

Company Overview

MJL Bangladesh Limited (MJLBD), a Joint Venture in the downstream petroleum industry between Jamuna Oil Company Ltd. (owns 19.5%) and EC Securities Ltd (owns 52.1%), subsidiary of the East Coast Group, was incorporated in 1998. The company started its commercial operation in 1999. The company initiated as a lubricating oil marketing company of Mobil brand but later in 2003 with the introduction of Lube Oil Blending Plant (LOBP) it also got engaged in blending lubricant and grease products. The company has more than 20 types of product lines serving customers from different sectors under Mobil, Omera and other brand. As per the annual report 2015-16, MJLBD is the market leader in local lubricants market holding 64% market share in the industrial lubricants and 34% market share in overall lubricants market.

The company has three subsidiaries viz. Omera Petroleum limited (OPL), Omera Cylinders Limited (OCL) and MJL & AKT Petroleum Limited. OPL (62.5% stake), engaged in the storage and bottling of liquefied petroleum gas (LPG) and started its commercial production in March 2015. OCL (100% stake) serves as backward integration of OPL, engaged in manufacturing and marketing of world class cylinders. MJL & AKT Petroleum Limited (51% stake) is the first national company to invest in the petroleum business in Myanmar.

The company procures base oils from ExxonMobil while the additives are sourced from other global suppliers. The base oils are blended in the country to produce the desired grade of lube oil. The company also imports the finished lubricant products to meet the local as well as to export in the foreign market.

Revenue composition of MJLBD:

Particulars	Composition		Growth		
	2015-16	2015-16*	2014	2013	2012
Trading Unit	44%	-5%	10%	10%	18%
Manufacturing Unit	43%	-2%	12%	-7%	15%
Oil Tanker Unit	13%	-5%	48%	21%	14%

*Growth of 2015-16 is calculated on 18 month basis.

The company's most of the revenue is generated from trading and manufacturing of lubricant. However, contribution of subsidiaries in revenue is increasing.

MJLBD uses 16 depots, 560 filling stations, 1,067 agents and 248 packed point dealers of Jamuna Oil Company Ltd. to distribute its products to the major state owned industries and power plants. Other than that MJLBD distributes its products directly to the industrial buyers or through its own appointed 76 wholesalers.

The Company was enlisted with the DSE and the CSE on June 2011. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Mar-17	71.5%	0.0%	12.9%	2.0%	13.6%
30-Nov-16	71.5%	0.0%	12.9%	2.0%	13.6%
30-Jul-16	71.5%	0.0%	14.1%	2.0%	12.3%

Company Fundamentals

Market Cap (BDT mn)	34,209.2
Market Weight	1.1%
No. of Shares (mn)	301.7
Free-float (Public + Inst.)	28.5%
Paid-up Capital (BDT mn)	3,016.7
3 Months Average Turnover (BDT mn)	51.0
3 Months Return	-7.5%
Current Price (BDT)	113.0
52-week Price Range (BDT)	93.5 – 134.0
Sector Forward P/E	13.8

	2014	2015	2015-16 (18mth)	2016-17 (Q3 Ann.)
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Financial Information (BDT mn):				
Net Sales	8,294	8,951	14,286	13,259
Gross profit	2,181	2,354	4,193	4,403
Operating Profit	1,785	1,582	2,964	3,213
Profit After Tax	1,045	1,049	1,975	2,089
Assets	17,449	19,062	20,211	23,628
Long Term Debt	1,565	1,301	1,597	1,146
Short Term Debt	4,894	4,689	3,893	5,395
Equity	8,573	9,619	9,737	10,463

Margin:				
Gross Profit	26.3%	26.3%	29.4%	33.2%
Operating Profit	21.5%	17.7%	20.7%	24.2%
Pretax Profit	18.0%	13.2%	16.8%	21.3%
Net Profit	12.7%	13.2%	13.8%	15.6%

Growth:				
Sales	15.2%	7.9%	--	37.6%
Gross Profit	45.7%	7.9%	--	52.4%
Operating Profit	84.4%	-11.4%	--	62.0%
Net Profit	53.3%	13.1%	--	46.9%

Profitability:				
ROA	6.7%	6.5%	10.0%	9.4%
ROE	12.8%	13.0%	20.3%	20.4%

Leverage:				
Inventory TO* **	4.51	4.56	--	8.26
Receivable TO	19.33	18.77	--	12.40
A/C Payable TO	21.68	10.30	--	3.98
Total Asset TO	0.53	0.49	--	0.60
Fixed Asset TO	1.61	1.07	--	1.00

Leverage:				
Debt Ratio	37.0%	31.4%	27.2%	27.7%
Debt-Equity	75.4%	62.3%	56.4%	62.5%
Int. Coverage	8.4	4.4	5.2	11.2

Dividend History				
Dividend % (C/B)	15/15	-/-	60/10	-/-
Dividend Payout	42.9%	--	92.0%	--
Dividend Yield*	1.2%	--	4.9%	--

Valuation:				
Price/Earnings*	32.6	28.9	17.4	16.6
Price/BV*	4.0	3.2	3.5	3.3
Rest. EPS (BDT)	3.5	3.9	6.5	6.8
Rest. NAVPS (BDT)	28.4	35.1	32.3	34.7

*Growth of 2016-17 is calculated on nine month basis to their preceding year; *TO indicates turnover; *Dividend yield was calculated on the closing price on record date for the respective dividend entitlement. N.B.: The Company has changed the reporting period to July-June from January-December in compliance with the Section-2(35) of the current Income tax Ordinance 1984.

