

WALTON HI-TECH INDUSTRIES LIMITED

DSE: WALTONHIL
Bloomberg: WALTONHI:BD

Company Overview

Walton Hi-Tech Industries Limited (WALTONHIL) was incorporated on April 17, 2006 and commercial operation started on April 02, 2008. The Company is engaged in manufacturing and selling of Refrigerators, Air-Conditioners (AC), Televisions, Electrical Appliances Products (EAP) and Home Appliances Products (HAP). The Company carried out its production under the banner of "Walton" and "Marcel". Most of the products are being produced aiming at the local market. The Company has its registered office at Bashundhara R/A, Dhaka and factory is located at Chandra, Kaliakoir, Gazipur, Bangladesh.

Revenue Composition & Growth:

Particulars	Composition		Growth		5-yr CAGR
	2018-19	2019-20	2018-19	2019-20	
Local Sales					
Refrigerator	88%	67%	73%	-39%	7.5%
Air Conditioner	4%	8%	140%	55%	26.6%
TV, EAP, HAP	9%	27%	--	147%	--

Walton has extended its export operation in more than 26 countries. Export revenue has been increasing at a 5-year CAGR of 64%. The Company has given a thrust for increasing the export volume.

The major raw materials are Brass Sheet, Aluminium Sheet, Capacitor, Insulation Layer, Reciprocating Compressor, Stamping Foil, Resin, Tube, Silicon Sealant Paints & Thinner etc. The Company has to procure most of the raw materials from overseas market mainly from China, Hungary, Vietnam, Italy, Singapore, South Korea, Malaysia, Germany, Belgium, Thailand, Taiwan etc.

Installed Capacity (in mn) and Utilization:

Products	Particulars (in mn)	2018	2019	2020
Refrigerator	Installed Capacity	1.50	1.75	2.00
	Actual Production	1.23	1.85	1.36
	Capacity Utilization	82%	106%	68%
Air-Conditioner	Installed Capacity	0.05	0.05	0.15
	Actual Production	0.02	0.05	0.09
	Capacity Utilization	44%	102%	59%
Television	Installed Capacity	--	0.30	0.80
	Actual Production	--	0.27	0.49
	Capacity Utilization	--	91%	62%

Major festivals i.e., Eid-ul-Fitar, Eid-ul-Azha, Durga Puja etc. and summer season **stimulate the products demand**. Therefore, turnover of the Company increases significantly in the festival and summer seasons which leads the sales growth in TV, air-conditioner and refrigerators unit.

Shareholding Structure

The Company was listed in the DSE & CSE in 2020.

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Jun-21	99.03%	0.00%	0.37%	0.00%	0.50%
31-May-21	99.03%	0.00%	0.45%	0.00%	0.52%
30-Jun-20	99.03%	0.00%	0.27%	0.00%	0.70%

Company Fundamentals

Market Cap (BDT mn)	422,433.6
Market Weight Sector Weight	8.4% 63.6%
Free-float Shares (Public + Inst. + Foreign)	0.97%
No. of Shares Outstanding (mn)	302.9
Paid-up Capital (BDT mn)	3,029.3
3 Months Average Turnover (BDT mn)	57.5
3-month Return	20.4%
Current Price (BDT)	1,394.8
52-Week Price Range (BDT)	378.0 - 1,524.0
Sector Forward P/E	21.1

	2017-18	2018-19	2019-20	2020-21 (9M Ann.)
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Financial Information (BDT mn):

Sales	27,330	51,773	41,079	57,224
Gross Profit	8,007	20,968	15,656	22,539
Operating Profit	5,932	16,900	11,003	16,936
Profit After Tax	3,523	13,761	7,264	13,729
Cash & Cash Equiv.	1,142	1,030	1,467	3,092
Assets	82,362	103,428	116,421	121,319
CAPEX	4,675	4,551	5,508	3,256
Long Term Debt	9,392	6,290	4,130	3,659
Short Term Debt	11,265	19,208	24,396	16,961
Equity	59,217	72,978	79,952	88,332
Retained Earnings	24,797	38,588	44,981	52,992

Margin:

Gross Profit	29.3%	40.5%	38.1%	39.4%
Operating Profit	21.7%	32.6%	26.8%	29.6%
Pretax Profit	13.9%	28.5%	20.3%	27.0%
Net Profit	12.9%	26.6%	17.7%	24.0%

