

Company Background

New Line Clothings Ltd. (NLCL) is a readymade garment company. The principal activities of the company are to manufacture and market various kinds of woven garments for both ladies and gents including trousers, shirts, children wear, gents wear, female wear, jackets, sportswear, denim garments.

NLCL was incorporated on May 23, 2000. It commenced commercial operation on March 01, 2007 and it was converted into a public limited company on September 30, 2013. The registered office and factory of the company are located in Gazipur, Bangladesh. The sponsors of the company, Mrs. Rubaba Matin and Mr. Mainul Matin, have resigned from NLCL in February 2004 and transferred their entire shares. Currently, Mr. Osman Khadem is the chairman of the company. Mr. M Zakir Chowdhury is the Managing Director and CEO of the company and has 23 years of experience in the industry and with international buyers. Mr. Khadem and Mr. Zakir hold 6.9% and 3.4% shares (post IPO) of the company, respectively. Sigma Technologies Ltd. owns 11.42% of NLCL on post IPO basis. The vice chairman, Mashiul Haq Chowdhury, is a cousin of the chairman. Moreover, one of the directors, Maruful Haque Chowdhury, is a cousin of the chairman and younger brother of the vice chairman.

Currently, the company manufactures garments (woven) in its own factory and its capacity is given below -

| Product Name | Installed Capacity (Units) | Actual Production Capacity (Units) | Capacity Utilization (%) |
|------------------|----------------------------|------------------------------------|--------------------------|
| Garments (Woven) | 8.4 Mn | 6.4 Mn | 76.2% |

IPO Details

New Line Clothings Ltd. will raise BDT 300.0 million as IPO proceeds through fixed price method by offering 30.0 million ordinary shares of BDT 10.0 each. Proceeds from the initial public offering will be used for business expansion and loan repayment. The company will acquire machinery from Spark International, Modern Erection Limited, and Wintex Resources Ltd. Under the expansion project, the company will construct the 5th floor of their factory where the fund will be used for civil construction, electrification, furniture, and fire protection & detection. The long term loan repayment is due to Southeast Bank. The purpose of the loan was to facilitate smooth adjustment, construction and local purchase/import of machinery, compliance equipment & up gradation of compliance of the factory. The break down of the use of IPO proceeds is shown below:

| Use of IPO Proceeds | Mn BDT | % of Proceed |
|---------------------|--------|--------------|
|---------------------|--------|--------------|

Business Expansion:

| | | |
|----------------------------------|---------------|---------------|
| Acquisition of Plant & Machinery | 117.68 | 39.2% |
| Extension of Factory Building | 76.38 | 25.5% |
| Sub-Total | 194.07 | 64.7% |
| Loan Repayment (Partial) | 90.00 | 30.0% |
| IPO Expenses | 15.93 | 5.3% |
| Total | 300.00 | 100.0% |

Key Points

- The readymade garment industry is consistently contributing to the development of Bangladesh by generating about 81% of the total export earnings of the country. But the workplace safety and worker's rights issue transformed the whole industry. Accord and Alliance has already completed all the factory inspection to ensure workplace safety. It found 2% of the factories vulnerable and closed down immediately. The National Action Plan (NAP) will also inspect all the factories in the country in August 2019. To satisfy the employee rights, the minimum wage of RMG workers has been already raised by 219% and labor law has also been amended. Factories are also adopting new green technologies to ensure environmental compliance.
- NLCL recorded 18.2% and 29.5% top-line growth in 2014 and 2017 respectively. But in 2015 and 2016, it posted a negative growth of 12.2% and 7.4% successively. Thus, NLCL registered 4-year top-line CAGR of 5.6%. However, NLCL's bottom line posted 4-year CAGR of -11.4% mainly due to high operating expense and increasing effective tax rate. In 2015, NLCL's effective tax rate jumped to 27.1% from 9.1% in 2014. The effective tax rate continued to rise and reached 30.3% in 2016 but this rate drastically reduced to 13.6% in 2017. Hence, we can see a slight improvement in net profit margin in 2017.
- NLCL sources its raw materials from Bangladesh as well as other countries such as China, Pakistan, Hong Kong etc. Therefore, the company is highly exposed to exchange rate risk. But the availability of suppliers all over the world ensures uninterrupted supply of raw materials for NLCL.
- NLCL sells its products in the international market. UK and Germany are two of the major international markets. ALDI, C & A, PRIMARK, and LIDL are some of its notable clients. To serve these diversified target market segments, NLCL always needs to keep eyes on upcoming trend.
- The company gets 379 KW electricity from Bangladesh Rural Electrification Board and necessary gas supply from Titas Gas Transmission & Distribution Company Ltd. Therefore, if the government increases the gas and utility price, NLCL's gross margin will decline. But to back up during load shedding, NLCL has four diesel generator with total capacity 1,250 KVA.
- NLCL focuses on competitive pricing strategy to offer its products at a low price. The company also provides customized products as per customer demand. However, we believe the increasing labor and utility cost will make challenging for the company going forward to sustain its low-cost strategy.
- Both ROA and ROE were affected by the declining net profit margin in 2015 and 2016. Nonetheless, both the ratios improved in 2017.
- NLCL generally work for its regular customers who place repetitive orders throughout the year. Thence, there is no seasonality effect on the company's business model.

