

Company Overview

Shasha Denims Ltd. (SDL), a deemed export Company, was incorporated on October 1996 and started its commercial operation from July 2000 in Dhaka Export Processing Zone (DEPZ). The main activities of the Company are manufacturing, dyeing, weaving and finishing of denim fabric. It produces a single product 'denim fabric' of varied specifications, compositions, colors and style as buyers' demand. The Company produces denim fabrics weighing from 40z/yd² to 150z/yd² for denim jeans. Currently, SDL manufactures fabrics for the globally reputed brands including Marks & Spencer, George, Polo, Next, Tesco, Mexx, Walmart, JC Penny, Tommy, Gap, Lee Hang Fat, Adams, Woolworth, Gulden Pfenning, Li & Fung etc. SDL delivers the largest quantity of denim from Bangladesh.

Shasha Denims has three subsidiaries - Energis Power Corporation Ltd. (EPCL, 99.97% owned), a 55 MW Power Plant generating and supplying the electricity to the National grid; Shasha Garments Ltd. (SGL, 96.40%) a garment manufacturing unit, i.e. denim made products, with a capacity of 1,200,000 piece per year and Shasha Textiles Ltd. (STL, 99.57%), a textile & textile related business but the commercial operation is yet to be started due to delay of gas connection.

Revenue Composition:

Particulars	2016-17	Growth	Composition	
	(BDT mn)		2016-17	2015-16
Shasha Denims	4,333	-1.8%	78.3%	69.3%
Shasha Garments	636	28.7%	8.8%	10.2%
Energis power	1,287	76.6%	12.9%	20.6%

In 2016-17, revenue of Shasha Denims Ltd has decreased by 1.77% than that of last year due to overall decrease of export during the last quarter of the reported financial year. The revenue of Energis Power Corporation Ltd increased by 76.6% as the Company was able to have had an uninterrupted production throughout the reporting year.

SDL sources its raw materials both locally and also from different countries. Yarn, the main raw material: BCI Cotton; Recycle Cotton; Organic Cotton; Recycle Poly; Tencel; Hemp etc., is mainly sourced from Bangladesh, Thailand, Pakistan and China and Chemicals/Dyes is sourced from Spain, Singapore, Germany, Netherland, Saudi Arabia, China, India, Turkey & Australia. Around 30% of raw materials consumption or 24% of costs of goods sold are imported. The Company's short term loan increased by 65%, due to increase of bill discounting to meet up import payment of raw materials.

SDL has an annual capacity of 21.60 million Yards. SDL utilizes more than 85% of its total capacity.

Shareholding Structure:

The Company became enlisted with the DSE and CSE in February 18, 2015 and January 17, 2015. Historical shareholding status:

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Jun-18	46.52%	0.00%	14.80%	4.28%	34.41%
31-Dec-17	46.52%	0.00%	14.66%	4.28%	34.54%
30-Jun-17	46.52%	0.00%	15.76%	4.30%	33.43%
31-Dec-16	46.52%	0.00%	16.14%	7.97%	29.37%

Company Fundamentals

Market Cap (BDT mn)	7,245.0
Market Weight	0.2%
Free-float (Public +Inst.)	53.5%
No. of Shares Outstanding	119.6
Paid-up Capital (BDT mn)	1,195.6
3 Months Average Turnover (BDT mn)	45.0
3 Months Return	0.0%
Current Price (BDT)	60.9
52-Week Price Range (BDT)	43.7 - 75.1
Sector Forward P/E	19.1

	2015 (Jan-Dec)	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)	2017-18 (9M Ann.)
Financial Information (BDT mn):				
Sales	5,145	5,635	6,257	7,705
Gross Profit	1,105	1,095	1,208	1,274
Operating Profit	937	940	1,010	1,029
Profit After Tax	561	563	592	584
Assets	9,208	9,701	10,879	12,630
Capex	153	959	468	547
Long Term Debt	1,050	991	888	719
Short Term Debt	2,860	2,898	3,371	5,552
Equity	4,777	5,059	5,339	5,647
Margin:				
Gross Profit	21.5%	19.4%	19.3%	16.5%
Operating Profit	18.2%	16.7%	16.1%	13.4%
Pretax Profit	12.8%	11.7%	10.6%	8.7%
Net Profit	10.9%	10.0%	9.5%	7.6%
Growth*:				
Sales	23.1%	--	11.0%	23.2%
Gross Profit	38.8%	--	10.4%	5.5%
Operating Profit	39.0%	--	7.5%	1.8%
Net Profit	218.1%	--	5.0%	-1.3%
Profitability:				
ROA	4.9%	6.0%	5.8%	5.0%
ROE	14.7%	11.5%	11.4%	10.6%
Operating Efficiency Ratio:				
Inventory Turnover	7.2	6.8	4.5	3.8
Receivable Turnover	2.2	2.3	2.5	2.6
A/C Payable Turnover	203.5	204.0	14.2	17.9
Total Asset Turnover	0.4	0.6	0.6	0.7
Fixed Asset Turnover	1.3	1.5	1.7	2.1
Leverage:				
Debt Ratio	38.5%	36.0%	35.1%	45.9%
Debt-Equity Ratio	74.1%	69.1%	71.6%	102.7%
Int. Coverage Ratio	2.3	2.6	2.6	2.7
Dividend History				
Dividend* (C/B)%	-/-	25/-	25/6	-/-
Dividend Yield	-/-	7.2%	3.7%	-/-
Dividend Payout	-/-	53.1%	50.6%	-/-
Valuation:				
Price/Earnings	13.2	13.2	12.6	12.4
Price/BV	1.6	1.5	1.4	1.3
EPS (BDT)	4.7	4.7	4.9	4.9
NAVPS (BDT)	40.0	42.3	44.7	47.5