Growth:

Sales	-14.4%	89.4%	-20.7%	39.3%
Gross Profit	-29.4%	161.9%	-25.3%	44.0%
Operating Profit	-38.8%	184.9%	-34.9%	53.9%
Net Profit	-57.0%	290.6%	-47.7%	89.0%

Profitability:

ROA	5.2%	14.8%	6.6%	11.5%
ROE	8.4%	20.8%	9.5%	16.3%

Operating Efficiency:

Inventory Turnover	1.9	4.0	2.3	2.6
Receivable Turnover	3.2	3.2	1.7	2.4
A/C Payable Turnover	45.9	49.8	16.1	9.0
Total Asset Turnover	0.4	0.6	0.4	0.5
Fixed Asset Turnover	0.7	0.9	0.7	1.0

Leverage:

Debt Ratio	25.1%	24.7%	24.5%	17.0%
Debt-Equity	34.9%	34.9%	35.7%	23.3%
Int. Coverage	3.1	11.3	4.9	13.6

Dividend History:

Dividend* (C/B)%	-/-	-/-	75/-	170/-
Dividend Yield	%	%	1.0%	1.2%
Dividend Payout	%	%	31.3%	31.4%

Valuation:

Price/Earnings	118.6	30.4	57.5	25.7
Price/BV	7.1	5.7	5.2	4.8
EPS (BDT)	11.6	45.4	24.0	54.2
NAVPS (BDT)	195.5	240.9	263.9	291.6

* 250% Cash dividend for General Public shareholders and 170% Cash dividend for Directors and Sponsors for the year ended on June 30, 2021. 200% Cash dividend for General Public and 75% Cash dividend for Directors and Sponsors for the year ended on June 30, 2020.

Directors Shares Holding as of June 2020

Name of the Directors	Position	% of Holdings
		Post-IPO
Mr. S M Nurul Alam Rezvi	Chairman	10.89%
Mr. S M Shamsul Alam	Vice-Chairman	19.81%
Mr. S M Ashrafal Alam	Managing Director & Director	21.79%
Mr. S M Mahbulul Alam	Director	17.83%
Mr. S M Rezaul Alam	Director	12.87%
Mr. S M Monjurul Alam Ovee	Director	9.90%
Ms. Tahmina Afrose Tanna	Director	2.97%
Ms. Raisa Sigma Hima	Director	2.97%
Total		99.03%

Industry Overview

Bangladesh is the best place in the region for electrical and 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. The Electrical & Electronics (E&E) industry of Bangladesh has been depending on the imported products until the local companies started investing in manufacturing plants for producing E&E products in the country. 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. But people now feel proud of buying goods produced in our country; even the assemblers and producers are considering export of these products.

The E&E sector is one of the rapidly growing sectors in the country. Rough statistics show that there are more than 3,000 E&E enterprises in operation across the country combining all types of industries and those engaged in related businesses. They have created employment for a million of people. The sector has been growing at the rate of 20 per cent.

Bangladesh can become one of the exporters of E&E sector by enabling proper policies. The Industrial Policy included E&E sector as a sub sector of Energy Savings in which there are a number of other sectors, such as LED, tube light etc. A number of E&E manufacturing industries have been established in the country with the increase in standard of living and per capita income. Television, refrigerator and air conditioner manufacturing factories are among the country's fastest growing E&E sectors.

The Refrigerator industry is one of the important sub-sectors of E & E industry. Mainly freezer, frost & non frost refrigerators are sold in the market. In 2008, the refrigerator market demand was 300,00 pcs. And the average market price was BDT 60,000. Over the period, the demand has been increasing and reached to more than 1,700,000 pcs. In 2019-20 with more than 600% growth compare to 2008. On the other hand the market price went down to bdt 25,000 and make the product affordable for all.

The air conditioner (AC) is another rapidly growing product segment the E&E sector. Due to the rapid urbanization in the country and recent climate change due to global warming has magnified the usage of air conditioner (AC) in Bangladesh. In AC market, the seasonal hike is during the summer season when heat induces customers to purchase ACs. Sales of air-

Conditioners are growing steadily in Bangladesh riding on the demand from the expanding middle class and modern office and factories as consumers are seeking to escape extreme heat of summers. Sales of AC rose about 50% in Bangladesh during last three years.

