

**Company Overview**

Titas Gas Transmission and Distribution Company Limited (TGTDC) was incorporated on November 20, 1964 with an objective to transmit and distribute natural gas to the Dhaka City. Later on the franchise area of the Company has been extended to new areas of Greater Dhaka and Greater Mymensingh. The Company held around 61% market share, among six natural gas marketing companies, on the basis of gas sales.

The activity of the Company is to transmit natural gas from the gas fields to different areas to distribute the same to the consumers in power, fertilizer, industrial, commercial captive power, feed gas and domestic categories of its franchise areas. On behalf of the Government, the Company collects bill from the end users but it can only retain distribution charges fixed by the Bangladesh Energy and Regulatory Commission (BERC).

**Revenue Composition:**

Particulars	Composition		Growth	
	2014-15	2015-16	2014-15	2015-16
Industrial	24.2%	20.9%	3.1%	20.0%
CNG	20.5%	18.8%	3.1%	27.2%
Captive Power	18.0%	25.0%	4.9%	92.1%
Domestic	16.0%	17.6%	15.6%	52.6%
Power (Private)	9.7%	10.0%	-7.9%	42.5%
Power (PDB)	7.6%	4.9%	16.9%	-11.3%
Fertilizer	2.4%	1.4%	10.7%	-16.7%
Commercial	1.7%	1.4%	-0.8%	18.3%

**Segment wise gas consumption (MMCM) of the Company:**

Category	2012-13	2013-14	2014-15	2015-16
Power (Govt.)	1,748	1,851	2,136	1,930
Growth	-1%	6%	15%	-10%
Power (Private)	2,892	2,774	2,103	3,100
Growth	6%	-4%	-24%	47%
Fertilizer	690	669	741	587
Growth	7%	-3%	11%	-21%
Industry	3,169	3,318	3,500	3,634
Growth	6%	5%	6%	4%
Captive Power	3,236	3,470	3,961	3,856
Growth	9%	7%	14%	-3%
CNG	686	684	727	801
Growth	-3%	0%	6%	10%
Commercial	151	149	144	145
Growth	3%	-1%	-3%	0%
Domestic	1,665	1,818	2,103	2,532
Growth	0%	9%	16%	20%
<b>Total</b>	<b>14,237</b>	<b>14,732</b>	<b>15,417</b>	<b>16,584</b>
<b>Growth</b>	<b>5%</b>	<b>3%</b>	<b>5%</b>	<b>8%</b>

The Company purchases natural gas from state owned gas exploration companies and International Oil Companies (IOCs). Chevron and Bangladesh Gas Field Company Ltd. (BGFCL) together supply majority portion of natural gas.

The firm enlisted in with the DSE and CSE on June 2008. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-April-17	0.0%	75.0%	13.5%	2.5%	9.0%
31-Feb-17	0.0%	75.0%	14.0%	2.0%	9.0%
31-Nov-16	0.0%	75.0%	13.6%	1.7%	9.6%
31-Jul-16	0.0%	75.0%	13.4%	1.5%	10.1%

**Company Fundamentals**

Market Cap (BDT mn)	49,461.1
Market Weight	1.6%
No. of Shares (mn)	989.2
Free-float (Public + Inst.)	25.0%
Paid-up Capital (BDT mn)	9,892.2
3 Months Average Turnover (BDT mn)	21.4
3 Months Return	-2.2%
Current Price (BDT)	50.0
52-week Price Range	46.1 – 59.5
Sector Forward P/E	14.2

	2013-14	2014-15	2015-16	2016-17 (9m Ann.)
<b>Financial Information (BDT mn):</b>				
Net Sales	78,321	82,711	113,800	121,864
Gross Profit	65,016	70,920	105,691	115,027
Operating Profit	9,601	7,733	4,222	2,452
Profit After Tax	10,269	8,886	7,294	4,427
Assets	90,390	98,337	124,272	114,560
Long Term Debt	1,163	1,061	956	1,009
Short Term Debt	202	203	204	51
Equity	52,557	57,733	61,969	63,301

