jun-17	46.52%	0.00%	15.76%	4.30%	33.43%
31-Dec-16	46.52%	0.00%	16.14%	7.97%	29.37%

Company Fundamentals

Company Fundamentals	
Market Cap (BDT mn)	6,856.7
Market Weight	0.2%
Free-float (Public +Inst.)	55.59%
No. of Shares Outstanding (mn)	127.9
Paid-up Capital (BDT mn)	1,279.2
3 Months Average Turnover (BDT mn)	64.9
3 Months Return	-13.1%
Current Price (BDT)	53.6
52-Week Price Range (BDT)	43.7 - 80.9
Sector Forward P/E	17.3

	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)	2017-18 (Jul-Jun	2018-19 (3M Ann.)
Financial Information (BDT mn):				
Sales	5,635	6,257	7,511	8,791
Gross Profit	1,095	1,208	1,239	1,592
Operating Profit	940	1,010	1,005	1,348
Profit After Tax	563	592	556	890
Assets	9,701	10,879	12,077	13,116
CAPEX	263	182	495	44
Long Term Debt	991	888	721	653
Short Term Debt	2,898	3,371	3,159	3,262
Equity	5,059	5,339	5,940	6,159
Margin:				
Gross Profit	19.4%	19.3%	16.5%	18.1%
Operating Profit	16.7%	16.1%	13.4%	15.3%
Pretax Profit	11.7%	10.6%	8.5%	11.0%
Net Profit	10.0%	9.5%	7.4%	10.1%
Growth*:				
Sales	--	11.0%	20.1%	17.0%
Gross Profit	--	10.4%	2.6%	28.4%
Operating Profit	--	7.5%	-0.6%	34.2%
Net Profit	--	5.0%	-6.1%	60.1%
Profitability:				
ROA	6.0%	5.8%	4.8%	7.1%
ROE	11.5%	11.4%	9.9%	14.7%
Operating Efficiency Ratio:				
Inventory Turnover	6.8	4.5	3.7	3.5
Receivable Turnover	2.3	2.5	2.6	2.6
A/C Payable Turnover	204.0	14.2	5.1	3.3
Total Asset Turnover	0.6	0.6	0.7	0.7
Fixed Asset Turnover	1.5	1.7	1.7	1.8
Leverage:				
Debt Ratio	36.0%	35.1%	28.1%	26.2%
Debt-Equity Ratio	69.1%	71.6%	57.2%	55.7%
Int. Coverage Ratio	2.6	2.6	2.5	3.5
Dividend History				
Dividend* (C/B)%	25/-	25/6	15/7	-/-
Dividend Yield	7.2%	3.7%	2.6%	-/-
Dividend Payout	56.8%	54.2%	34.9%	-/-
Valuation:				
Price/Earnings	12.2	11.6	12.4	12.5**
Price/BV	1.4	1.3	1.2	1.1
EPS (BDT)	4.4	4.6	4.3	4.3**
NAVPS (BDT)	39.5	41.7	46.4	48.1

*Growth for 2015-16 is not calculated due to unavailable of data. Dividend for 2015-16 is of 18 months. **EPS & P/E considering latest half yearly data.

Industry Overview

Bangladesh is the second largest garment exporter in the world. The garment sector is one of the most important economic pillars, accounted for around 80% of export basket and more than 10% of its GDP.

Scenario of Denim Industry: Denim industry is a promising sub-sector in textile industry with a total investment of approximately USD 900 million. According to Bangladesh Textile Mills Association (BTMA), there are 31 denim mills with a total annual production capacity of about 400 million meters. Monthly denim production is around 30 million yards of denim against monthly demand of nearly 60 million yards. Bangladesh exports around 180 million pieces of denim annually. To fulfill the balance demand, imported 30 to 35 million yards per month from China, India & Pakistan which average value is USD 75 million.

Market Share: Bangladeshi denim products are dominating the global markets by beating its competitors in the European markets as well as in the United States in occupying a lion's share of the proverbial denim pie. As of now, Bangladesh is the largest exporter of denim products to Europe with a 27% market share topping China, the largest exporters of clothing products to both Europe and the US. With a 14.20% market share, currently Bangladesh is also the third largest exporter of denim products in the US after Mexico and China.

Global Presence: Bangladesh has already started to act as an important player in the $60 billion plus global denim-wear market by exporting jeans and other denim products worth at least $3.5 billion (BDT 245,000 million) annually to the US and EU and other international markets. Moreover, in recent times, retailers and wholesalers from Japan, Turkey, India, and even from China are switching to Bangladesh as they started to realize Bangladesh as a reliable source for finely stitched wears at competitive prices.