Major Brands: Consumer Electronics is a competitive market with wide ranging products from both international and local players. Due to the brand image and credibility, the international brands have strong top of mind association. However, the local players are dominating the market in terms of sales volume, mainly due to competitive pricing.

Product Category	Local Brand	International Brand
Television	Rangs, Walton, Vision, MyOne	Sony, Samsung, Panasonic, Singer, Toshiba, Phillips, LG
Refrigerator	Walton, MyOne, Minister	Singer, Samsung, Whirlpool, Kelvinator, LG, Hitachi, Hier
Air Conditioner	Walton	Singer, General, LG, Daikin, Gree, Carrier, Whirlpool
Home Appliances	Walton, Electra, Eco+	Singer, Miyako, Sebec, Panasonic, Sharp, Steamfast

South Korean technology giant Samsung has invested \$100 million in joint venture with local Transcom Group and Fair Electronics. 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 from May 2017. The company is aiming to grab 30 to 40 percent of the market share within next three to four years.

Market Share: The overall annual market size of refrigerators in Bangladesh is about BDT 100.00 billion. 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.

Refrigerator sales nearly tripled to 22 lakh units in the last five years, spurred by increasing domestic manufacturing, higher electricity generation and rising purchasing power. The market would grow 17 percent to 27 lakh units by the end of the current fiscal year, according to a projection by the Bangladesh Refrigerator Manufacturers and Exporters Association. Locally made refrigerators meet about 85% of the annual demand and imported ones meet the rest. Domestic manufacturers are offering refrigerators at comfortable rates and this is one of the main reasons behind the fast growth. In 2009, 47% of the population had access to electricity and it now stands at more than 95%.

Walton, the local brand is in the leading position in the **Television** market with a market share of 27%. However, most of the market share is covered by different local, international and Chinese brands which make the television market somewhat saturated. In the market for **Refrigerators**, famous local brand Walton is in the leading position with 74% market sharing. The second position is also held by a local brand, Singer (14%). The **Air Conditioner** market used to be dominated by foreign brands like LG, General and Gree.

Government Support: 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.

Investment Positives

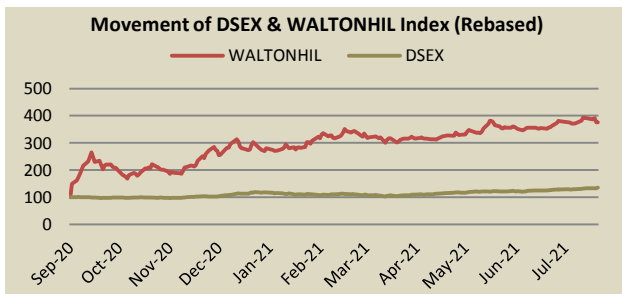
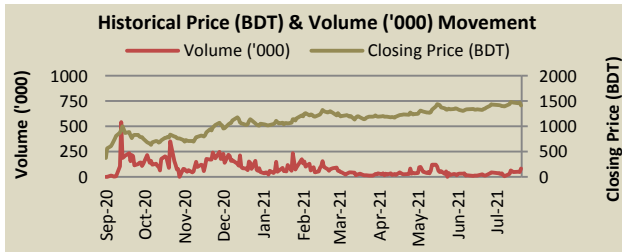
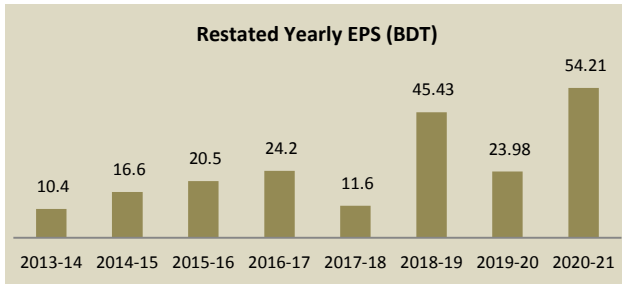
- The Company has attained an **outstanding performance over the years driven by the sale of Refrigerator and Freezer due to the increased demand for locally manufactured electrical, electronics and home appliances products**. Given the product quality & placement (value for money) and widespread distribution network, WHTIL has quickly grabbed the market, **controlling more than 76% market shares** in the local Refrigerator industry **due to the availability of refrigerator at an affordable price**.
- The Company has increased its capacity of **refrigerator, air-conditioner and television** by 14%, 200% & 167% respectively in 2019-20 over last year. It **will increase its installed production capacity of refrigerator & compressor** to 2,300,000 & 2,000,000 PCS per annum which is up **by 15% & 33% respectively from its existing capacity**. For this expansion purpose, a portion of BMRE (Balancing, Modernization, Rehabilitation and Expansion) of existing projects will be financed from its IPO proceeds of BDT 625 million. The Company is expecting **to start commercial operation of the expanded capacity by September 2022**.
- Walton created a landmark by **establishing the country's first-ever Compressor Manufacturing Plant** at Gazipur in 2017 with a production capacity of 1.50 million per annum. Meanwhile, in June 2021 **the revenue authority has waived Value Added Tax (VAT) and supplementary duty on the import of raw materials** to make Compressors of Refrigerator and Air Conditioners with a view to facilitating local manufacturing and also given the opportunity to manufacturers to encourage industrial development. The VAT exemptions on the production of compressors has been offered until June 30, 2022.
- Walton is set to flag off the country's first **lift manufacturing plant at a cost of BDT 500.00 million** at Gazipur which **will start its commercial production soon**. The Company is **expecting to cater 50% of the market share** by beating the importers both in terms of quality and price. Every year, Bangladesh needs more than 5,000 units of lifts and most of them are imported from China. **The market size is around BDT 12.00 billion and it is growing at about 20% per year**, helped by widening urbanization (source: The daily Star, March 01, 2020). Walton is manufacturing all three kinds of lifts -- passenger, cargo and capsule lifts -- that are popular in Bangladesh.
- The Company has given a **thrust for increasing the export volume** as there is a great prospect in the export of E&E products in international markets. The Company is emphasizing on the export market through restructuring its International Business Unit which will put noteworthy

