

**Company Overview**

Linde Bangladesh Limited (LINDEBD), Linde PLC is the holding company, was incorporated in 1973. Linde PLC has been incorporated in Ireland in 2018 by merging Linde AG of Germany with Praxair, Inc. USA. Earlier, BOC Group Limited of UK (a fully owned subsidiary of Linde AG of Germany) owned 60% shares of LINDEBD. The Company's principal activities are manufacturing and supply of industrial and medical gases, welding products and equipment and ancillary equipment. The Company also earns rental from cylinders used by the customers and from Vacuum Insulated Evaporators (VIE) installed at customers' premises. The factory is located at Rupganj, Narayanganj and Sitakund, Chattogram.

The Company generates revenue from three segments – Bulk Gases, Packaged Gas & Products (PG&P) and Healthcare. Bulk gases comprise of liquid industrial oxygen, liquid nitrogen, and liquid carbon dioxide. PG&P comprises of mild steel electrodes and compressed industrial gases. Healthcare comprises of medical gases, equipment and pipeline.

The Company's product portfolio and services include – liquid and gaseous Oxygen and Nitrogen, Acetylene, Carbon Dioxide, Refrigerant Gases, Medical Oxygen, Nitrous Oxide, Medical Equipment and Accessories, Welding Electrodes, welding training and services. Ship Breaking Industry, Real Estate, Boat Building Industry, Bicycle Industry, Automobile Industry and Hospitals are the major customer groups of the firm.

**Revenue Composition & Growth:**

Particulars	Composition		Growth		
	2019	2017	2018	2019	5-yr CAGR
Bulk Gases	12.8%	17.0%	9.1%	26.0%	15.7%
PG&P	74.6%	16.1%	9.3%	1.2%	5.8%
Healthcare	12.6%	12.0%	19.5%	3.5%	10.7%
<b>Total</b>	<b>100.0%</b>	<b>15.7%</b>	<b>10.5%</b>	<b>4.1%</b>	<b>7.4%</b>

**Installed Capacity & Utilization:**

Particulars		2016	2017	2018	2019
ASU* Gases ('000 M3)	Capacity	15,304	30,200	43,100	35,018
	Production	9,920	11,903	20,542	25,269
	Utilization	64.8%	39.4%	47.7%	72.2%
Dissolved Acetylene ('000 M3)	Capacity	1,150	1,150	1,150	300
	Production	170	214	188	174
	Utilization	14.8%	18.6%	16.3%	58%
Carbon-dioxide (MT)	Capacity	--	--	--	10,585
	Production	--	--	--	4,626
	Utilization	--	--	--	43.7%
Electrodes (MT)	Capacity	31	31	31	31
	Production	21	25	26	25
	Utilization	67.7%	80.6%	83.9%	80.6%

\*ASU= Air Separation Unit

Before operational of the ASU plant in 2017, the Company has been meeting the additional demand for ASU gases by cross border trucking from its fellow subsidiary from India.

Major raw materials of the Company are wire (56.22% of consumption) blender powder (18.61%) and calcium carbide (2.17%). Among the raw materials consumed, around 87% of raw materials were imported in 2019 which was 90% in last year.

**Company Fundamentals**

Market Cap (BDT mn)	19,217.6
Market Weight   Sector Weight	0.8%   5.4%
Free-float (Public + Inst. + Foreign)	40.0%
No. of Shares Outstanding (mn)	15.2
Paid-up Capital (BDT mn)	152.2
3 Months Average Turnover (BDT mn)	19.6
3-month Return (Dividend & Free-float Adjusted)	8.4%
Current Price (BDT)	1,262.8
52-Week Price Range (BDT)	1,137.0 – 1,390.0
Sector Forward P/E	10.4

	2017	2018	2019	2020 (3m Ann)
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**Financial Information (BDT mn):**

Sales	4,942	5,460	5,683	5,586
Gross Profit	2,310	2,283	2,513	2,537
Operating Profit	1,357	1,407	1,676	1,679
Profit After Tax	953	1,004	1,231	1,240
Cash & Cash Equiv.	1,132	1,604	1,005	417
Assets	5,945	6,849	7,652	7,908
CAPEX	969	552	439	53
Long Term Debt	-	-	-	-
Short Term Debt	-	-	-	-
Equity	3,676	4,472	5,108	5,419
Retained Earnings	3,523	4,323	4,985	5,295

**Margin:**

Gross Profit	46.7%	41.8%	44.2%	45.4%
Operating Profit	27.5%	25.8%	29.5%	30.1%
Pretax Profit	26.4%	25.0%	29.2%	30.0%
Net Profit	19.3%	18.4%	21.7%	22.2%

