

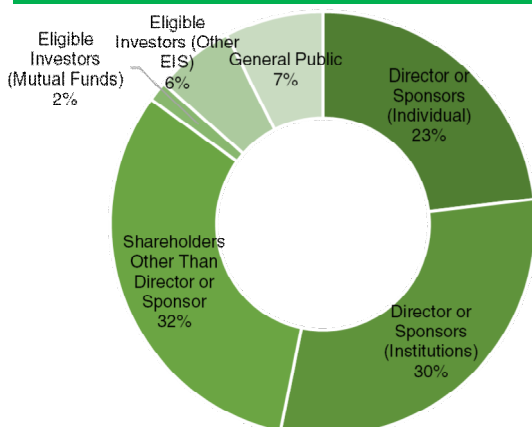
| | | | |
|---|--|----------------------------------|--------------------------------|
| DSE CODE : QUEENSOUTH | IPO Size : BDT 150 mn | H1FY'18 NAVPS : BDT 18.07 | Analyst |
| Debut Trading Date : 13 March , 2018 | Post IPO shares : 100.15 mn | FY'18 EPS : BDT 1.78 | Quazi Naureen Ahmed |
| Offer Price : BDT 10 | Shares with no lock-in : 11.25 mn | (annualized) | naureen.quazi@lbsbd.com |

Table: Company Snapshot

| | |
|---|----------------------------------|
| Established in | 2003 |
| Started commercial operation in | 2005 |
| Paid-up Capital - Before IPO (BDT mn) | 851.50 |
| Capital issued as IPO (BDT mn) | 150.00 |
| Paid-up Capital - Post IPO (BDT mn) | 1001.50 |
| Total No. of Securities - Post IPO (mn) | 100.15 |
| Face Value per share (BDT) | 10 |
| Category | N |
| Sector | Textile |
| Year end | June |
| Issue Manager | Alpha Capital Management Limited |

Source: LBSL Research and Company Prospectus

Chart: Shareholding Pattern (Post IPO)



Source: LBSL Research and Company Prospectus

Table: Plan for IPO proceed utilization

| Particulars | BDT mn | % of total issue |
|---|---------------|------------------|
| Construction of automatic warehouse System | 74.64 | 49.8% |
| acquisition and installation of new machineries | 56.01 | 37.3% |
| Partial Loan repayment | 6.34 | 4.2% |
| IPO Expenses | 13.00 | 8.7% |
| Total | 150.00 | 100.0% |

Source: LBSL Research and Company Prospectus

Table: Lock-In Provisions

| Particulars | No. of Shares | Duration of Lock-in | Lock-In Expiry* |
|--|---------------|---------------------|--------------------|
| 7.5% shares allocated to General public and 50% shares of the EIS | 11,250,000 | No Lock-In | N/A |
| 53.2% shares allocated to Sponsors | 53,314,000 | 3 Years | December 10, 2020 |
| 25% of the 7.5% shares allocated to EI | 1,875,300 | 6 months | June 10, 2018 |
| other 25% of the 7.5% shares allocated to EI | 1,875,300 | 9 months | September 10, 2018 |
| 31.8% shares allocated to shareholders other than sponsors, directors and EI | 31,837,685 | 1 Year | December 10, 2018 |

Source: LBSL Research and Company Prospectus

*Lock-In Duration is counted from the Issue Date of Prospectus

Company Overview

Queen South Textile Mills Limited (QSTML) is a 100% export oriented yarn dyeing Industry located in Dhaka Export Processing Zone, Savar. The company is engaged in dyeing of different counts of Cotton, Polyester, Viscose, Acrylic, Nylon and Blended yarn to market the processed yarn as deemed exporter. The company was incorporated in 2003 and started operation in mid-2005. QSTML's production machineries are equipped with the State of the art technology, including Central Controlling and Monitoring System, Laboratory is equipped with computer matching machine and dispensing machines, monitored by qualified expert technicians.