N.B. The Company has changed its reporting year to July-June from January-December.
*Growth for 2015-16 is not calculated due to unavailable of data. Dividend for 2015-16 is of 18 months.

Industry Overview

Bangladesh is the second largest garment exporter in the world. The garment sector is one of the most important economic pillars, accounted for around 80% of export basket and more than 10% of its GDP.

Bangladesh has already started to act as an important player in the \$60 billion plus global denim-wear market by exporting jeans and other denim products worth at least \$3.5 billion (BDT 245,000 million) annually to the US and EU and other international markets. Moreover, in recent times, retailers and wholesalers from Japan, Turkey, India, and even from China are switching to Bangladesh as they started to realize Bangladesh as a reliable source for finely stitched wears at competitive prices.

Denim industry is a promising sub-sector in textile industry with a total investment of approximately USD 900 million. According to Bangladesh Textile Mills Association (BTMA), there are 32 denim mills with a total annual production capacity of about 443 million meters. Monthly denim production is around 30 million yards of denim against monthly demand of nearly 60 million yards. Bangladesh exports around 180 million pieces of denim annually. To fulfill the balance demand, imported 30 to 35 million yards per month from China, India & Pakistan which average value is USD 75 million.

Bangladesh is the second largest denim-made garments exporter after China. Bangladesh is now the largest denim exporter in the EU. More than 66 international brands have turned to Bangladesh in the couple of years for importing denim fabrics. Exports of denim items fabrics have got a sound growth of 10% - 15% over the last several years. Bangladesh is now exporting denim products of \$2 billion yearly and expecting to \$7 billion by 2021. The gradual decline in China's exports to the US and the EU has opened up the opportunities for other competitors including Bangladesh.

Bangladesh mainly produces low-end denim products particularly five-pocket denim jeans while the competing countries produce high-value-added products.

The global denim market will cross \$65 billion in the next four to five years. It is expected that by 2020, every four of five denim products in Europe would be sourced from Bangladesh. Bangladesh aims at fetching \$7bn by exporting denim products which would help the RMG sector to achieve \$50bn export target by 2021. The denim sector in comparison to other giant sector in Asia is still evolving in Bangladesh.

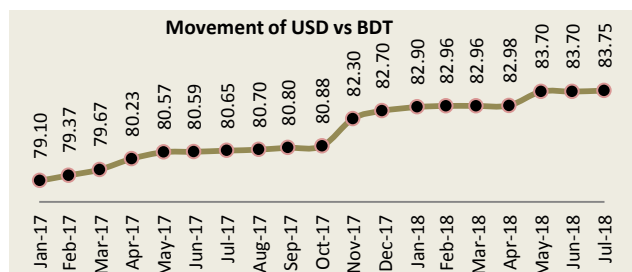
Investment Positives

- **The Company is expanding its annual production capacity by 9.6 million yards in addition to existing 21.6 million yards with an estimated capital expenditure of BDT 1,540 million. This expansion project has started contribute to the revenue of the Company from mid of the 2018.** This project is being financing from its IPO fund. Among the machineries, a dyeing machine having most modern and standard indigo technology which is the first indigo dyeing machine ever in Asia that saves 60% water and 40% chemicals in process in comparison to any conventional indigo dyeing machine. This machine included other features that are not used yet by any other factory in the world.

- **According to the DSE news published on February 25, 2018, the Company has signed a MOU for acquiring 40% shares of EOS Textiles Mills Limited, an 100% export oriented cotton fabrics company.** The company will work as The Company will invest approximately Tk. 48.00 crore of which Tk. 30.00 crore from IPO Fund.
- **The subsidiaries of the Company have been performing very well in recent years. In 2016-17, EPCL witnessed 76.58% and 27.96% growth in its revenue and net profit respectively and SGL observed 28.64% and 264.50% growth in its revenue and net profit respectively.**
- As per DSE news published on November 16, 2016, Energis Power Corporation Ltd., one of the subsidiaries of Shasha Denims Ltd. participated in a tender under a consortium named Consortium of Xcel infrastructure Limited and Energis Power Corporation Ltd. (proposed company) and accordingly the Consortium is primarily awarded the bid to establish 100 MW power project in Begherhat. But as on November 16, 2016 the Company didn't receive any formal information from the BPDB.
- SDL is the only Platinum Certified Textiles for such business in Bangladesh.
- SDL strictly complies with environment related laws and regulations in each and every sector of its green business operation and are continuously making its efforts to harmonize the green preservation and pollution control through some green endeavors.

