

ADVENT PHARMACEUTICAL LIMITED

Company Overview

Advent Pharma Limited (APL) is an animal health care company. The Company was incorporated in 2007 and started operation in 2013. APL is engaged in manufacturing, importing and marketing of animal health care drugs, nutritional supplements and feed additives like powder, bolus and liquid dosage forms for livestock.

Currently the Company has 34 products where top ten products contribute 68.90% of its revenue. Advit CP Suspension and Adzinc Syrup are accounted for its 24.11% and 16.95% of total sales respectively. The factory of the Company is located at BSCIC Industrial Estate, Dhamrai, Dhaka.

Basic raw materials used for production are active pharmaceutical ingredients and excipients (inactive substance that serves as the medium for other active substance) which are mostly procured from local companies like Active Fine Chemicals Ltd., Gonoshasthya Basic Raw materials Co. and NIP Pharmaceutical & Chemical Ltd. Some of the raw materials are imported from Hong Kong, India and China.

According to the 2016-17 financial statement of the Company, the Company earned BDT 285.06 mn as revenue, registered 24.86% growth over the year 2015-2016.

Total capacity and its utilization are shown in the following table:

Particulars		2014 Jan - Dec	Jan 15 - Jun16*	Jul 16 - Jun 17
Bolus (mm pcs)	Installed	10.0	18.0	14.4
	% utilization	90.0%	69.0%	71.0%
Powder (mm kgs)	Installed	0.7	1.1	0.9
	% utilization	90.8%	73.0%	76.0%
Liquid (mm liters)	Installed	0.3	0.5	0.4
	% utilization	83.3%	75.0%	79.0%

*The Company has changed its financial year from Jan-Dec to Jul-Jun in 2015-2016.

In February 2018, The Company raised its capital amounting BDT 200 million (20,000,000 shares * BDT 10) through Fixed Price Method of Initial Public Offering (IPO). Imperial Capital Limited, Alpha Capital Management Limited and CAPM Advisory Limited are the issue manager and Mahfel Huq & Co is the auditor of the Company.

Utilization of the proceeds of IPO is as follows:

Use of Proceeds	BDT (mn)	%	Implementation Schedule
Acquisition of machineries and equipment	81.4	40.7%	Within 18 months of receiving IPO fund.
Construction of Building and other Civil Works	100.1	50.1%	Within 12 months of receiving IPO fund.
IPO expenses	18.5	9.3%	As and when required
Total	200.0	100%	

IPO Details

No. of Shares (Post-IPO) in mn	68.6
Authorized Capital (BDT mn)	1,000.0
Pre-IPO Paid-up Capital (BDT mn)	486.0
Post-IPO Paid-up Capital (BDT mn)	686.0
IPO size in shares (mn)	20.0
Face value per share (BDT)	10.0
NAVPS (BDT) as on December 2017	12.2
Annualized EPS (Post-IPO, BDT) as of December 2017	0.9

	2013 Jan-Dec	2014 Jan-Dec	2015-16* Jan-Jun	2016-17 Jul-Jun
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Financial Information (BDT mn):				
Sales	123	166	123	285
Gross Profit	50	67	50	128
Operating Profit	26	32	26	82
Profit After Tax	12	17	12	49
Assets	108	141	108	727
Long Term Debt	29	29	29	27
Short Term Debt	26	25	26	18
Equity	42	60	42	605

Margin:				
Gross Profit	40.8%	40.1%	41.6%	45.0%
Operating Profit	20.8%	19.3%	21.9%	28.7%
Pre Tax Profit	15.2%	16.1%	19.2%	26.3%
Net Profit	9.5%	10.5%	16.1%	17.1%

Growth:				
Sales	-	35.0%	-	24.9%
Gross Profit	-	33.0%	-	34.9%
Operating Profit	-	25.6%	-	63.7%
Net Profit	-	48.5%	-	74.8%

Profitability:				
ROA	12.3%	13.9%	22.7%	9.2%
ROE	32.2%	34.1%	36.5%	11.6%

Operating Efficiency Ratios				
Inventory TO*	8.8	9.1	-	6.4
Receivable TO	12.4	9.0	-	7.6
A/C Payable TO	19.6	40.3	-	33.4
Total Asset TO	1.3	1.3	-	0.5
Fixed Asset TO	2.3	2.2	-	0.8

Leverage:				
Debt Ratio	24.1%	18.0%	4.6%	6.1%
Debt-Equity	61.4%	42.6%	6.5%	7.3%
Int. Coverage	3.7	6.0	12.6	17.0

Valuation:				
Restated EPS	0.2	0.3	0.8	0.7
Restated NAVPS	0.6	0.9	3.4	8.8

*2015-16's data are 18 months * TO indicates Turnover; * 2013's growth data are not available, 2015-16's growth and turnover data are not available.

