

## WALTON HI-TECH INDUSTRIES LIMITED

### Company Overview

Walton Hi-Tech Industries Limited (WHTL) was incorporated on April 17, 2006 and commercial operation started on April 02, 2008. The Company is engaged in manufacturing and selling of Refrigerators, Air-Conditioners (AC), Televisions, Electrical Appliances Products (EAP) and Home Appliances Products (HAP). The Company carried out its production under the banner of "Walton" and "Marcel". Most of the products are being produced aiming at the local market. The Company has its registered office at Bashundhara R/A, Dhaka and factory is located at Chandra, Kaliakoir, Gazipur, Bangladesh.

### Revenue Composition & Growth:

Particulars	Composition		Growth		5-yr CAGR
	2017-18	2018-19	2017-18	2018-19	
<b>Local Sales</b>					
Refrigerator	97%	88%	-14%	73%	24%
Air Conditioner	3%	4%	-15%	140%	37%
TV, EAP, HAP	--	9%	--	--	--
<b>Export</b>					
Refrigerator	0.1%	0.1%	206%	97%	87%
TV, EAP, HAP		0.0%	--	--	--

The major raw materials are Brass Sheet, Aluminium Sheet, Capacitor, Insulation Layer, Reciprocating Compressor, Stamping Foil, Resin, Tube, Silicon Sealant Paints & Thinner etc. The Company has to procure most of the raw materials from overseas market mainly from China, Hungary, Vietnam, Italy, Singapore, South Korea, Malaysia, Germany, Belgium, Thailand, Taiwan etc.

### Installed Capacity (in mn) and Utilization:

Products	Particulars (in mn)	2017	2018	2019
Refrigerator	Installed Capacity	1.50	1.50	1.75
	Actual Production	1.42	1.23	1.85
	Capacity Utilization	94.43%	81.67%	105.77%
Air-Conditioner	Installed Capacity	0.05	0.05	0.05
	Actual Production	0.02	0.02	0.05
	Capacity Utilization	45.07%	44.17%	101.81%
Compressor	Installed Capacity	--	1.00	1.00
	Actual Production	--	0.20	0.69
	Capacity Utilization	--	20.00%	69.74%

The Company raised BDT 1,000 million through Book Building pricing method of Initial Public Offering (IPO). AAA Finance & Investment Ltd. is the issue manager and Mahfel Huq & Co. is the auditor of the Company.

### Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
BMRE of existing projects	625.00	62.5%	Within 1 year after receiving IPO Fund
Loan Repayment	330.00	33%	Within 30 days after receiving IPO Fund
IPO expenses	45.00	4.5%	As and when required
<b>Total</b>	<b>1,000.00</b>	<b>100%</b>	

### IPO Details

No. of Shares (Post-IPO) in mn	302.93
Authorized Capital (BDT mn)	6,000.00
Pre-IPO Paid-up Capital (BDT mn)	3,000.00
Post-IPO Paid-up Capital (BDT mn)	3,029.28
IPO size in shares (mn)	2.93
Face value per share (BDT)	10.00
Offer price (For Gen. Public) per share (BDT)	252.00
Offer price (For EIs) per share (BDT)	315.00
NAVPS (Post-IPO, BDT) (March 2020)	267.01
Annualized EPS (Post-IPO, BDT) (Q3 Ann)	33.72

