

## ENERGY PAC POWER GENERATION LIMITED

### Company Overview

Energypac Power Generation Limited (EPGL) was incorporated and commenced commercial operation on July 15, 1995. The Company is engaged in diversified business and service in Bangladesh and overseas. The Company has its registered office at Tejgaon I/A, Dhaka and factory is located at Sreepur, Gazipur. The LPG bottling and distribution plant is located at Dacope, Khulna and daughter station is situated at Rupgonj, Narayanganj.

### Business Segments:

Segment	Nature of Business
Trade sales	Sale of goods
Project sales	Installation and commissioning of generator and CNG station and setting up of bus bar, professional lighting and renewable energy
LPG bottling and distribution	Import, storage, bottling and marketing of LPG under the brand name of G-Gas
Rental and services revenue	Rent of generator, overhauling services of engines, regular maintenance services
CNG station revenue	Sells Compressed Natural Gas (CNG), CNG filling station equipment and CNG conversion kits
Engineering, Procurement and Construction (EPC)	Principal activities of Engineering, Procurement and Construction (EPC) segment are the design, execution, manufacture, erection, commissioning, testing, completion, trial run and warranty of an independent power plant including civil, mechanical, electrical and electronic work, providing training to the Board's personnel at the Site and providing Long Term Service in the power plant.
Building Material Division (BMD)	Principal activities of Building Material Division (BMD) segment are construct pre-engineered building & steelpac light building.
Automobiles	Importing and marketing of JAC automobiles, machinery and materials, spare parts
Assembling plant for generator	Assemble gas and diesel based generators

### Subsidiary Companies

**Energypac Power Venture Limited** (90% owned subsidiary) has set up a power plant at Hobigonj of 11 MW capacity. The company has a 15 year power purchase agreement with Rural Electrification Board (REB), Bangladesh, commenced its operation in January, 2009.

**EPV Chittagong Limited** (91% owned - directly 10% and indirectly 81%) is another power venture which has a power plant at Chittagong of 108 MW capacity as an Independent Power Producer (IPP). The company has a 15 year power purchase agreement with Bangladesh Power Development Board (BPDB). The project started its operation in January, 2015.

**EPV Thakurgaon Limited** (45.9% indirect holding) has a power plant at Thakurgaon of 115MW capacity as an IPP (Under Construction). The company has a 15 year power purchase agreement with BPDB upon commercial operation.

### IPO Details

No. of Shares (Post-IPO, in mn)	190.16
Authorized Capital (BDT mn)	5,000.00
Pre-IPO Paid-up Capital (BDT mn)	1,498.70
Post-IPO Paid-up Capital (BDT mn)	1,901.63
IPO size in shares (mn)	40.29
Face value per share (BDT)	10.00
Cut-off Price per share (BDT)	35.00
Offer Price per share for General Investors (BDT)	31.00
NAVPS (Post-IPO, BDT) (Sep 2020)	47.64
Ann. EPS (Post-IPO, BDT)	1.40