Opportunities: More than 66 international brands have turned to Bangladesh in the couple of years for importing denim fabrics. Bangladesh is now exporting denim products of $2 billion yearly and expecting to $7 billion by 2021. The gradual decline in China's exports to the US and the EU has opened up the opportunities for other competitors including Bangladesh.

Cost of Production: The cost of production for the sector has been increasing at 18 percent annually, but at the same time, the prices of apparel items are not increasing globally, and even in some cases the prices of clothing items declined due to rising price of yarn market as well as it is vastly stocking by China.

Low-end Denim: Bangladesh mainly produces low-end denim products particularly five-pocket denim jeans while the competing countries produce high-value-added products.

Global Denim Market: The global denim market will cross $65 billion in the next four to five years. It is expected that by 2020, every four of five denim products in Europe would be sourced from Bangladesh. Bangladesh aims at fetching $7bn by exporting denim products which would help the RMG sector to achieve $50bn export target by 2021. The denim sector in comparison to other giant sector in Asia is still evolving in Bangladesh.

Investment Positives

- **The Company is expanding its annual production capacity by around 10 million yards in addition to existing 21.6 million yards (around 45% escalation) with an estimated capital expenditure of BDT 1,540 million. As per annual report 2018, this expansion project has started to contribute to the revenue of the Company.** Among the machineries, a dyeing machine having most modern and standard indigo technology which is the first indigo dyeing machine ever in Asia that saves 60% water and 40% chemicals in process in comparison to any conventional indigo dyeing machine. This machine included other features that are not used yet by any other factory in the world (as per annual report 2017).
- **In February 2018, the Company has signed a MOU for acquiring 40% shares of EOS Textiles Mills Limited, a sister concern of Italian company is 100% export oriented cotton textile company** and the rest 60% will be owned by Shasha Spinnings Limited, an associate of Shasha Denims Limited. The Company will invest approximately BDT 480.00 million of which BDT 300.00 million from IPO Fund and the rest BDT 180.00 million from its own fund. Currently, EOS's sales are BDT 1,500.00 million (approx.). **The Company is expecting to complete the acquisition process by August 2019.**
- The contributions of subsidiaries of the Company have been increasing in recent years.

Particulars	2015	2015 -16	2016 -17	2017 -18
Revenue Contribution				
Shasha Garments	8.4%	8.8%	10.2%	9.9%
Energis power	12.4%	12.9%	20.6%	21.6%
Revenue Growth*				
Shasha Garments	-16.5%	--	28.7%	17.2%
Energis power	125.3%	--	76.6%	26.2%

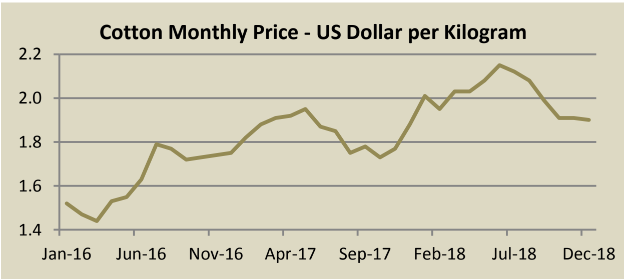
*Growth for 2015-16 is not calculated due to unavailability of data

  - As per DSE news published on November 16, 2016, Energis Power Corporation Ltd., participated in a tender under a consortium named Consortium of Xcel infrastructure Limited and Energis Power Corporation Ltd. (proposed company) and accordingly the Consortium is primarily awarded the bid to establish 100 MW power project in Bagherhat. The Company didn't disclose any formal information regarding the plant.

- The Company exports its products through export oriented RMG mostly in EU countries. As per annual report 2018, it has entered in the market of Australia and Japan which operation is going to be initiated shortly.
- **To resonate the philosophy 'Blue is the New Green', SDL emphasizes using organic cotton which is produced 100% naturally** in its every level-spinning, dyeing even finishing of the yarn, all carried out using ecological procedures. **It also uses branded fibers from Lenzing Modal and TENCEL** is just a natural fiber without using the most pesticide and water intensive crop and accordingly makes the products exceptionally comfortable and sustainable. **SDL strictly complies with environment related laws and regulations in each and every sector of its green business operation**.

Investment Negatives

- **Power supply agreement of EPCL with Bangladesh Power Development Board (BPDB) will expire on 08 February 2019.** The agreement was renewed on 09 February 2014 for 5 years. Non-renewal of the tenure of the plant may affect the Company's profitability in the coming years as it contributes around 20% to the consolidated revenue.
- **The Company has to procure around 80% of its raw materials of costs of goods sold from overseas markets.** Therefore, fluctuations in the prices of raw materials may affect adversely to the Company's liquidity and profitability.



