

Current Price (BDT): 68.10

Ticker: LHBL
Sector: Cement

Company Fundamentals				
Market Cap (BDT mn)	79,786.4			
Equity Market weight	1.8%			
Paid-up Capital (BDT mn)	11,613.7			
No. of Share Outstanding (in mn)	1,161.4			
Free-float Shares (Inst.+For.+Public) (mn)	416.4			
3 Months Avg. Daily Turnover (mn)	144.7			
3 Months Avg. Daily Volume (mn)	2.1			
3 Months Return	5.1%			
Ref. Floor Price	64.8			
52-week price range (BDT)	62.9-84.9			
Particulars	2020	2021	2022	2023 (Q2 An)
Financial Information (BDT mn):				
Net Sales	16,222	20,534	23,594	30,513
Gross Profit	4,606	6,640	8,334	11,695
EBITDA	4,065	6,126	7,329	10,238
Operating Profit	2,954	4,840	5,970	9,199
Profit After Tax	2,361	3,882	4,445	7,231
Total Assets	26,219	29,622	28,971	32,956
Total Debt	103	58	31	1,210
Total Equity	17,289	19,794	17,710	19,823
Retained Earnings	5,442	8,163	5,872	7,745
Cash & Equivalents	1,373	5,277	4,844	8,062
Dividends (C/B)	25%/-	15%/-	48%/-	-/-
Margin:				
Gross Profit	28.4%	32.3%	35.3%	38.3%
Operating Profit	18.2%	23.6%	25.3%	30.1%
Pre-Tax Profit	17.6%	23.5%	24.3%	30.0%
Net Profit	14.6%	18.9%	18.8%	23.7%
Growth (YoY):				
Sales	-9.1%	26.6%	14.9%	29.3%
Gross Profit	1.6%	44.2%	25.5%	40.3%
Operating Profit	1.1%	63.8%	23.4%	54.1%
Net Profit	35.9%	64.4%	14.5%	62.7%
Profitability:				
ROA	8.9%	13.9%	15.2%	23.4%
ROE	14.1%	20.9%	23.7%	38.5%
Leverage:				
Debt-Assets	0.4%	0.2%	0.1%	3.7%
Debt-Equity	0.6%	0.3%	0.2%	6.1%
Int. Coverage	23.8	124.0	21.6	47.7
Valuation:				
Basic EPS (BDT)	2.0	3.3	3.8	6.2
NAVPS (BDT)	14.9	17.0	15.2	17.1
P/NAV (x)	3.2	4.2	4.2	3.8
EV/EBITDA	13.3	12.6	9.6	6.7
EV/Sales	3.3	3.8	3.0	2.2
P/E Ratio	23.5	21.3	16.9	10.4

* Financials of 2023 has been annualized based on Q2'23 quarterly statement.
* Figures based on consolidated financial statement.

Company Overview

Company Profile

LafargeHolcim Bangladesh Limited (LHBL), previously known as Lafarge Surma Cement Limited (LSC), a joint venture of LafargeHolcim and Cementos Molins, is the only fully integrated cement manufacturer of Bangladesh along with three grinding plants. It is engaged in manufacturing and marketing cement, clinker and clear-sized aggregates.

- **Key Personnel:** Christof Hässig (Chariman), Mohammad Iqbal Chowdhury (CEO).
- **Plant Location:** Chhatak, Meghnaghat I & II, Mongla.
- **Corporate Office:** NinaKabbo, Level-7, 227/A, Bir Uttam Mir Shawkat Sarak, (Tejgaon Gulshan Link Road), Tejgaon, Dhaka -1208, Bangladesh.
- **Shareholding Pattern (%):**

Dated on	Sponsor/ Director	Institute	Foreign	Public
June 30, 2023	64.15	17.58	0.77	17.50
June 30, 2022	64.68	16.75	0.64	17.93
June 30, 2021	64.68	16.55	0.75	18.02

Business Profile:

- LHBL is engaged in the production of cement, clinker, aggregates and waste management services (Geocycle).
- LHBL produces clinker and cement with Lafarge brand name in its plant located in Chhatak, Sunamganj which is the only fully integrated dry process cement plant in Bangladesh.
- It sources its primary raw material, limestone, from its own quarry in Meghalaya, India which is brought to the plant using 17-Kilometer-long conveyor belt. Currently it has 2 subsidiaries - Lafarge Umiam Mining Private Limited (100% Holding) and Lum Mawshun Minerals Private Limited (100% Holding).

Revenue Decomposition: In FY'22, LHBL's revenue stream is primary derived from the sale of cement (89%), aggregates (10%) and clinker (1%), with a significant proportion coming from sale of cement in local market. Out of the total sales revenue, 99.5% came from local market and the rest is from sale in export market and EPZs.