	2015-16	2016-17	2017-18	2018-19
<b>Financial Information (BDT mn):</b>				
Sales	3,480	4,546	12,444	14,399
Gross Profit	908	1,039	2,472	3,313
Operating Profit	224	392	1,404	1,884
Profit After Tax	150	305	454	480
Cash & Cash Equiv.	1,712	2,870	2,464	1,284
Assets	8,936	21,883	29,969	32,037
Long Term Debt	129	4,470	5,011	5,170
Short Term Debt	2,635	9,687	12,047	12,295
Equity	4,753	5,634	6,167	6,889
Retained Earnings	977	1,190	1,420	2,096
<b>Margin:</b>				
Gross Profit	26.1%	22.9%	19.9%	23.0%
Operating Profit	6.4%	8.6%	11.3%	13.1%
Pre Tax Profit	5.7%	9.4%	4.9%	4.4%
Net Profit	4.3%	6.7%	3.6%	3.3%
<b>Growth:</b>				
Sales	11.1%	30.6%	173.8%	15.7%
Gross Profit	-5.6%	14.4%	137.9%	34.0%
Operating Profit	-34.7%	75.3%	257.8%	34.2%
Net Profit	-44.1%	102.9%	48.9%	5.8%
<b>Profitability:</b>				
ROA	1.7%	2.0%	1.7%	1.5%
ROE	3.1%	5.9%	7.7%	7.4%
<b>Operating Efficiency Ratios:</b>				
Inventory TO	5.2	3.8	5.3	5.0
Receivable TO	1.5	1.8	3.2	3.0
A/C Payable TO	5.9	7.3	8.2	4.8
Total Asset TO	0.4	0.3	0.5	0.5
Fixed Asset TO	1.6	0.7	0.9	0.8
<b>Leverage:</b>				
Debt Ratio	30.9%	64.7%	56.9%	54.5%
Debt-Equity	58.2%	251.3%	276.6%	253.5%
Int. Coverage	0.9	1.5	1.6	1.5

**Revenue Composition & Growth:**

Particulars	Revenue	Composition		Growth
	(BDT mn)	2017-18	2018-19	2018-19
<b>Energypac Power Generation Ltd.</b>	<b>9,116</b>	<b>54%</b>	<b>63%</b>	<b>37%</b>
Sale of goods	1,240	13%	9%	-21%
Sales of pick-up van	1,664	17%	12%	-21%
Project sales	4	0%	0%	-90%
CNG station revenue	165	1%	1%	12%
Rental and services revenue	838	2%	6%	332%
Sales of LPG	3,500	13%	24%	114%
Sales of BMD	585	2%	4%	116%
EPC revenue	1,094	5%	8%	69%
Export	26	0%	0%	-50%
<b>Energypac Power Venture Ltd.</b>	<b>250</b>	<b>2%</b>	<b>2%</b>	<b>7%</b>
<b>Energypac Power Venture Ctg. Ltd.</b>	<b>5,033</b>	<b>45%</b>	<b>35%</b>	<b>-9%</b>
<b>Total Revenue</b>	<b>14,399</b>	<b>100%</b>	<b>100%</b>	<b>16%</b>

**Installed Capacity and Utilization:**

Products	Particulars	2017	2018	2019
<b>JAC Car Assembling (Unit)</b>	Installed Capacity	900	900	900
	Actual Production	468	675	765
<b>Generator Assembling (Unit)</b>	Capacity Utilization	52%	75%	85%
	Actual Production	300	300	300
<b>LPG Bottling (MT) (one shift=8H)</b>	Capacity Utilization	72	195	225
	Actual Production	24%	65%	75%
<b>LPG Bottling (MT) (one shift=8H)</b>	Installed Capacity	--	30,000	30,000
	Capacity Utilization	--	20,401	36,109
<b>LPG Bottling (MT) (one shift=8H)</b>	Actual Production	--	68%	120%
	Capacity Utilization	--	68%	120%

**IPO**

The Company intends to raise BDT 1,500 million through Book Building method of Initial Public Offering (IPO). LankaBangla Investments Limited is the issue manager and Howladar Yunus & Co. is the auditor of the Company.

**Utilization of the proceeds of IPO:**

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Procurement of LPG Carrier & Accessories	262.28	17.5%	W/i 18 months after receiving IPO Fund
Import of LPG Cylinders	521.88	34.8%	
Procurement of Material for LPG Cylinders	175.71	11.7%	
Loan Repayment	500.00	33.3%	Within 30 days after receiving IPO Fund
IPO expenses	40.13	2.7%	As and when required
<b>Total</b>	<b>1,500.00</b>	<b>100%</b>	

**Ownership pattern:**

Shareholders	Shares Hold (Post-IPO, in mn)	% of Holdings
Director & Sponsor	102.93	54.13%
Institution	43.34	22.80%
Individual	43.89	23.08%
<b>Total</b>	<b>190.16</b>	<b>100%</b>

There is no family relationship among any of the directors and any of the top five employees of the company.

