

## ASSOCIATED OXYGEN LIMITED

### Company Overview

Associated Oxygen Limited (AOL) was incorporated on June 27, 1990 and started commercial operation on December 01, 1992. The Company's principal activities are manufacturing and supplying of industrial and medical gases, welding products and equipment's and ancillary equipment's. In addition to Oxygen, AOL installed an additional facility for compressing waste Nitrogen into commercial-grade Nitrogen and over the years upgraded all its facilities. AOL can now supply Oxygen and Nitrogen in liquid and gaseous forms to Industries and Hospitals through its own distribution network. The Plant is located at Bhatiary, Sitakund, Chattagram.

**Subsidiary Company:** The Company does not have any associate or subsidiary or holding company.

**Revenue:** As of June 2019, AOL has only one product i.e. Oxygen Gas which is contributing 100% of its Revenue.

**Raw Materials:** There is no major raw material except natural water & open air of nature. Natural Water is only major Raw Material to produce Oxygen & Nitrogen which is supplied by its own deep tubewell in the factory area. However, there are some manufacturing related auxiliary items which are produced from local suppliers.

### Installed Capacity & Utilization (Oxygen Gas):

Particulars (Qubic Meter)	2015-16	2016-17	2017-18	2018-19	5-yr CAGR
<b>Installed Capacity</b>	6.9	8.2	8.6	9.9	
<i>Growth</i>	15%	20%	5%	15%	<b>12.9%</b>
<b>Actual Production</b>	5.4	6.5	7.4	9.0	
<i>Growth</i>	16%	20%	15%	22%	<b>17.0%</b>
<b>Utilization</b>	<b>78%</b>	<b>78%</b>	<b>86%</b>	<b>91%</b>	

### IPO

The Company intends to raise BDT 150.00 million through fixed price method of Initial Public Offering (IPO). BD Finance Capital Holdings Limited is the issue manager and Shiraz Khan Basak & Co. is the auditor of the Company.

### Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Construction of Store Shed & New Plant Shed	68.16	45.44%	W/i 24 months after receiving IPO Fund
Acquisition of new Plant & Machineries	42.40	28.27%	W/i 24 months after receiving IPO Fund
Repayment of Bank Loan	20.00	13.33%	W/i 03 months after receiving IPO Fund
IPO expenses	19.44	12.96%	As and when required
<b>Total</b>	<b>150.00</b>	<b>100%</b>	

### IPO Details

No. of Shares (Post-IPO, in mn)	95.0
Authorized Capital (BDT mn)	1,100.0
Pre-IPO Paid-up Capital (BDT mn)	800.0
Post-IPO Paid-up Capital (BDT mn)	950.0
IPO size in shares (mn)	15.0
Total Issue Size (BDT mn)	150.0
Face value per share (BDT)	10
NAVPS (Post-IPO, BDT) (March 2020)	17.3
Annualized EPS (Post-IPO, BDT) (Q3 Ann)	1.5

	2016-17	2017-18	2018-19	2019-20 (Q3 Ann.)
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### Financial Information (BDT mn):

Sales	269	311	401	494
Gross Profit	159	184	251	310
Operating Profit	114	133	188	239
Profit After Tax	86	107	109	142
Cash & Cash Equiv.	1	1	1	44
Assets	852	1,148	1,602	1,769
CAPEX	139	299	271	16
Long Term Debt	30	27	21	21
Short Term Debt	27	20	20	14
Equity	679	969	1,390	1,496
Retained Earnings	269	311	401	494

### Margin:

Gross Profit	59.0%	59.0%	62.6%	62.8%
Operating Profit	42.5%	42.8%	47.0%	48.4%
Pre Tax Profit	40.1%	40.6%	42.5%	44.2%
Net Profit	32.0%	34.5%	27.3%	28.7%

### Growth:

Sales	19.2%	15.8%	28.8%	23.2%
Gross Profit	18.9%	15.7%	36.8%	23.4%
Operating Profit	21.0%	16.5%	41.4%	26.8%
Net Profit	26.1%	25.0%	1.8%	29.7%

### Profitability:

ROA	10.8%	10.8%	8.0%	8.4%
ROE	13.5%	13.0%	9.3%	9.8%

### Operating Efficiency:

Inventory TO	12.0	11.2	10.5	10.3
Receivable TO	5.9	5.1	3.6	2.8
A/C Payable TO	8.0	8.9	10.6	12.8
Total Asset TO	0.3	0.3	0.3	0.3
Fixed Asset TO	0.4	0.4	0.3	0.4

### Leverage:

Debt Ratio	6.7%	4.1%	2.6%	2.0%
Debt-Equity	8.4%	4.9%	3.0%	2.4%
Int. Coverage	17.5	19.8	19.3	24.2

### Shareholding Structure:

Name of the Directors	Position	% of Holdings
		Post-IPO
Md. Nizam Uddin Chowdhury	Chairman	7.22%
Mrs. Ismat Jahan	Managing Director	19.13%
Md. Fahim Chowdhury	Director	2.06%
Md. Azmine Mahtab Chowdhury	Director	2.23%
<b>Total</b>		<b>30.66%</b>

All the directors of the Company are the members of the Chairman's family.

