



# BRAC EPL

## STOCK BROKERAGE LTD

Delta Hospital Ltd.

DSE: N/A; Bloomberg: N/A

Sector: Services & Real Estate

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### Company Background

Delta Hospital Limited (DHL) is a private hospital which is engaged in general medical treatment and cancer diagnosis and treatment. It provides a full range of radiation therapy, diagnostic facility, chemotherapy and surgery with consultant, pathologist, surgeon, medical oncologist, radiation oncologist & other physicians.

DHL was incorporated in June 1987 as a public limited company, and started its commercial operation in 1989 with the name "Delta Medical Centre Limited". The name got changed to Delta Hospital Limited in April 2007. Delta Hospital Limited installed a Cobalt60 machine in the year of 1994 which was the first initiative by a private sector hospital in Bangladesh for the treatment of cancer patients through radiotherapy.

Delta Hospital's FY19 revenue contribution is provided below:

Particulars	Revenue Contribution
Medicine & Vaccination	28%
Pathology	17%
LINAC Therapy	15%
Seat Rent	12%
Others	28%

Initially, the hospital started with 100 beds which were gradually increased to 250 beds in 1994. The company is currently working on an expansion project after which the number of beds will be increased to 400. The hospital had around 60% occupancy rate in the last 5 years. DHL currently has 149 doctors. Out of those doctors, 76 doctors are specialized with 13 specialized doctors in the Oncology department.

### IPO Details

Delta Hospital Ltd. will raise BDT 500 Mn as initial public offering (IPO) through book building method. The fund will be used for the procurement of medical equipment for an expansion project, loan repayment, and IPO expenses.

The expansion project involves constructing a 10 storied building with 150 beds next to the original building. The project includes setting up a Bone Marrow Transplantation Center, CT Simulator, Digital X-Ray, MRI Machine, and an External Beam therapy Machine. The first phase of the project has already been completed which includes the construction of the building and a few machinery procurement. The second phase of the project will be completed with funds from IPO and internal cash generation.

The loan repayment consists of partial repayment of BDT 88.6 million of NCC Bank Ltd.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Loan Repayment	89	17.7%
Procurement of Medical Equipment	389	77.8%
<b>Sub Total</b>	<b>478</b>	<b>95.5%</b>
IPO Expenses	22	4.5%
<b>Total</b>	<b>500</b>	<b>100%</b>

### Key Points

- According to a project of the World Health organization, some 200,000 new cancer cases are reported in Bangladesh every year. Of them, around 150,000 die. The onslaught of cancer cases in Bangladesh has established a huge need for proper cancer treatment facilities. There are only 1,683 hospitals out of which only 16 public & private hospitals provide treatment facilities for cancer. Delta Hospital Ltd. provides treatment of all types of diseases but specializes in providing cancer treatment and hence has an advantage among all the hospitals.
- Delta Hospital has shown moderate top-line growth over the last five years (~11.2% CAGR during 2015-19). The occupancy rate has been moderately stable. After the expansion project is completed, we may see the revenue growth momentum to continue. Moreover, if Delta Hospital can reach the current occupancy level in the next few years after the expansion project, it will ensure solid revenue growth.
- The bottom line has seen impressive growth during 2015-17. But in the previous two years, the bottom line showed a meager growth. The capex to sales has been around 35% for the past two years. The company financed the expansion project by taking loans. These have caused a higher depreciation and higher interest payment which resulted in a decrease of NPAT margin by 190 basis points from 2016 to 2019.
- The cash balance of DHL in FY'19 is only BDT 4 million. The quick ratio declined from 0.82 in FY'18 to 0.39 in FY'19. The liquidity condition of DHL is concerning. If the cashflow from investing activities doesn't improve, DHL may need to look for short term financing which will increase the debt to asset ratio from 0.37 to even a higher level. Moreover, if the IPO process gets delayed or cancelled due to any reason, the project needs to be completed with debt financing which will increase the leverage ratio further.
- DHL has a contingent liability of BDT 2.6 million related to VAT. An appeal is pending in the Supreme Court of Bangladesh with respect to the provisioning of additional VAT and penal VAT demanded by the Customs Excise VAT authorities. The required provision, if any arising out of the court case, will be made in the year of the case's disposal. As the amount of contingent liability is small, it is not a major concern for the company.
- The company invested in Globex Pharmaceuticals Limited with an aim to procure anti-cancer drugs in the future. Globex Pharma was a subsidiary of DHL. But the company off-loaded shares of Globex Pharma during 2014-16 which removed the controlling stake of DHL in Globex Pharma and thus abolished the subsidiary position as well. The product portfolio in Globex Pharma's website shows no cancer medication. So, the plan to procure cancer drugs from Globex hasn't been executed yet. The company's prime supplier of medicine is Beacon Pharma which is a cancer drug manufacturing pharmaceutical. If Globex starts to produce cancer drugs, it will have a positive effect on the profitability of DHL and also eliminate any uncertainty regarding medicine procurement.
- The major types of machinery of DHL are supplied by a group of well-reputed suppliers. They are bound by operational and maintenance contracts which eliminate any risk of over-dependence on a single supplier.