**Growth:**

Sales	15.7%	10.5%	4.1%	-1.7%
Gross Profit	16.6%	-1.1%	10.0%	1.0%
Operating Profit	9.7%	3.7%	19.1%	0.2%
Net Profit	8.1%	5.4%	22.7%	0.7%

**Profitability:**

ROA	16.7%	15.7%	17.0%	15.9%
ROE	27.8%	24.6%	25.7%	23.6%

**Operating Efficiency:**

Inventory Turnover	7.0	7.2	6.8	6.4
Receivable Turnover	9.0	8.9	8.5	7.1
A/C Payable Turnover	1.8	2.2	2.3	2.2
Total Asset Turnover	0.9	0.9	0.8	0.7
Fixed Asset Turnover	1.7	1.6	1.6	1.6

**Leverage:**

Debt Ratio	0.0%	0.0%	0.0%	0.0%
Debt-Equity	0.0%	0.0%	0.0%	0.0%
Int. Coverage	-	-	-	-

**Dividend History**

Dividend (C/B)%	340/-	375/-	500/-	-/-
Dividend Yield	2.7%	3.1%	4.0%	-/-
Dividend Payout	54.3%	56.9%	61.8%	-/-

**Valuation:**

Price/Earnings	20.3	19.2	15.7	15.5
Price/BV	5.2	4.3	3.8	3.5
EPS (BDT)	62.6	66.0	80.9	81.5
NAVPS (BDT)	241.5	293.9	335.7	356.1

### Shareholding Structure:

The Firm was enlisted with the DSE & CSE in 1976 and 1996 respectively.

As on	Sponsor	Govt.	Instt.	Foreign	Public
29-Feb-20	60.00%	0.00%	29.20%	0.00%	10.80%
31-Dec-19	60.00%	0.00%	29.40%	0.00%	10.60%
31-Dec-18	60.00%	0.00%	29.90%	0.00%	10.10%
31-Dec-17	60.00%	0.00%	29.20%	0.00%	10.80%

### Industry Overview

Industrial gases and welding products are used as major supporting equipment in several sectors of the economy. The demand of industrial gases and welding products is growing since Bangladesh is on the track of industrialization. Industrial Gases are used mainly in Chemicals, Electronics, Food & Beverage, Glass, Laboratories, Plastic & Rubber and Steel & Metals Industries etc.

**Welding Industry:** Welding is growing faster as this industry is closely related to the infrastructural and industrial development of Bangladesh. Welding is the material supplier for many industries. The main end-use industries demanding for welding consumables are: automotive, marine equipment, shipyards, steel construction, oil and gas industry, waste management and construction & infrastructure contractors. Therefore, the growth of this industry largely depends on the consumption of steel in these end-use industries.

The **shipbuilding industry** is one of the major consumers of welding electrode. According to the World Shipbuilding Statistics, nearly 90 % of the ships are made by china, Korea and Japan. Investors are now moving toward low cost destinations which are creating more opportunities to attract foreign customers. The shipbuilding industry in Bangladesh is growing faster. According to estimation by Businesswire, the spent for the procurement of new ships will be around USD 650.83 Billion in the 2026. Industry insiders are optimistic that Bangladesh could achieve at least 1% of the shipbuilding market share, worth \$4 billion annually.

Bangladesh's **construction industry** passed a relatively good year in 2019 riding on increased development activities and mega projects buoyed by a stable economy and rising government expenditure. Construction grew by 9.6 percent, supported by public infrastructure spending as well as private investment in housing, according to the World Bank's Development Update published in October 2019.

The growth of the construction and the **real estate industries** are highly correlated with the welding industry. The cumulative lending figures for the real estate sector over the past six consecutive fiscal years (from FY 14 to FY 19) as revealed by the Bangladesh Bank also bear out the contention. Actually, aggregate lending increased by about 224% in six years.

**ASU Gas Industry:** Consumptions of ASU gases are mainly linked to the development of the Medical, Food storage and Beverage, Chemicals, Electronics, Laboratories, Plastic & Rubber, and Steel & Metals Industries etc. Industrial Gases are used mainly in these sectors.

Bangladesh has made substantial progress in most of the health indicators over the last two decades and in last six year in Bangladesh, allocations in the **health sector** were around 5% of the total budget. The growth in the per capita health care

spending indicates that people is becoming cautious which will eventually boost the medical sector's growth.