**Margin:**

Gross Profit	17.0%	14.3%	7.1%	5.6%
Operating Profit	12.3%	9.3%	3.7%	2.0%
Pretax Profit	17.6%	14.6%	8.5%	4.8%
Net Profit	13.1%	10.7%	6.4%	3.6%

**Growth:**

Sales	5.0%	5.6%	37.6%	7.1%
Gross Profit	14.8%	-11.4%	-31.2%	-15.7%
Operating Profit	18.5%	-19.5%	-45.4%	-41.9%
Net Profit	12.9%	-13.5%	-17.9%	-39.3%

**Profitability:**

ROA	12.0%	9.4%	6.6%	3.7%
ROE	20.9%	16.1%	12.2%	7.1%

**Leverage:**

Debt Ratio	1.5%	1.3%	0.9%	0.9%
Debt-Equity	2.6%	2.2%	1.9%	1.7%
Int. Coverage	169.2	161.3	89.9	60.1

**Leverage:**

Dividend % (C/B)	38/-	15/-	20/-	-/-
Dividend Payout	36.6%	16.7%	27.1%	--
Dividend Yield*	4.3%	2.8%	4.2%	--

**Valuation:**

Price/Earnings	4.8	5.6	6.8	11.2
Price/BV	0.9	0.9	0.8	0.8
EPS (BDT)	10.4	9.0	7.4	4.5
NAVPS (BDT)	53.1	58.4	62.6	64.0

\*Dividend yield was calculated on the closing price on record date for the respective dividend entitlement.

## Industry Overview

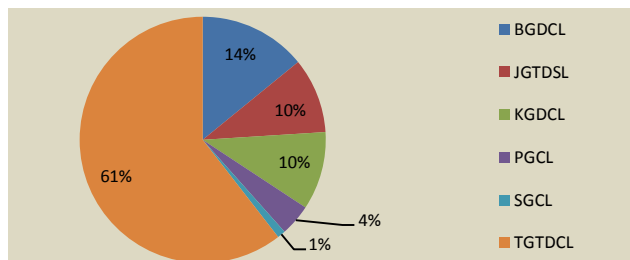
Natural gas is the vital local source of energy that accounts for 75% of the commercial energy in Bangladesh. So far 26 gas fields have been discovered of which two of the gas fields are situated in offshore area. Total recoverable proven and probable gas reserve of 26 gas fields has been estimated to be at 31.31 Trillion Cubic Feet (TCF) out of which estimated proven recoverable reserve (P1) is 20.12 TCF. As of May 2017, 2,726 MMCFD gas is being produced from 22 gas fields (112 gas wells). The largest gas extractor in Bangladesh, Chevron owns 100% interest in the Bibiyana, Jalalabad and Moulavi fields and sells gas from there to the Petrobangla.

Currently, the Country's per day demand for natural gas is about 3,200 million cubic feet (MMCFD) whereas the average supply of gas is around 2,700 MMCFD, leaving a shortfall of about 500 MMCFD.

There are 6 (six) marketing companies to ensure allocation of natural gas at the different parts of the Country. Each Company has designated area for marketing natural gas. At present, two IOCs (International Oil Company) are operating in the Country. These companies are Chevron and Tullow.

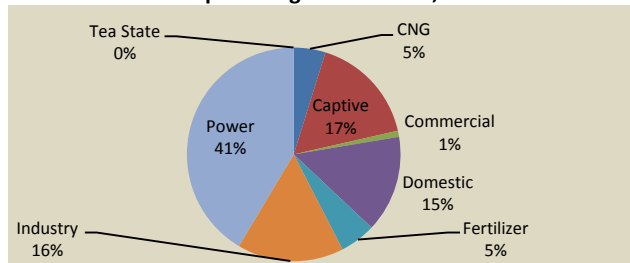
The six marketing companies are – Titas Gas T&D Company Ltd. (TGTDC), Jalalabad Gas Transmission & Distribution System Ltd. (JGTDSL), Bakhraabad Gas Distribution Company Ltd. (BGDCL), Paschimanchal Gas Company Ltd. (PGCL), Karnaphuli Gas Distribution Company Ltd. (KGDCL) and Sundarban Gas Company Ltd. (SGCL).