### Category wise shareholding structure

Category	No. of Ordinary Shares Hold	Percentage of Holding (Post-IPO)
<b>Sponsors &amp; Directors</b>	<b>29,124,186</b>	<b>30.66%</b>
Institution	25,760,419	27.01%
Mutual fund	1,500,000	1.58%
Individual	37,115,395	39.17%
Non-Residential Bangladeshis	1,500,000	1.58%
<b>Total</b>	<b>95,000,000</b>	<b>100.00%</b>

### Lock-in Shares

Category	No. of Ordinary Shares Hold	Lock-in Period
<b>Sponsors &amp; Directors</b>	<b>29,124,186</b>	<b>3 Years</b>
Placement Holders	50,875,814	2 Years
<b>Total</b>	<b>80,000,000</b>	

### Companies under common ownership

#### Name of the Concern

Sonali Steel Enterprise Limited  
A & A Shipyard Limited  
A & A Logistics Limited

### Competitive Conditions

Associated Oxygen Limited operates in a highly competitive environment. The major oxygen sector competitor is Linde Bangladesh Limited. However, there are some other local non-listed companies who are also the competitors of AOL i.e. KROL Oxygen Limited, Spectra Oxygen Limited, Median Oxygen Plant Limited, Oxycon Limited, Sima Oxygen Limited and SL Oxygen Limited.

### Performance of the listed Peer Companies

Company Name	BDT mn Revenue	Margin		BDT	
		Gross Profit	Net Profit	EPS	NAVPS
<b>AOL</b>	<b>401</b>	<b>62.6%</b>	<b>27.3%</b>	<b>1.2*</b>	<b>14.6*</b>
LINDEBD	5,683	44.2%	21.7%	80.9	335.7

Data has been derived from last annual reports of respective company.

\*Considering post-IPO no. of shares

### Industry Overview

Industrial gases and welding products are used as major supporting equipment in several sectors of the economy. The demand of industrial gases and welding products is growing since Bangladesh is on the track of industrialization. Industrial Gases are used mainly in Chemicals, Electronics, Food & Beverage, Glass, Laboratories, Plastic & Rubber and Steel & Metals Industries etc.

**Welding Industry:** Welding is growing faster as this industry is closely related to the infrastructural and industrial development of Bangladesh. Welding is the material supplier for many industries. The main end-use industries demanding for welding consumables are: automotive, marine equipment, shipyards, steel construction, oil and gas industry, waste management and construction & infrastructure contractors. Therefore, the growth of this industry largely depends on the consumption of steel in these end-use industries. The main dominating players of the industry are BD Welding Limited, Linde Bangladesh Limited, Oimex Electrode Limited, Navana Welding Electrode Limited, and Jamuna Welding Electrode Limited.

The **shipbuilding industry** is one of the major consumers of welding electrode. According to the World Shipbuilding Statistics, nearly 90 % of the ships are made by china, Korea and Japan. Investors are now moving toward low cost destinations which are creating more opportunities to attract foreign customers. The shipbuilding industry in Bangladesh is growing faster. According to estimation by Businesswire, the spent for the procurement of new ships will be around USD 650.83 Billion in the 2026. Industry insiders are optimistic that Bangladesh could achieve at least 1% of the shipbuilding market share, worth \$4 billion annually.

Bangladesh's **construction industry** passed a relatively good year in 2019 riding on increased development activities and mega projects buoyed by a stable economy and rising government expenditure. Construction grew by 9.6 percent, supported by public infrastructure spending as well as private investment in housing, according to the World Bank's Development Update published in October 2019.

The growth of the construction and the **real estate industries** are highly correlated with the welding industry. The cumulative lending figures for the real estate sector over the past six consecutive fiscal years (from FY 14 to FY 19) as revealed by the Bangladesh Bank also bear out the contention. Actually, aggregate lending increased by about 224% in six years.

