

### Company Background

Walton Hi-Tech Industries Ltd. (WHIL) is the largest manufacturer of refrigerator, freezer, air conditioner, television, and other electronic home appliances in Bangladesh. WHIL's products are sold under two different brand names—Walton and Marcel. Walton is the most renowned consumer electronic brand in Bangladesh, and it is the largest and second-largest market player in the refrigerator and television segment respectively. Compared to Walton, Marcel is yet to grow as a brand.

WHIL was incorporated in April 2006 as a private limited company and started its commercial operation in 2008. It was converted into a public limited company in 2018. WHIL has neither any holding company nor any subsidiary.

Walton Hi-Tech's FY19 product wise revenue contribution is given below:

Product Name	Revenue Contribution
Refrigerator	87.9%
Air Conditioner	4.3%
Television	6.3%
Home Appliance	0.1%
Others	1.4%

WHIL also manufactures compressors for air conditioners and refrigerators. But the revenue contribution from compressor sales is not reported separately since ~99% of the compressor is internally used as a raw material of refrigerator and air conditioner for Walton and Marcel. With the inauguration of WHIL's compressor plant, Bangladesh has emerged as the 15th compressor manufacturing country in the world and 2nd in SAARC.

WHIL's production capacity and utilization in FY 2019 are given below:

Product Name	Installed Capacity (Unit)	Actual Production (Unit)	Capacity Utilization (%)
Refrigerator	1,750,000	1,851,058	105.8%
Air Conditioner	50,000	50,903	101.8%
Television	300,000	273,277	91.0%
Compressor	1,000,000	900,000	90.0%

### IPO Details

WHIL will raise BDT 1,000 mn as an initial public offering (IPO) through the book building method. The fund will be used for its existing Balancing, Modernization, Rehabilitation, and Expansion (BMRE) projects along with the adaptation of new technology, loan repayment, and IPO expenses. A portion of the BMRE funds will be utilized to make payment of import documents against machinery and equipment for the BMRE of existing projects of WHIL.

The loan repayment consists of partial repayment of BDT 60 mn of BRAC Bank Ltd., BDT 60 mn of The City Bank Ltd., BDT 60 mn of Prime Bank Ltd., BDT 70 mn of Eastern Bank Ltd., and BDT 80 mn of Dutch Bangla Bank Ltd.

The breakdown of the IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Loan Repayment	330	33.0%
BMRE of Existing Projects	625	62.5%
<b>Sub Total</b>	<b>955</b>	<b>95.5%</b>
IPO Expenses	45	4.5%
<b>Total</b>	<b>1,000</b>	<b>100%</b>

