

### Company Background

S.S. Steel Limited is a manufacturer and seller of MS-Rod, MS-Billets and MS-Ingot bars. The company commenced commercial operation in 2001 and was converted as a public limited company in 2016. The company's products are marketed only in Bangladesh. SS TIGER 500W TMT MS-Reformed BAR is the major product of the company. As of June 2017, the company's production capacity was 108,000 tons with an utilization of ~60%. According to the management of the company, after three years the installed capacity will increase to 120,000 tons and the capacity utilization may have a CAGR of 7.9% during the period.

The chairman of the company, Mr. Javed Opgenhaffen, is also the chairman of Fu-Wang Ceramic Industry Limited (DSE: FUWANGCER) and Managing Director of N.J. Holdings Ltd. He previously occupied the position of Managing Director & Director at Generation Next Fashions Ltd (DSE: GENNEXT). The management team is led by the Managing Director and CEO Mr. Mohammad Shirajul Islam who also holds the director position of Fu-Wang Ceramic Industry Limited and N.J. Holdings Ltd. On the basis of the pre-IPO number of shares, the Chairman owns 31.45%, the Managing Director owns 2.28%, institutional investors own 30.52% and individual investors hold the remaining 27.85% shares of the company. S. S. Steel Limited has no subsidiary, associate or holding company.

Notably, as of June 2017, S.S. Steel raised BDT 2,100.5 million through a private placement to repay loans and acquiring property, plant, and equipment.

### IPO Details

S.S. Steel Limited will raise BDT 250.0 million as IPO proceeds through fixed price method by offering ~25.0 million ordinary shares of BDT 10.0 each. Proceeds from the initial public offering will be used for acquiring new Induction Melting Furnace with a nominal holding capacity of 15 tons and three brand new MWM Gas Generator with a capacity of ~2000 KWe alternator terminal, and construction of new buildings. These ventures are to be implemented within 18 months after receiving the IPO proceeds and will have a positive impact on the company's revenue and the capacity utilization. The break down of the use of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Induction Melting Furnace	14.4	5.8%
MWM Gas Generator	199.9	80.0%
Construction of New Building	15.1	6.0%
Estimated IPO Expenses	20.6	8.2%
<b>Total</b>	<b>250.0</b>	<b>100.0%</b>

### Key Points

- S.S. Steel Limited has reported a top line CAGR of 8.0% from September 2013 to June 2018 (after annualizing) with an average gross profit margin of 21.9%. The bottom line CAGR was 72.6% with an average net profit margin of 5.0%. There is a 0.9% growth in the revenue in 2018.
- The company's capacity utilization for the finished product (MS Rod) is ~60% while the capacity utilization for the intermediate product (MS Billet/Ingot) is about 90%. Hence, the company is going for capacity expansion of intermediate products using IPO proceeds to synchronize the simultaneous productions.
- S.S. Steel Limited meets 80% of its power requirement with own gas generator.
- Currently, Bangladesh consumes around 8 million tons of steel a year, which is expected to reach 18 million tons by 2030. The steel industry in Bangladesh is still largely dependent on domestic growth drivers such as government infrastructure projects and the real estate industry. With the upcoming govt. led mega projects, the steel industry is likely to realize high growth.
- Although there are currently over 400 active firms in the industry, the top 20 companies service more than half of the demand. BSRM, the market leader, currently produces more than 0.6 million MT of steel per year, with plans to scale up production capacity by 0.3-0.4 million tons a year. As BSRM and other top firms such as AKS, GPH, and Bashundhara Steel expanded their capacity and improved their technological capabilities in the last few years, the industry is becoming increasingly more competitive. Notably, already the production surplus is more than 50% of the total domestic demand.
- There is a lack of disclosures regarding financial data as there are no proper reasons mentioned behind the sharp 34.2% YoY growth in revenue in FY 2017 and the unusual 92.7% effective tax rate in 2015.

### Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Steel sector are given

DSE Ticker	Market Cap*	TTM Earnings*	P/E**
BSRMSTEEL	23,196.3	1,800.8	12.9x
GPHISPAT	12,442.8	689.9	18.1x
BSRMSTEEL	5,019.0	751.2	6.7x

\*In BDT Million \*\*Collected from S&P Capital IQ

### Company Summary

Post IPO No. of Shares (Mn)	245.0
Post-IPO Paid-up Capital (Mn BDT)	2,450.0
Pre-IPO Paid-up Capital (Mn BDT)	2,200.0
New Shares Issued (Mn)	25.0
IPO Proceeds (Mn BDT)	250.0
Face Value (BDT)	10
Market Lot	500
Free Float	10.2%
Accounting Year End	June
Auditor	MABS & J. Partners
Issue Manager	Citizen Securities & Investment Limited