Capacity & Utilization Ratio:

Particulars (figures in '000 MT)	Installed	Actual	Utilization (%)
2022:			
Gray cement	4,191.0	2,707.0	64.6%
Cement clinker	1,289.0	1,311.0	101.7%
Aggregates	1,100.0	757.0	68.8%
2021:			
Gray cement	4,191.0	2,707.0	64.6%
Cement clinker	1,289.0	1,321.0	102.5%
Aggregates	1,100.0	526.0	47.8%
2020:			
Gray cement	4,191.0	2,480.0	59.2%
Cement clinker	1,289.0	1,180.0	91.5%

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Industry Overview

Bangladesh is one of the lowest consumers of cement in the world, with per capita consumption of 230 kg in 2022 while the global average was 563 kg. The construction and real estate sectors are two major consumers of cement industry. The construction sector has witnessed faster growth than the real GDP growth rate. Growth of construction sector has mainly been accelerated by the government development projects that have been undertaken in recent years. On the other hand, real estate sector in Bangladesh has been growing steadily mainly owing to growing housing demand, expanding middle class and spiraling per-capita income and the trend is expected to continue in the future.

There are currently 42 cement manufacturing companies in operation, seven of which are listed on stock exchanges. Only ten companies, including two multinationals, hold approximately 75% of the entire market share among the existing market players. According to the Bangladesh Cement Manufacturers' Association (BCMA), in 2021 cement manufacturers have a total combined annual capacity of 58 million tons. Shah cement is leading the market with a market share of about 13%, and with around 12% market share Bashundhara King Brand Cement stands in the second position, followed by Fresh (8.62%) in the 3rd position, Crown (8.26%) in the 4th position, and 7-Rings Cement (8.21%) in the 5th position. However, cement consumption in the country dropped by more than 1.5% in 2022, according to Bangladesh Cement Manufacturers Association (BCMA)¹. The slowdown in the cement industry is attributed to decline in demand resulting from the government's austerity measures in public construction projects and sluggish private investments in constructing real-estates, resulting from higher inflationary environment and reduced purchasing power of consumers. Moreover, the cement industry encountered significant challenges due to external macro factors started a year ago, primarily driven by supply chain disruptions due to Russia-Ukraine conflict, an increase in fuel rates in both domestic and international markets, imported raw material price hikes in international market, and elevated freight costs. Consequently, the industry witnessed a decline in its industrial production by 7.23% in 2022, mainly due to decreased demand caused by average retail price hike of each 50-kg bag by 20% at the end of December 2022, leading to further contraction of the gross price margin to 8%-9% in 2022 compared to 15% a year ago².

Moreover, the fiscal budget FY23-24 proposes increase in duty on the import of cement clinker, a key raw-material for the industry. Currently, cement producers pay BDT 500/MT, while commercial importers pay BDT 750/MT for clinker imports. The budget proposes to increase these rates to BDT 700/MT for cement manufacturers and BDT

950/MT for commercial importers. This increase in duty on clinker imports is expected to negatively impact the production costs and place a burden on consumers, potentially leading to a contraction in the sales of cement. In addition, the year 2023 may remain critical as national election is to be held by the end of this year or in the beginning of 2024. As construction sector is highly sensitive to political situation, overall dynamic of cement industry may get affected by the uncertainty that may loom over the national election period.

Besides, in recent months, the major manufacturing industries of the country have faced significant challenges due to a shortage in gas and electricity supply, leading to load shedding. This situation has put immense strain on the industries, including the cement sector. According to BCMA, production in cement factories has also declined as they are unable to utilize captive power due to low gas pressure. Recently, these constraints are exacerbating the challenges faced by the industry.

Despite the interim challenges faced by the cement industry, the continued investment activities of cement manufacturers indicate a positive outlook for the long-term. The construction and infrastructure development of the country are expected to revive due to various factors such as government investments in public infrastructure projects, increased industrial constructions, real estate businesses, and the demand from individual home builders. These factors will collectively contribute to the optimistic prospects for the cement industry in the long run.

Investment Insight

Investment Positive

- In Q2'23, LHBL reported consolidated revenue of BDT 6,710 million, a 33.8% increase from the corresponding period. Moreover, in H1'23, revenue and NPAT surged by 35.3% and 66.3% respectively. Rise in revenue and earnings can be attributed by higher profit realizations in 2023 owing to increase in cement price (~22% increase³). Additionally, in H1'23, the company experienced a remarkable growth of 206% in sales from aggregates, which contributed around 14.2% to the total revenue.
- Increased retail prices and a decline in COGS as a % of sales to 59% in Q2'23 as against 65% in the corresponding period have led NPAT to surge by 38.9% to BDT 1,706 million in Q2'23, compared to BDT 1,228 million in the corresponding period. Consequently, the EPS for Q2'23 stood at BDT 1.47, as against BDT 1.06 in last year.
- The fiscal budget FY23-24 has increased the duty on clinker import by 40%, but LHBL's unique advantage of sourcing clinkers from its mines in Meghalaya, India and transporting them to its Chatak plant through a