IPO proceeds plan of Queen South Textile Mills Limited

QSTML has issued 15,000,000 shares at BDT 10 to raise BDT 150mn through Initial Public Offering (IPO). The proceedings will be primarily used to procure plant and machineries for BDT 74.64mn (49.8% of total proceeds). BDT 56.01mn (37.3% of IPO proceeds) will be used for acquisition and installation of new machineries for modernization of the existing factory unit and BDT 6.34mn (4.2% of IPO proceeds) of the fund will be used for partial loan repayment. Rest of the funds(BDT 13.00mn) will cover IPO expenses.

Lock-in Provisions

- Out of 100.15 million shares, **11.25 million shares** (7.5% shares allocated to general public and 50% shares of the EIS) will have no lock-in and they will be available for trading on **13 March, 2018**.
- 53.31 million shares** (53.2% shares allocated to Sponsors and Directors) will become free from lock-in on **December 10, 2020**.
- 1.87 million shares** (25% of the 7.5% shares allocated to the Eligible Investors) will become free from lock-in on **June 10, 2018**.
- 1.87 million shares** (other 25% of the 7.5% shares allocated to Eligible Investors) will become free from lock-in on **September 10, 2018**.
- 31.84 million shares** (31.8% shares allocated to shareholders other than sponsors, directors and EI) will become free from lock-in on **December 10, 2018**

Principal Products and Services

Queen South Textile Mills Limited operates its business as a backward linkage industry. QSTML sells its products through L/Cs to the 100% export oriented sweater manufacturers who consume the dyed yarn as raw material for production of readymade sweater to export abroad. Therefore, the final destination of the company's products is overseas market. Queen South Textile Mills Limited ultimately produces yarn for renowned sweater manufacturers which are later on consumed by the world-famous brand. Queen South Textile Mills Limited has ample scope for diversification and the company has aimed to serve other industries also who requires dyed yarn for other textiles goods.

Table : Current Dyed Yarn Production Capacity and Projection by the company

| Particulars | Actual | Projected | | |
|-------------------------------|---------|-----------|-------|-------|
| | Current | FY'18 | FY'19 | FY'20 |
| Production Capacity/day (MT) | 42 | 57 | 57 | 57 |
| Capacity Utilization/day (MT) | 31.08 | 44.8 | 47.3 | 48.3 |
| Utilization (%) | 74.0% | 78.6% | 83.0% | 84.7% |

Source: Company Prospectus

Table: Principal Suppliers of Raw Material

| Supplier Name | Country of Origin |
|--|-------------------|
| Gain Plus Agents Limited | Hongkong |
| Queensin Limited | Hongkong |
| Kingpro Trading Limited | Hongkong |
| Viet Cotton Yarn Investment Trading Jsc | Vietnam |
| T and T Industries Ltd. | Taiwan |
| Kohinoor Spinning Mills Ltd. | Pakistan |
| Duy Nam Spinning Jsc. | Vietnam |
| Bhalchandram Clothing Limited | India |
| Le Merite Exports Pvt. Ltd. | India |
| Lahoti Overseas Limited | India |
| Jiangsu Guo Tai International Group Guo Mao Co. Ltd. | China |
| Huntsman (Singapore) Pte. Ltd. | Singapore |

Source: Company Prospectus

Table: Capital Structure of the Company

| Particulars | Amount (BDT mn) |
|--------------------------------|-----------------|
| Paid-up Capital (Prior to IPO) | 851.50 |
| Capital to be issued as IPO | 150.00 |
| Paid-up Capital (after IPO) | 1001.50 |

Source: Company Prospectus

Table: Source and Requirement of Utilities

| Particulars | Requirements | Source |
|-------------|---------------|---|
| Power | 3530 KW | The required power for production including expansion will be met through R.E.B through DEPZ. In addition to R.E.B there are 2 GAS generators of 1030 KW and 2 (two) diesel generators of 650 KW will be used in case of any disruption. No further generator is required for the proposed expansion. |
| Water | Not Specified | The requisite water supply is available from DEPZ and own deep tube-well installed in the factory premises. |
| Gas | Not Specified | QSTML meets the requirement of GAS from TITAS Gas Transmission and Distribution Company Limited (TGTDCL). In case of shortage of natural gas, QSTML have 2 Gasifiers, total of 13210 KCAL/day to support efficient gas to our boilers without any disruption to the production. |

Source: Company Prospectus

Capacity

Queen South Textile Mills Limited has been using State of the Art machineries and technologies in order to dye of (acrylic, nylon, cotton, viscose) yarn. Its manufacturing process is heavily technology driven, dynamic in nature with cutting edge technology. QSTML currently produces 31.08 MT and has a capacity of producing 42 MT dyed yarn per day. Factory of the company is located on a 10,166.67 sq. meters area at Dhaka Export Processing Zone, Savar, Dhaka, Bangladesh.

