

Company Overview

Singer Bangladesh Limited (The Company) is operating in this region (now Bangladesh) since 1905. In 1983, the Firm had established itself as public limited Company. It has been a direct subsidiary of the Singer Bhold BV, the Netherlands since 2003. Up to 1985, the Company produced only sewing machine. Over the years, SINGER has transformed into a marketing powerhouse with a wide range of product brands including manufacturing of household consumer durable products i.e. televisions, air conditioners, sewing machines, furniture and some other consumer electronics and household appliances. Singer Bangladesh has over 380 retail outlets (Singer Mega & Singer Plus & singer Pro outlets), around 500 dealers and widespread service networks in the country. The manufacturing plant of the Company is situated at Savar, Dhaka.

International Appliances Limited (IAL) became a subsidiary (73.85% owned) of Singer Bangladesh Limited on October 2017, started its operation in July 2016 with an initial capacity of 250,000 units refrigerator. Principal activities of IAL is manufacturing and selling of refrigerators of different capacities, models and types with a brand of 'Singer' which is marketed by Singer Bangladesh Limited. The manufacturing plant of the Company is situated at Savar, Dhaka.

Utilization of Installed Capacity:

| | Installed | | Utilized | |
|---------------------------|-----------|---------|----------|------|
| | 2016 | 2017 | 2016 | 2017 |
| Panel Television (number) | 80,000 | 100,000 | 112% | 97% |
| CRT Television (number) | 20,000 | -- | 89% | -- |
| Air-conditioner (sets) | 20,000 | 24,000 | 99% | 98% |
| Furniture (sets) | 5,300 | 5,300 | 94% | 96% |
| Refrigerator (number) | -- | 120,000 | -- | 73% |

The Company is continuously increasing its production capacity of different segments which also helps to increase the turnover of the Company over the years.

Revenue Composition:

| (BDT mn) | Sales | Contribution | Growth | | |
|----------------------|-------|--------------|--------|------|------|
| | 2017 | 2017 | 2015 | 2016 | 2017 |
| Home Appliances | 7,715 | 70% | -4% | 28% | 24% |
| Consumer Electronics | 2,157 | 20% | -9% | 45% | 4% |
| Sewing | 422 | 4% | -2% | 21% | -2% |
| Furniture | 168 | 2% | 181% | 112% | 6% |
| Others | 597 | 5% | -29% | -29% | 328% |

Turnover includes television under consumer electronics and air conditioner under home appliances.

The consolidated revenue increased by 23% in 2017 over last year due to the significant increase in sales in all the segment units. Major festivals i.e., Eid-ul-Fitar, Eid-ul-Azha, Durga Puja etc. and summer season stimulate the products demand. Therefore, **the firm enjoys higher earnings in the quarter of festival time and in summer season.**

Raw Materials Consumption (in % of total purchase):

| Particulars | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------|-------|-------|-------|-------|-------|-------|
| Imported | 98.6% | 98.0% | 98.9% | 97.0% | 95.9% | 95.8% |
| Locally Procured | 1.4% | 2.0% | 1.1% | 3.0% | 4.1% | 4.2% |

Company Fundamentals

| | |
|--|---------------|
| Market Cap (BDT mn) | 13,038.1 |
| Market weight | 0.4% |
| No. of Shares Outstanding (mn) | 76.7 |
| Free-float Shares (Public+Institution+Foreign) | 41.7% |
| Paid-up Capital (BDT mn) | 766.9 |
| 3 Months Average Turnover (BDT mn) | 20.5 |
| 3 Months Return | 0.1% |
| Current Price (BDT) | 170.0 |
| 52-week price range (BDT) | 167.2 - 207.9 |
| Sector Forward P/E | 17.3 |

| | 2015 | 2016 | 2017 | 2018 (3M Ann.) |
|--|------|------|------|-------------------|
|--|------|------|------|-------------------|

Financial Information (BDT mn):

| | | | | |
|------------------|-------|-------|--------|-------|
| Sales | 6,911 | 9,007 | 11,059 | 9,434 |
| Gross Profit | 1,843 | 2,594 | 3,119 | 2,763 |
| Operating Profit | 557 | 934 | 1,157 | 944 |
| Profit After Tax | 369 | 546 | 746 | 490 |
| Assets | 3,653 | 5,700 | 7,072 | 8,049 |
| CAPEX | 41 | 108 | 151 | 58 |
| Long Term Debt | - | - | - | - |
| Short Term Debt | 19 | 1,131 | 1,865 | 2,554 |
| Equity | 1,417 | 1,947 | 2,223 | 2,347 |

