

DBL SECURITIES

L I M I T E D

A Subsidiary of Dhaka Bank Limited

DBSL RESEARCH

Update - February 12, 2013

Rating: Buy

Fair Value Estimate: Tk. 40

Sector - TEXTILE

100% Export Oriented cotton denim fabrics producing company with large capacity expansion and better financial prospect.

Company Summary

IPO Offer Price (BDT)	35.00
No. of Issued Shares (In Mn)	30.00
Post IPO Paid Up (BDT Mn)	600.00
IPO Proceeds (BDT Mn)	1,050.00
Loan Repayment (BDT Mn)	164.00
Project Expansion (BDT Mn)	848.00
IPO Expenses	38.00

Investment Highlights

1. Addition of 63 air jet looms will increase the production capacity of the company from existing 8.60 ml yards to 21.60 yards a year.
2. Installation of machineries as well as the additional looms will positively affect the production and financials of the company in 2013.
3. Current market of the company is basically centered to Europe. Projected markets are USA, Japan, Australia & Canada.
4. Government of Bangladesh has declared that there is no VAT on 100% export oriented project except local sale.
5. With the introduction of GSP (Generalized System Preference) facilities, the company has cost advantage as now it can easily procure yarn from abroad at lower cost.
6. Tax holiday of the company expired on February 2012. The applicable tax rate for the coming years will be 15%.

Revenue & Profit (BDT Mn)

	2011	2010	2009
Export	1,179	1,013	635
Export Incentive	54	78	
% of Export Incentive	5%	8%	
Gross Profit	272	213	133
Operating Income	299	270	120
Net Income	164	162	33

Financial Position

	2011	2010	2009
Total Asset	1909.54	1519.8	997.31
Long Term Loan	252.13	310.25	425.35
Short term Loan	810.31	692.46	456.11
Equity	469.47	332.97	115.85

Investment Risks

1. There is a Possibility of withdrawal of GSP facility by european Union, USA from Bangladesh which will affect the revenue income of the company as it is subject to 9% tax rate.
2. The company may face competition from some renowned and strong competitors like Hamim Denims, Partex Denims, Envoy Denims etc. in domestic arena.
3. Entrance of any other strong entity might put price pressure and cause a shrink in market share in future.

Dividend History

	2011	2010	2009
Stock Dividend	200%B		
Cash Dividend			

Profitability (%)

	2011	2010	2009
Gross Profit Margin	23%	21%	21%
Operating Margin	25%	27%	19%
Net Margin	14%	16%	5%

Financial Statement's Focus Points

The profitability of the company has improved over the years. Although the net profit margin shows negative movement, the Gross and Operating profit margin of the company remains a healthy one. The company is enjoying export incentive which is also positively affecting the income. The per share indicators of the company also shows good position of the company. The ROA, ROE and time interest earned multiple shows negative trend. The growth indicators show that the growth status of the company has decreased significantly than the previous year.

Per Share Ratio (BDT)

	2011	2010	2009
EPS	5.46	5.41	3.34
NAV	20.71	10.19	11.59

Other Important Ratios

	2011	2010	2009
ROE	35%	49%	29%
ROA	9%	11%	3%
Times Interest Earned	10.75	11.09	8.36

Growth (%)

	2011	2010
Export	16.36%	59.53%
Operating Income	10.55%	125.87%
EPS Growth	1.00%	61.93%
NPAT	1.00%	385.80%
Total Asset	25.64%	52.39%
NAV	103.24%	-12.04%

Company Insight

Argon Denims Ltd was incorporated as a Private Limited Company on July 13, 2006 under the Companies Act 1994 to produce Denim Fabrics. The commercial operations of the company started in March, 2008. The Company is a 100% Export oriented manufacturing, dyeing & finishing units of denims fabrics. The company has been set up to produce 100% Cotton Denim fabrics for export. It mainly produces medium and premium range denim fabrics in various weights ranging from 4.5 Oz to 13 Oz.

TERMINOLOGY

Net Profit After Tax (NPAT): Profit available to the common shareholders of the company.
Book Value Per Share (BPS)/Net Asset Value (NAV) per share: Net Asset Value/ Number of Outstanding Common Stocks
Return on Asset (ROA): Net Profit after Tax/ Average Asset
Return on Equity (ROE): Net Profit after Tax/ Average Equity
Free Float : % of total shares not owned by Sponsors/Directors, and Govt.

RATING CRITERIA & DEFINITION

STRONG BUY	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
BUY	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
HOLD	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
NEUTRAL	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside potential between 0% to -10%
SELL	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside between -10% to -20%
STRONG SELL	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside potential in excess of -20%

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