Financial Overview

- The company posted 10.3% Gross Margin, 7.5% Operating Margin and 4.1% Net Margin in its latest H1FY'18 statements. Gross and Net margin grew by 4.0% and 9.6% respectively from H1FY'17.
- Company's Gross, Operating and Net profit increased by 14.6% and 21.7% respectively in H1FY'18 from H1FY'17. Operating and Net Profit were much larger than the Gross profit as the company has managed to reduce its operating expenses.
- The major portion of the IPO proceeds will be utilized for modernization of the company's existing production plant and automation of its warehouse system. Such capacity expansion and adoption of technical advancement should enable the company to perform better in near future.
- The company has set aside BDT 6.34 million from IPO funds for loan repayment. This would decrease the company's existing debt balance.

Table: Key Ratios

| Particulars | Dec'17 (6 months) | Dec'16 (6 months) | FY'15 |
|---------------------|-------------------|-------------------|-------|
| Gross Profit Margin | 10.3% | 9.9% | 9.2% |
| Net Profit Margin | 4.1% | 3.7% | 3.7% |
| ROE | 4.9% | 4.5% | 10.9% |
| ROA | 2.4% | 2.2% | 4.2% |
| Debt to Equity | 1.08 | 1.06 | 1.60 |

Source: LBSL Research and Company Prospectus

Table : Prices at different Valuation levels

| | 10x P/E | 15x P/E | 20x P/E | 25x P/E | 30x P/E | 35x P/E |
|-------------|---------|---------|---------|---------|---------|---------|
| Audited P/E | 16.90 | 25.35 | 33.80 | 42.25 | 50.70 | 59.15 |
| Forward P/E | 17.80 | 26.70 | 35.60 | 44.5 | 53.4 | 62.3 |

Source: LBSL Research and Company Disclosures

*Audited P/E calculated using Non'15 audited numbers

** Forward P/E calculated using annualizing H1FY'18 earnings

Table : Income Statements (Amount in BDT mn)

| Particulars | July'17 to Dec'17 (6 months) | July'16 to Dec'16 (6 months) | Dec'15 to June'16 (7 months) | Year ended on 30 -11-15 | Year ended on 30-11-2014 | Year ended on (30-11-2013) |
|---|---------------------------------|---------------------------------|---------------------------------|----------------------------|-----------------------------|-------------------------------|
| Revenue | 1839.74 | 1,670.29 | 1,870.09 | 3,215.97 | 3,720.88 | 3,376.67 |
| Cost of Sales | (1650.65) | 1,505.26 | 1,684.98 | 2,920.70 | 3,370.24 | 3,061.37 |
| Gross Profit | 189.10 | 165.04 | 185.11 | 295.27 | 350.65 | 315.31 |
| FC Gain/(Loss) | 4.60 | (1.19) | 3.14 | (4.04) | 2.25 | (28.12) |
| Less: Operating Expenses | (56.37) | 52.76 | 59.83 | 87.80 | 82.71 | 74.03 |
| Administrative expenses | (47.25) | 45.80 | 51.89 | 73.19 | 68.27 | 74.03 |
| Distribution Cost | (9.12) | 6.96 | 7.94 | 14.61 | 14.44 | - |
| Operating Profit for the Year | 137.39 | 111.09 | 128.42 | 203.44 | 270.19 | 213.15 |
| Add: Other Income | 0.07 | 0.06 | 0.07 | 0.08 | 0.07 | 0.15 |
| Profit Before Financial Expenses and Tax | 137.46 | 111.15 | 128.49 | 203.52 | 270.27 | 213.30 |
| Less: Financial Expenses | (47.39) | 36.76 | 33.31 | 73.78 | 59.36 | 43.56 |
| Net profit before tax | 89.10 | 74.38 | 95.17 | 129.74 | 210.91 | 169.74 |
| Less: Income tax expense | (14.62) | 11.93 | 14.29 | 11.31 | - | - |
| Net profit/(Loss) after Tax for the Year | 75.38 | 62.45 | 80.88 | 118.43 | 210.91 | 169.74 |
| Basic Earnings Per Share (EPS) | 0.89 | 0.86 | 1.15 | 1.69 | 3.01 | 2.42 |