growth in the profitability of the Company in the coming years. **The Company is currently exporting to more than 26 countries.**

- The Company has taken decision **to open Branches/Liaison Offices in India, Nepal, UAE and South Korea** for market expansion and technology sourcing. The Company has also decided to apply for the enhancement of foreign currency limit to operate (import, export & other operations) proposed Foreign Branches/Liaison Offices in six countries subject to approval of Bangladesh Bank. The Board of Directors also has decided **to invest USD 500,000.00 in Walton Corporation United States of America** to purchase ordinary shares and preferential shares subject to approval of Bangladesh Bank and other relevant regulators. The mentioned company will provide imports, exports and procurement services in North America.
- **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.
- 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 **continuously adding new products** in its products basket and has the plan to roll out new product range to cater to various segments in this emerging market which is a positive sign for the sustainable topline growth for the Company.
- Walton distribute its products through **strong distribution partners** which exclusively sales the products of WHIL. As such the Company performs its distribution process at different levels with various forms of distribution channels. Walton has extensive market coverage across the country having more than 1,200 exclusive distributors, 12,000 sub dealers and 13,000 POS (point of sale).
- The Company achieved **"AAA" rating in long term and "ST-1" for short term** with a strong and stable outlook from Emerging Credit Rating Limited.

Investment Negatives

- The Company is **exposed to foreign currency risks** as most of its raw materials are imported from abroad. So unfavorable foreign exchange movement will hamper the profitability of the Company.
- **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. Moreover, two multinational giants **Singer and Samsung** which are in the consumer electronics and home appliances business in the country that may affect the demand of the Companies' products.
- The business may face **credit risk from the Company's receivables** from customers, dealers and other parties as the products are sold under hire purchase agreements.



Peer Companies Listed with DSE

The performance of major competitors for the companies with same core operating activities listed with the Dhaka Stock Exchange are shown in the following table:

Particulars	WALTON	SINGERBD
Turnover (BDT mn)	41,079	15,046
GP Margin	38.1%	27.1%
Operating Profit Margin	26.8%	10.6%
Net Profit Margin	17.7%	5.2%
EPS (BDT)	24.0	7.85
NAVPS (BDT)	263.9	32.2
PE	25.7	19.5
Price (BDT)	1394.8	183.3

The above mentioned figures are based on latest year end audited statements;

Concluding Remark

Walton is one of the largest consumer durable products manufacturers in Bangladesh. The management has set the vision to establish Walton as one of the Top Five Brands across the world by 2030. 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 socio-economic development of the country have the potential of contributing substantially to the profitability of the Company in the coming years.

Source: Annual Report, Company Website, the newspaper news, ILSL Research

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