### Market share of six companies under Petrobangla on the basis of gas sales in 2015-16:



The Customer segment can be classified as Power, Fertilizer, Captive power, Industry, Commercial, Domestic, Tea Estate and Brick fields. Of these sectors, Power and Industry are considered as bulk customers and others are non-bulk customers.

### Sector wise consumption of gas in 2015-16, is as follows –



Liquefied petroleum gas (LPG) is a flammable mixture of hydrocarbon gases used as a fuel in heating appliances and vehicles. Currently, more than 80% of the LPG demand is met by imports and the state-run Bangladesh Petroleum Corporation supplies the rest 20%. The government has moved to increase production capacity of state-run LPG to 120,000 tonnes (mt) from existing 20,000 mt to cater to the mounting

demand of the fuel. Basundhara, Jamuna, Omera, TK Gas are local companies whereas Total Gaz and Laugfs Gas (corporate brand name Kleanheat gas) are foreign companies who engaged in the business of LPG. Under the private sector, the gas is mainly imported from Singapore, Malaysia, Saudi Arabia, Abu Dubai, Kuwait and some other countries. Bangladesh has much potential in terms of LPG consumption as only 6% of the entire population has access to the natural gas, mostly in urban areas. In 2016, total LPG market in Bangladesh was around 350,000 tonnes and the demand is estimated to be 500,000 tonnes in 2017. It is expected that LPG market of Bangladesh will reach 1 million tonnes by 2020. (Source: The Daily Star)

## Investment Positives

- The Franchise Area of the Company is consisted of greater Dhaka and Mymensingh Districts; in these areas the customer base is relatively large. The Company has the diversified customer base in different category from the different sectors. The 5 year CAGR (Compound Annual Growth Rate) in customer base is 5.3% and it grows at an average rate of 8.9% over the last 3 years.

Customer Category	Number of Customer			
	2012-13	2013-14	2014-15	2015-16
Power	34	34	35	38
Fertilizer	3	3	3	3
Industrial	4,571	4,583	4,590	4,604
Captive Power	1,058	1,068	1,080	1,085
Feed Gas for CNG	330	330	331	333
Commercial	10,908	10,912	10,913	10,917
Domestic	1,548,886	1,705,770	1,880,353	2,006,013
<b>Total</b>	<b>1,565,790</b>	<b>1,722,700</b>	<b>1,897,305</b>	<b>2,022,993</b>
<b>Growth</b>	<b>2.0%</b>	<b>10.0%</b>	<b>10.1%</b>	<b>6.6%</b>

- In 2015-16, the Company received BDT 1.58 bn out of BDT 2.27 bn as capital gain against disposal of Brahmanbaria and Ashugonj segment as per Govt. decision with a purchase consideration of BDT 2.68 bn. The remaining BDT 683.91 mn will be accounted as income in the current FY.
- The Company has taken a project to install 2 lac prepaid meters with a project cost of BDT 7,121 mn which will be jointly financed by Japan International Cooperation Agency (JICA) (63.6%) followed by Govt. (33.3%) and TGTDC (3.1%). The project will facilitate advance receipt of gas bills, reduce monitoring costs and ensure efficient utilization of natural gas. The Company is expecting the project to be completed by 2018. To manage the operation more efficiently and reduce system loss, the Company has initiated projects like "Supply Efficiency Improvement Projects of TGTDC" by the financial assistance of Asian Development Bank (ADB) and Bangladesh Government. Under this project, prepaid metering system has been introduced for 8,600 domestic customers of Mohammadpur and Dhanmondi in the capital.
- The Company is going to supply natural gas 25.8 MW power plant of Bashundhara Multi- Paper Industries limited and 38.92 MW power plant of Meghna Pulp and Paper Plant Limited. And the Company is also in the process of completing the civil works to supply gas to Electricity Generation Company Limited and Summit Meghna Ghat Power Limited with the capacity of 335 MW each.

