

BANGLADESH STEEL RE-ROLLING MILLS LIMITED

DSE: **BSRMLTD**
BLOOMBERG: **BASR:BD**

Company Overview

Bangladesh Steel Re-Rolling Mills Limited (BSRMLTD), the first fully automatic re-rolling mills built in the country, has been operating since 1952. BSRMLTD has absorbed its sister concern Meghna Engineering Works Limited, a backward linked concern of BSRMLTD in 2011.

BSRMLTD produces a low carbon weldable quality high strength and high ductility concrete reinforcing bar. It produces 60 grade and 40 grade MS bars, Angles, Channels, I-beam, Great-beam, etc. BSRMLTD is now operating with two different units: Re-Rolling unit for M.S.Rod, Channel, Angle and Steel Melting Works unit for production of M.S. Billet.

BSRM Ltd. currently owns 31.19% interest in its associate BSRM Steels Ltd. and 29.63% stake in BSRM Iron & Steel Co. Ltd. (BISCO), which is an in-house billet manufacturing plant. The company also has another associate in the name of BSRM Steels Mills Limited, holding 6.79% ownership, which is yet to commence its operation.

Currently, annual installed capacity of BSRMLTD is 150,000 MT and in the year 2014, capacity utilization was 35.10% while in 2013 it was 69.01%. Capacity utilization dropped in 2014, as production of BSRM- MS product producing Unit ceased from 28 May 2014 and after successful completion of BMRE plans, production is expected to be started from September 2015. The main raw material for re-rolling mills is billet which is sourced from India, Korea and Singapore. The main raw material for billet making is scrap which is sourced through import as well as local suppliers.

The company became listed with DSE and CSE in 2015. At present, 57.11% of total shares of BSRMLTD are held by the sponsors/directors, 30.55% foreign investors, 3.25% by institutional investors and rest 9.09% by general public.

Industry Overview

Bangladesh has more than 400 steel, re-rolling and auto-re-rolling mills with a combined annual production capacity of 80 lakh tones, against the total demand of only 40 lakh tones (market value of BDT 200 billion). The government projects account for nearly 40% of total steel consumption.

Bangladesh is one of the lowest consumers of steel products in the world. Per capita steel consumption in Bangladesh now stands at only 25 kilograms, while it is 55 Kilograms in India, 324 kilograms in developed nations. Although a number of companies of the sector, including BSRM, GPH, RSRM, Rahim Steel and Bashundhara Steel, are producing the raw material, billet, locally, around 15 lakh tones are still imported every year. At present, three big steelmakers -- BSRM, Abul Khair Steel and KSRM -- supply more than 50 percent of the country's annual need for 35-40 lakh tonnes of steel, with BSRM and AKS set to expand their capacity further. Besides the competition from big players, the smaller mills are also facing challenges such as price fall in international steel market and a decline in domestic demand for construction materials, which are forcing them out of the market. Over capacity of the steel industry also indicates enormous export potential, though the option is yet to explore following some bottlenecks in the export process.

Since steel demand is derived from other sectors like construction buildings, roads, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. However, Initiation of Padma Bridge construction, acceleration of Government's big infrastructure projects under Annual Development Program (ADP) and revival of the local real-estate industry will undoubtedly boost-up the steel consumption locally.

Company Fundamentals

Market Cap (BDT mn)	15253.1
Market Weight	0.5%
Free-float (Public +Inst.)	42.9%
# of Shares Outstanding (BDT mn)	177.4
Paid-up Capital (BDT mn)	1773.6
3 Months Average Turnover (BDT mn)	91.29
3 Months Return	165.7%
Current Price (BDT)	93.0
52-Week Price Range (BDT)	45.8 - 87
Sector Forward P/E	24.9

	2012	2013	2014	2015 (Q1 Annualized)
Financial Information (BDT mn):				
Sales	14,043	8,602	8,050	9,215
Operating Profit	486	285	(59)	(52)
Net Profit	454	789	116	118
Assets	16,840	21,299	22,766	22,199
LT Debt	1,228	1,406	4,056	4,302
Equity	7,526	8,274	8,564	9,211
Div. % (C/B)	-/-	-/-	10/0	n/a
Margin:				
Gross Profit	5.0%	5.8%	2.3%	1.8%
Operating Profit	3.5%	3.3%	-0.7%	-0.6%
Pretax Profit	4.7%	13.3%	0.2%	1.6%
Net Profit	3.2%	9.2%	1.4%	1.3%
Growth:				
Sales	10.9%	-38.7%	-6.4%	14.5%
Gross Profit	-35.2%	-28.3%	-62.5%	-11.7%
Operating Profit	-43.9%	-41.4%	-120.8%	12.9%
Net Profit	-60.6%	73.8%	-85.3%	1.5%
Profitability:				
ROA	2.9%	4.1%	0.5%	0.5%
ROE	7.6%	10.0%	1.4%	1.3%
Leverage:				
Debt Ratio	30.1%	23.6%	43.7%	45.8%
Debt-Equity Ratio	67.4%	60.9%	116.3%	110.5%
Interest Coverage	1.7	1.1	(0.1)	(0.1)
Valuation:				
Price/Earnings*	36.3	20.9	142.2	140.0
Price/BV*	2.2	2.0	1.9	1.8
Restated EPS	2.6	4.4	0.7	0.7
NAVPS (BDT)	42.4	46.6	48.3	51.9
DPS (BDT)	-	-	1.0	-

