

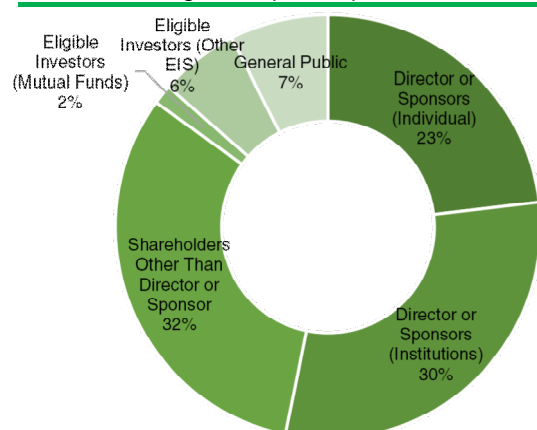
DSE CODE : QUEENSOUTH	IPO Size : BDT 150 mn	H1FY'18 NAVPS : BDT 18.07	Analyst
Debut Trading Date : 13 March , 2018	Post IPO shares : 100.15 mn	FY18 EPS : BDT 1.78	Quazi Naureen Ahmed
Offer Price : BDT 10	Shares with no lock-in : 7.50mn	(annualized)	naureen.quazi@lbsbd.com

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
Free Float (Estimated)	46.7%
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	7,501,235	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, **7.50 million shares** (7.5% shares allocated to general public) 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 H1FY18 statements. Gross and Net margin grew by 4.0% and 9.6% respectively from H1FY17.
- Company's Gross, Operating and Net profit increased by 14.6% and 21.7% respectively in H1FY18 from H1FY17. 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 H1FY18 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

LBSL's research reports are also available on

Bloomberg LANB <GO>

& Lankabd.com

This document ("the Report") is published by LankaBangla Securities Ltd ("LBSL") for information only for its clients. All information and analyses in this Report have been compiled from and analyzed on the basis of LBSL's own research of publicly available documentation and information. LBSL has prepared the Report solely for informational purposes and it is consistent with the Rules and Regulations of SEC. The information provided in the Report is not intended to, and does not encompass all the factors to be considered in a best execution analysis and related order routing determinations. LBSL does not represent, warrant, or guarantee that the Report is accurate. LBSL disclaims liability for any direct, indirect, punitive, special, consequential, or incidental damages related to the Report or the use of the Report. The information and analysis provided in the Report may be impacted by market data system outages or errors, both internal and external, and affected by frequent movement of market and events. Certain assumptions have been made in preparing the Report, and changes to the assumptions may have a material impact on results. The Report does not endorse or recommend any particular security or market participant. LBSL, its analysts, and officers confirm that they have not received and will not receive any direct or indirect compensation in exchange for expressing any specific recommendation, opinion, or views in its Report. The information and data provided herein is the exclusive property of LBSL and cannot be redistributed in any form or manner without the prior written consent of LBSL. This disclaimer applies to the Report in its entirety, irrespective of whether the Report is used or viewed in whole or in part.

LBSL Capital Market Research Department

Analyst	Designation	E-mail
Salma Yeasmin Xinat	Senior Research Associate	salma@lbsbd.com
Debashish Sutradhar	Senior Research Associate	debashish.sutradhar@lbsbd.com
Ahmed Irtiza	Senior Research Associate	ahmed.irtiza@lbsbd.com
Quazi Naureen Ahmed	Research Associate	naureen.quazi@lbsbd.com
Mashqurur Rahman	Research Associate	mashqurur.rahman@lbsbd.com

Institutional & Foreign Trade Department

Rehan Muhammad Head of Institutional & Foreign Trade rehan@lbsbd.com/ rmuhammad1@bloomberg.net

LankaBangla Securities Limited

Research & Analysis Department
Corporate Office
A.A. Bhaban (Level-5)
23 Motijheel C/A
Dhaka-1000, Bangladesh
Phone: +880-2-9513794 (Ext-118)
Fax: +880-2-9563902
Website: lankabd.com