## Investment Negatives

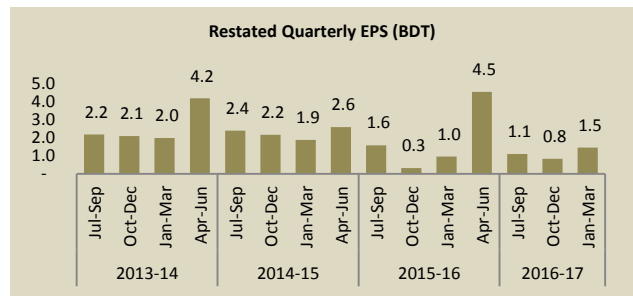
- Bangladesh Energy and Regulatory Commission (BERC) have cut down the distribution margin for the Company by 75% of its weighted average since 01 September 2015. That is why net profit of the Company has decreased by 17.9% in 2015-16 over last year. The Company appealed to BERC on November 18, 2015 for reviewing the distribution margin. However, as of April 2016, BERC has rejected the proposal of the Company saying that the Company does not need to increase its distribution charges.
- The Company earned considerable interest income from FDR investment. Hence, though the amount of fixed deposit has been increased by 11.75% in 2015-16 over last year, the interest income has decreased by 3.64% in the same period. The recent declining trend of deposit rates may reduce the income from this source in near future.
- The government as well as independent consultants project that gas production and supply would continue to increase up to 2018 and would decline thereafter. In the face of continued growth of gas demand, the post-2018 period would see an ever increasing gap between demand and supply for years to come. As the share of local gas decreases in the energy mix, this will be supplemented by introduction of imported LNG. Yet the local gas and LNG together are projected to have a share of 35% in power generation in 2030. This is based on the assumption that gas has little hope to be a major player in the energy budget of the country.
- As per annual report 2015-16, the National Board of Revenue (NBR) demanded around BDT 2,568 mn from the Company alleging that the Company avoided the said amount of money up to the year 2013-14.
- There is a possibility that, Government may offload more share of the Company in the capital market; in that case, significant earnings dilution can be observed.

### ILSL Research Team:

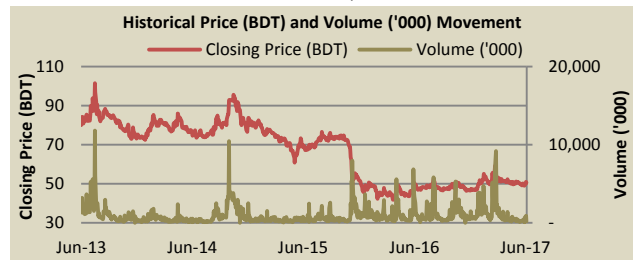
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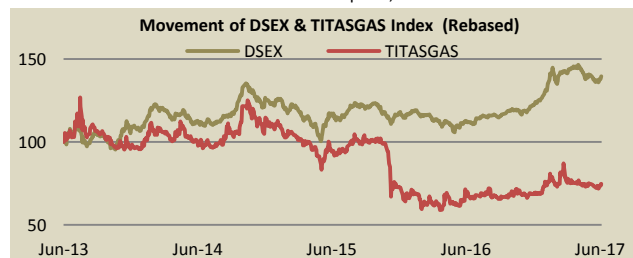
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Source: Annual Reports, DSE Website and ILSL Research



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## Concluding Remark

TITASGAS is one of the six natural gas distribution companies of Bangladesh. As per its latest nine month financial statements, the Company's net profit has increased by 17.9% because of increased gross profit and decreased administrative expenses in percentage of revenue than the same period last year. Upon operational of the ongoing development projects, profitability of the Company would improve.

Source: The Company's Annual Reports, The Company's Website, DSE Website, Petrobangla Website, BERC Website, Newspaper Reports and ILSL Research.

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