Alliance Capital
Asset Management Limited

IPO Short Notes
STS Holdings Limited
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STS Holdings Limited
Sector: **Healthcare**

Company Summary

Authorized Number of Shares, mn	300
Authorized Capital, BDT mn	3,000
Pre IPO Number of Shares, mn	150.95
Pre IPO Paid Up Capital, BDT mn	1,509.45
Post IPO Number of Shares, mn	**N/A**
Post-IPO Paid Up Capital, BDT mn	**2,259.45**
Face Value (BDT)	10.0
New shares Issued through IPO, mn	N/A
IPO Size including Premium, BDT mn	N/A
Indicative Price, BDT	N/A
Directors Holding (pre IPO), %	50.03%
Financial Year End	December
Listing Date	N/A
Twelve Month PAT, BDT mn	3,789.3
Twelve Month EPS, BDT (pre IPO) 2015	2.49

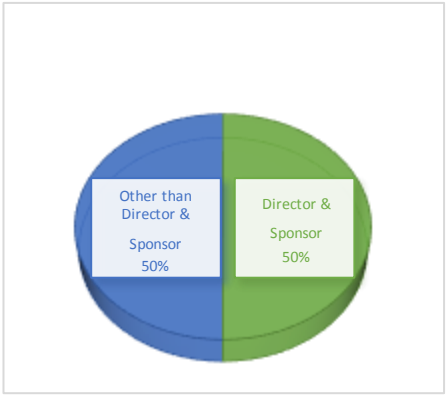
Use of IPO Proceeds

Particulars	BDT mn	% of Proceed
Civil Construction	158.73	21.2%
Medical Equipment	119.41	15.9%
Mechanical, Electrical, & Finishing	186.96	24.9%
HVAC, Fire Fighting, Lifts, Medical Gas, BMS, Interior etc.	285.00	38%
Total	**750.00**	**100.00%**

Financial Performance

Particulars (BDT Mn)	FY12	FY13	FY14	FY15
Net Revenue	3,070.9	3,148.8	3,565.7	3,789.3
Growth (%)	18.6%	2.54%	13.2%	6.3%
COGS	1,672.9	1,754.3	1,902.1	1,972.9
Gross Profit	1,397.9	1,394.5	1,663.6	1,816.4
Gross Margin (%)	45.52%	44.29%	46.66%	47.94%
Operating Profit	365.9	236.2	341.2	478.7
Op. Margin (%)	11.9%	7.5%	9.6%	12.6%
PAT	134.2	175.2	335.8	375.9
N. Profit Margin (%)	4.4%	5.6%	9.4%	9.9%
ROE (%)	2.1%	2.6%	4.8%	5.1%
ROA (%)	1.8%	2.3%	4.1%	4.3%
Debt/Equity	0.13	0.14	0.17	0.21

Shareholding Pattern (%)



Source : Company Report, WHO, IMS and ACAML Research

Company Information

STS holdings limited started its journey in 1997 and Apollo Hospitals Dhaka, the international standard hospital first of its kind in Bangladesh, is the pioneering and flagship venture of STS Holdings Ltd. The establishment of Apollo hospital Dhaka is the result of a strategic business decision taken by the STSHL with the technical collaboration of Apollo hospitals Enterprise limited (AHEL) of India. Apollo Hospital Dhaka (AHD) is an international standard multi-disciplinary super -specialty tertiary care hospital which conducts functionality with five Centers of Excellence and five Strategic Business Units. AHD has been providing health care services through local and international professionals while the workforce includes ~ 200 doctors, ~400 nurses, ~74 consultants, and ~300 paramedics and other operational staff for providing health care services. There have been 324 operating beds since 2012 without any addition although there has been scope of increasing up to 450 numbers of beds according to the license.

Industry overview

Currently the 44th largest economy in the world, Bangladesh has been making noteworthy socio-economic developments in recent years. Yet, despite escalating healthcare indicators, such as decline in mortality rate (38 per 1000, WB 2015) and increase in average life expectancy (71 years, WB 2015), the health care sector of the country is yet to reach its full potential. In 2014, healthcare expenditure as percentage (%) of GDP stood at 3.8% showing a moderate 5 year CAGR of 2.8%. The healthcare sector, a sunrise industry with tremendous growth prospective, is set to boom following the increase of general awareness in healthcare. As of November 2015, there are 612 government hospitals as opposed to 4,280 private hospitals and clinics under DGHS registration. Number of hospital beds under DGFP is 1,593, whereas number of hospital beds in the private-sector is 74,620. Population per hospital bed (total beds in the DGHS, DGFP, and registered private hospitals against population, as of 3 December 2015) is 1,297 (DGFP 2015).

Investment Theme

- Cost optimization helped the company to enhance operating performance which was reflected through improvement in ALOS and growth in ARPOB. ALOS dropped to 4.79 days in 2015 from 4.87 days in 2014 which reflects better capability to serve the patients as well as progression over the last three years. On the other hand, ARPOB has increased consistently due to increasing number of visiting patients following higher revenue generation using same capacity.
- The company has maintained balanced capital mix over the years as the debt ratio was 0.04X while the adjusted debt ratio reached 0.11X in 2015 which was 0.10X in 2014 reflecting balanced leverage position. Moreover, the TIER reached at 13.1X in 2015 from 9.2X in 2014 indicating improved coverage position in spite of increased borrowed fund od BDT 284.2 million in 2015 which was BDT 221.1 million in 2014.
- Inadequate government spending, particularly in both tertiary and quaternary care hospitals, has resulted in insufficient healthcare infrastructure. This inadequacy has paved the way for private health care service providers to gain market share. Moreover, states' focus on health care under the PPP model will result in opportunities for private players.
- With the increase in life expectancy and improvement of standard of living, there has been a surge in lifestyle diseases and growth in awareness of healthy lifestyle. Such preventive drive will drive demand for healthcare services.
- Large hospitals are taking advantage of the lack of confidence on local hospitals by making heavy investments to purchase advanced equipment, hiring world renowned specialists, and collaboration with renowned hospitals are attracting more patients.

Risk Factors

- STSHL achieved revenue growth of 6.3% which was below projection. This lower than expected growth rate can be attributed to poor occupancy rate. Although, room occupancy had been increasing, growth rate stood very low over the years. The occupancy rate stood at 61.85% in 2015 which was 61% in 2014 followed by 60.56% in 2013 indicating sluggishness in growth of occupancy level.
- There might be a downfall in bottom-line profit margin due to reduction in other non-operating income. The other non-operating income was BDT 132.2 million in 2015, mainly from interest of FDR. In order to invest in ongoing expansionary project the company might divest the FDR which might reduce the bottom line profit margin by 6%.
- The company has been conducting three projects at the same time which need additional CAPEX and after inauguration there would be working capital needs affecting the financial matrix of the company. Meanwhile, following the completion of these projects, it would take several years to come at the break-even stage; further strategies need to be placed and played to have positive reflection in earning as well as cash flow position for these projects. During these projects, keeping up the financial performance with the similar earning level would be a huge challenge for the company.