Comparable & Trading Multiples

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

| DSE Ticker | Market Cap (BDT Mn) | TTM Earnings | P/E |
|------------|---------------------|--------------|-------|
| HWAWELLTEX | 2,228.8 | 134.8 | 14.1x |
| TOSRIFA | 1,479.1 | 57.0 | 44.3x |
| ENVOYTEX | 6,323.6 | 462.0 | 10.8x |
| DSHGARME | 1,705.8 | 28.2 | 45.7x |
| GENNEXT | 3,464.8 | 459.3 | 7.3x |

Company Summary

| | |
|-----------------------------------|--------------------------------------|
| Post IPO No. of Shares (Mn) | 69.9 |
| Post-IPO Paid-up Capital (Mn BDT) | 699.0 |
| Pre-IPO Paid-up Capital (Mn BDT) | 399.0 |
| New Shares Issued (Mn) | 30.0 |
| IPO Proceeds (Mn BDT) | 300.0 |
| Face Value | 10.0 |
| Market Lot | 500.0 |
| Free Float | 42.9% |
| Accounting Year End | June |
| Auditor | Shiraz Khan Basak & Co. |
| Issue Manager | Banco Finance and Investment Limited |

Income Statement

| Mn BDT | 2013A | 2014A | 2015A | 2016A | 2017A |
|---|-------------|--------------|-------------|-------------|-------------|
| Revenue | 1,673 | 1,978 | 1,736 | 1,607 | 2,082 |
| Cost of Goods Sold | (1,435) | (1,695) | (1,481) | (1,354) | (1,812) |
| Gross profit | 239 | 283 | 255 | 253 | 270 |
| Selling & Administrative Expenses | (22) | (74) | (104) | (108) | (118) |
| Profit from operation | 217 | 210 | 151 | 145 | 152 |
| Non-operating income/ (Expenses) | - | (1) | - | - | - |
| Other Income | - | - | - | 1 | 18 |
| Financial expenses | (77) | (49) | (78) | (78) | (80) |
| Net Profit before Tax & WPPF | 140 | 159 | 73 | 68 | 90 |
| WPPF | (7) | (8) | (3) | (3) | (4) |
| Net Profit before Tax | 133 | 152 | 69 | 65 | 86 |
| Income Tax Expenses | (13) | (14) | (19) | (20) | (12) |
| Net Profit after tax | 120 | 138 | 51 | 45 | 74 |
| Earnings Per Share (BDT) | 12.1 | 13.93 | 1.27 | 1.14 | 1.85 |

