

Company Overview

Argon Denims Limited (ADL), a 100% export oriented manufacturing, dying & finishing units of denim fabrics, was incorporated on July 13, 2006 and commenced its commercial operation on March 2008. The principal activity of the Company is to manufacture 100% cotton denim fabrics for export. The Company mainly produces medium and premium range denim fabrics in various weights ranging from 4.5 oz to 13 oz. The manufacturing facility of the Company is situated at Sreepur in Gazipur. At present, there are 102 looms along with separate wrapping, sizing, dyeing and finishing units. In 2013, the installed production capacity of the firm was 18 million yards annually of which 62.49% was utilized. In the year 2012, the Company raised fund of BDT 1,050 mn from capital market through IPO for loan repayment and project expansion.

The major raw materials of ADL are yarn ranging from 6 to 16 and 30 counts and also dyes and chemicals for dyeing and finishing. The Company imported its major raw cotton (around 60%) mainly from Pakistan, India and Thailand. It procures most of the dyes and chemicals for dyeing and finishing from Germany, Spain and China.

In 2013, net profit of the Company increased by 66.9% to BDT 226.84 mn from BDT 135.92 mn in 2012. Gross profit and net profit margin of the Company has increased to 21.2% and 10.4% from 20.5% and 8.6% respectively. This is due to decrease of costs of goods sold to sales and increase of other operating income. ROE and ROA increased mainly due to increase in profit after tax.

The Company was enlisted with the DSE and the CSE on February 19, 2013. Around 49.24% of shares of the company are held by Sponsors whereas 35.55% and 15.21% are held by General and Institutional Investors respectively.

Industry Overview

Textile and Apparel Sector of Bangladesh contributes more than 16% of GDP. This sector generates employment of 3.6 million people directly, 80% of them are women. About 80% of export income comes from this sector. According to provisional data of Bangladesh Bank, during July – June 2013-14, total export earnings from textile sector were about US\$ 24,491.88 mn. Currently, 145 countries are using knit garments and 126 countries are using Bangladesh's woven products.

Denim industry is a promising sub-sector in textile industry with a total investment of BDT 70 bn. Bangladesh exports around 180 mn pieces of denim annually and held second place after China as largest denim producer. According to Bangladesh Textile Mills Association (BTMA) data, currently there are 25 Denim fabric manufacturers. Monthly denim production is around 30 mn yards of denim against monthly demand of nearly 60 mn yards.

Bangladesh earns around USD 600 mn a year by exporting denim fabrics and denim-made garments. According to BGMEA data, in last ten months of 2013-14 (July-April), the country exported nearly 150 mn pairs of denim jeans in men's and boys' category.

Company Fundamentals

Market Cap (BDT mn)	3,908.2
Market weight	0.1%
No. of Share Outstanding (in mn)	82.8
Free-float Shares	50.8%
Paid-up Capital (BDT mn)	828.0
3-month Average Turnover (BDT mn)	39.1
3-month Return	0.9%
Current Price (BDT)	47.2
52-week price range (BDT)	36.4 – 100.8
Sector's Forward P/E	13.5

	2011	2012	2013	2014 (HY Annu.)
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Financial Information (BDT mn):

Sales	1,179	1,588	2,171	2,669
Operating Profit	303	325	461	602
Profit After Tax	98	136	227	319
Assets	1,910	5,001	3,833	4,028
Long Term Debt	301	234	157	257
Equity	621	1,757	1,992	2,108
Dividend (C/B)%	-/-	-/20	6/15	-/-

Margin:

Gross Profit	23.1%	20.5%	21.2%	22.8%
Operating Profit	25.7%	20.5%	21.2%	22.5%
Pretax Profit	13.9%	10.8%	13.1%	14.8%
Net Profit	8.3%	8.6%	10.4%	12.0%

Growth:

Sales	16.4%	34.8%	36.7%	22.9%
Gross Profit	27.5%	19.5%	41.8%	31.8%
Operating Profit	12.0%	7.4%	41.9%	30.5%
Net Profit	1.0%	38.3%	66.9%	40.6%

Profitability:

ROA	5.7%	3.9%	5.1%	8.1%
ROE	20.6%	11.4%	12.1%	15.6%

Leverage:

Debt Ratio	64.3%	47.3%	43.0%	41.0%
Debt-Equity	197.5%	134.6%	82.8%	78.4%
Int. Coverage	2.4	2.3	2.9	3.4

Valuation:

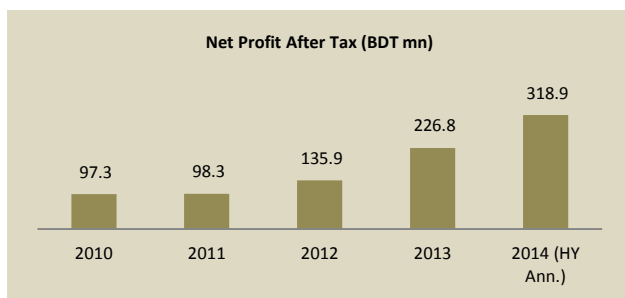
Price/Earnings	--	--	34.6	12.3
Price/BV	--	--	1.6	1.9
EPS (BDT)	5.5	1.9	2.7	3.9
DPS (BDT)	--	--	0.6	--
NAVPS (BDT)	20.7	24.4	24.1	25.5

Investment Positives

- The Company demonstrated outstanding performance over the years. 4-year CAGR (Compound Annual Growth Rate) of revenue and profit after tax of the company is 36.0% and 83.4% respectively. This is because of the increase in the utilization of expanded production capacity.
- As per Annual Report, in 2013, the Company has invested BDT 279.07 mn for expansion of the business and this expansion project will facilitate in higher productivity.
- The Company continues to sell its products in the European markets and now it is dynamically exploring new markets in USA, Canada, Australia and Japan.

Investment Negatives

- The Company's debt to asset ratio is 41%. That means, it is highly exposed to interest rate risk. However, the Company is emphasizing to reduce the dependency on borrowed fund.
- The company is mostly dependent on imported raw cotton, dyes and chemicals; as a result, price fluctuation in international market may affect profitability profoundly.
- Auditor had provided emphasis of matter on December 31, 2013 financials regarding utilization of IPO Fund i.e. over adjustment of short term loan from IPO proceeds, excess payment of IPO related expenses etc.



Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	13.5	52.0
Sector Trailing P/E	11.8	32.3
Market Forward P/E	19	73.2
Market Trailing P/E	18.9	51.8
Market P/B	2.2	56.0

Concluding Remark

Argon Denims Limited produces 100% Cotton Denim Fabrics and considered as "deemed exporter". The Company showed stable performance over the years. In its latest half yearly performance declarations, the Company reported net profit after tax of BDT 159.47 mn which was BDT 110.63 mn for the same period of the previous year registering a 44.15% growth. The growth mainly came due to increase in sales and decrease in COGS (as % of Sales) & financial expenses. Its annualized EPS would be BDT 3.85. As on Date, 15 days RSI & MFI of the Company were 46.64 and 46.84 respectively.

Source: Annual Reports, Prospectus, DSE website, the Financial Express, the Daily Star, BGMEA, BTMA, ILSL Research.

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