### Key Points

- To prevent the spread of COVID-19, Bangladesh was under complete lockdown from 26th March 2020 to 30th May 2020. Business activities were slow during this period and all the showrooms and stores of consumer durable goods were also closed till the beginning of May 2020 owing to restriction from the local authority. In the second half of May 2020, showrooms were allowed to open but for limited hours. Hence, WHIL management is afraid that the company's turnover and net profit may slump by YoY 30% in FY20.
- Before the outbreak of COVID-19, the local white goods industry size was USD 1.7 billion, and the refrigerator segment contributed about 53% of the industry. Walton is the market leader in this segment with 54% of the market share. The television segment forms 18% of the industry, and Walton is the largest market player in this segment with 27% of the market share. In the air conditioner segment, Walton is yet to establish itself as a trusted brand, though the company reported 140% air conditioners sales growth in FY19. The refrigerator and air conditioner segment grew by a 5-year CAGR of 17.4% and 25.0%, respectively till FY19. Television sales also increased by 20% in FY19. Along with that, WHIL exports to more than 35 countries in the world. USA, Turkey, and India are recent additions in this list.
- Compressor demand in Bangladesh reached 3 million in 2019, but all the white goods manufacturers except WHIL are fully dependent on the imported compressors for their products. So, WHIL has the opportunity to create a local compressor market in Bangladesh. Moreover, WHIL has recently received a compressor export order from Turkey.
- Bangladesh government is offering incentives to encourage domestic white goods production. WHIL, at present, is enjoying VAT exemption on the air conditioner, refrigerator, and compressor production. On other products such as television, washing machine, and other home appliances, 15% VAT is applicable. This exemption is valid until June 2021. Other competitors like Samsung, LG, Gree, General, and others who are mainly import reliant, are missing out on this exemption. If the government discontinues the exemption after June 2021, WHIL's gross margin will certainly be impacted.
- In 2009, the National Board of Revenue (NBR) granted a tax waiver for local white goods manufacturers. Since then, manufacturers of freezers and refrigerators are enjoying only a 5% income tax rate, whereas it is 25% and 35% for listed companies and non-listed companies, respectively. In 2010, the air conditioners were also included in this tax exemption list. This waiver is applicable for the next 12 years, since the commencement of operation. Resultantly, WHIL's effective tax rate was 6.8% in FY19. However, the 12-year tenure for WHIL has ended in April 2020 and the new tax rate will be 10% for WHIL on the aforementioned products. Hence, the effective tax rate will increase and WHIL's bottom-line will be impacted.
- Due to its extensive market coverage with more than 14,000 point-of-sales alongside competitive pricing, WHIL enjoys a lot of benefits over its competitors. Besides, WHIL's 25% revenue comes from Walton Plaza and Walton E-Plaza, two of its sister concerns.

### Comparable & Trading Multiples

Trailing P/E multiple of another listed comparable stock in the Engineering sector is given:

DSE Ticker	Market Cap (BDT Mn)*	LTM Earnings (BDT Mn)*	LTM P/E
SINGERBD	15,105	710	21.3x

\*Source: DSE, BEPL Research

### Company Summary

Post IPO No. of Shares (Mn)	302.9
Post-IPO Paid-up Capital (Mn BDT)	3,029.3
Pre-IPO Paid-up Capital (Mn BDT)	3,000
New Shares Issued (Mn)	2.9
IPO Proceeds (Mn BDT)	1,000
Offer Price (BDT) General Investor	252.0
Market Lot	20
Free Float (%)	0.97
Accounting Year End	June
Auditor	Mahfel Haq & Co. Chartered Accountants
Issue Manager	AAA Finance & Investment Limited

### Income Statement

Mn BDT	2015A	2016A	2017A	2018A	2019A
Revenue	20,996	26,566	31,931	27,330	51,773
Cost of Sales	(14,091)	(17,376)	(20,585)	(19,323)	(30,806)
<b>Gross Profit</b>	<b>6,905</b>	<b>9,190</b>	<b>11,347</b>	<b>8,007</b>	<b>20,968</b>
Administrative Expenses	(524)	(640)	(685)	(677)	(829)
Selling Expenses	(468)	(900)	(1,110)	(1,438)	(3,239)
Provision for WPPF	(266)	(329)	(392)	(191)	(738)
<b>Operating Profit</b>	<b>5,647</b>	<b>7,322</b>	<b>9,159</b>	<b>5,702</b>	<b>16,162</b>
Other Income	183	139	149	40	98
<b>Profit before Finance Cost</b>	<b>5,829</b>	<b>7,460</b>	<b>9,308</b>	<b>5,742</b>	<b>16,260</b>
Financial Expenses	(501)	(878)	(1,462)	(1,929)	(1,494)
<b>Profit before Income Tax</b>	<b>5,328</b>	<b>6,583</b>	<b>7,846</b>	<b>3,812</b>	<b>14,766</b>
Income Tax	(302)	(368)	(501)	(289)	(1,005)
<b>Profit after Income Tax</b>	<b>5,026</b>	<b>6,215</b>	<b>7,345</b>	<b>3,523</b>	<b>13,761</b>
<b>EPS</b>	<b>16.75</b>	<b>20.72</b>	<b>24.48</b>	<b>11.74</b>	<b>45.87</b>