### Comparable & Trading Multiples

Trailing P/E multiple of another listed comparable stock is given below:

DSE Ticker	Market Cap (BDT Mn)*	LTM Earnings (BDT Mn)*	LTM P/E
SAMORITA	1,136	34.4	33.0x

\*Source: DSE, BEPL Research

### Company Summary

Post IPO No. of Shares (Mn)	N/A
Post-IPO Paid-up Capital (Mn BDT)	N/A
Pre-IPO Paid-up Capital (Mn BDT)	332
New Shares Issued (Mn)	N/A
IPO Proceeds (Mn BDT)	500
Face Value	10
Market Lot	N/A
Free Float	N/A
Accounting Year End	June
Auditor	FAMES & R
Issue Manager	Prime Finance Capital Management Ltd.

### Income Statement

Mn BDT	2015A	2016A	2017A	2018A	2019A
Revenue, Net	427	490	559	592	653
Direct Expenses	(255)	(289)	(320)	(351)	(397)
<b>Gross Profit</b>	<b>172</b>	<b>201</b>	<b>239</b>	<b>241</b>	<b>256</b>
G&A Expenses	(91)	(98)	(102)	(108)	(122)
<b>Operating Profit</b>	<b>81</b>	<b>102</b>	<b>137</b>	<b>133</b>	<b>134</b>
Finance Expenses	(14)	(11)	(36)	(35)	(48)
Non-Operating Income	7	11	11	16	13
<b>Profit Before WPPF</b>	<b>73</b>	<b>102</b>	<b>112</b>	<b>114</b>	<b>100</b>
Contribution to WPPF	(3)	(5)	(5)	(5)	(5)
<b>Profit Before Tax</b>	<b>70</b>	<b>98</b>	<b>107</b>	<b>108</b>	<b>95</b>
Income Tax Expense	(26)	(36)	(39)	(39)	(25)
<b>Profit after tax</b>	<b>44</b>	<b>62</b>	<b>68</b>	<b>69</b>	<b>70</b>
<b>Restated EPS - Pre IPO</b>	<b>1.31</b>	<b>1.86</b>	<b>2.05</b>	<b>2.08</b>	<b>2.10</b>

### Balance Sheet

Mn BDT	2015A	2016A	2017A	2018A	2019A
<b>Non-Current Assets</b>	<b>1,618</b>	<b>1,878</b>	<b>2,026</b>	<b>2,191</b>	<b>2,646</b>
Property, Plant & Equipment	1,422	1,562	1,860	1,990	2,162
Capital Work in Progress	196	316	166	201	483
<b>Current Assets</b>	<b>179</b>	<b>261</b>	<b>320</b>	<b>398</b>	<b>267</b>
Inventories	11	26	30	32	35
Accounts Receivables	34	22	18	21	31
Advance, Deposit & Prepay	36	56	124	215	152
Loan to Globex Pharma	10	10	10	10	10
Investment in Globex Pharma	42	34	34	34	34
Cash & Cash Equivalents	47	113	104	86	4
<b>Total Assets</b>	<b>1,797</b>	<b>2,139</b>	<b>2,347</b>	<b>2,589</b>	<b>2,913</b>
<b>Shareholders' Equity</b>	<b>1,258</b>	<b>1,329</b>	<b>1,462</b>	<b>1,492</b>	<b>1,523</b>
Share Capital	315	332	332	332	332
Share Premium	-	26	26	26	26
Retained earnings	62	94	126	160	194
Revaluation Reserves	881	877	978	974	971
<b>Non-Current Liabilities</b>	<b>345</b>	<b>560</b>	<b>603</b>	<b>704</b>	<b>913</b>
Long Term Loan	134	338	471	559	755
Deferred Tax Liabilities	211	222	132	144	159
<b>Current Liabilities</b>	<b>194</b>	<b>250</b>	<b>282</b>	<b>393</b>	<b>477</b>
Trade and Other Payables	50	39	33	32	30
Short Term Loan	16	47	56	86	136
Long Term Loan - Current	39	74	89	165	200
Provision for Current Tax	41	46	46	49	47
Others	48	44	58	61	64
<b>Total Equity and Liabilities</b>	<b>1,797</b>	<b>2,139</b>	<b>2,347</b>	<b>2,589</b>	<b>2,913</b>

### Cash Flow Statement

Mn BDT	2015A	2016A	2017A	2018A	2019A
Operating Activities	112	73	151	176	206
Investing Activities	(110)	(248)	(233)	(281)	(423)
Financing Activities	3	241	73	87	135
<b>Net Cash Flow</b>	<b>4</b>	<b>66</b>	<b>(9)</b>	<b>(19)</b>	<b>(81)</b>

### Ratios

	2015A	2016A	2017A	2018A	2019A
Gross Profit Margin	40.3%	41.0%	42.8%	40.7%	39.2%
Op. Profit margin	18.9%	20.9%	24.6%	22.5%	20.6%
Net Profit Margin	10.2%	12.6%	12.2%	11.7%	10.7%
Revenue Growth	-	14.7%	14.1%	6.0%	10.3%
NPAT growth	-	41.5%	10.0%	1.6%	1.3%
Current Ratio	0.92	1.04	1.14	1.01	0.56
Quick Ratio	0.60	0.76	0.88	0.82	0.39
Debt to Asset	0.11	0.21	0.26	0.31	0.37
Net Debt to Equity	0.11	0.26	0.35	0.49	0.71
Return on Asset	-	3.1%	3.0%	2.8%	2.5%
Return on Equity	-	4.8%	4.9%	4.7%	4.6%
Effective Tax Rate	37.6%	36.7%	36.5%	36.4%	26.3%

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