¹ <https://www.tbsnews.net/economy/stocks/how-forex-turbulence-leaves-cement-makers-reeling-585230>

² <https://www.tbsnews.net/economy/stocks/cement-industry-slowdown-profitability-shrinks-further-413950>

³ <https://www.tbsnews.net/economy/govt-revises-prices-brick-cement-rod-590862>

cross-border elevated conveyor belt, provides protection from the price volatility of raw materials, helping to maintain healthy profit margins.

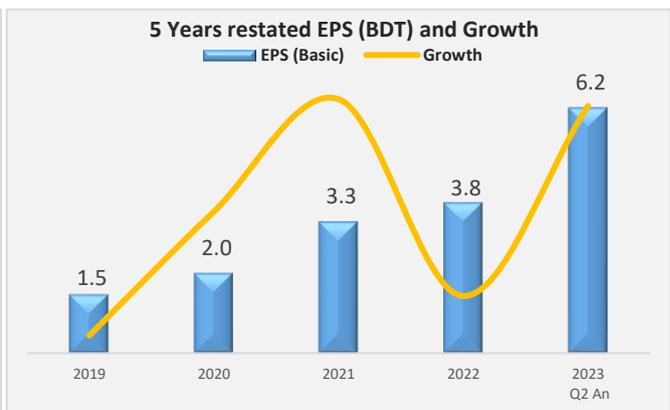
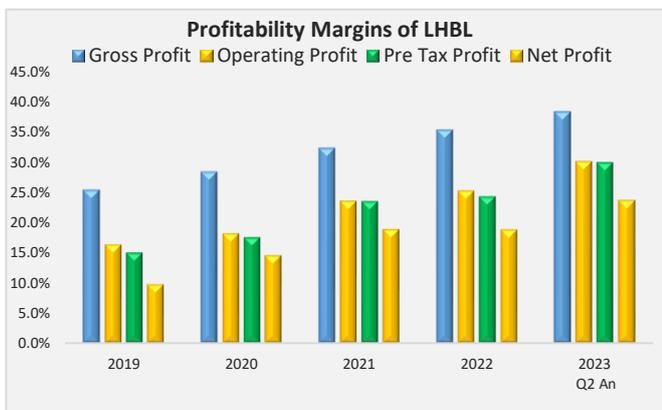
- The company’s aggregates production plant recommenced production in January 2022 after being restricted by the Ministry of Industries for around four months. Subsequently, contribution in revenue from this segment has increased to 14.2% as against 1.3% a year ago. It is expected that revenue growth from this segment will continue in the future as well, considering it as an import substitute product and the strong demand in the local construction sector.
- In FY'22, LHBL achieved a 5-year CAGR of 7.2% in revenue. Though, the company experienced a -0.1% decrease in sales volume, selling a total of 2,684 million tons of cement in 2022 as against 2,688 million tons a year ago, revenue for the year reached BDT 23,594 million, representing a YoY increase of BDT 3,059 million or 15%. The growth in the revenue is attributed to 15.1% YoY increase in Sales/50 kg bag.
- LHBL has achieved notable improvement in its profitability margins over the past five years, despite facing challenges such as decreased demand, capacity surplus and downward pressure on retail prices to maintain market share. In Q2'23, the gross profit margin has increased to 38.3%, surpassing the five-year average of 31.5%. Additionally, the operating profit margin and net profit margin have shown significant growth, reaching 30.1% and 23.7% respectively in Q2'23, compared to the five-year averages of 22.4% and 16.9% respectively.
- LHBL has minimal leverage risk as it operates as an almost unleveraged company, with a negligible amount of interest-bearing debt (approximately BDT 1,210 million). Its Debt-Assets ratio stood at 3.7% in Q2'23. Furthermore, the company’s interest coverage ratio is 47x and Debt-Equity ratio is only 6.1% in Q2'23.

