

APPOLLO ISPAT COMPLEX LIMITED (AICL)

DSE: **APOLOISPAT**
BLOOMBERG: **AICL:BD**

Company Overview

Appollo Ispat Complex Limited (AICL) was incorporated on December 31, 1994 and started its commercial production in 1997. The Company is engaged in manufacturing and selling of Cold Rolled Coil (C.R Coil), Galvanized Plain Sheet (G.P Sheet) and Corrugated Iron (CI Sheet) Sheet at different thickness.

As per the company annual report, annual production capacity of Cold Rolled Manufacturing (CRM) Unit is 120,000 MT of which 51.2% was utilized during the year 2013-14. Besides, the company has 60,000 MT and 80,000 MT installed production capacity of Continuous Galvanizing Line Unit-I and Unit-II consecutively.

The main raw material of AICL is H.R. Coil, which is entirely imported from abroad. Major suppliers of the raw materials are Posco and Hyundai of South Korea; Nippon and JFE of Japan and China Steel of Taiwan.

The products are mainly marketed in rural and semi-urban areas of Bangladesh under the brand name, "Rani Marka Dheutin". The company sells its products to agents/ Dealers on ex-factory basis. Institutional customers buy the products directly from the company's sales office.

AICL became listed with CSE and DSE in 2013. Presently, 32.46% shares are held by sponsors /directors, and 67.54% shares are held by general public.

Industry Overview

The primary sector of steel industry is to produce raw materials such as billets, plates, rounds, and Hot Rolled (HR) coils/ Plates, for the secondary sector which produces value added items like angles, channels, wire rod, cold rolled (CR) Coils, / Sheets and galvanizing coils/ sheets. CR coils are mainly used for manufacturing of Corrugated Iron (CI) or Galvanized Plain (GP) sheets which are largely and commonly used in roofing, slide cladding, making of water tanks and as fencing materials.

Around 67% of the population of Bangladesh lives in the rural areas. Due to high prices compared to their average income, most of the people are not in a position to construct their households by rod, cement and bricks, rather have to depend on low cost materials such as thatch, bamboo, CI sheet etc. Corrugated iron sheets are the most popular and widespread materials in the housing sector in a developing country like Bangladesh. In Bangladesh, as per the Ministry of Housing and Public Works, Government of Bangladesh, around 46% houses are made of CI or GP sheets.

As supportive materials CI/GP sheets are used annually by different Government bodies and agencies in carrying out various development activities each year on the basis of volume of the Annual Development Plan (ADP) of the government of Bangladesh.

Around 65% of total demand is satisfied by local manufacturers. Large 5-6 companies mainly dominate the market. These firms are – Abul Khair Steel Mills, PHP Steels Mills, KY Steel Mills, S. Alam Cold Rolled Steels Ltd. Galco Steels and TK steel Mills. Some portion is imported by small local traders. But still, there

is a shortage to meet local demand of CI sheet in the country. However, dependence on CI/GP sheet for household and other construction could neither be stable nor be diminishing rather it would be increasing due to high spiraling prices of Rod, Cement and Bricks.

Company Fundamentals

Market Cap (BDT mn)	4,341.3
Market weight	0.14%
Free-float (Public +Inst.)	67.5%
Number of Shares Outstanding (BDT mn)	287.5
Paid-up Capital (BDT mn)	2,875.0
3 Months Average Turnover (BDT mn)	11.5
3 Months Return	-24.4%
Current Price (BDT)	14.9
52-week price range (BDT)	14.8-33.1
Sector Forward P/E	21.5

	2011-12	2012-13	2013-14	2014-15 (HY Ann)
Financial Information (BDT mn):				
Sales	4,999	5,067	4,947	5,110
Net Profit	354	362	374	402
Assets	7,358	8,059	9,892	10,441
LT Debt	1,358	1,250	1,422	1,623
Equity	3,416	3,779	6,353	6,554
Div. % (C/B)	-/-	-/-	0/15	-/-

Margin:

Gross Profit	21.2%	21.9%	20.1%	19.7%
Operating Profit	19.2%	19.8%	17.3%	17.5%
Pretax Profit	12.5%	11.6%	10.2%	10.9%
Net Profit	7.1%	7.1%	7.6%	7.9%

Growth:

Sales	3.7%	1.4%	-2.4%	3.3%
Gross Profit	20.0%	4.7%	-10.3%	1.3%
Operating Profit	21.2%	4.8%	-15.1%	4.7%
Net Profit	25.2%	2.3%	3.1%	7.6%

Profitability:

ROA	5.5%	4.7%	4.2%	4.0%
ROE	13.3%	10.1%	7.4%	6.2%

Leverage:

Debt Ratio	47.2%	45.8%	29.6%	30.5%
Debt-Equity Ratio	101.6	97.7%	46.1%	48.6%
Interest Coverage	2.7	2.4	2.2	2.4

Valuation:

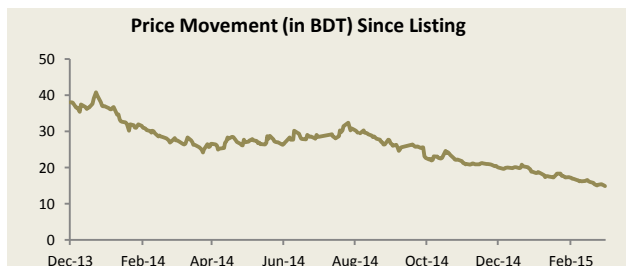
Price/Earnings	12.1	11.8	11.5	10.7
Price/BV	1.3	1.1	0.7	0.7
EPS (BDT)	1.2	1.3	1.3	1.4
NAVPS (BDT)	11.9	13.1	22.1	22.8

Investment Positives

- Apollo is going to start a high quality Radiant Tube Furnace- Non Oxide Furnace (RTF NOF) Galvanizing plant at its existing plant site. The project is environment-friendly and can charge a premium price on its products. The company's production capacity will increase by another 60,000.00 MT with the introduction of this product line. The project is expected to go on commercial production from May 2015.
- Apollo has a plan to include the Color Coating Sheet in its existing product line. For this purpose, a modern Color Coating plant and equipment will be incorporated in future to install in the existing plant site.
- To meet the export demand, the company has a plan to install the 2nd line of CRM in future.
- Apollo intends to establish one power Generation Plant which will facilitate uninterrupted power supply at a comparatively low cost and minimize production cost. The intended size of the plan is 25 MW while the company's own requirement is 15 MW. Balance will be sold to the national grid.

Investment Negatives

- Since the core raw material- H.R. Coil, is entirely imported from abroad, unfavorable currency fluctuation will have an adverse impact on its profitability.
- The company declared to pay off its BDT 1,531 million loan out of its IPO proceeds in its IPO Prospectus, which has not been completed yet.



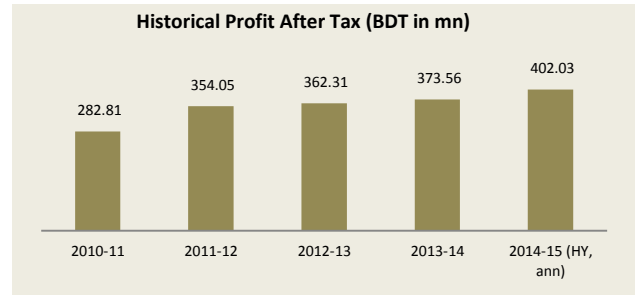
Source: DSE & ILSL Research

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Source: DSE & ILSL Research

Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Peer Forward P/E	15.90	22.24
Peer Trailing P/E	20.82	27.05
Market Forward P/E	16.44	23.00
Market Trailing P/E	17.37	22.57

* SALAMCRST, GPHISPAT, BSRMSTEEL and RSRMSTEEL have been considered as the peer group as all of those companies operate in related industries.

Source: ILSL Research

Concluding Remark

The company achieved lucrative 34.8% yoy growth in sales and 74.5% yoy growth in net profit up to 6 months of FY 2014-15. In FY 2013-14, sales decreased by 2.38% in terms of BDT but in terms of quantity it increased by 3.89%; this is because of decline in average market price of finished products. Gross profit margin also decreased in 2013-14 due to increase in raw material cost by 7%, increase in HR Coil price and other direct materials in international market as well as local market. However, reduction in finance expense and tax expense helped the net profit margin surge by 3.1% in FY 2013-14.

Sources: Annual Reports, DSE news, Company website, World Bank data, the Financial Express, the Daily Star, The Daily Sun, First News Magazine, Phone Interview with the share department of the company, ILSL Research