

### Company Background

Associated Oxygen Limited (AOL) is a producer and supplier of medical and industrial gases. AOL supplies oxygen and nitrogen in liquid and gaseous forms to industries and hospitals through its own sales network.

AOL was incorporated in 1990 as a private limited company and was converted to a public limited company in 2018. Its registered office is located in Agrabad, Chattagram and its plants are located in Sitakunda, Chattagram. AOL has no subsidiary or associate company.

AOL has 5 directors on its board. It is a completely family-owned company where all the directors, apart from the only independent director, are relatives. The directors also sit on the boards of Sonali Steel Enterprise, A&A Shipyard, and A&A Logistics. The chairman of AOL is Md Nizam Uddin Chowdhury who has 27 years of experience. Ismat Jahan is the MD & CEO of AOL. She has an overall experience of 11 years.

The capacity utilization of AOL is provided below:

	2015	2016	2017	2018	2019
Installed Capacity (Cubic Meter)	5,997,200	6,868,900	8,226,600	8,625,000	9,929,900
Actual Production (Cubic Meter)	4,623,091	5,374,736	6,450,500	7,398,037	9,035,298
Utilization	77.1%	78.2%	78.4%	85.8%	91.0%

### IPO Details

AOL will raise BDT 150 Mn as initial public offering (IPO) through the fixed price method. The fund will be used for the construction of store shed & new plant shed of 2,800 sqft. and 3,800 sqft. respectively beside the existing factory premise. Moreover, the fund will be used to overhaul an existing gas generator and purchase a new air compressor from a Chinese supplier. Finally, the proceeds will be used to repay loans from Basic Bank. The remainder of the fund will be used as IPO expense.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Construction of Store Shed & Plant Shed	68	45.4%
Acquisition of New Plant & Machineries	42	28.3%
Repayment of Bank Loan	20	13.3%
<b>Sub Total</b>	<b>131</b>	<b>87.0%</b>
IPO Expense	19	13.0%
<b>Total</b>	<b>150</b>	<b>100.0%</b>

### Key Points

- The primary customer of AOL is medical institutions and industries such as ship breaking and steel re-rolling. Therefore, the performance of the gas production and distribution industry is tagged with the development of the industries that use oxygen and nitrogen. Bangladesh is the global leader in shipbreaking. In 2018, Bangladesh dismantled 47.2% of the world's vessels. The reason for Bangladesh's leading position includes lower labor costs and weak enforcement of regulations. According to Bangladesh Ship Breakers and Recyclers Association (BSBRA), 221 ships were brought for demolition in 2015, 250 ships in 2016, 214 ships in 2017, and 221 ships in 2018. There isn't any growth in the size of the industry. Moreover, the advantage of weak regulations and low labor may diminish gradually. So, AOL may see a reduction in demand from the ship breaking industry. However, the medical institutions are expected to perform well. So, AOL is expected to see a rise in demand from medical institutions.
- There is an inequality regarding the compensation of directors and the top management of the company. Two directors who are 20 years old and have experience of 2-3 years are compensated with an annual salary of around BDT 750k whereas the top management who have an overall experience of 12-17 years get annual salary of BDT 360k-550k. This type of uneven compensation is unfair to the employees and hurts the non-director shareholders.
- AOL had a 20% CAGR in top line and 16.2% CAGR in the bottom line during the last 5 years which is an impressive performance for the company. Moreover, the company has a high gross profit margin and a net profit margin which ensures good profitability.
- There is no appropriate listed peer for AOL. Linde BD produces gas which constitutes only 20% of its total revenue. Linde BD also has a high margin. Both AOL and Linde have low leverage.
- AOL's primary raw materials are air and water. Air can be collected from nature and water is supplied by its own deep tube-well. Therefore, AOL has no possibility of facing any supply shock.

### Company Summary

Post IPO No. of Shares (Mn)	95
Post IPO Paid up capital (BDT Mn)	950
Pre IPO Paid up capital (BDt Mn)	800
New Shares Issued (Mn)	15
IPO Proceeds (BDT Mn)	150
Face Value	10
Market Lot	500
Free Float	16%
Accounting Year End	June
Auditor	Shiraz Khan Basak & Co.
Issue Manager	BD Finance Capital Holdings