**ASU Gas Industry:** Consumptions of ASU gases are mainly linked to the development of the Medical, Food storage and Beverage, Chemicals, Electronics, Laboratories, Plastic & Rubber, and Steel & Metals Industries etc. Industrial Gases are used mainly in these sectors.

Bangladesh has made **substantial progress in most of the health indicators** over the last two decades and in last six year in Bangladesh, allocations in the health sector were around 5% of the total budget. The growth in the per capita health care spending indicates that people is becoming cautious which will eventually boost the medical sector's growth.

Bangladesh is an emerging economy and looking forward to achieve double digit GDP growth in coming years. The life standard of the dwelling of urban & rural areas has been improving progressively. In contrast, environment has been gradually transforming hot & humid due to the global warming and greenhouse effect. Consequently the country is leading to the higher demand of preserved foods and beverages which eventually increase the demand of ASU gases.

### Investment Positives

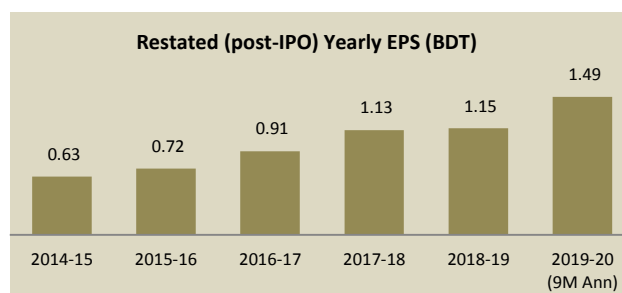
- AOL has been **continuously increasing the production capacity** over the years. **5-year compound annual growth rate (CAGR) of capacity was 13%**. The Company will **increase the production capacity by 45%** to 14.37 million cubic meter (M3) by 2021-22. This expansion project will be financed by the proceeds from initial public offering. The Company is expecting to **start commercial operation from the expanded project by December 2022**. The projected **payback period of the project is 3.32 years** with an **internal rate return of 8.19%**. The project is expected to break-even at 24.85% of the proposed Capacity utilization in the 1st Year.
- The Company's business is expected to rise as the **demand and sales of medical oxygen surged during the corona-virus pandemic** as the hospitals need uninterrupted oxygen support for the corona-virus infected patients as they mainly suffer from respiratory problems.
- The Government-led **mega projects accelerated the production enhancement in the steel sector** which provided the Company's opportunity which will ultimately resulting in substantial growth.
- The incremental **growth of industries, real estate development and medical facilities** in the country are **widening the scope of use of the gases** like Oxygen, Acetylene, Nitrous oxide etc. which will ensure the profitability of the Company. Increasing ship breaking industries, rerolling mills, hospitals etc. are a good indicator for the future market.
- The Company will **repay its bank loan of BDT 20.00 million** out of its total loan (both long term and short term) of BDT 36.00 million as of March 2020 within three month from its IPO proceeds.
- The Company has a **customer base from diversified industries** i.e. Ship Breaking Industry, Real Estate, Boat Building Sector, Bicycle Industry, Automobile Industry and Hospitals etc. which secures the flow of revenue stream.

### Investment Negatives

- The turnover might affect as the **demand for industrial oxygen would slow** because of most of the business undertakings did not came in full swing operation for the novel coronavirus pandemic. Meanwhile, experts cautioned about the **second wave of Covid-19 which may**

**hit Bangladesh in winter which might sluggish the business** environment. The products of the Company are used in manufacturing, food & beverage, shipbuilding, livestock, real estate sector.

- The Company's **product portfolio is not diversified** and it **has not been able to develop as a brand company** though it is in operation since 1992.
- The Company **operates in a highly competitive business environment**, where formal and informal competitors pursue market shares with various activities including price reduction, quality revision and other incentives. Moreover, easily **availability of global products** in the local markets adds to the competition, challenging for the profitability of the business.



### Valuation

Pricing Based on Relative Valuation:

	Market Multiples	AOL's Multiple (BDT)	Value/Share
Sector Forward P/E	13.3	Forward EPS – 1.49	19.9
Market Forward P/E	15.4		22.9
NAV Per Share		NAVPS – 17.33	17.3

### Latest Declaration

As per un-audited 3<sup>rd</sup> quarter financial performance for the year 2019-20, the Company reported profit after tax of BDT 106.41 mn which was BDT 83.76 mn registering 27.04% growth over the same period of last year. Post-IPO EPS was BDT 1.12 for reported period and NAV per share was BDT 17.33 as of March 2020.

Source: Prospectus of Associated oxygen Limited, newspaper news and ILSL Research

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