Margin:

| | | | | |
|------------------|-------|-------|-------|-------|
| Gross Profit | 26.7% | 28.8% | 28.2% | 29.3% |
| Operating Profit | 8.1% | 10.4% | 10.5% | 10.0% |
| Pretax Profit | 7.5% | 8.7% | 9.3% | 7.5% |
| Net Profit | 5.3% | 6.1% | 6.7% | 5.2% |

Growth:

| | | | | |
|------------------|-------|-------|-------|--------|
| Sales | -4.8% | 30.3% | 22.8% | -14.7% |
| Gross Profit | 0.2% | 40.7% | 20.2% | -11.4% |
| Operating Profit | -7.3% | 67.7% | 23.9% | -18.4% |
| Net Profit | 1.7% | 48.2% | 36.6% | -34.3% |

Profitability:

| | | | | |
|-----|-------|-------|-------|-------|
| ROA | 9.9% | 11.7% | 11.7% | 6.5% |
| ROE | 25.0% | 32.5% | 35.8% | 21.5% |

Operating Efficiency Ratio:

| | | | | |
|----------------------|-----|-----|-----|-----|
| Inventory Turnover | 5.2 | 5.5 | 4.3 | 2.8 |
| Receivable Turnover | 7.2 | 7.0 | 6.5 | 5.1 |
| A/C Payable | 6.0 | 6.5 | 6.0 | 4.2 |
| Total Asset Turnover | 1.8 | 1.9 | 1.7 | 1.2 |
| Fixed Asset Turnover | 7.9 | 9.7 | 9.0 | 6.7 |

Leverage:

| | | | | |
|---------------|------|-------|-------|--------|
| Debt Ratio | 0.5% | 19.8% | 26.4% | 31.7% |
| Debt-Equity | 1.3% | 58.1% | 83.9% | 108.8% |
| Int. Coverage | 8.4 | 9.6 | 7.3 | 4.5 |

Dividend History

| | | | | |
|-----------------|--------|-------|--------|-----|
| Dividend (C/B)% | 65/- | 70/- | 100/- | -/- |
| Dividend Yield | 3.6% | 3.6% | 5.1% | -/- |
| Dividend Payout | 135.3% | 98.3% | 102.1% | -/- |

Valuation:

| | | | | |
|----------------|------|------|------|------|
| Price/Earnings | 35.1 | 23.7 | 17.2 | 25.9 |
| Price/BV | 9.1 | 6.6 | 5.8 | 5.6 |
| EPS (BDT) | 4.8 | 7.1 | 9.8 | 6.2 |
| NAVPS (BDT) | 18.5 | 25.4 | 29.0 | 30.6 |

Shareholding Structure:

The Company became enlisted with the Dhaka Stock Exchange in 1983 and Chittagong Stock Exchange in 2001. Historical shareholding status:

| As on | Sponsor | Govt. | Instt. | Foreign | Public |
|-----------|---------|-------|--------|---------|--------|
| 30-Apr-18 | 57.00% | 0.00% | 12.76% | 8.61% | 19.80% |
| 31-Dec-17 | 57.00% | 0.00% | 12.68% | 11.80% | 18.52% |
| 31-Dec-16 | 70.10% | 0.00% | 7.73% | 3.08% | 19.09% |
| 31-Dec-15 | 72.77% | 0.00% | 4.84% | 0.00% | 22.39% |

Industry Overview

Bangladesh is the best placed in the region for electrical, electronic home appliances industry due to cheap labor and favorable trade status with the EU. Thus the potential for backward and forward linkage industry is growing very fast. Presently, about 50%-60% of this demand is met by import from countries like China, India, Hong Kong, Thailand, Korea, Indonesia etc. This offers a tremendous opportunity for further investment.

Among the major products of consumer electronics and home appliances produced and supplied by Singer Bangladesh. Refrigerator and Television generate most of the revenue in the consumer durable goods. Currently, the annual demand of refrigerators in Bangladesh is around 2.5 million units where Walton is the market leader in the refrigeration market and aims to grab around 74% market share.

To promote the locally manufacturing of refrigerator and freedger, the government in the national budget 2017-18, have extended the VAT incentives to June 2019 for local manufacturing of Refrigerator, Freedger and Air Conditioner. The percentage of domestic made refrigerators was 80 while the sale of imported refrigerators was only 20%.

The prominent local brands which are manufacturing Refrigerator are Walton, Marcel, Eco Plus, Jamuna, RFL, MyOne and Minister. Among them, the annual production capacity of Walton Hi-Tech Industries is 14 lakh units, Jamuna Electronics 3 lakh, Butterfly Manufacturing Company Ltd (Eco Plus) 2 lakh, RFL Electronics 3 lakh while MyOne and Minister's capacity are 1 lakh.

