

Company Overview

M.I. Cement Factory Limited is involved in manufacturing and marketing of Ordinary Portland Cement (OPC) and Portland Composite Cement (PCC) under the brand name "Crown Cement". The Company started its commercial operation in 2000 with daily production capacity of 600 tpd (ton per day). Afterward it expanded its production capacity thrice – 2nd unit (800tpd) in 2002, 3rd unit (1400tpd) in 2006 and 4th unit (3,000tpd) in 2011, thereby raising its total production capacity to 5,800 tpd, i.e., 1.74 million MT per annum. The company launched commercial operation of 1st Crown Cement Ready Mix Concrete Plant in 2013 with production capacity of 42,000 cubic foot (cft) per day and in the year 2015-16 the company launched another Ready Mix Concrete Plant with production capacity of 50,800 cft per day. The company's production unit is situated at West Mukterpur, Munshiganj.

To run its operation efficiently the Company has established backward and forward integration process through its five associate industrial units - Crown Power Generation Ltd., Crown Mariners Ltd., Crown Transportation & Logistics Ltd., Crown Cement Concrete & Building Materials Ltd. and Crown Polymer Bagging Ltd. Among them, Crown Mariners Ltd. and Crown Transportation & Logistics Ltd. are used to distribute cement; Crown Polymer Bagging Ltd. is engaged in the production of cement bags. To ensure uninterrupted power supply in production, the company established another associates namely Crown Power Generation limited. The company has already procured two handy ocean going ships to facilitate the transportation of raw materials from abroad.

The company's rate of capacity utilization is increasing year by year. In 2015-16 the firm had utilized 84.5% of its installed capacity.

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Installed (mt)	1,290,000	1,740,000	1,740,000	1,740,000	1,740,000
Utilized (mt)	933,132	926,534	1,194,079	1,272,016	1,470,028
% Utilized	72.3%	53.2%	68.6%	73.1%	84.5%

Clinker is the basic raw materials for producing cement that constitute about 75% of the company's raw materials cost and 63% of its total cost of sales of the company. Along with clinker, 92% of the raw materials (Gypsum, Slag, Fly ash, Lime stone) are imported from Japan, Indonesia, Thailand, Malaysia and Korea by the companies own supervision. The company's revenue is significantly affected by seasonality. It performs better in the period of January to March than the other period as intensification of construction work is higher in winter season. The company is one of the largest cement exporters in Bangladesh, mainly exports its product to northeastern states of India. On an average 5% export revenue is generated in last two years.

The company became listed with both DSE and CSE in 2011.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Mar-17	67.1%	0.0%	14.7%	0.7%	17.6%
31-Jan-17	67.1%	0.0%	15.7%	0.6%	16.6%
30-Nov-16	67.1%	0.0%	15.1%	0.7%	17.1%
30-Jul-16	67.1%	0.0%	14.80%	0.70%	17.4%

Company Fundamentals

Market Cap (BDT mn)	16439.0
Market weight	0.5%
No. of Share Outstanding (in mn)	148.5
Free-float Shares	32.9%
Paid-up Capital (BDT mn)	1,485.0
3-month Average Turnover (BDT mn)	23.9
3-month Return	26.6%
Current Price (BDT)	110.7
52-week price range (BDT)	72.1 – 112.20
Sector's Forward P/E	28.7

	2013-14	2014-15	2015-16	2016-17* (Q2,Ann)
--	---------	---------	---------	----------------------

Financial Information (BDT mn):

Sales	7,991	8,264	9,017	8,592
Gross Profit	1,259	1,414	1,659	1,570
Operating Profit	937	985	1,196	1,151
Profit After Tax	674	649	744	655
Assets	11,347	12,062	14,160	16,200
Long Term Debt	1,278	838	714	1,608
Equity	5,675	5,879	6,725	6,760
Dividend (C/B)%	30/-	25/-	20/-	-/-

Margin:

Gross Profit	15.8%	17.1%	18.4%	18.3%
Operating Profit	11.7%	11.9%	13.3%	13.4%
Pretax Profit	11.1%	10.4%	10.9%	10.2%
Net Profit	8.4%	7.9%	8.3%	7.6%

Growth:

Sales	17.0%	3.4%	9.1%	-4.7%
Gross Profit	14.6%	12.3%	17.4%	-5.4%
Operating Profit	13.9%	5.1%	21.5%	-3.8%
Net Profit	1.4%	-3.8%	14.7%	-12.0%

Profitability:

ROA	6.4%	5.5%	5.7%	4.3%
ROE	12.0%	11.2%	11.8%	9.7%

Operating Efficiency Ratio:

Inventory TO*	15.09	12.25	11.86	12.53
Receivable TO	8.70	7.07	8.07	6.76
A/C Payable TO	54.98	58.53	30.91	20.74
Total Asset TO	0.76	0.71	0.69	0.57
Fixed Asset TO	2.00	2.03	1.97	1.76

Leverage:

Debt Ratio	40.8%	42.5%	40.1%	44.2%
Debt-Equity	81.6%	87.2%	84.4%	105.8%
Int. Coverage	2.4	7.5	5.0	4.5

Valuation:

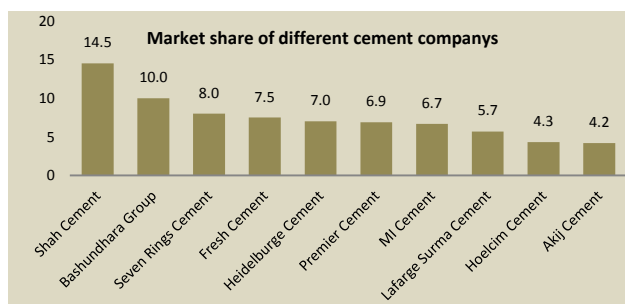
Price/Earnings	16.3	16.9	14.8	16.8
Price/BV	1.9	1.9	1.6	1.6
EPS (BDT)	4.5	4.4	5.0	4.4
DPS (BDT)	3.0	2.5	2.0	-
NAVPS (BDT)	38.2	39.6	45.3	45.5

* TO indicates Turnover

Industry Overview

Cement industry of Bangladesh is running with excess capacity. At present there are 33 cement manufacturers in the country and total yearly production capacity is 35 million tons. According to information of Cement Manufacturer association's nearly 25 million tons cement are being produced now. To maintain this production level the cement manufacturers have to use 70 to 75 percent of their production capacity. Even though the demand for cement increased, per capita cement consumption still remains at the lowest level in Bangladesh which is only 137 kg. Whereas the per capita cement consumption in China, Malaysia and India are 1700kg, 700 kg and 230kg respectively.

The industry is oligopoly in nature. According to daily newspaper, Daily Prothom Alo Dec 2016, top 10 players held almost 75% of total market share and Pricing control.



Bashundhara Group comprises with Meghna Cement & Bashundhara Cement.

Bangladesh has no source of cement clinker which makes it one of the largest importers of clinker and limestone. According to Bangladesh Bank, Bangladesh imported clinkers USD 638.4 mn in the year 2014-15 which is USD 571.2 in the year 2015-16 from India, Thailand, Indonesia, the Philippines and China annually. So profitability of the sector largely depends on uninterrupted import facility and favorable foreign exchange condition.

Over capacity of production in this sector uncovered the export opportunity in 2003. Bangladesh exports 40,000 to 50,000 MT of cement a month to the seven-sister market in India. Indian manufactures are now offering cement at lower rates than Bangladeshi companies due to tax benefits. Currently, Bangladeshi cement makers cannot compete with Indian manufacturers as there is a price gap of BDT 50- to BDT 70 a bag between Indian cement and Bangladeshi cement. However, experts expect the cement industry to grow by an annual average of 20%-25% over the next five years due to infrastructure mega projects, rising homebuilding in rural areas and suburbs.

Investment Positives

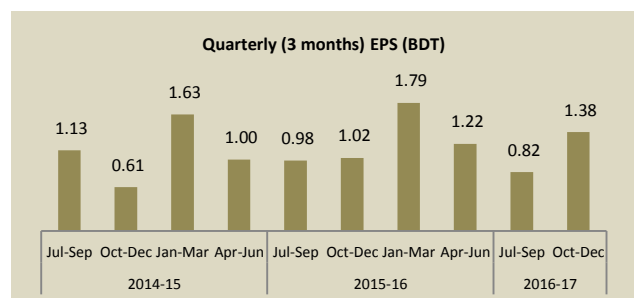
- **The company is increasing its production capacity from existing 5,800 M.T. to 10,000 M.T. per day (72.4% escalation) by installing its 5th Unit.** It is expected that the commencement of trial production from the new project will be during mid of 2017.
- **According to the news disseminated in DSE, in 24 January 2017, the Company has decided to purchase an Ocean Going Mother Vessel in addition to the existing two,** to raise the fleet to 3 Ocean Going Mother Vessels of the Company. The details of the Vessel are given below:
Name of the Mother Vessel: M.V. OMICRON PRIDE, Type:

BULK CARRIER, G.R.T.: 28,647 Metric Ton, N.R.T.: 17,569 Metric Ton, DWT: 50,913 Metric Ton, Built (Year and Place): February 2001, Japan and Total Value: \$58,00,000 (Approx).