**Shareholding Structure:**

Name of the Directors	Position	% of Holdings Post-IPO
Mr. Rabiul Alam	Chairman	3.18%
Mr. Humayun Rashid	Managing Director & Director	3.18%
Mr. Enamul Haque Chowdhury	Director	3.18%
Mr. Nurul Aktar	Director	3.18%
Mr. Rezwanaul Kabir	Director	3.18%
Mr. Golam Mohammad (Energypac Engineering Limited)	Nominated Director	38.21%
<b>Total</b>		<b>54.11%</b>

**Other Businesses of Directors of EPGL**

Name of the Concern	Nature of Business
Energypac Engineering Limited	To carry out Production of Power Transformer, Marketing, Distribution, CT, PT, HT & LT Switchgear, electrical substation equipment.
Energypac Electronics Limited	To manufacture and assemble energy power lamps, UPS, IPS, ballast meter, regulator, AVR, power related control & all sorts of electrical and electronic items.
Energypac Agro Ltd	Marketing of seed and agro products
Energypac Fashions Limited	Export oriented readymade garments
Energypac Infrastructure & Development Ltd	Construction of building for residential and commercial purpose
Energypac Batteries Limited	To manufacture, distribute, assemble gas generator, diesel generator, solar panel, renewable energy equipment
Energypac Sea Food Limited	Semi intensive shrimp culture project
Energypac Ceramic Limited	Manufacturing various kinds of ceramic tiles
Energypac Power Systems Limited	All kinds of electrical, mechanical and construction related products
Sonargaon Leather & Regin Cloth Industries Limited	To manufacture, refine, improve, purchase, sell, export, import, stock, store or otherwise deal in leather and rexin plastic sheet
Chartered Life Insurance Company Limited	To carry on business of Life Insurance
Energypac Transformer Ltd.	To manufacture and assemble all kinds of transformers, electronics goods and accessories
Investasia Capital and Asset Management Ltd	To carry on business of Asset Management

**Credit Rating Status:**

Rated by	Credit Rating Agency of Bangladesh Limited (CRAB)	
Date of rating	29 December 2019	
Rating	Long Term: AA <sub>2</sub>	Short Term: ST-3
Validity	31 October 2020	
Rating based on	Audited Financial Statement up to 30 June 2019	

## Industry Overview

Electricity is a key component for the development of socio-economic state of the country and GOB initiatives toward the power sectors promise modest progress despite supply-demand gap and limited capacity utilization. As the power sector is a capital-intensive industry, massive investments are required in order to generate addition to the capacity. Recognizing these situations, the GOB amended its industrial policies to enable private investment in the power sector.

Historically, **power generation in Bangladesh is heavily dependent on natural gas** from local extraction. Moreover, import of capital machineries and subsidized petroleum negatively impact on the foreign exchange. Power and Energy Sector Development Roadmap (2010-2021) target **to produce 20,000 MW by 2021**. However, to ensure overall and balanced development of this sector, the GOB has undertaken various plans including balanced development in generation, transmission and the distribution system to achieve a desired level of reliability of supply **towards reaching the per capita consumption to 600 Kw**.

Currently, **natural gas is the prime source of fuel** in Bangladesh. As of November 2019, as per Bangladesh Power Development Board (BPDB) data, **56.34% of power producing plants are natural gas based**, 26.69% are furnace oil based, 7.00% are diesel fuel based, 2.68% are coal based, 1.18% are hydro based and 5.93% are imported.

As **natural gas** dominates major portion of electricity generation by **contributing 56 percent of domestic energy demand**, as a result LPG and other energy sources have appeared in the scenario. Due to government's suspension on piped natural gas connections to households and industries, the demand for LPG has gone up to meet the daily gas necessities. Bangladesh's existing **LPG demand is estimated at around 2 million MT per year**, with half of it is currently being met by kerosene and wood due to deficiency of LPG and natural gas.