Government of Bangladesh has keen to ensuring access of affordable and reliable electricity for all by 2021. This will accelerate the demand of consumer durables in the coming days. The demand of consumer electronics and home appliances mainly depends on income level and purchasing power of consumer which shows increasing trend in our country. The television market of Bangladesh is now stands at about 1 million units a year. Of the sum, branded products account for around 40 percent.

Recently, South Korean technology giant Samsung has invested \$100 million in Bangladesh to established two manufacturing units. The company will produce televisions, refrigerators, microwave oven and air conditioners for the local market and it has the plan to export in future. It has started manufacturing television on a test basis from May 2017. Samsung's other factory which is located at Narsingdi will officially open from May 2018. The company is aiming to grab 30 to 40 percent of the market share within next three to four years.

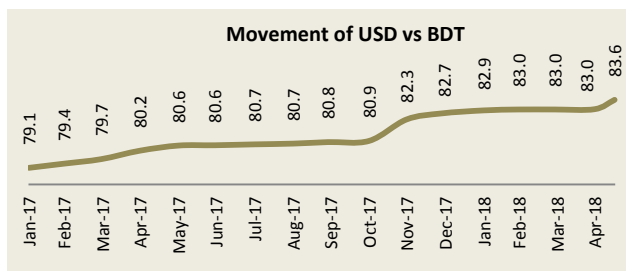
Investment Positives

- **The Company showed a considerable growth in both the topline and bottom line in the recent years. This was because of the major revenue earnings segments i.e. home appliances and consumer electronics showed an extensive growth over the last few years. In 2017, turnover and net profit of the Company has grown by 23% & 37% respectively over last year** due to the increase in unit sales in the products categories of refrigerator (28%), computer (129%), washing machine (33%), panel television (32%) and air conditioner (34%) along with a considerable growth in washing machine, furniture and kitchen appliances boosted by lower prices to customers and increased advertising spend. Hire purchase scheme is also one of the basic factors for increasing the revenue. Net profit increased due to the increase in subsidiaries contribution and other income.
- **Turnover of the Company will increased significantly in the next two quarters due to the festival and summer seasons and world cup football which will lead by the sales growth in TV, air-conditioner and refrigerators unit.**
- **Gross profit margin of the Company was impacted favorably by a greater mix of higher margin product lines coupled with higher ECC (Earned Carrying Charges). Gross profit margin has increased to 29.3% as of March 2018 from 25.3% in 2014.** However, gross profit margin has slightly decreased to 28.2% in 2017 which was 28.8% in last year due to the decline in income of earned carrying charges. Meanwhile, the Company has extended its capacity to manufacture panels for television at its factory which will exert positive impact on margins.
- **IAL has turned itself as a profitable company in 2017 where it was incurring loss up to December 2016.** Once capacity is ramped up, this will allow the Company to strengthen its position in the refrigerator market and improve yields further.
- In March 2017, Singer Bangladesh has introduced energy efficient and environment friendly refrigerators with R600a gas. This type of refrigerators can reduce electricity consumption by up to 50%. **It helped the Company in achieving substantial growth of 28% in Singer's refrigerator business in 2017.** The Company's refrigerator manufacturing unit – IAL has been producing all refrigerators using R600a Gas.
- **Singer is the market leader in the country's household appliances.** According to the Daily Star news published in June 2017, Singer controls around 25 percent market share in consumer durables in Bangladesh.
- **Bangladesh is moving forward to attain the status of developing country by 2021. The steady economic growth and growth in consumer durables industry of Bangladesh will speed up the growth of the Company.** Huge population and increasing per capita income of the population in the country will be the key growth drivers for the Company.
- The Company is continuously adding new products in its products basket which is a positive sign for the sustainable topline growth for the Company. Strong brand image in consumer durable and home appliances products along with a large distribution network will help to foster the sales growth.

- The Company signed an MOU with BRAC to set-up vocational sewing schools across Bangladesh. This will result in the training and development of thousands of women in the years ahead which will ultimately help to increase the sales volume of sewing machines.
- The Company achieved AAA+ rating in long term and ECRL-1 for short term with a strong and stable outlook from Emerging Credit Rating Limited.
- Singer offers some of the world renowned branded home appliances i.e. Samsung Television, Godrej, Haier, Huawei, LG, Skyworth, Videocon and Whirlpool etc. through its retail chains across the country. The Company added two European home appliances and electronics brands - Beko and Grundig. Beko products include refrigerators, washing machines, dishwashers and microwave ovens, while Grundig brought in LED TV, sound systems and some other small household appliances.
- Government of Bangladesh has devoted to ensure access of affordable and reliable electricity for all by 2021. This will accelerate the demand of consumer durables in the coming days.
- The Company is planning to increase the retail outlets and dealer numbers in the coming years to capitalize the opportunities in the fast growing and exciting sector.