Bangladesh is an emerging economy and looking forward to achieve double digit GDP growth in coming years. The life standard of the dwelling of urban & rural areas has been improving progressively. In contrast, environment has been gradually transforming hot & humid due to the global warming and greenhouse effect. Consequently the country is leading to the higher demand of preserved foods and beverages which eventually increase the demand of ASU gases.

Welding products are used in Real estate, ship building, cycle industry, automobile industry etc. Different companies like Linde Bangladesh Limited, Jamuna Group, and BD Welding are now making world-class electrodes.

### Investment Positives

- **Healthcare business of the Company is expected to rise as the demand and sales of medical oxygen surged during the corona-virus pandemic as the hospitals need uninterrupted oxygen support for the corona-virus infected patients as they mainly suffer from respiratory problems.** Healthcare Business witnessed a 3.40% growth in 2019 over last year mainly due to growth in major products, retention of major customers and maintaining the Compressed Medical Oxygen and Nitrous Oxide growth momentum. Expansion of public and private hospitals, a competitive industry where LINDEBD flourishes by offering comprehensive products and services. However, the segment contributed 12.6% to the revenue of the Company in 2019 which was 12.7% & 11.7% respectively in 2018 & 2017.
- The revenue of **PG&P segment** (PG&P comprises of mild steel electrodes and compressed industrial gases) **increased by 1.2%** in 2019 for both industrial and special products. **Industrial products sales increased by 2% and special products by 15% over prior year. Shipbuilding was the biggest contributor in the hardgoods segment, grew by 8% over last year and contributed 50% of the total revenue of the segment.** The major products contributing to the growth were Compressed Nitrogen, Argon, Corgon, Hydrogen and Helium. There were **several large customer acquisitions in Corgon, Argon and CO2 in 2019.** The growth in Real Estate business and the increased activities in ship breaking/ship building industries contributed to higher sales.
- In 2019, overall business in **Bulk segment** (Bulk gases comprise of liquid industrial oxygen, liquid nitrogen, and liquid carbon dioxide) **increased by 26%** over last year. This growth was achieved through increased sales from new customer acquisition and maintaining current customer base in manufacturing, ship breaking, livestock and food and beverage. The **Government-led mega projects accelerated the production enhancement in the steel sector, which provided the Company opportunities in Bulk Gases**, resulting in substantial growth. **The Company's 5-year CAGR (compound annual growth rate) in revenue and net profit are 7.4% & 14.7% respectively.** This was because of increase in capacity and its utilization of its all the business segment.
- The Company continued to be the market leader in Bulk and Medical gases, Welding Electrodes and Compressed

gases since the commissioning of the ASU (air separation unit) plant in 2017. **The sale of all ASU products increased in 2019 over last year with more than 30% volume growth.**

- **A 36 TPD (ton per day) CO2 plant was commissioned in June 2019** at Rugganj, Narayangonj. Increased product availability enabled retention of existing customers and acquisition of new and large accounts. CO2 saw significant improvement with 15% increase in liquid and 40% growth in gaseous CO2 sales. The Company secured new contracts in the beverage industry for the supply of liquid CO2.
- **Profit margins of the Company are in increasing trend.** This was because of sourcing of raw materials at competitive prices from international market, minimization of power cost, ensuring timely import of raw materials and distribution of products, taking the advantage of investment for capacity enhancement in production and distribution. **The imported raw materials cost declined in 2019 which also contributed to a sharp rise in profitability of the Company.** In 2019, Gross Profit and Net Profit Margin were 44.2% & 21.7% which was 41.8% & 18.4% respectively in 2018.
- **Linde Bangladesh is a completely unlevered firm.** Besides, the recent investments in major projects were also financed from the Company's own fund, without availing any interest bearing external sources.
- The high tech cylinder filling facility at Rugganj, Narayangonj provides a range of cylinder products to customers across all market segments.
- LINDEBD possesses a **diverse product base** with integrated production facilities and offices across the country. In addition, it is equipped to provide a wide range of services including purging jobs at oil fields, installation of medical oxygen pipelines and supply of special gases in various industrial sectors.
- The Company has a **customer base from diversified industries** i.e. Ship Breaking Industry, Real Estate, Boat Building Sector, Bicycle Industry, Automobile Industry and Hospitals etc. which secures the flow of revenue stream.
- It has established handsome dividend policy over the years. It disburses around 60% as dividend payout where dividend yields is around 4% of which both the indicators are increasing.