### Income Statement

MM BDT	2016	2017	2018	2019
Revenue	226	269	311	401
Cost of Goods Sold	(92)	(110)	(128)	(150)
<b>Gross Profit</b>	<b>133</b>	<b>159</b>	<b>184</b>	<b>251</b>
Operating Expense	(39)	(44)	(50)	(63)
<b>Profit from Operation</b>	<b>94</b>	<b>114</b>	<b>133</b>	<b>188</b>
Financial Expenses	(6)	(6)	(7)	(10)
WPPF	0	0	0	(9)
<b>Profit before Tax</b>	<b>89</b>	<b>108</b>	<b>127</b>	<b>170</b>
Tax Provision	(20)	(22)	(19)	(61)
<b>Net Profit after Tax</b>	<b>68</b>	<b>86</b>	<b>108</b>	<b>109</b>
EPS (Pre-IPO)	0.85	1.08	1.34	1.37
EPS (Post-IPO)	0.72	0.91	1.13	1.15

### Balance Sheet

MM BDT	2016	2017	2018	2019
Property, Plant, & Equipment	663	755	1,009	1,394
Inventories	20	25	31	46
Trade & Other Receivables	44	47	75	147
Advance, Deposits & Prepayments	15	24	32	15
Cash & Cash Equivalents	1	1	1	1
<b>Total Assets</b>	<b>743</b>	<b>852</b>	<b>1,148</b>	<b>1,602</b>
Share Capital	1	1	100	800
Retained Earnings	344	430	480	590
Share Money Deposit	248	248	389	0
<b>Shareholders' Equity</b>	<b>593</b>	<b>679</b>	<b>969</b>	<b>1,390</b>
Long Term Loan (Non-Current Portion)	31	30	27	21
Long Term Loan (Current Portion)	29	27	20	20
Trade & Other Payables	13	15	14	15
Other Liabilities	78	100	118	157
<b>Total Liabilities</b>	<b>150</b>	<b>173</b>	<b>179</b>	<b>212</b>
<b>Total Equity &amp; Liabilities</b>	<b>743</b>	<b>852</b>	<b>1,148</b>	<b>1,602</b>
NAVPS (Pre-IPO)	7.41	8.49	12.11	17.37
NAVPS (Post-IPO)	6.24	7.15	10.20	14.63

### Cash Flow Statement

MM BDT	2016	2017	2018	2019
Operating activities	123	148	143	172
Investing activities	(133)	(139)	(309)	(467)
Financing activities	10	(9)	166	295
<b>Net Cash Flow</b>	<b>0.2</b>	<b>(0.1)</b>	<b>0.4</b>	<b>0.0</b>

### Ratios

	2017	2018	2019	Linde (2019)
Gross Profit Margin	59.0%	59.0%	62.6%	44.2%
Operating Profit Margin	42.5%	42.8%	47.0%	29.5%
Net Profit Margin	32.0%	34.5%	27.3%	21.7%
Revenue Growth	19.2%	15.8%	28.8%	21.9%
NPAT Growth	26.1%	25.0%	1.8%	22.7%
Inventory Turnover	4.92	4.59	3.91	3.79
Receivable Turnover	5.93	5.09	3.61	8.53
Payables Turnover	8.01	8.94	10.62	2.28
Debt to Equity	0.08	0.05	0.03	0.00
Return on Asset	10.8%	10.8%	8.0%	17.4%
Return on Equity	13.5%	13.0%	9.3%	25.7%

### Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable in the Fuel & Power sector are given below:

DSE Ticker	Market Cap (BDT mn)	TTM Earnings (BDT mn)	P/E
LINDEBD	19,158.3	1,055.0	18.2x
TITASGAS	34,523.8	3,893.0	8.9x

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### BRAC EPL Stock Brokerage Limited

#### Research

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Ayaz Mahmud, CFA	Head of Research	<a href="mailto:ayaz.mahmud@bracepl.com">ayaz.mahmud@bracepl.com</a>	01708 805 221
Sadman Sakib	Research Associate	<a href="mailto:sadman.sakib@bracepl.com">sadman.sakib@bracepl.com</a>	01730 727 939
Md. Rafiqul Islam	Research Associate	<a href="mailto:mrafiqulislam@bracepl.com">mrafiqulislam@bracepl.com</a>	01708 805 229
Md Mahirul Quddus	Research Associate	<a href="mailto:mmahirul.quddus@bracepl.com">mmahirul.quddus@bracepl.com</a>	01709 636 546

#### International Trade and Sales

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Ahsanur Rahman Bappi	CEO (Acting)	<a href="mailto:bappi@bracepl.com">bappi@bracepl.com</a>	01730 357 991
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### BRAC EPL Research

[www.bracepl.com](http://www.bracepl.com)

Symphony, Plot No. S.E. (F) - 9,  
Road No. 142, Gulshan-1, Dhaka  
Phone: +880 2 985 2446-50  
Fax: +880 2 985 2451  
E-Mail: [research@bracepl.com](mailto:research@bracepl.com)