Industry Overview

Bangladesh lubricants industry is the inherent part of the countries core sectors as the lubricants is being used across wide range of industries. The lubricant industry in Bangladesh can be segmented into three categories – industrial lubricant, commercial vehicle lubricant and private vehicle lubricant. According to the MJLBD annual report 2015-16, private vehicles and commercial vehicles accounted around 75% of the country's total lubricant usages as well as rest 25% is consumed by industrial. Around 53.0% market share of all lubricants was supplied by major local and foreign manufactures while rest 47.0% market share was served by small manufacturers. The demand for industrial lubricant is mainly dominated by the energy sector while manufacturing and processing industry also contributes to it.

The Estimated consumption of lubricants in the country is around 100,000 tons which is expected to grow at a rate of 2.5% in the coming years. Another estimate showed that the market is worth to be BDT 2,400 crore. In Bangladesh there is severe competition in the lubricants market with the presence of 50 companies. The lubricant market is led by the MJLBD with 34% market share, followed by British Petroleum at 11%, French brand 'Total' at 6%, Castrol and Caltex with 3% each, Shell at 2% and the other 3% share has been secured by the MJLBD's subsidiary Omera Petroleum Ltd. The remaining 41% share of the market is controlled by over 70 brands.

Liquefied petroleum gas (LPG) is a flammable mixture of hydrocarbon gases used as a fuel in heating appliances and vehicles. Currently, more than 80% of the LPG demand is met by imports and the state-run Bangladesh Petroleum Corporation supplies the rest 20%. The government has moved to increase production capacity of state-run LPG to 120,000 tonnes (mt) from existing 20,000 mt to cater to the mounting demand of the fuel. Basundhara, Jamuna, Omera, TK Gas are local companies whereas Total Gaz and Laugfs Gas (corporate brand name Kleanheat gas) are foreign companies who engaged in the business of LPG. Under the private sector, the gas is mainly imported from Singapore, Malaysia, Saudi Arabia, Abu Dubai, Kuwait and some other countries. Bangladesh has much potential in terms of LPG consumption as only 6% of the entire population has access to the natural gas, mostly in urban areas. In 2016, total LPG market in Bangladesh was around 350,000 tonnes and the demand is estimated to be 500,000 tonnes in 2017. It is expected that LPG market of Bangladesh will reach 1 million tonnes by 2020. (Source: The Daily Star)

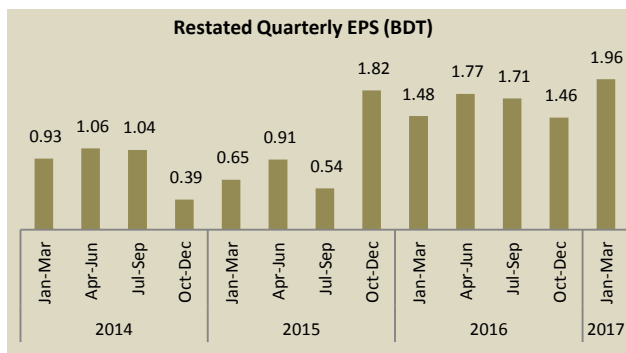
On the other hand, there is a demand of 1,000,000 units' cylinders every year. Omera Cylinders has the capacity of producing 500,000 units per annum. Bashundhara, Omera and Jamuna make their own LPG cylinders, while the others import them. To boost up this industry, National Board of Revenue (NBR) has exempted 15% value-added tax on import of composite LPG cylinder capacity below 5,000 litres up to June 2030. Composite cylinder is environment friendly. On the other hand, local producer of the traditional cylinder will get VAT exemption on import of raw materials and different components of the product of cylinder.

