



Company Background

Queen South Textile Mills Ltd. (QSTML) is a 100% export oriented yarn dyeing company located in Dhaka Export Processing Zone, Savar. QSTML is engaged in dyeing different count of cotton, acrylic, nylon and viscose yarn in Bangladesh. Dyed yarn contributes 100% of the total revenue of the company. QSTML is the only dyeing factory in Bangladesh to obtain "W.S.T." environmental certificates. The company was incorporated in 2003 and started operation in mid-2005.

The current installed capacity of the company for yarn dyeing is about 42.0 Metric ton per day whereas the actual quantity of production is 31.1 Metric ton per day. QSTML sells its products through L/Cs to the 100% export oriented sweater manufacturers who consume the dyed yarn as raw materials for the production of readymade sweaters. Therefore, the final destination of the company's products is the overseas.

IPO Details

QSTML will raise BDT 150.0 million as IPO proceeds through fixed price method by offering 15.0 million ordinary shares of BDT 10.0 each. Proceeds from initial public offering (IPO) will be used for procuring automatic warehouse storage machine, modernization of factory unit, partial loan repayment and for IPO expenses. The break down of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Capital Machineries for Warehouse	74.6	49.8%
Modernization of Existing Factory	56.0	37.3%
Partial Loan Repayment	6.3	4.2%
IPO Expense	13.0	8.7%
Total	150.0	100.0%

Key Points

- Queen South Textile Mills Ltd. registered a 13.6% decline in revenue in 2015. The NPAT of the company declined by 43.8% as a result of the above-mentioned decline in revenue and shrink in profitability margins. However, in 2016, the company achieved 1.6% growth in top line and 8.3% growth in bottom line, primarily due to profitability margins improvement.
- QSTML is raising IPO proceeds primarily for purchasing capital equipment. 87.1% of the IPO proceeds will be utilized for automation of warehouse, and modernization of the factory. These ventures are expected to increase the efficiency of the company's manufacturing line which is expected to increase the revenue from 2019.
- QSTML reported a top line CAGR of 2.0% over last five years with an average gross profit margin of 9.4%. The bottom line CAGR was 21.2% with an average net profit margin of 4.1%. Margin improvement significantly over the period drove the bottom-line growth.
- In 2016, Queen South Textile Mills Ltd. increased its equity by declaring 388.0% stock dividend and issuing BDT 150.0 million worth of fresh share capital. The company is yet to declare any cash dividend for its shareholders.
- For better quality assurance and steady production, the company depends on both foreign and local suppliers. As numbers of suppliers of raw materials are plenty in the market, there is no possibility of disruption. However, QSTML procures a good amount of raw materials from foreign suppliers of Hong Kong, Vietnam, Taiwan, India, China, and Singapore. Therefore, any fluctuation of currency and raw material prices in international markets will impact the company's COGS and hence the margins.

Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Textile sector are given below:

DSE Ticker	Market Cap *	TTM Earnings*	P/E
SHEPHERD	4,167.1	134.9	30.9x
ANLIMAYARN	569.9	19.6	29.1x
NURANI	1,798.6	115.4	15.6x

* in BDT Million

Company Summary

Post IPO No. of Shares (Mn)	100.15
Post-IPO Paid-up Capital (Mn BDT)	1001.5
Pre-IPO Paid-up Capital (Mn BDT)	851.5
New Shares Issued (Mn)	15.0
IPO Proceeds (Mn BDT)	150.0
Face Value & Offer Price (BDT)	10.0
Market Lot	500.0
Free Float	15.0%
Accounting Year End	December
Auditor	Mahfel Huq & Co.
Issue Manager	Alpha Capital Management Ltd.

Income Statement

Mn BDT	2012	2013	2014	2015	2016
Revenue	3,021	3,377	3,721	3,216	3,268
COGS	(2,743)	(3,061)	(3,370)	(2,921)	(2,945)
Gross Profit	279	315	351	295	323
Fc Gain/(Loss)	(111)	(28)	2	4	(2)
Operating Expenses:	(62)	(74)	(83)	(88)	(104)
Administrative Expenses	(62)	(74)	(68)	(73)	(90)
Distribution Cost	-	-	(14)	(15)	(14)
Operating Income	105	213	270	203	217
Other Income	0	0	0	0	0
Financial Expenses	(46)	(44)	(59)	(74)	(65)
EBT	59	170	211	130	153
Income Tax Expense	-	-	-	(11)	(24)
NPAT	59	170	211	118	128
Basic EPS (BDT)	0.85	2.42	3.01	1.69	1.86

Balance Sheet

Mn BDT	2012	2013	2014	2015	2016
Fixed Assets	740	708	686	705	1,261
Property, Plant and Equipment	721	683	686	705	1,186
Constructional Work in Progress	18	25	-	-	75
Current Assets:	1,189	1,529	2,021	2,119	4,006
Inventory	685	1,135	1,422	1,362	2,544
Trade & Other Receivables	438	326	473	553	1,027
Advance, Deposits & Prepayments	36	40	45	64	153
Investment FDR	21	22	22	22	41
Cash and Cash Equivalents	8	6	59	117	241
Total Asset	1,929	2,237	2,707	2,824	5,267
Share Holders' Equity:	624	793	1,004	1,087	2,351
Share Capital	144	144	144	144	919
Retained Earnings	480	650	861	943	1,432
Non-Current Liabilities:	225	508	546	495	904
Long Term Borrowing	225	508	546	455	829
Deferred Tax Liability	-	-	-	40	75
Current Liability	1,080	936	1,156	1,242	2,013
Trade & Other Payables	808	704	861	722	1,091
Current Portion of Long Term Loan	-	-	-	22	60
Short Term Borrowing	225	188	256	443	698
Liabilities for Expenses	47	43	40	55	164
Total Equity and Liabilities	1,929	2,237	2,707	2,824	5,267

Cash Flow Statement

Mn BDT	2012	2013	2014	2015	2016
Operating Activities	0	(150)	67	116	152
Investing Activities	(115)	(56)	(59)	(100)	(40)
Financing Activities	88	203	46	44	(26)
Net Cash Flow	(26)	(2)	53	61	86

Ratios

	2012	2013	2014	2015	2016
Gross Profit Margin	9%	9%	9%	9%	10%
Operating Profit margin	4%	6%	7%	6%	7%
Net Profit Margin	2%	5%	6%	4%	4%
Revenue Growth	N/A	12%	10%	-14%	2%
Gross Profit Growth	N/A	13%	11%	-16%	10%
Operating Profit Growth	N/A	103%	27%	-25%	7%
NPAT Growth	N/A	185%	24%	-44%	8%
Debt to Asset	23%	31%	31%	33%	30%
Net Debt to Equity	71%	87%	78%	74%	57%
Return on Asset	3%	7%	8%	3%	2%
Return on Equity	8%	19%	20%	7%	5%
Effective Tax Rate	0%	0%	0%	9%	16%

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