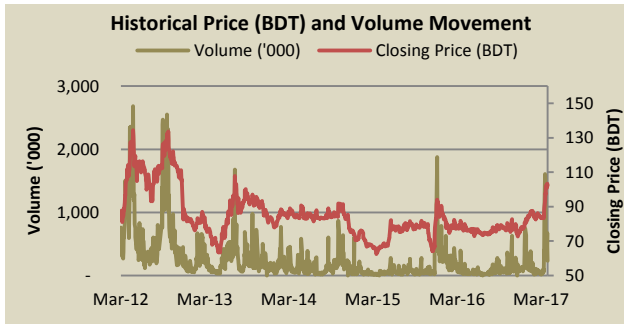
- **The company has signed an agreement on supply of Crown Cement to Rooppur Nuclear Power Plant.**
- **The company has signed an agreement on August 16, 2015 to supply of Crown Cement to Barapukuria 275 MW Coal Fired Thermal Power Plant Project, Dinajpur.** It is to be mentioned here that the project duration is for two years and MI Cement is the only cement supplier to this project.
- **The company has signed an agreement with Sinohydro Corporation Limited for supplying cement in the country's largest project, Padma Bridge.** Under the agreement the company is one of the major suppliers to supply cement for the construction of the 6.15 Kilometer long Padma Bridge.
- The company is setting up another Packing Unit of 1,500 MT OPC Silo to enhance the delivery capacity. The plant was supposed to come into operation by the end of 2016.
- According to the news disseminated in the DSE website in March 2015, the board has decided to establish a fully owned subsidiary Company in India with an initial Paid-up Capital of IRS. 5.0 million (BDT 6.04 million).
- M.I. Cement is the pioneer in the cement export from Bangladesh. The company captured 37% exported cement market from Bangladesh.
- The backward and forward integration process through associate companies smoothen the operations and enhance efficiency which eventually turn into higher expected earnings.

Investment Negatives

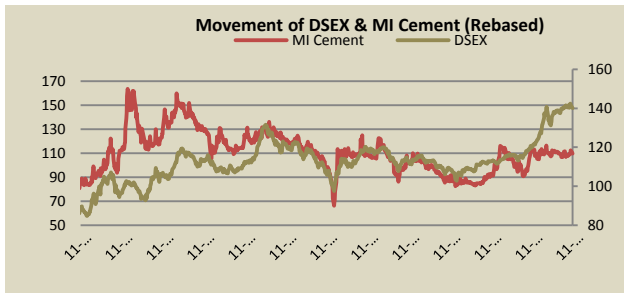
- Adverse foreign exchange fluctuation may hamper profitability as almost all of the raw materials are imported. Besides, the company also earns good percentage of revenue from export sales.
- The company's export is decreasing year over year. In year 2010-11 the company's export constituted BDT 727 mn which is only 430 mn in 2015-16.
- Currently, aggregate capacity for the cement manufacturers is much higher than the local demand for cement. High competitiveness in the industry might force the price of cement to decline if implementation of the government infrastructural development project becomes slower.



Source: DSE and ILSL Research



Source: DSE and ILSL Research



Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	28.7	126.7
Sector Trailing P/E	25.1	125.7
Peer P/B	2.1	96.9
Value Per Share		116.4

* HEIDELBCEM, CONFIDCEM and PREMIERCEM have been considered as the peer for company valuation purpose.

Concluding Remark

M.I Cement Factory Limited showed stable profitability over the years. In its latest six months performance declarations, the company reported its profit after tax of BDT 327.5 mn registering 10.0% growth over the same period of the previous year. However, implementation of the large government infrastructural projects, revival of the real estate business growth may increase the demand for the company's product and enable the company to grab more market share in the prevailing market in the years to come.

Source: Annual Report, the Financial Express, the Daily Star, ILSL Research, Company's concerned person

ILSL Research Team:

Name

Rezwana Nasreen
Towhidul Islam
Kawsar Ahmed

Designation

Head of Research
Sr. Research Analyst
Research Analyst

To access research through *Bloomberg* use <ILSL>

ILSL research is also available on *Thomson Reuters* products and on *FactSet* platform.

For any Queries: research@ilsibd.com

Disclaimer: This document has been prepared by International Leasing Securities Limited (ILSL) for information only of its clients on the basis of the publicly available information in the market and own research. This document has been prepared for information purpose only and does not solicit any action based on the material contained herein and should not be construed as an offer or solicitation to buy or sell or subscribe to any security. Neither ILSL nor any of its directors, shareholders, member of the management or employee represents or warrants expressly or impliedly that the information or data of the sources used in the documents are genuine, accurate, complete, authentic and correct. However all reasonable care has been taken to ensure the accuracy of the contents of this document. ILSL will not take any responsibility for any decisions made by investors based on the information herein.