

Company Overview

Fortune Shoes Limited (FSL) was incorporated in March 14, 2010 and commenced commercial operation in September 07, 2011. The company is 100% export oriented and the principal activities are to carry on the business of manufacturing and exporting of all kinds of sports shoes, leather shoes and other footwear for kids, men and women. The major export destinations of the company are Taiwan, Netherlands, Spain, Sweden, Switzerland, Canada and Germany.

Main raw materials of the company are sewing machine needle, outer sole and heels of rubber, stitching glue, magic tape, binding materials, thread, force tape, embossing mould, Pu leather, synthetic mesh, synthetic fur, li-shin cloth/furling cloth, shoe lace, eylete, out sole etc. The company imports all these raw materials from China, Taiwan and Hong Kong.

There are no associate, subsidiary and holding company of Fortune Shoes Limited. The factory premise of FSL is located in Barisal, Bangladesh and corporate office of FSL is located at Niketon, Gulshan, Bangladesh.

In 2017-18, the company's 56% of the revenue is generated from men Shoes.

Revenue Composition & Growth:

Particulars	Revenue composition		Growth 2017-18
	2016-17	2017-18	
Kids Shoes	23.5%	18.8%	-23.9%
Women Shoes	29.0%	20.4%	-32.0%
Men Shoes	44.4%	55.8%	21.4%
others	3.2%	5.3%	60.9%

Capacity utilization:

The company is continuously increasing the installed capacity over the years.

Particulars	2014-15	2015-16	2016-17	2017-18
Installed (Pair mn)	2.6	3.2	3.5	3.5
Utilization(Pair mn)	1.9	2.1	2.8	2.7
Utilization Rate	70.8%	66.9%	79.8%	75.9%

Major competitors of the company are - Bata Shoe Limited, Apex Footwear Limited, Legacy Footwear Limited, Bengal Shoe Industries Limited, Longla Leatherex limited, Zeil Wears Limited and Earth Footwear Limited etc.

Shareholding Structure:

The company was enlisted with the DSE and the CSE on 20 October 2016. Historical shareholding status is shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Jun-18	30.9%	0.0%	16.0%	0.0%	53.1%
31-Dec-18	30.9%	0.0%	18.5%	0.0%	50.5%
28-Feb-17	30.4%	0.0%	19.89%	0.0%	49.2%

Company Fundamentals

Market Cap (BDT mn)	4,135.4
Market weight	0.1%
No. of Share Outstanding (in mn)	124.9
Free-float Shares	48.7%
Paid-up Capital (BDT mn)	1,249.4
3-month Average Turnover (BDT mn)	126.1
3-month Return	3.3%
Current Price (BDT)	34.0
52-week price range (BDT)	27.70 - 40.40
Sector Forward P/E	16.9

	2015-16* (13 M)	2016-17	2017-18	2018-19* (6M Ann)
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Financial Information (BDT mn) :

Sales	1,082	1,428	1,378	2,025
Gross Profit	191	284	274	374
Operating profit	147	227	231	322
Profit After Tax	116	187	202	283
Assets	1,248	1,660	1,854	1,989
CAPEX	37	44	10	11
Long Term Debt	17	14	6	2
Short Term Debt	18	19	20	15
Equity	1,082	1,478	1,693	1,835

Margin:

Gross Profit	17.6%	19.9%	19.9%	18.4%
Operating Profit	13.6%	15.9%	16.8%	15.9%
Pretax Profit	13.0%	15.9%	16.8%	16.0%
Net Profit	10.7%	13.1%	14.7%	14.0%

Growth:

Sales	--	42.6%	-3.5%	35.1%
Gross Profit	--	60.8%	-3.5%	35.1%
Operating Profit	--	66.3%	1.8%	42.0%
Net Profit	--	72.9%	8.2%	42.2%

Profitability:

ROA	9.3%	22.5%	21.8%	28.4%
ROE	10.8%	25.3%	23.9%	30.8%

Operating Efficiency Ratio:

Inventory TO*	4.9	5.6	4.0	4.8
Receivable TO	3.0	3.3	2.6	3.5
A/C Payable	8.8	11.2	10.9	16.7
Total Asset	0.9	1.0	0.8	1.1
Fixed Asset	1.7	2.3	2.2	2.9