	2016-17	2017-18	2018-19	2019-20 (Q2 Ann.)
<b>Financial Information (BDT mn):</b>				
Sales	31,931	27,330	51,773	52,211
Gross Profit	11,346	8,007	20,968	22,156
Operating Profit	9,700	5,932	16,900	16,723
Profit After Tax	7,345	3,523	13,761	12,264
Cash & Cash Equiv.	1,718	1,142	1,030	1,006
Assets	52,911	82,362	103,428	118,471
Capex	10,059	4,675	4,551	2,610
Long Term Debt	4,801	9,392	6,290	4,232
Short Term Debt	21,344	11,265	19,208	26,379
Equity	24,274	59,217	72,978	79,142
Retained Earnings	24,174	24,797	38,588	44,765
<b>Margin:</b>				
Gross Profit	35.5%	29.3%	40.5%	42.4%
Operating Profit	30.4%	21.7%	32.6%	32.0%
Pre Tax Profit	24.6%	13.9%	28.5%	26.5%
Net Profit	23.0%	12.9%	26.6%	23.5%
<b>Growth:</b>				
Sales	20.2%	-14.4%	89.4%	0.8%
Gross Profit	23.5%	-29.4%	161.9%	5.7%
Operating Profit	24.5%	-38.8%	184.9%	-1.1%
Net Profit	18.2%	-52.0%	290.6%	-10.9%
<b>Profitability:</b>				
ROA	17.0%	5.2%	14.8%	11.1%
ROE	35.7%	8.4%	20.8%	16.1%
<b>Operating Efficiency:</b>				
Inventory TO	2.4	1.9	4.0	2.9
Receivable TO	4.8	3.2	3.2	2.0
A/C Payable TO	40.8	45.9	49.8	15.7
Total Asset TO	0.7	0.4	0.6	0.5
Fixed Asset TO	2.3	0.7	0.9	0.9
<b>Leverage:</b>				
Debt Ratio	49.4%	25.1%	24.7%	25.8%
Debt-Equity	107.7%	34.9%	34.9%	38.7%
Int. Coverage	6.6	3.1	11.3	8.2

### Shareholding Structure:

Name of the Directors	Position	% of Holdings
		Post-IPO
Mr. S M Nurul Alam Rezvi	Chairman	10.89%
Mr. S M Shamsul Alam	Vice-Chairman	19.81%
Mr. S M Ashrafal Alam	Managing Director & Director	21.79%
Mr. S M Mahbulul Alam	Director	17.83%
Mr. S M Rezaul Alam	Director	12.87%
Mr. S M Monjurul Alam Ovee	Director	9.90%
Ms. Tahmina Afrose Tanna	Director	2.97%
Ms. Raisa Sigma Hima	Director	2.97%
<b>Total</b>		<b>99.03%</b>

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

### Other Businesses of Directors of WHIL

Name of the Concern	Nature of Business
Walton Micro-Tech Corporation	Complete manufacturing of TV, Electrical Appliances, and Home Appliances
Walton Plaza	Import & Trade
Walton Corporation	Import & Trade
Walton Digi-Tech Industries	Manufacturing of Mobile, Laptop, Computer, Monitor, other related accessories, and Printed Circuit Board
Walton Shipping & Logistics	Freight & Forwarding Business
Walton Agro Farm Industries	Involved in Dairy, Poultry, Fisheries and Agriculture Products
Skyroute Media	Online News Portal
Walton Motor Industries	Manufacturing
Walton Chemical Industries	Manufacturing
R. B. Group of Companies	C & F Business
Walton E-Plaza	Online Retail Business

### Credit Rating Status:

Rated By	Emerging Credit Rating Limited (ECRL)	
Date of Rating	18 December 2019	
Rating	<b>Long Term: AAA</b>	<b>Short Term: ST-1</b>
Validity	17 December 2020	

**Major festivals** i.e., Eid-ul-Fitar, Eid-ul-Azha, Durga Puja etc. and summer season **stimulate the products demand**. Therefore, turnover of the Company increases significantly in the festival and summer seasons which leads the sales growth in TV, air-conditioner and refrigerators unit.

### Industry Overview

The Electrical & Electronics (E&E) industry of Bangladesh has been depending on the imported products until the local companies started investing in manufacturing plants for producing E&E products in the country. But people now feel proud of buying goods produced in our country; even the assemblers and producers are considering export of these products. While export diversification is one of the challenges for Bangladesh to reduce dependency on a single product, E& E

can be a new area to add to the export basket if proper policies are formulated carefully.

