

### Company Background

Lub-rref (Bangladesh) Limited (LBL) manufactures and supplies lubricant products both in the domestic and export market. LBL exports its products to Nepal, Myanmar, and Eastern provinces of India. LBL was incorporated in November 2001 as a public limited company and subsequently commenced its operation in 2006.

Like all the other local competitors, LBL is import-reliant for a significant portion of its raw materials. It mainly blends and refines the imported components to prepare the desired formulations. LBL's current production capacity and utilization are given below -

	Capacity (Mn Ton)	Production (Mn Ton)	Utilization (%)
Blending	12,550	9,060	72.2%
Refining	4,527	4,220	93.2%

LBL has more than 85 different product lines to serve a wide range of customers. Engine oil, generator oil, marine engine oil, automotive gear oil, hydraulic oil, compressor oil, industrial gear oil, machine oil, transformer oil, grease, etc. are the major product categories. However, more than 90% of its revenue comes from the Mono grade and Industrial grade products.

LBL's 2019 Revenue Breakdown		
Product Category	Revenue (BDT Mn)	Revenue Contribution (%)
Mono Grade (Engine oil)	941	61.4%
Industrial Grade (Fluid, grease and etc.)	510	33.3%
Multi Grade (Engine oil)	75	4.9%
Marine Grade (Hydraulic oil, gear oil, etc.)	6	0.4%
Others	2	0.1%
Net Revenues	1,534	100.0%

### IPO Details

LBL will raise BDT 1,500 mn as initial public offering (IPO) through book building method. The fund will be used for the Business Expansion, Loan Repayment, and IPO expenses.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Acquisition & Installation of Machineries	980.0	65.3%
Loan Repayment	460.0	30.7%
<b>Sub Total</b>	<b>1,440.0</b>	<b>96.0%</b>
IPO Expenses	60.0	4.0%
<b>Total</b>	<b>1,500.0</b>	<b>100.0%</b>

### Key Points

- The size of Bangladesh lubricant industry was estimated to be BDT 28.6 bn in 2019. According to industry experts, this industry is expected to grow at a CAGR of 3.0% till 2024.
- ~65.0% of the lubricant demand comes from the local automotive sector. As per Bangladesh Road Transport Authority (BRTA), the local automotive sector grew by only 1.4% in 2019 and the COVID-19 pandemic has further worsened the situation. Hence, the lubricant industry is likely to remain slow until the automotive sector fully recovers from the impact of the COVID-19 pandemic.

	2016	2017	2018	2019	2020 (Annualized)
No. of Registered Vehicle	416,410	420,398	497,374	504,130	332,985
YoY Growth		1.0%	18.3%	1.4%	-33.9%

- After the automotive sector, the industrial sector is the second-highest contributor to the lubricant industry. About 30.0% of the lubricant demand comes from the industrial sector. The power sector is one of the largest consumers of lubricants. Nonetheless, the Bangladesh Power Development Board (BPDB) halted the approval of new power plants until further announcement.
- ~60.0% of the industry demand is served by the organized market and the remaining portion is addressed by the unorganized market. Low-quality products, the huge price difference between branded and non-branded products, and counterfeit products are the major challenges for the major players in the organized market like MJL Bangladesh Ltd. (MJLBD), LBL, etc.
- Bangladesh lubricant industry has with more than 100 local and imported brands. Imported brands meet about 60.0% of the industry demand. Mobil, a brand of MJLBD, is the market leader in the Bangladesh lubricant industry with 26.0% market share. BNO, Lub-rref's in-house brand, holds a 5.4% market share.
- LBL posted a topline 3-year CAGR of 18.1%, although the market leader MJLBD's topline grew by a CAGR of 6.0%. In 2016, LBL changed its accounting fiscal year from December to June. Therefore, the 2016 statements show 6-month figures (Jan'16-Jun'16). The YoY topline growth of 155.2% in 2017 will be 27.6% if we annualize the 2016 sales figure.
- Lube oil is one of the major raw materials of lubricant and all the domestic lubricant manufacturers are highly dependent on the global market for all the raw materials including additives. However, Bangladesh government regulates imported oil price to keep it stable for the local importers. LBL is maintaining a sustainable gross profit margin (GPM) of ~32.0% since 2017, whereas MJLBD's stand-alone GPM slumped to 27.3% in 2019 from 38.8% in 2017. Despite the sharp decline in GPM, MJLBD reported a stand-alone net profit margin of 15.2% in 2019, which is 166 bps higher than LBL's 2019 net profit margin of 13.5%.
- LBL reported ROE and ROA of 6.5% and 4.1%, respectively in 2019, whereas MJLBD's solo ROE and ROA were 13.3% and 7.3%, respectively in the corresponding period.
- As mentioned above, the major portion of the lubricant demand comes from the automotive sector and the industrial sector. To prevent the spread of COVID-19, Bangladesh government imposed a countrywide lockdown. Resultantly, all the regular business activities were prohibited during this period, which impacted these sectors negatively. Though these sectors are recovering fast, it may still take more time to reach the previous level. Thus, the lubricant industry may also remain sluggish until the first half of 2021.

### Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Fuel & power and Engineering sector are given:

DSE Ticker	Mcap (BDT Mn)*	LTM Earnings (BDT Mn)*	LTM PE*
MJLBD	27,399	1,852	14.8x
EASTRNLU	1,053	28	38.3x

\*As of 11 October 2020, Source: DSE, BEPL Research

### Company Summary

Pre-IPO Paid-up Capital (Mn BDT)	1,000
New Shares Issued (Mn)	45
IPO Proceeds (Mn BDT)	1,500
Face Value (BDT)	10
Market Lot	200
Free Float	31
Accounting Year End	June
Auditor	Ashraf Uddin & Co.
Issue Manager	NRB Equity Management Ltd

### Income Statement

Mn BDT	2016	2017	2018	2019	3M 2020
Net Revenues	465	1,187	1,376	1,534	413
Cost of Goods Sold	(324)	(802)	(934)	(1,041)	(280)
Gross Profit	141	385	442	493	133
Net Operating Expense	(17)	(49)	(58)	(57)	(17)
Operating Profit	123	336	384	436	116
Financial Expenses	(51)	(129)	(112)	(130)	(45)
Financial Income	-	-	1	3	1
Income from Others	1	2	12	7	2
Profit before WPPF	73	209	285	316	74
WPPF	-	-	(14)	(15)	(4)
Profit before Tax	73	209	272	301	70
Tax Expense	(12)	(58)	(67)	(93)	(10)
Net Profit after Tax	62	151	205	208	60
Comprehensive Income	-	1	320	1	0
Total Comprehensive Income	62	152	525	209	60
EPS (BDT)	0.62	1.51	2.05	2.08	0.60

### Balance Sheet

Mn BDT	2016	2017	2018	2019	3M 2020
PPE	2,306	2,883	3,357	3,627	3,764
<b>Non-current Assets</b>	<b>2,306</b>	<b>2,883</b>	<b>3,357</b>	<b>3,627</b>	<b>3,764</b>
Inventories	197	394	491	515	521
Receivables	302	351	346	408	407
Advances & Prepayments	139	282	279	352	361
Related Party Current Accounts	141	177	48	68	69
Cash and Cash Equivalents	12	74	131	78	72
<b>Current Assets</b>	<b>790</b>	<b>1,277</b>	<b>1,295</b>	<b>1,420</b>	<b>1,430</b>
<b>TOTAL ASSETS</b>	<b>3,096</b>	<b>4,160</b>	<b>4,651</b>	<b>5,047</b>	<b>5,195</b>
Share Capital	285	700	1,000	1,000	1,000
Share Premium	0	0	459	459	459
Revaluation Reserve	305	631	604	597	596
Retained Earnings	553	709	922	1,137	1,199
Share Money Deposit	199	549	0	0	0
<b>Shareholders' Equity</b>	<b>1,342</b>	<b>2,589</b>	<b>2,984</b>	<b>3,193</b>	<b>3,253</b>
Long-Term Loan	782	747	743	753	821
Others	114	166	254	309	315
<b>Non-current Liabilities</b>	<b>896</b>	<b>913</b>	<b>996</b>	<b>1,062</b>	<b>1,136</b>
Long-Term Loan	78	78	78	234	234
Short-Term Loan	753	542	521	439	446
Current Liabilities	859	658	670	792	806
Others	64	293	397	389	455
<b>Total Liabilities</b>	<b>1,754</b>	<b>1,571</b>	<b>1,667</b>	<b>1,854</b>	<b>1,942</b>
<b>TOTAL SHAREHOLDERS EQUITY &amp; LIABILITIES</b>	<b>3,096</b>	<b>4,160</b>	<b>4,651</b>	<b>5,047</b>	<b>5,195</b>

### Cash Flow Statement

Mn BDT	2016	2017	2018	2019	3M 2020
Operating Activities	294	-	439	399	149
Investing Activities	(386)	-	(455)	(405)	(185)
Financing Activities	88	-	73	(47)	30
<b>Net Cash Flow</b>	<b>(4)</b>	<b>-</b>	<b>57</b>	<b>(53)</b>	<b>(7)</b>

### Ratios

	2016	2017	2018	2019	3M 2020
Revenue Growth	-44.0%	155.2%	15.9%	11.5%	7.6%*
NPAT growth	-35.3%	144.7%	35.8%	1.5%	15.2%*
Gross Profit Margin	30.2%	32.4%	32.1%	32.1%	32.2%
Op. Profit margin	26.5%	28.3%	27.9%	28.4%	28.2%
Net Profit Margin	13.2%	12.7%	14.9%	13.5%	14.5%
Receivable Turnover	1.5x	3.4x	4.0x	3.8x	1.0x
Inventory Turnover	1.7x	2.0x	1.9x	2.0x	0.5x
Debt to Asset	52.1%	32.9%	28.9%	28.3%	28.9%
Net Debt to Equity	119.3%	50.1%	40.7%	42.3%	44.0%
Return on Asset (ROA)	2.0%	3.6%	4.4%	4.1%	4.6%*
Return on Equity (ROE)	4.6%	5.8%	6.9%	6.5%	7.4%*
Effective Tax Rate	16.0%	27.8%	24.8%	31.0%	14.8%
Interest bearing Debt	1,613	1,370	1,345	1,428	1,503

\*Annualized

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### BRAC EPL Stock Brokerage Limited

#### Research

Ayaz Mahmud, CFA	Head of Research	<a href="mailto:ayaz.mahmud@bracepl.com">ayaz.mahmud@bracepl.com</a>	01708 805 221
Anika Mafiz	Research Analyst	<a href="mailto:anika.mafiz@bracepl.com">anika.mafiz@bracepl.com</a>	01708 805 206
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:mrafiquislam@bracepl.com">mrafiquislam@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

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(3rd Floor), Road No.: 142

Gulshan Avenue, Dhaka – 1212

Phone: + (880)-2-9852446-50

Fax: + (880)-2-9852451-52

E-Mail: [research@bracepl.com](mailto:research@bracepl.com)