Leverage:

Debt Ratio	2.9%	1.9%	1.4%	0.9%
Debt/Equity	3.3%	2.2%	1.5%	1.0%
Int. Coverage	21.9	55.7	78.1	274.1

Valuation:

Price/Earning	36.7	22.7	21.0	15.0
Price/BV	4.0	2.9	2.5	2.3
EPS (BDT)	0.9	1.5	1.6	2.3
NAVPS (BDT)	8.6	11.8	13.6	14.7

*TO indicate Turnover; Data of 2015-16 for thirteen month; Growth of 2018-19 is calculated on six month basis over the same period of last year; N.B.: The Company has changed the reporting period to July-June from June-May in 2015-16.

Industry Overview

Footwear Industry in Bangladesh was in existence since the colonial era, although its modernization took place in the late 1980s. In Bangladesh, journey of footwear industry started in 1962 when Bata Shoe Company established its manufacturing plant in Tongi, Gazipur. Later, this industry was augmented with the establishment of Eastern Progressive Shoe Industries (EPSI) and this was the first Company in Bangladesh that exported footwear in former Union of Soviet Socialist Republics (USSR), Czechoslovakia and England.

Though the readymade garment (RMG) industry has become the single largest export earner for Bangladesh, footwear sector has the potentials to get as bigger as the apparel industry. The sector's export has grown by almost 10 times over the last decade, as the foreign exchange earnings from footwear export has increased to \$1.2 billion in 2017 from \$68 million in 2004. The leather footwear sector registered a steady growth by earning USD 438 million in the fiscal year (FY2017-18). It had earned USD 431.65 million during the same period in FY2016-17, according to Export Promotion Bureau (EPB) data.

China is the market leader in the world footwear market but rising labor costs in China have made big retailers look to the countries like Vietnam, Philippines, India and Bangladesh. There are 200 tanneries, 3,500 MSMEs (Micro Small & Medium Enterprises) and 110 large firms related to leather tanning, leather goods and footwear sub-sectors in Bangladesh. However, few large companies (Apex Footwear, Jennys Shoes, Bay Emporium, Leatherex, Zeil Wears and Bata Shoe) control most of the export market of the country.

Bangladesh government has taken proper steps for boosting this sector. A project started on 200 acres of land with Central effluent treatment Plant (CETP) facilities costing of BDT 10.78 bn, to relocate tanneries from Hazaribagh to Savar. This project has already been finished and 35% of tanneries have shifted to this project. Due to unhygienic manufacturing process, many companies had suffered from the cancelation of export order. Afterward shifting the companies to saver, it will create a positive image to the foreign buyers. In the proposed budget of 2017-18, govt. recommended reduced rate of duties on importing capital machineries and electrical panel for this sector.

Bangladesh produces 220 million square feet of hide a year, 64.82 percent of which is cowhide, 2.25 percent buffalo hide and 1.2 percent sheep skin, according to the Tanners Association. More than half is produced during Eid-ul-Azha.

Currently, Bangladesh exports footwear to over 50 countries, including the EU, China, Japan, Korea, Canada and North America. The EU is the largest export destination of Bangladesh's footwear industry and the majority of leather (54 %) is exported to the EU market.

Investment Positives

- **The Company had raised BDT 220 mn through IPO in August 2016 for construction of building and acquisition of machinery & equipment. As per Prospectus, upon completion of the project, installed capacity will be increased to 4.04mn pairs.** As per Company official, the company started its commercial operations of the enhanced capacity in 2018.

- In 2017-18, the Company's net profit margin has increased due to decrease in administrative cost and finance cost significantly. The company's operating profit, pretax profit and net profit margin is 16.8%, 16.8% and 14.7% respectively which was 15.9%, 15.9% and 13.1% respectively in 2016-17.
- FSL experienced phenomenal growth in the 1st two quarters of 2018-19. In Q1 (Jul-Sep) & Q2 (Oct-Dec) of 2018-19, turnover grew by 39.4% & 31.2% over the same period of last year. The profit margins are also improved during this period (the details are given in the later part of the report).
- Debt ratio of the company is decreasing over the years. In 2017-18, debt ratio of the company has decreased to 1.4% while it was 2.9% on 2015-16. Total debt of the company up to Q2, 2018-19 was BDT 17mn.