- Shasha Textiles Ltd. (99.57% owned subsidiary) was incorporated in 2003 but **the company's commercial operation is yet to be started due to the delay of gas connection.** STL has total asset of BDT 1,195 million as of June 2018, which is not generating any return.
- The Government is importing liquefied natural gas (LNG) to meet the shortage of natural gas. The Govt. has planned to increase the gas price soon to meet up the increased cost for LNG. It will increase the cost of production which will eventually affect the profitability of the Company.

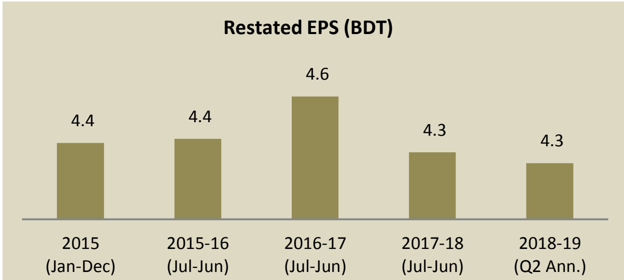
Latest Quarter Update – December 2018 (Q 2)

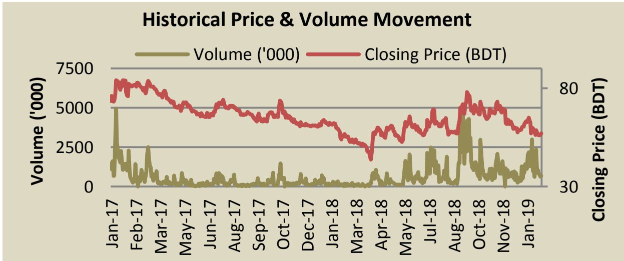
- The Company has reported EPS of BDT 2.14 for July-December 2018 as against BDT 2.25 for July-December 2017. The EPS showed a negative growth of 4.89% over the same period of last year due to significant increase in the raw material consumption cost per unit and the financial expense of the company (as per DSE news).
- The financial disclosures for the July-December period of FY 2018-19 are not available yet.

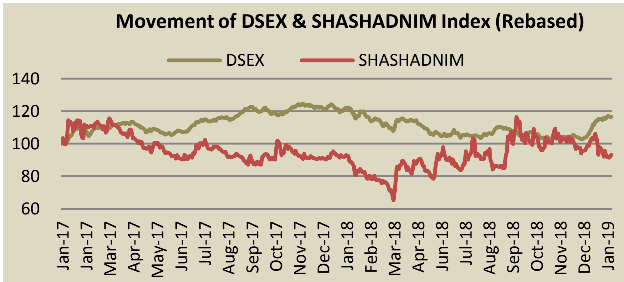
Latest Quarter Update – September 2018 (Q 1)

Particulars (BDT mn)	Jul-Sep 2018	Jul-Sep 2017	Growth
Consolidated Revenue	**2,198**	**1,546**	42.1%
Gross Profit	**398**	**295**	34.9%
Margin	*18.1%*	*19.1%*	
Operating Profit	**337**	**240**	40.4%
Margin	*15.3%*	*15.5%*	
Net Profit	**219**	**137**	60.3%
Margin	*9.9%*	*8.8%*	

- Revenue has increased by 42.1% in Jul-Sep of 2018-19 over the same period of last year due to the increase in sales volume as the Company has started production from the expanded capacity.
- Gross profit margin has decreased to 18.1% in the period which was 19.1% in the same period of last year because of increased raw material prices in international market.
- Administrative and selling and distribution expenses decreased to 2.8% of sales in the period which was 3.5% in the same period of last year.
- Finance expenses increased in the period due to the increase in short term loan due to the piling of inventory.







Concluding Remark

The Company has increased its production capacity by 45%. The expanded capacity has already started to contribute to its revenue. The Company's subsidiaries are also performing well. Moreover, the acquisition of the 40% shares of EOS Textiles Mills Limited will enhance its profitability. Considering the expansion project and industry prospects, the Company has a bright future ahead.

Source: Annual Reports, DSE website, Company website, newspaper news, ILSL Research.

ILSL Research Team:

Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst
Kishan Saha	Executive - Research

To access research through ***Bloomberg*** use **<ILSL>**
ILSL research is also available on ***Thomson Reuters*** products and on ***FactSet*** and ***Sentieo*** platform
For any Queries: research@ilslbd.com