Balance Sheet

| Mn BDT | 2013A | 2014A | 2015A | 2016A | 2017A |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Non-Current Assets | 904 | 882 | 955 | 984 | 1,064 |
| Property, Plant & Equipment | 904 | 882 | 955 | 984 | 1,064 |
| Current Assets | 1,023 | 1,249 | 1,291 | 1,491 | 1,665 |
| Advances, deposits & prepayments | 63 | 56 | 143 | 255 | 275 |
| Inventories | 436 | 547 | 653 | 695 | 782 |
| Accounts receivable | 400 | 508 | 493 | 495 | 512 |
| Deposit for BB L/C | 97 | 136 | - | - | - |
| Cash and Cash Equivalents | 28 | 2 | 2 | 47 | 96 |
| Total Assets | 1,927 | 2,131 | 2,247 | 2,475 | 2,729 |
| Shareholders' Equity | 1,036 | 1,168 | 1,134 | 1,185 | 1,262 |
| Share Capital | 99 | 99 | 99 | 399 | 399 |
| Revaluation reserve | 633 | 598 | 486 | 465 | 443 |
| Retained earning | 304 | 471 | 550 | 321 | 420 |
| Non-Current Liabilities | 439 | 546 | 453 | 379 | 315 |
| Long Term Loan | 439 | 546 | 362 | 287 | 225 |
| Deferred Tax Liabilities | - | - | 90 | 92 | 90 |
| Current Portion of Term Loan | - | - | 104 | 127 | 110 |
| Bank Overdraft | 82 | 80 | 60 | 27 | 19 |
| Short term Loan | 219 | 198 | 381 | 614 | 872 |
| Provision for Tax | - | - | 7 | 19 | 30 |
| Provision for Financial Expenses | 31 | 41 | 51 | 61 | 71 |
| Deferred L/C Liabilities | 97 | 70 | 27 | 20 | 12 |
| Others | 22 | 26 | 30 | 42 | 39 |
| Total Equity and Liabilities | 1,927 | 2,131 | 2,247 | 2,475 | 2,729 |

Cash Flow Statement

| Mn BDT | 2013A | 2014A | 2015A | 2016A | 2017A |
|----------------------|-----------|----------|----------|-----------|-----------|
| Operating Activities | (34) | (72) | 75 | 50 | 93 |
| Investing Activities | (54) | (5) | (105) | (86) | (144) |
| Financing Activities | 98 | 51 | 31 | 80 | 100 |
| Net Cash Flow | 28 | 2 | 2 | 47 | 96 |

Ratios

| | 2013A | 2014A | 2015A | 2016A | 2017A |
|---------------------|-------|--------|--------|-------|-------|
| Gross Profit Margin | 14.3% | 14.3% | 14.7% | 15.7% | 13.0% |
| Op. Profit margin | 12.9% | 10.6% | 8.7% | 9.0% | 7.3% |
| Net Profit Margin | 7.2% | 7.0% | 2.9% | 2.8% | 3.6% |
| Revenue Growth | 18.2% | -12.2% | -7.4% | 29.5% | |
| NPAT growth | 15.1% | -63.3% | -10.2% | 62.8% | |
| Receivable Turnover | 4.2x | 3.9x | 3.5x | 3.2x | 4.1x |
| Inventory Turnover | 3.3x | 3.1x | 2.3x | 2.0x | 2.3x |
| Debt to Asset | 0.5x | 0.5x | 0.5x | 0.5x | 0.5x |
| Net Debt to Equity | 0.9x | 0.8x | 1.0x | 1.1x | 1.2x |
| Return on Asset | 6.2% | 6.5% | 2.3% | 1.8% | 2.7% |
| Return on Equity | 11.6% | 11.8% | 4.5% | 3.8% | 5.9% |
| Effective Tax Rate | 10.1% | 9.1% | 27.1% | 30.3% | 13.6% |

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

| | | | |
|---------------------|-------------------------|--|---------------|
| Ayaz Mahmud, CFA | Deputy Head of Research | ayaz.mahmud@bracepl.com | 01708 805 221 |
| Md. Sakib Chowdhury | Research Analyst | sakib.chowdhury@bracepl.com | 01709 641 247 |
| S. M. Samiuzzaman | Research Analyst | sm.samiuzzaman@bracepl.com | 01708 805 224 |
| Sadman Sakib | Research Associate | sadman.sakib@bracepl.com | 01730 727 939 |
| Ahmed Zaki Khan | Research Associate | zaki.khan@bracepl.com | 01708 805 211 |
| Md. Rafiqul Islam | Research Associate | mrafiqulislam@bracepl.com | 01708 805 229 |
| Md. Mahirul Quddus | Research Associate | mmahirul.quddus@bracepl.com | 01709 636546 |

International Trade and Sales

| | | | |
|----------------------|--|--|---------------|
| Ahsanur Rahman Bappi | Head of International Trade & Sales | bappi@bracepl.com | 01730 357 991 |
|----------------------|--|--|---------------|

BRAC EPL Research

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