### Income Statement

Mn BDT	2014*	2015*	2016*	2017*	2018**
Revenue	2,105	2,144	2,238	3,003	3,029
Cost of Goods Sold	(1,733)	(1,692)	(1,708)	(2,323)	(2,141)
<b>Gross Profit</b>	<b>372</b>	<b>452</b>	<b>529</b>	<b>681</b>	<b>888</b>
Operating Expenses	(86)	(86)	(127)	(201)	(200)
<b>Trading profit</b>	<b>286</b>	<b>366</b>	<b>403</b>	<b>480</b>	<b>688</b>
Financial Expenses	(250)	(201)	(188)	(154)	(208)
Other Income	1	1	3	5	6
<b>Profit before provisions</b>	<b>36</b>	<b>166</b>	<b>218</b>	<b>331</b>	<b>487</b>
Provisions	(2)	(8)	(8)	(16)	(23)
<b>Profit before income tax</b>	<b>34</b>	<b>158</b>	<b>211</b>	<b>315</b>	<b>464</b>
Provision for income tax	(6)	(147)	(20)	(50)	(162)
<b>Profit after income tax</b>	<b>28</b>	<b>12</b>	<b>191</b>	<b>265</b>	<b>301</b>

### Balance Sheet

Mn BDT	2014*	2015*	2016*	2017*	2018**
<b>Non-Current Assets</b>	<b>1,238</b>	<b>1,309</b>	<b>2,439</b>	<b>2,800</b>	<b>2,887</b>
PP&E	1,127	1,309	2,172	2,526	2,808
Investment Property	1	-	267	274	-
Capital Work-in Progress	110	-	-	-	79
<b>Current Assets</b>	<b>1,382</b>	<b>1,676</b>	<b>2,583</b>	<b>3,296</b>	<b>3,625</b>
Inventories	906	1,003	1,327	1,322	1,320
Accounts Receivable	376	576	801	1,058	1,156
Advances & Deposits	76	82	387	783	1,096
Cash & Cash Equivalent	24	16	68	132	52
<b>Total Assets</b>	<b>2,620</b>	<b>2,985</b>	<b>5,022</b>	<b>6,096</b>	<b>6,512</b>
<b>Shareholders' Equity</b>	<b>671</b>	<b>610</b>	<b>3,150</b>	<b>3,415</b>	<b>3,641</b>
Share Capital	100	100	2,200	2,200	2,200
Retained Earnings	75	92	192	469	703
Revaluation Surplus	497	418	757	746	738
<b>Non-Current Liabilities</b>	<b>249</b>	<b>1,011</b>	<b>761</b>	<b>693</b>	<b>778</b>
Long Term Loan	249	813	487	397	440
Deferred Tax Liabilities	-	197	274	296	339
<b>Current Liabilities</b>	<b>1,701</b>	<b>1,364</b>	<b>1,112</b>	<b>1,988</b>	<b>2,093</b>
Trade & Other Payable	208	258	218	421	405
Long Term Loan-Current Portion	172	82	31	95	58
Short Term loan	1,305	979	767	1,338	1,396
Provisions	2	10	19	36	55
Provision for Tax	14	35	77	99	177
<b>Total Equity and Liabilities</b>	<b>2,620</b>	<b>2,985</b>	<b>5,022</b>	<b>6,096</b>	<b>6,512</b>

### Cash Flow Statement

Mn BDT	2014*	2015*	2016*	2017*	2018**
Operating Activities	144	24	62	115	185
Investing Activities	(196)	(97)	(160)	(444)	(175)
Financing Activities	53	64	159	393	(90)
Cash-Beginning of the year	23	24	6	68	132
<b>Net Cash Flow</b>	<b>24</b>	<b>16</b>	<b>68</b>	<b>132</b>	<b>52</b>

### Ratios

	2014*	2015*	2016*	2017*	2018**
Gross Profit Margin	18%	21%	24%	23%	29%
Op. Profit margin	14%	17%	18%	16%	23%
Net Profit Margin	1%	1%	9%	9%	10%
Revenue Growth	0%	2%	***N/A	34%	1%
Gross Profit Growth	5%	22%	***N/A	29%	30%
Op. Profit Growth	3%	28%	***N/A	19%	43%
NPAT growth	23%	-58%	***N/A	39%	14%
Debt to Asset	66%	63%	26%	30%	29%
Net Debt to Equity	254%	305%	39%	50%	51%
Return on Asset	1%	0%	4%	4%	5%
Return on Equity	4%	2%	6%	8%	8%
Effective Tax Rate	19%	93%	9%	16%	35%

\*2014 & 2015 ended in September, 2016 & 2017 ended in June

\*\*2018 till March (Annualized)

\*\*\*Not comparable

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