A rapid growth of the consumption of Liquefied Petroleum Gas (LPG) in Bangladesh has been observed over the last few years as households, commercial entities and vehicles being the major drivers. In 2015, **LPG consumption** in Bangladesh was only 250,000 metric ton (MT) which **reached at 800,000 MT** in 2019. Bangladesh government's conducive policy to stimulate the consumption of LPG instead of piped natural gas in order to cope with the fast depleting natural gas reserves in the country acted as the major catalyst behind the stunning growth.

**The government has awarded 48 LPG licenses**. About 43 filling plants are to be constructed, 23 LPG terminals are being built and 16 more terminals are to come. At present nine companies are marketing LPG in the market. Among them, **four companies meet 75% of market demand. These are: BM Energy 21%, Bashundhara 19%, Jamuna 18% and Omera 17%**.

Bangladesh has 11 companies producing LPG cylinders and their combined production capacity is 8.50 million units whereas the annual requirement is 6.50 million units, according to president of the LPG Operators Association of Bangladesh. Data from the Department of Explosives showed that **LPG cylinder imports dropped 44% to 2.23 million units in fiscal 2018-19** from 3.96 million units the previous year. The number of locally made cylinders marketed increased 85% to 2.03 million units in fiscal 2018-19 from 1.10 million units the previous year, says data from the explosives department.

According to World LPG Association (WLPGA) Bangladesh is going to be one of the fastest-growing LPG market across the world and estimated demand for the fuel might reach up to 3.0 million MT by 2025.

**Automotive industry** in Bangladesh is largely dominated by importing reconditioned and new vehicles mostly from Asian countries like Japan, China, India and few from Europe and USA. However, different private endeavour grabs distributorship of different vehicle brands. The country has around **20 companies that sell around 10,000 unit buses and commercial Vehicles a year, and the market is growing by 10-15 percent annually**.

The **market size** of the commercial vehicle segment was about **BDT 50.00 billion in 2018**. Sales of commercial vehicles rose 10.65% year-on-year to 25,980 units in 2018 fuelled by rising economic activities amid stable political situation, according to data from Bangladesh Road transport Authority. According to industry insiders, around 35,000 commercial vehicles are sold in the country each year; out of which, around 12,000 vehicles belong to the medium and heavy vehicle category. The market leader is **Nitol Motors Limited, with a market share of 40%, closely followed by IFAD Autos with 38%**. Runner Motors Limited is also a significant player with a share of 10%.

## Investment Positives

- The Company has attained a **4-year CAGR of revenue of 46% over the years driven by its diversified products portfolio**. EPGL has been continuing in diversifying the products basket in power, oil & gas, and automobiles sectors to remain competitive in the market.
- The Company will increase its installed production capacity of **LPG Bottling plant (one shift=8H) to 95,792 MT which is up by 219%** from its existing capacity of 30,000 MT **within 2021-22** as per prospectus. As of June 2019, the Company utilized 120% of its LPG capacity and contributed 24% to the consolidated revenue. **Revenue from LPG segment grew by 114% in 2018-19** over last year. EPGL has successfully **entered in LPG market in 2017 under the brand name of G-GAS**. The LPG bottling & distribution plant is located near Mongla sea port. In addition, **construction of a Daughter Station with a storage capacity of 1,200 MT at Rupganj, Nayarganj is in progress**. The Company will finance of BDT 959.87 million to implement the project by using IPO proceeds.
- The revenue authority has **reduced value added tax (VAT) on locally made cylinders to 5% from existing 15%** until June 30, 2021 for storing liquefied petroleum gas (LPG) in order to allow domestic manufacturers to better compete with imported cylinders and enable users to afford bottled gas. This initiative will benefited the Company. Energypac **operates 30 LPG gas stations** at various private filling stations and the company has **received approval to set up 300 LPG refueling stations** across the country and it has already entered into an agreement with the state-owned Padma Oil Company for 100 stations.
- The Company will increase its installed production capacity of **JAC Car (a Chinese state-owned automobile and commercial vehicle manufacturer) Assembling unit to 1,200 Units which is up by 33%** from its existing capacity of 900 units **within 2021-22**. JAC Vehicle Assembling Factory are located in Jaina Bazar, Gazipur.

