Alliance Capital
Asset Management Limited

IPO Notes
ACME Laboratories Limited
February, 2016
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ACME Laboratories Limited
Indicative Price: **BDT 71** per share [BDT 61.0 premium]
Sector: **Pharmaceuticals**

Company Summary

Authorized Number of Shares, mn	500
Authorized Capital, BDT mn	5,000
Pre IPO Number of Shares, mn	161.6
Pre IPO Paid Up Capital, BDT mn	1,616.0
Post IPO Number of Shares, mn	**211.6**
Post-IPO Paid Up Capital, BDT mn	**2,116.0**
Face Value (BDT)	10.0
New shares Issued through IPO, mn	50.0
IPO Size including Premium, BDT mn	N/A
Indicative Price, BDT (including BDT 61 premium)	71
Directors Holding (post IPO), %	49.9%
Financial Year End	June
Listing Date	N/A
Twelve Month PAT, BDT mn	922.0
Twelve Month EPS, BDT (pre IPO) 2015	5.71
Twelve Month EPS, BDT (post IPO) 2015	4.36
Twelve Month EPS Forecasted, BDT 2016	6.50
Twelve Month P/E, X (Annualized) 2016	10.92
Price /BV, X (post IPO @ Indicative Price)	1.13

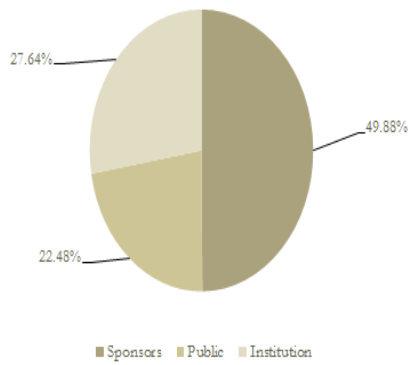
Use of IPO Proceeds

Particulars	BDT mn	% of Proceed
Steroid and Hormone Project	1,358.0	31.64%
Oncology Project	1,141.0	26.59%
Herbal Project	1,745.5	40.67%
IPO Expenses	47.4	1.1%
Total	**4,291.9**	**100.00%**

Financial Performance

Particulars (BDT Mn)	FY13A	FY14A	FY15A	FY16E
Net Revenue	8,973.3	10,217.9	11,496.4	13,197.9
Growth (%)	1.5%	13.9%	12.5%	14.8%
COGS	5,721.0	6,237.8	7,195.0	8,243.8
Gross Profit	3,252.3	3,980.1	4,301.4	4,954.1
Gross Margin (%)	36.2%	39.0%	37.4%	37.5%
Operating Profit	1,369.9	1,933.9	2,358.3	2,406.7
Op. Margin (%)	15.3%	18.9%	20.5%	18.2%
PAT	505.7	894.7	922.0	1,372.3
N. Profit Margin (%)	5.6%	8.8%	8.0%	7.5%
ROE (%)	6.6%	9.2%	8.4%	11.7%
ROA (%)	3.5%	4.6%	4.1%	5.9%
Debt/Equity	0.81	1.07	1.05	0.84

Shareholding Pattern



Source : Company Report, WHO, IMS and ACAML Research

Company Information

Established in 1954, ACME Laboratories Limited is a local, integrated, and specialty pharmaceutical company. The company manufactures and markets 494 human products, 37 herbal & ayurvedic products and 170 veterinary products in both local and international markets. ALL owns 5 manufacturing facilities: all 5 manufacturing facilities are located at Dhamrai, Dhaka. Over its period of operation, the company has launched +700 products in different dosage forms in both local and foreign markets. After meeting the local demand, it entered into the foreign market in 1995 and, is now exporting its products to 20 different countries.

Industry overview

The pharmaceutical sector in Bangladesh, one of the fastest growing sectors of the economy, is poised to transform the country into a global hub of quality medicines. The USD 1.45 Bn sector with 258 manufacturers is continuously expanding with new products. The pharmaceutical industries of Bangladesh manufacture about 8,000 generic drugs under 26,813 registered brands in different dosages and strengths. More than 250 pharmaceuticals companies are meeting 97% of the local demand and the remaining 3% is imported. The sector growth in exports has averaged over 10% from 2010 to 2014. In 2015, the pharma exports growth was +17% and total export figure stood at USD +70 mn.

Investment Argument

- ALL has registered resilient growth (sales CAGR of 16% in FY 10-15) in both human and animal segments. Going ahead, we expect this trajectory to continue led by 61 new product launches within 2016, amalgamation with the ACME Specialized pharmaceuticals limited, marketing tie-ups, and better penetration. We anticipate ALL to post CAGR of 15.3% in sales over FY 2016-2020.
- The company has good market position with its products mainly; including Tenoloc (Atenolol), Ecosprin (Aspirin), Monas (Montelucast), Fulspec (Meropenem), Nystat (Nystatin) (Generic Name) as market leader of its types. As per IMS report, ALL is holding 9th position among 258 market players with a market share of 3.89%.
- We expect the company revenue will jump in 2017 to BDT 15,198 mn as the company intends to implement expansion plan to develop three new projects to its existing factory site from the proceeds of the issuance of 50,000,000 Ordinary Shares of BDT 10 each at an Indicative Price BDT 71.00 (Seventy One) per share including premium of BDT 61.00 (Sixty One) per share under Book Building Method.
- Outlook on all human, veterinary and ayurvedic segments remains buoyant. Steroid and hormone, and oncology products are the key launches to be closely watched for ALL, whereas, sustained price increase and increment launches will drag ALL revenue and profitability up in future.
- The recent extension of TRIPS issue under general transitional period until July 01, 2032 for the LDCs has enhanced the export opportunity for ALL in getting access in the international marketing domain and the current company turnover will grow many fold higher within shortest possible time.

Risk Factors

- Currently, ALL is exporting pharmaceutical products to 20 different countries. However, ALL has to increase its exposure in the global platform in order to further boost company revenue.
- ALL is now importing all the raw materials which puts the company at foreign exchange risk. If Taka depreciates against US dollar, then ALL will have to bear additional expenses to import raw materials which will eventually lower the company's profitability.
- ALL has to diversify its sales from the domestic market to the international market. The existing 258 pharmaceutical companies are catering 97% of the domestic market demand and we still have to import some medicines which are not more than 3% of our demand. In order to penetrate new market segments, expanding into global industry is a must.
- ALL has to import raw materials whereas, twenty-one different companies in Bangladesh now locally manufacture 41 Active Pharmaceutical Ingredients (API). In order to reduce cost of production, ALL will have to produce APIs instead of importing raw materials and strengthen the company's backward linkage.

Valuation and View

We expect ALL will be trading at **P/E ratio of 20x for FY16e and EPS of BDT 6.50/share** along with its peers such as Square, ACI and IBN Sina on a fairly consistent basis. These predictions are based on 1) robust financials- culmination of productive amalgamation, product launches, and at the same time keeping an eye on margins and return ratios, 2) above average profitability margins and 3) healthy return ratios despite higher cash component.