Board of Directors of the Company

Name of the directors	Position	% of Holdings Post-IPO
Wajhi Ahmed	Chairman	2.22%
Mohammad Jawaid Yahya	Managing Director and Director	2.01%
Kazi Rina Alam	Director	2.04%
Faria Binta Alam	Director	2.01%
Mahmood Ali	Director	7.04%
Md. Tazul Islam	Director	2.04%
Mohammad Towhidul Islam	Director	7.04%
Asif Iqbal Chowdhury	Director	7.04%
Total		31.44%

Industry Overview

Bangladesh is an agricultural country and livestock is playing a key factor for developing agricultural sector. Animal health care drug of high quality with affordable price is the prime need of the hour to develop livestock sector. Analysing the size and ever increasing demand of the market for all types of medicines, feed additives (Vitamins, Minerals, amino acids, etc.), biological, implants and related Products for livestock and companion animals, it is clearly evident that animal health Products has a bright marketing Prospect in Bangladesh. In recent time a positive development in the industry is that the demand for learning about best husbandry practices at the farm-level is rising, which is very important for the animal health care business of the country.

According to the World Bank's data, Bangladesh's agricultural sector has one of the fastest rates of productivity growth in the world (averaging 2.7% per year, second only to China). Livestock has been playing a key role in this development. Availability and affordability of animal health care drugs is the prime need for further development of this sector.

According to The Hindu (August 22, 2017), during the Eid-ul-Azha season of 2017 the informal import of livestock from India has dropped to \$250 million from \$1.5 billion (or 75%) due to strict security measures taken by law-enforcement officials. The informal import decrease has played a vital role in the boost of Bangladesh's livestock sector and ultimately resulted into higher sales in animal health care products. In the last 20 years, Renata Limited has been the industry leader in the Animal Health market.

Investment Positives

- According to the prospectus, the Company is spending BDT 181.4 mn from IPO proceeds for installing new machineries, which will increase the production capacity

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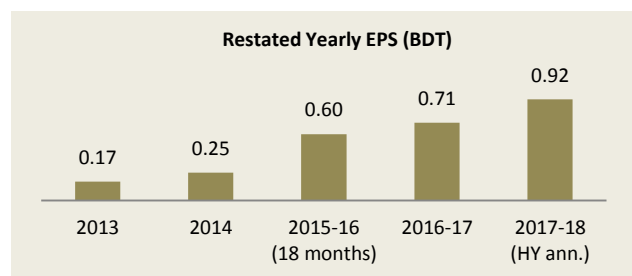
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by 27.50%, 40.20% and 47.60% in the year 2017-18, 2018-19 and 2019-20 respectively.

- The Company's gross profit margin and net profit margin is increasing gradually. In 2016-17, the Company's gross profit margin and net profit margin increased by 3.4% and 4.6% respectively due to decrease in raw material price and increase in operating efficiency.
- The Company has around 500 customers and its sell is not depended on particular customers. As none of its customer accounts for 10% or more of the Company's products.

Investment Negatives

- The Company's market size is relatively small compared to its competitors. The animal health care industry leader Renata Ltd's and ACI Ltd's animal health care revenue is BDT 3,117.2 mn and BDT 3,111.1 mn whereas the revenue of the company is BDT 285.1 mn. The other major competitors are Square Pharmaceuticals Ltd., The ACME Laboratories Limited and Orion Pharma Ltd.



Lock-in Period

Lock-in for 25% of the shares allotted to eligible investors shall be for 06 months and other 25% of the shares allotted to them will be for 09 months from the date of issuance of prospectus which is January 15, 2018.

Valuation

	APL's		
	Multiples	Fundamentals	Value
Sector F. P/E	19.4	EPS* = 0.92	17.8
Market F. P/E	16.6		15.3
NAVPS*			12.2

* Half yearly EPS (annualized) of December 31, 2017 *NAVPS as on December 31, 2017.

Source: Prospectus of Advent Pharma Limited, annual report of RENATA, newspaper news, the Company website, ILSL Research.

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