### Balance Sheet

Mn BDT	2015A	2016A	2017A	2018A	2019A
<b>Non-Current Assets</b>	<b>8,643</b>	<b>14,212</b>	<b>23,274</b>	<b>58,696</b>	<b>60,230</b>
Property, Plant & Equipment	7,318	9,464	18,623	54,861	57,576
Intangible Assets	25	24	44	40	29
Investments	100	100	280	794	494
Other Non-Current Assets	1,200	4,618	4,326	3,000	2,131
<b>Current Assets</b>	<b>11,659</b>	<b>19,062</b>	<b>29,637</b>	<b>23,666</b>	<b>43,198</b>
Inventories	4,411	11,004	16,075	12,305	13,530
Trade and Other Receivables	2,796	4,359	8,914	8,377	24,480
Advance, Deposit & Prepay	2,756	2,093	1,612	941	3,575
Short Term Investment	952	827	1,318	902	583
Cash and Cash Equivalents	742	779	1,718	1,142	1,030
<b>Total Assets</b>	<b>20,302</b>	<b>33,273</b>	<b>52,911</b>	<b>82,362</b>	<b>103,428</b>
<b>Shareholders' Equity</b>	<b>10,715</b>	<b>16,929</b>	<b>24,274</b>	<b>59,217</b>	<b>72,978</b>
Share Capital	100	100	100	3,000	3,000
Retained earnings	10,615	16,829	24,174	24,794	38,588
Revaluation Reserves	-	-	-	31,420	31,391
<b>Non-Current Liabilities</b>	<b>749</b>	<b>2,396</b>	<b>4,866</b>	<b>10,024</b>	<b>7,079</b>
Long Term Loan	697	2,346	4,757	9,372	6,195
UNDP Fund	52	50	45	20	95
Deferred Tax Liabilities	-	-	64	633	789
<b>Current Liabilities</b>	<b>8,838</b>	<b>13,948</b>	<b>23,771</b>	<b>13,121</b>	<b>23,371</b>
Trade and Other Payables	262	529	481	361	877
Short Term Loan	7,447	11,085	20,015	8,221	16,371
Long Term Loan - Current	-	708	1,323	3,044	2,837
Provisions and Accruals	1,128	1,622	1,946	1,495	3,287
<b>Total Equity and Liabilities</b>	<b>20,302</b>	<b>33,273</b>	<b>52,911</b>	<b>82,362</b>	<b>103,428</b>

### Cash Flow Statement

Mn BDT	2015A	2016A	2017A	2018A	2019A
Operating Activities	2,408	608	119	9,758	408
Investing Activities	(5,706)	(6,587)	(10,762)	(4,871)	(3,990)
Financing Activities	2,337	6,016	11,582	(5,628)	3,471
<b>Net Cash Flow</b>	<b>(962)</b>	<b>37</b>	<b>939</b>	<b>(740)</b>	<b>(112)</b>

### Ratios

	2015A	2016A	2017A	2018A	2019A
Gross Profit Margin	32.9%	34.6%	35.5%	29.3%	40.5%
Operating Profit margin	28.2%	28.8%	29.9%	21.6%	32.6%
Net Profit Margin	23.9%	23.4%	23.0%	12.9%	26.6%
Revenue Growth	28.5%	26.5%	20.2%	-14.4%	89.4%
NPAT growth	59.8%	23.7%	18.2%	-52.0%	290.6%
Receivable Turnover	11.9x	7.4x	4.8x	3.2x	3.2x
Inventory Turnover	3.2x	2.3x	1.5x	1.4x	2.4x
Debt to Asset	0.4x	0.4x	0.5x	0.3x	0.2x
Net Debt to Equity	0.7x	0.8x	1.0x	0.3x	0.3x
Return on Asset	31.3%	23.2%	17.0%	5.2%	14.8%
Return on Equity	61.3%	45.0%	35.7%	8.4%	20.8%
Effective Tax Rate	5.7%	5.6%	6.4%	7.6%	6.8%

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