Investment Positives

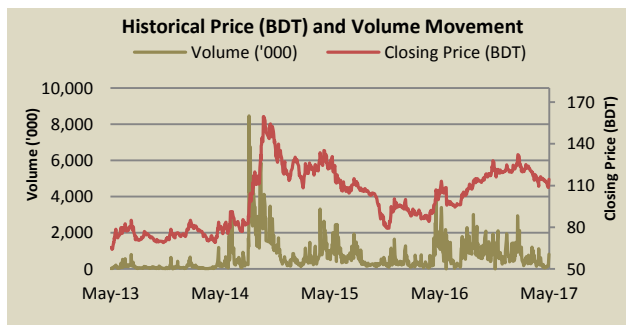
- The company is the market leader in the lubricant industry in Bangladesh. With more than 200 product portfolio, the company solely owns 64% of industrial lubricant market and 34% of the total lubricants market.
- The company's subsidiaries are performing on full swing. The contribution of subsidiaries in revenue was 17% in the 2015-16 which is 36% in the nine months of 2016-17 (Jul 2016-Mar 2017). Two subsidiaries - OPL & OCL were supposed to attain break-even by March 2017. In 2015-16, both the subsidiaries reported net loss in the income statement.
- Omera Petroleum Limited (OPL), a subsidiary of MJLBD, is performing well and according to annual report 2015-16, it secured 11.1% of the total market share in the Liquefied petroleum gas (LPG) market. The plant has a storage capacity of 100,000 MT per year. In 2015 with nine month operation the company sold 15,245 MT and in 2016 (Jan-Jun) the company sold 20,329 MT. In 2015-16, the contribution of OPL in total revenue was 17%. As the government is proactively promoting the use of LPG in places of natural gas, there is a huge potential in this market. Moreover, OPL has signed a MOU on November 21, 2016 with the Bangladesh Economic Zone Authority, for establishing LPG import terminal & reforming process unit to facilitate bulk supply of industrial LPG and fuels to the factories, established in the Mirsarai Economic Zone Area.
- Omera Cylinders Ltd. (OCL), another subsidiary of MJLBD has huge potential as there is only two other company in the business of manufacturing of cylinders in Bangladesh. The annual capacity of the plant is 500,000 units of cylinders per year. OCL sold 113,765 units in 2015 and utilized 45% of its capacity on single shift. On the other hand, the company is looking forward to third party cylinders sale with enhanced utilization. The company has the plan of exporting cylinders as buyers from African continent and United States have already shown their interest to purchase cylinders from OCL.
- In 2015-16, the company introduced engine oil under the brand name of Omera and this brand product Omera Lube 1 was endorsed by the BMW as a long life and high performance oil.
- MJLBD penetrated in the Myanmar market with its subsidiary MJL & AKT Petroleum Ltd. The venture formally started marketing of Mobil brand lubricants on July 2013 in Yangon. It will facilitate to explore untapped Myanmar market as well as contribute to the revenue of the company.
- According to annual report 2015-16, the company planned to invest BDT 40 mn for upgrading in line blending system for enhancing the more accuracy in their liquids.
- Falling trend in global crude oil price have a direct positive impact on company like MJL as the Government has allowed them to feed their own plants and this initiative is improving the gross profit margin by reducing cost of goods sold. According to the annual report 2015-16, crude price was 40% less than the previous year.
- The Company offers handsome dividend to the investors (as mentioned in the above table).

Investment Negatives

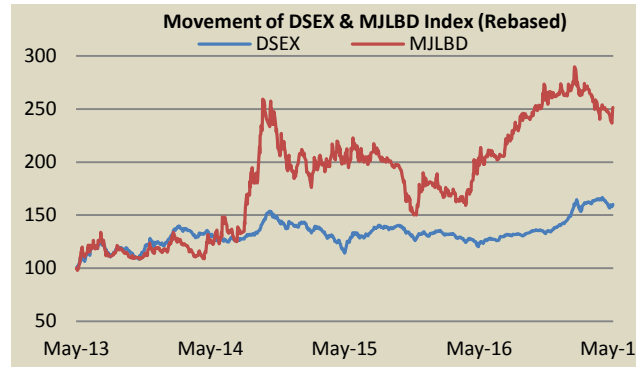
- There is an intense competition in this industry as well as there are some unbranded companies who cheaply supply lubricants in the market. Although there is doubt about the quality of unbranded products, it is a threat to the branded company.
- Shortage of gas supply and power adversely affects the industrial growth which in turn lowers the demand for the industrial lubricant consumption.
- The Company is import dependent for the supply of raw material, consequently has exposure to foreign exchange risk. However, it took several measures to minimize the risk.



Source: Annual Reports and ILSL Research



Source: DSE Website and ILSL Research



Source: DSE Website and ILSL Research

Concluding Remark

MJLBD is the market leader in the lubricant industry of Bangladesh. As per its latest 3rd quarter financial statements, the company's reported revenue and profit after tax was BDT 10,748 mn and 1,536 respectively which are 37% and 47% more than that of the same period of the preceding year. This was driven by better performance of its subsidiaries, decrease in financial expenses and deferred tax. The company invested BDT 2,452 mn and BDT 2,245 mn in 2015-16 (Jan '15 – Jun '16) and in 2016-17 (Jul '16 – Mar '17) respectively for acquisition of fixed assets. However, any particular investment plans were not disclosed. The subsidiaries of the company is expected to contribute more in the coming days as there is enormous potential in the industry of LPG and LPG cylinder in Bangladesh.

Source: The Company's Annual Reports, The Company's Website, DSE Website, CSE Website, Newspapers Reports and ILSL Research.

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