### Investment Negatives

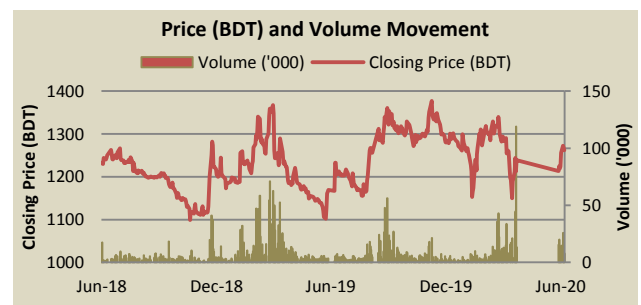
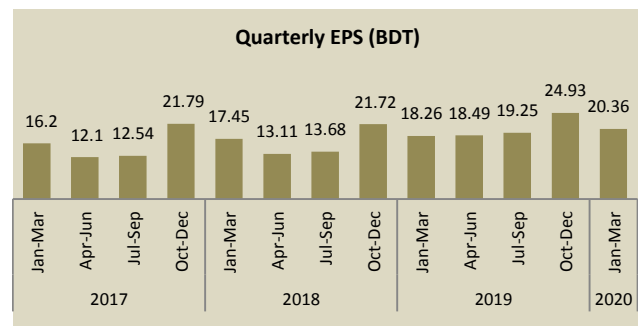
- **The turnover of bulk segment and PG&P segment might affect as the demand for industrial oxygen and carbon dioxide plunged because of most of the business undertakings were stopped for the novel coronavirus pandemic. These two segments contributed around 12.8% & 74.6% respectively to the revenue in 2019.** The products of these segments used in manufacturing, food & beverage, ship building, livestock, real estate sector.
- The Company is exposed to foreign exchange risk, as around 87% of raw materials consumed which was **75% of costs of goods sold are imported.**
- The Company earns interest income from FDR investment which was 4.3% of operating income in 2019 against 2.1% in last year; therefore **drop in deposit rate will negatively affect the income stream from this source.**
- The Company faces competition in a highly competitive business environment, where formal and informal

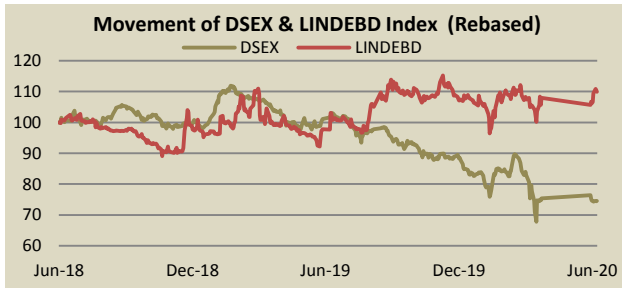
competitors pursue market shares with various activities including price reduction, quality revision and other incentives.

### Latest Quarter Update – March 2020 (Q1)

Particulars (BDT mn)	Jan-Mar 2020	Jan-Mar 2019	Growth
<b>Turnover</b>	<b>1,397</b>	<b>1,425</b>	<b>-2.0%</b>
<b>Gross Profit</b>	<b>634</b>	<b>613</b>	<b>3.4%</b>
<i>Margin</i>	<i>45.4%</i>	<i>43.0%</i>	
<b>Operating Profit</b>	<b>420</b>	<b>403</b>	<b>4.2%</b>
<i>Margin</i>	<i>30.1%</i>	<i>28.3%</i>	
<i>Net Finance Income</i>	<i>21</i>	<i>8</i>	<b>172.6%</b>
<b>Net Profit</b>	<b>310</b>	<b>278</b>	<b>11.5%</b>
<i>Margin</i>	<i>22.2%</i>	<i>19.5%</i>	
<b>EPS (BDT)</b>	<b>20.36</b>	<b>18.26</b>	<b>11.5%</b>

- Revenue has slightly decreased during the first quarter of 2020 over the same period of last year. **The decrease in sales was due to a lack of demand for industrial oxygen during the period because of the Covid-19 shutdown.**
- Gross profit margin has increased during the reported period over the same period of last year. The **lower cost of electrode raw material** achieved through e-auctions and **benefits from own Flux blending facility** and fixed cost containment initiatives contributed to higher margin.
- Interest income for the period was higher than that of last year as the Company was able to **secure higher interest rates.**
- Net profit margin has increased during the reported period than that of last year due to the increase in finance income.





### Concluding Remark

Linde Bangladesh Ltd. is the pioneer in the industrial gases and engineering solution business of the Country. The availability of products, the superior product quality, price competitiveness and safety record in handling hazardous products will lead to healthy revenue growth in the years to come.

Source: Annual Reports, DSE website, LINDEBD's website, the Financial Express, the Daily Star and ILSL Research

#### ILSL Research Team:

Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst
Kishan Saha	Executive - Research

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