The E&E sector is one of the rapidly growing sectors in the country. Rough statistics show that there are more than 3,000 E&E enterprises in operation across the country combining all types of industries and those engaged in related businesses. They have created employment for a million people. The sector has been growing at the rate of 20 per cent. Bangladesh can become one of the exporters of E&E sector by enabling proper policies. The Industrial Policy 2016 included E&E sector as a sub sector of Energy Savings in which there are a number of other sectors, such as LED, tube light etc. A number of E &E manufacturing industries have been established in the country with the increase in standard of living and per capita income. Television, refrigerator and air conditioner manufacturing factories are among the country's fastest growing E &E sectors.

The Refrigerator industry is one of the important sub-sectors of E & E industry. Mainly freezer, frost & non frost refrigerators are sold in the market. In 2008, the refrigerator market demand was 300,00 pcs. And the average market price was BDT 60,000. Over the period, the demand has been increasing and reached to more than 2,000,000 pcs. In 2017-18 with more than 600% growth compare to 2008. On the other hand the market price went down to bdt 25,000 and make the product affordable for all.

The air conditioner (AC) is another rapidly growing product segment the E&E sector. Due to the rapid urbanization in the country and recent climate change due to global warming has magnified the usage of air conditioner (AC) in Bangladesh. In AC market, the seasonal hike is during the summer season when heat induces customers to purchase ACs. Sales of air-Conditioners are growing steadily in Bangladesh riding on the demand from the expanding middle class and modern office and factories as consumers are seeking to escape extreme heat of summers. Sales of AC rose about 50% in Bangladesh during last three years.

Increasing confidence among the customers about Bangladeshi E&E products is an important aspect. People in the past preferred to buy electronics goods from Singapore, Thailand, Taiwan, Japan and other countries, but now consumers are interested to buy local ones, which is the ultimate reason for local companies to go for capital investment in the sector. As the Bangladesh economy is taking advances in GDP growth and improved living standards of people, the E&E sectors is also making rapid progress and contributed BDT 10,000 crore in the country's GDP. This sector has created employment for 1 million people.

### Investment Positives

- The Company has **attained an outstanding performance over the years driven by the Refrigerator and Freezer** due to the increased demand for locally manufactured electrical, electronics and home appliances products. Given the product quality & placement (value for money) and widespread distribution network, WHIL has quickly grabbed the market, **controlling more than 76% market shares in the local Refrigerator industry**. The **revenue from refrigerator posted a lucrative 5-year CAGR (compound annual growth rate) of 24%** due to the lower price and availability of refrigerator at an affordable price.

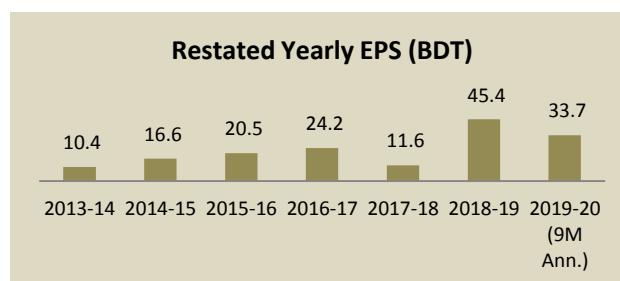
- **The Company will increase its installed production capacity of refrigerator, air-conditioner & compressor to projected 2,000,000, 100,000 & 1,400,000 PCS which is up by 33%, 50% & 40% from its existing capacity within 2021.** For this expansion purpose, a portion of BMRE (Balancing, Modernization, Rehabilitation and Expansion) of existing projects for an estimated amount of BDT 625 million will be financed from its IPO proceeds. **The Company is expecting to start commercial operation of the expanded capacity by September 2022.**
- Walton created a landmark by establishing the country's **first-ever Compressor Manufacturing Plant** at Gazipur in 2017 with a **production capacity of 1.50 million per annum.** Walton will provide energy efficient compressor solution for its strategic market segments by utilizing synergies in technology development and production footprint. The revenue authority has **waived Value Added Tax (VAT) and supplementary duty** on the import of raw materials to make Compressors of Refrigerator and Air Conditioners with a view to facilitating local manufacturing and also given the opportunity to manufacturers to encourage industrial development. The **VAT exemptions** on the production of Compressors, Refrigerators and Air Conditioner **have been offered until June 30, 2021.**
- Walton is set to **flag off the country's first lift manufacturing plant at a cost of BDT 500.00 million at Gazipur which has already begun test production.** The Company is expecting to cater 50% of the market share by a year by beating the importers both in terms of quality and price. Every year, Bangladesh needs more than 5,000 units of lifts and most of them are imported from China. **The market size is around BDT 12.00 billion and it is growing at about 20% per year,** helped by widening urbanization (source: The daily Star, March 01, 2020). Walton is manufacturing all three kinds of lifts -- passenger, cargo and capsule lifts -- that are popular in Bangladesh.
- The Company paid its bank loan of BDT 330 million out of its total loan of (both long term and short term) BDT 30, 611 million within one month from its IPO proceeds.
- The Company achieved "AAA" rating in long term and "ST-1" for short term with a strong and stable outlook from Emerging Credit Rating Limited.
- The Company has given a **thrust for increasing the export volume** as there is a great prospect in the export of E&E products in international markets. The company is emphasizing on the export market through restructuring its International Business Unit which will put noteworthy growth in the profitability of the company in the coming years. **The Company is currently exporting to more than 20 countries.**
- **Bangladesh is moving forward to attain the status of developing country by 2021.** The steady economic growth and growth in consumer durables industry of Bangladesh will speed up the growth of the Company. Huge population and increasing per capita income of the population in the country will be the key growth drivers for the Company. Government of Bangladesh has devoted **to ensure access of affordable and reliable electricity** for