Investment Negatives

- The Company is exposed to foreign currency risks as around 96% of its total raw materials consumed are imported. Therefore, adverse foreign exchange movement will hamper the earnings.

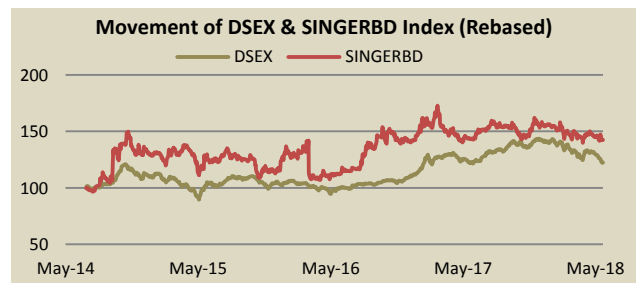
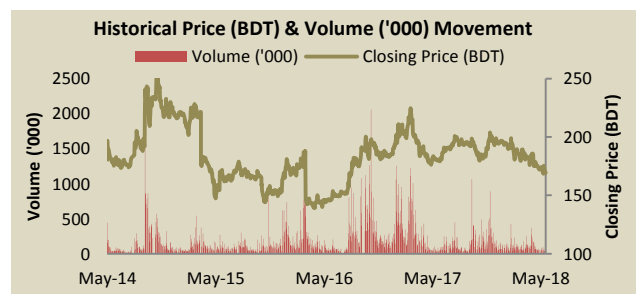
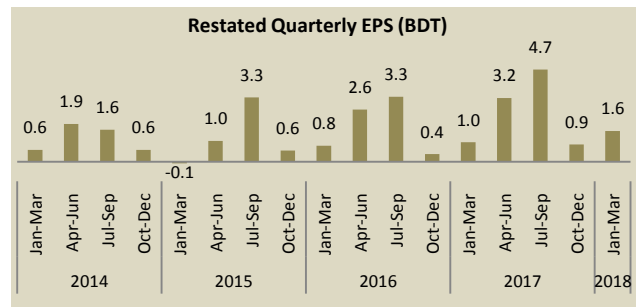


- Debt ratio of the Company has increased to 31.7% as of March 2018 which was 19.8% on December 2016. This was due to support expansion and growth of business and for managing working capital. This led the reduction in coverage ratio to 4.5x as of March 2018 which was 9.6x in December 2016.
- Retail Holdings Bhold B.V. (former Singer Bhold B. V.), one of the Corporate Sponsors of the Company has offloaded some portion of its holding recently. The sponsor's holding has come down to 57% as of March 2018 which was 70% in December 2016.
- Intense competition from large number of local manufacturers and low priced Chinese product is the main threat for the Company to sustain its position in the market. Meanwhile, the Company is going to face a high threat from new entrants i.e. Samsung which is investing in the consumer electronics and home appliances business in the country that may affect the turnover and profitability of the Company.

Latest Quarter Update – March 2018

| Particulars (BDT mn) | Jan-Mar 2018 | Jan-Mar 2017 | Growth |
|-------------------------|--------------|--------------|--------------|
| Revenue | 2,358 | 1,771 | 33.2% |
| Gross Profit | 691 | 502 | 37.5% |
| <i>Margin</i> | 29.3% | 28.4% | |
| Operating Profit | 238 | 133 | 78.5% |
| <i>Margin</i> | 10.0% | 7.5% | |
| Net Profit | 123 | 76 | 61.4% |
| <i>Margin</i> | 5.2% | 4.3% | |

- Consolidated turnover of the Company has registered 33.2% growth in the first quarter of 2018 over the same period of last year due to the increased contribution of unit sales in all the segments. Sales volumes increased mainly due to higher sales in the products categories of refrigerator, panel television, air conditioner, washing machine, micro-ovens and furniture.
- Operating profit margin has increased to 10.0% in the reported period which was 7.5% in the same period of last year. This was because of increase in gross profit margin due to the selling of higher margin products and decrease in operating expenses in percentage of sales.
- The robust performance of the subsidiary, IAL, also contributed to the higher net profit growth of 61% in the reported period over the same period of last year.



Concluding Remark

Singer Bangladesh Limited is one of the largest consumer durable products marketing companies in Bangladesh. The Company is giving more concentration to renovate and enlarge the existing stores to allow more products to be displayed. Besides, the number of wholesale dealers is also expected to increase considerably in the years to come. The ongoing manufacturing initiatives of the Company along with the socio-economic development of the country have the potential of contributing substantially to the profitability of the Company in future.

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

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