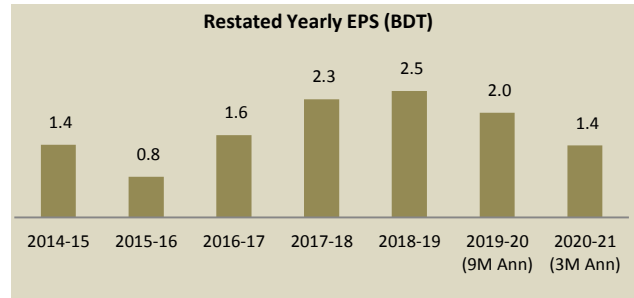
- EPGL has **signed a contract with Sylhet Gas Fields Limited** for designing, commissioning, HAZOP study, procurement, construction, commissioning and hand over of one skin mounted 4,000 BDL/day capacity condensate fractionation Plant & associated facilities at Bahubol, Habigonj on Turn-Key-Basis under JVAC with PT.ISTANA KARANG LAUT of Indonesia. Total contract value is BDT 1.18 billion. **The share of EPGL in this consortium is 52.40%**. Condensate fractionation plant fractionate Condensate to produce petroleum products like Octane, Kerosene, Diesel etc. EPGL has also been **awarded with a captive power plant project of Essential Drugs Company Limited**. Total size of the contract is BDT 800 million.
- To diversify the business, EPGL has **started to assemble of its own brand Diesel Generator** and has a **plan to assemble and manufacture** ATS, Canopy, LT Panel, Genset Trailer, control panel, Elevator, etc to strengthen the revenue stream.
- EPGL has achieved a new milestone in 2019 in its business arena by **adding Steelpac brand** to provide designing, manufacturing and erecting of pre-engineered steel buildings, aiming to provide complete steel constructions to industrial, commercial and residential steel buildings.
- The Company will repay its bank loan of BDT 500 million out of its total loan of (both long term and short term) BDT 17,465 million as of June 2019 within one month from its IPO proceeds.

#### Investment Negatives

- The Company is heavily exposed to leverage. As of June 2019, debt to total asset ratio stood at 54.5%. High interest eats-up an around 67% of its operating profit.** Interest coverage ratio was only 1.5x as of June 2019. The Company availed long term loan for expansion of the business and establishment of its power plants which will be incurring finance expenses in the coming years. Utilization of borrowed fund increased dramatically mainly due to expansion of the business in new arena such as LPG

bottling and distribution and steel manufacturing plant as well as working capital purpose.

- Weak infrastructure like river draft and port facilities causing **bulk import capacity restriction** causing higher price of imported LPG. **Inadequate infrastructure** is another challenge for the growth of the LPG industry in the country. The industry needs enough storage and bottling capacity at rural and remote places.
- The Company **imports most of its raw materials from abroad**. So, unfavorable foreign exchange movement will hamper its business.
- Dependence on import also causes higher lead time for raw materials which is tied up with working capital.



#### Latest Declaration

As per un-audited Q1 consolidated financial statements for the year 2020-21, the Company reported **profit after tax of BDT 66.48 mn which was BDT 131.61 mn registering 49.49% negative growth** over the same period of last year. Post-IPO EPS was BDT 0.35 for the period of July-September 2020 and NAV per share was BDT 47.64 as of September 2020. **Dividend for the year 2019-20 is yet to declare** as per Issue Manager.

**Source:** Prospectus of Energypac Power Generation Limited, Issue Manager, newspaper news and ILSL Research

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