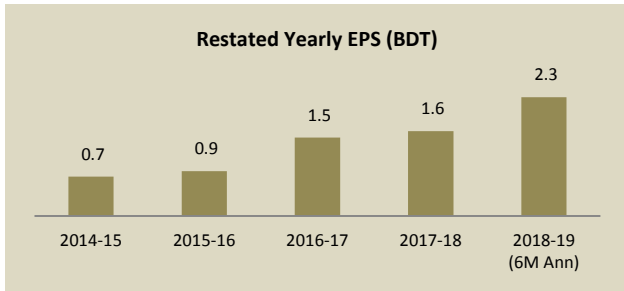
Investment Negatives

- **In 2017-18, the Company total sales decreased to BDT 1,378mn which was BDT 1,428mn in last year as the company sales depend on low demand.**
- As per Prospectus (Issue July, 2016), the Company's revenue is concentrated on nine customers only and among them two customers (Programme International Co Ltd. & Theo Henkelman Schoenen Bv) contributes almost 70% of total revenue.
- **The company is heavily exposed to exchange rate risk, as the company's all the revenues are from export and all the raw materials are imported from different countries.** Recent depreciation of BDT against USD increased the production cost of the Company. As of March 2019, the Bangladeshi Taka has depreciated by 7.1% against USD since January 2017.

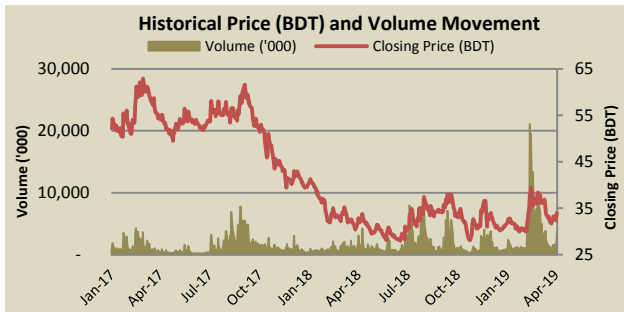
Latest Quarter Update

Particulars (BDT mn)	Jul-Dec 2018-19	Jul-Dec 2017-18	Growth
Revenue	1,012	749	35.1%
Gross Profit	826	611	35.2%
<i>Margin</i>	<i>81.6%</i>	<i>81.6%</i>	
Operating Profit	161	113	42.5%
<i>Margin</i>	<i>15.9%</i>	<i>15.1%</i>	
Net Profit	141	99	42.4%
<i>Margin</i>	<i>13.9%</i>	<i>13.2%</i>	

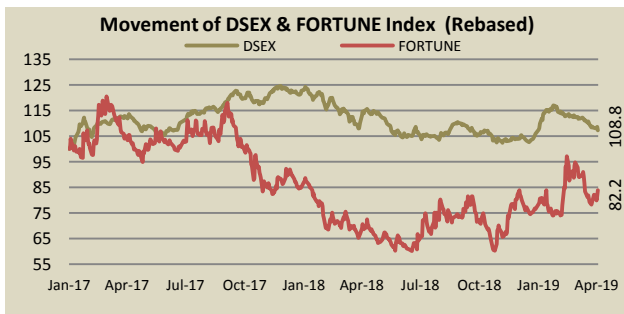
- Revenue has increased by 35.1% in the second quarter of 2018-19 over the same period of last year because of increase in production capacity resulting from its IPO proceeds.
- Operating profit margin has increased to 15.9% in the period which was 15.1% in the same period of last year due to the decrease in administrative expenses as percentage of sales.
- Net profit has increased by 42.4% in the reported period than that of last year because of increase in turnover, decrease in operating expenses.



Source: Annual Report & ILSL Research



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Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	16.9	38.2
Market Forward P/E	15.9	36.0

*Based on Financial Statements (2018-19, Q2)

Concluding Remark

Fortune Shoes Ltd. is one of the renowned manufactures of different kinds of shoes and the company is enriching its performance over the years. In its latest 6 months financial performance, the company has reported 35.1% growth in revenue and 42.4% growth in net profit. However, considering the expansion projects and industry prospects, the company has a bright future ahead.

Source: Prospectus, DSE website, the Financial Express, the Daily Star, Interview with company Management and ILSL Research

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