all by 2021. This will accelerate the demand of consumer durables in the coming days.

- The Company is **continuously adding new products** in its products basket and has the plan to roll out new product range to cater to various segments in this emerging market which is a positive sign for the sustainable topline growth for the Company. Walton distribute its products through **strong distribution partners** which exclusively sales the products of WHIL. As such the company performs its distribution process at different levels with various forms of distribution channels.

#### Investment Negatives

- The Company is **exposed to foreign currency risks** as most of its raw materials are imported from abroad. So unfavorable foreign exchange movement will hamper the profitability of the Company.
- **Intense competition from large number of local manufacturers** and low priced Chinese product is the main threat for the Company to sustain its position in the market. Moreover, **Singer Bangladesh Limited is engaged in the business** of consumer electronics and home appliances. Meanwhile, the Company is going to face a **high threat from new entrants i.e. Samsung** which has invested in the consumer electronics and home appliances business in the country that may affect the demand of the Companies' products.
- The business may face **credit risk from the Company's receivables from customers,** dealers and other parties. The home appliance products are sold under hire purchase agreements and the sale of cables is under the ordinary credit terms.



#### Peer Companies Listed with DSE

The performance of major competitors for the companies with same core operating activities listed with the Dhaka Stock Exchange are shown in the following table:

Particulars	WALTON	SINGERBD
Turnover (BDT mn)	51,773	15,485
GP Margin	40.5%	28.1%
Operating Profit Margin	32.6%	12.6%
Net Profit Margin	26.6%	6.7%
EPS (BDT)	45.4	10.4
NAVPS	240.9	32.0
PE	--	46.1

The above mentioned figures are based on latest year end audited statements.

<b>Valuation</b>			
Pricing Based on Relative Valuation:			
	<b>Market Multiples</b>	<b>WHTL</b>	<b>Value/Share</b>
Sector Forward P/E	19.9	Forward EPS – 33.72	671.66
Market Forward P/E	15.2	Audited EPS – 45.43	511.35
Sector P/B	1.2	NAVPS – 267.01	310.00
Market P/B	1.6		429.98

**Latest Declaration**

As per **9 months un-audited financial performance** for the year 2019-20, the Company reported **profit after tax** of BDT 7,660.13 mn which was BDT 7,266.11 mn **registering 5.42% growth over the same period of last year**. Post-IPO EPS would be BDT 25.29 for 9 (nine) months (July 2019-March 2020) period ended on 31 March 2020 and NAV per share would be BDT 267.01 as of March 2020.

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