Source: LBSL Research and Company Prospectus

Table : Statements of Financial Position (Amount in BDT mn)

| Particulars | 31-Dec'17 | 30-June'17 | 31-Dec'16 | 30-June'16 | 30-Nov'15 | 30-Nov'14 |
|--|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| NON-CURRENT ASSETS | | | | | | |
| Property, Plant & Equipment | 720.57 | 700.31 | 624.13 | 661.01 | 705.07 | 685.84 |
| Constructional Work in Progress | - | - | 40.51 | 40.51 | - | - |
| Total Non-Current Assets | 720.57 | 700.31 | 664.63 | 701.51 | 705.07 | 685.84 |
| CURRENT ASSETS | | | | | | |
| Inventory | 1402.66 | 1353.41 | 1,359.32 | 1,396.78 | 1,362.21 | 1,422.44 |
| Trade & other receivables | 900.89 | 820.77 | 493.63 | 619.16 | 553.33 | 472.56 |
| Advance, Deposits & Prepayments | 120.41 | 97.50 | 90.42 | 74.82 | 64.02 | 45.02 |
| Investment FDR | 23.51 | 22.84 | 22.22 | 22.07 | 22.16 | 21.73 |
| Cash and Cash Equivalents | 34.46 | 18.49 | 209.73 | 51.78 | 116.86 | 59.43 |
| Total Current assets | 2481.93 | 2313.00 | 2,175.31 | 2,164.63 | 2,118.58 | 2,021.18 |
| TOTAL ASSETS | 3202.50 | 3013.32 | 2,839.95 | 2,866.14 | 2,823.64 | 2,707.02 |
| EQUITY & LIABILITIES | | | | | | |
| Equity attributable to share holders | - | - | - | - | - | - |
| Issued, Subscribed & paid up capital | 851.50 | 851.50 | 851.50 | 143.75 | 143.75 | 143.75 |
| Retained earnings | 686.98 | 611.60 | 528.11 | 1,023.41 | 943.20 | 860.52 |
| Total Shareholder's equity | 1538.48 | 1463.10 | 1,379.61 | 1,167.16 | 1,086.95 | 1,004.27 |
| NON-CURRENT LIABILITIES | | | | | | |
| Long Term borrowing | 440.48 | 436.29 | 441.73 | 455.97 | 454.69 | 546.26 |
| Deferred tax liability | 43.74 | 43.88 | 40.77 | 40.60 | 39.97 | - |
| Total non-current liabilities | 484.22 | 480.17 | 482.50 | 496.58 | 494.66 | 546.26 |
| CURRENT LIABILITIES | | | | | | |
| Trade & other Payables | 618.80 | 578.06 | 518.22 | 663.28 | 722.32 | 860.89 |
| Current portion of long term borrowing | 24.20 | 32.49 | 31.58 | 33.37 | 22.40 | - |
| Short Term borrowing | 439.10 | 331.03 | 334.21 | 422.21 | 442.80 | 255.68 |
| Liabilities for Expenses | 46.44 | 85.00 | 93.83 | 83.54 | 54.52 | 39.92 |
| Income Tax Provision | 51.25 | 43.46 | - | - | - | - |
| Total Current Liabilities | 1179.79 | 1070.05 | 977.84 | 1,202.40 | 1,242.04 | 1,156.49 |
| Total Liabilities | 1664.02 | 1550.22 | 1,460.34 | 1,698.98 | 1,736.70 | 1,702.75 |
| TOTAL EQUITY & LIABILITIES | 3202.50 | 3013.32 | 2,839.95 | 2,866.14 | 2,823.64 | 2,707.02 |
| NAV per Share | 18.07 | 17.18 | 16.20 | 81.19 | 75.61 | 69.86 |

Source: LBSL Research and Company Prospectus

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