* Based on current market price and restated EPS.

Investment Positives

- An expansion (BMRE) project is going on to enhance the capacity of BSRMLTD from 120,000 MT to 450,000 MT per year with an estimated project cost of BDT 5,863.7 million. The BMRE project is expected to complete within September 2015. The project is financed by BDT 3,385.78 million (57.74%) term loans, BDT 1,886.41 million (32.17%) from own source and BDT 591.51 million (10.09%) from IPO fund.
- After modernization, BSRMLTD will be able to produce hot rolled bars, 500 grade Rebar and Thermo Mechanically Treated (TMT) bars along with Angles, Channel, Flats, Shafts and Tees. This high quality product line extension will significantly increase the profitability of the company with increased profit margin.
- To minimize the dependency on import of raw materials, BSRM Group has been setting up the largest billet making plant in the country, which is expected to commence operation within 2015.
- BSRM group is setting up a coal based 150 MW power plant to meet the internal demand as well as to supply to the national grid. This project, once started commercial operation, will provide interrupted power supply to the group companies including BSRMLTD.

Investment Negatives

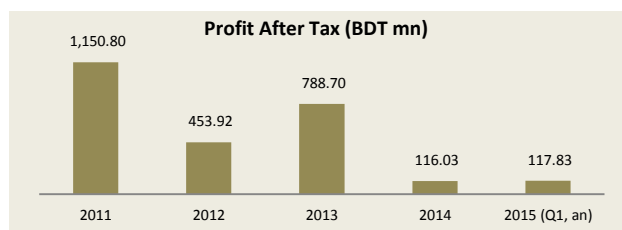
- BSRM Steel Ltd. is heavily exposed to leverage. High interest eats-up a significant portion of its profit before interest and tax. Moreover, the two syndicate loan by United Commercial bank Limited and One bank limited of BDT 2790 million and BDT 600 million respectively for the expansion projects will incur interest expense and the leverage ratio will also go up.
- The company is exposed to foreign exchange risk in certain sales, purchases and borrowings. In 2014 net exposure to foreign exchange rate stood at USD 22.64 million (BDT 1.77 billion). Majority of the foreign currency transactions are denominated in USD and relate to Liability for accepted bills for payment.
- Non-operating income of the company is heavily fluctuating in nature over the years.

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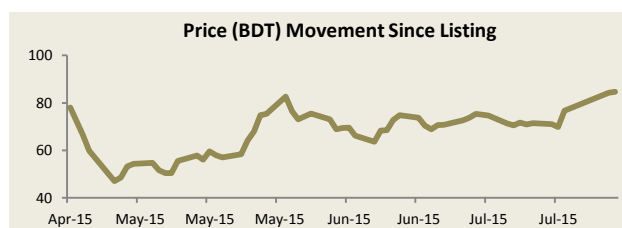
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Source: Annual reports & ILSL Research



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Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Peer P/B*	1.8	93.5
DSE Sector P/B	2.0	102.9

*Note: BSRMSTEEL, RSRMSTEEL, GPHISPAT, SALAMCRST and APOLOISPAT are considered as Peer group as they operate in the same industry. However, considering the overall prospect and BMRE plans, no company listed in the bourse exactly match the business prospect of BSRMLTD. So the PE based relative valuation is not considered as it does not reflect true valuation of the company.

Concluding Remark

The plunge in the capacity utilization in 2014 due to the suspension of BSRM- MS product producing unit's production from 28 May 2014 for the ongoing BMRE implementation project reduced the overall turnover of the company. In 2013 and 2014, revenue fell sharply due to fall of delivery of external product coupled with reduced price of final product. However, having investment in the associates, the company has been attributed substantial amount of profit and excess of proportionate net asset value over acquisition cost. During the year 2013 and 2014, which helped to report significant growth in the net profit of the company during the year.

Source: Annual Reports, DSE news, Company website, the Financial Express, the Daily Star, The Daily Sun, Phone Interview with the share department of the company, ILSL Research