Investment Negatives

- **The Company's gross profit margin has decreased by 2.8% in the first three quarter, due to the raw material price increase and unfavorable exchange rate fluctuations.** Net profit margin is also in decreasing trend due to the decrease of finance income and increase of operating and finance expenses.
- In recent periods raw cotton price has exhibited an increasing trend. **According to the indexmundi, Since November 2017, cotton price has increased by 29.8% in the global market.** Increased cotton price will have negative impact on the Company's profitability.
- The Company has exposure to foreign exchange risk for certain purchase of raw materials and machineries. Recent appreciation of USD against BDT may increase the cost of sourcing raw materials for the Company as it has to import around 30% of raw materials consumption.



Source: Bangladesh Bank

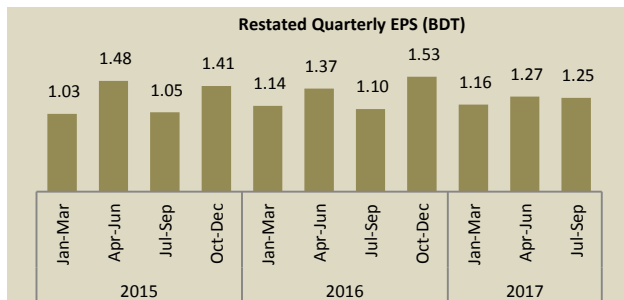
- Power supply agreement of EPCL with Bangladesh Power Development Board (BPDB) will expire on February 2019. Non-renewal of the tenure of the plant may affect the Company's profitability in the coming years as it contributes around 20% to the consolidated revenue.

- STL (99.57% owned subsidiary) was incorporated in 2003 but the company's commercial operation is yet to be started due to the delay of gas connection. STL has total asset of BDT 1,170 million, which is not generating any return.

Latest Quarter Update – March 2018 (Q 3)

Particulars (BDT mn)	Jul-Mar 2018	Jul-Mar 2017	Jan-Mar 2018	Jan-Mar 2017
Turnover	5,779	4,495	2,244	1,568
Growth	28.6%	--	43.1%	--
Gross Profit	956	857	321	276
Margin	16.5%	19.1%	14.3%	17.6%
Growth	11.6%	--	16.3%	--
Operating Profit	772	725	257	226
Margin	13.4%	16.1%	11.5%	14.4%
Growth	6.5%	--	13.7%	--
Net Profit	438	428	150	131
Margin	7.6%	9.5%	6.7%	8.4%
Growth	2.3%	--	14.5%	--

- Revenue has increased by 28.6% in Jul-Mar of 2017-18 over the same period of last year due to the increase in sales volume.
- Gross profit margin has decreased to 16.5% in the period from 19.1% in the same period of last year because of increased raw material price and unfavorable foreign exchange rate.

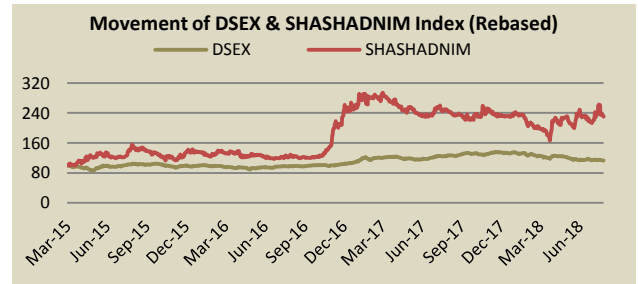
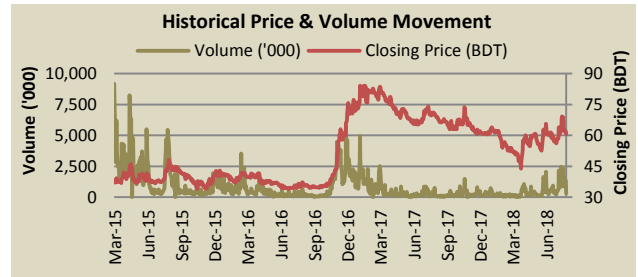


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Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Peer Forward P/E*	13.6	66.6
Market Forward P/E	15.4	75.5

* ARGONDENIM, ENVOYTEX and PDL have been considered as peer group.

Concluding Remark

The Company has increased its production capacity by 44.4%. The expanded capacity has already started to contribute to its revenue. The Company's subsidiaries are also performing well. Moreover, the acquisition of the 40% shares of EOS Textiles Mills Limited will enhance its profitability. Considering the expansion project and industry prospects, the Company has a bright future ahead.

Source: Annual Reports, DSE website, Company website, newspaper news, ILSL Research.