Investment Concern

- LHBL has been involved in a long-standing dispute with Jalalabad gas company (JGTDS) over the gas ceiling price. Till 2018, JGTDS supplied gas to the cement factory at BDT 7.91 per cubic metre. However, in 2018, the government initiated a move to increase the price of natural gas supplied to LHBL as the gas price was then nearly 25% higher than the set price for LHBL. JGTDS filed an appeal before the appellate division on 8 march 2021. As of 31st March 2023, LHBL has paid BDT 2,275 million to JGTDS as per the court's order and accounted for it as 'other receivables' (note 9.1). The hearing before the Tribunal has been concluded on 23 February 2023. The Company is waiting for the Arbitration Award. An unfavorable outcome of the arbitration could result in a sudden financial shock for LHBL, requiring the company to make necessary adjustments to address the potential adverse effects.
- In Q2'23, LHBL experienced a considerable 17% YoY increase in power and fuel bills, following a 5.7% YoY increase in 2022, owing to the rise in energy and fuel prices and frequent power cuts, impacting the company's financial performance and cost structure.
- Though LHBL's recorded higher profitability in Q2'23 due to increased retail prices, the company is expected to face mid-term challenges in FY'23, including pressure of decreased sales due to adverse macro factors, the upcoming monsoon season (Jun-Oct), and sluggish demand during the election period.

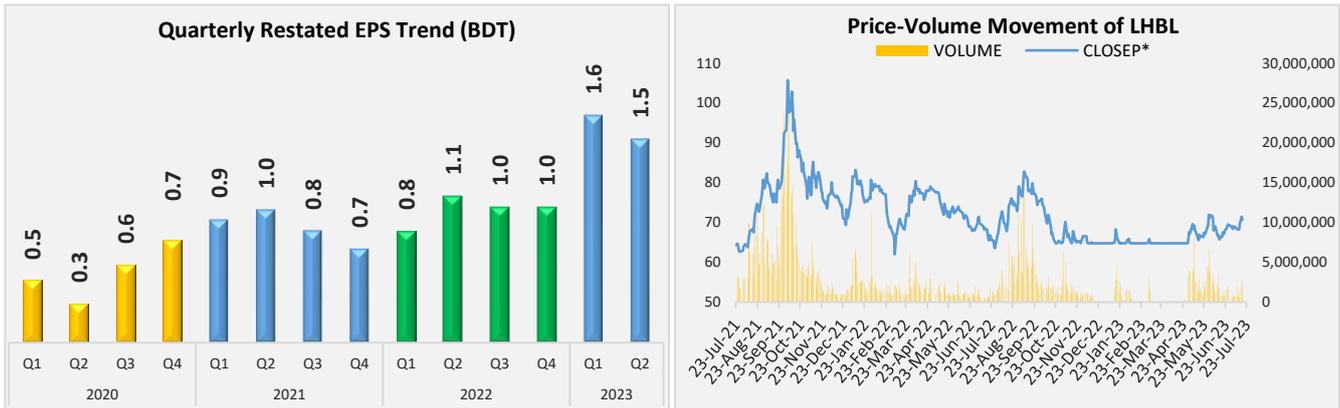
Recent Financial Performance

In H1'23, the company reported a NPAT of BDT 3,615 million, reflecting a surge of 66.3% compared to the corresponding period's net profit of BDT 2,173 million. The EPS for H1'23 stood at BDT 3.11, a significant increase from the corresponding period's EPS of BDT 1.87. Besides, NAVPS stood at BDT 17.1 as on June 30,2023.



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STATEMENT OF CONSOLIDATED INCOME (FIGURES IN BDT)

Particulars	2020	2021	2022	2023 Q2 An
Net Turnover	16,222,483,000	20,534,442,000	23,594,038,000	30,512,586,000
Cost of Goods Sold	11,616,410,000	13,894,205,000	15,259,770,000	18,817,230,000
GROSS PROFIT	4,606,073,000	6,640,237,000	8,334,268,000	11,695,356,000
Other Operating Income	21,071,000	136,051,000	44,616,000	14,924,000
Other Operating Expense	-	-	12,017,000	-
Total Operating Income	4,627,144,000	6,776,288,000	8,366,867,000	11,710,280,000
Operating Expenses:	1,673,084,000	1,936,313,000	2,396,394,000	2,511,088,000
Selling and Distribution Expenses	408,903,000	460,908,000	618,781,000	533,508,000
Administrative Expenses	1,264,181,000	1,475,405,000	1,777,613,000	1,977,580,000
PROFIT FROM OPERATIONS	2,954,060,000	4,839,975,000	5,970,473,000	9,199,192,000
Financial Expenses	123,966,000	39,043,000	275,935,000	192,710,000
Finance income	18,684,000	26,727,000	49,174,000	139,672,000
PROFIT BEFORE TAX	2,848,778,000	4,827,659,000	5,743,712,000	9,146,154,000
Provision for Current Tax	(487,393,000)	(945,816,000)	(1,299,201,000)	(1,915,560,000)
PROFIT AFTER TAX FOR THE YEAR	2,361,385,000	3,881,843,000	4,444,511,000	7,230,594,000
Non-controlling interests	22,000	30,000	29,000	22,000
EPS	2.0	3.3	3.8	6.2

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STATEMENT OF CONSOLIDATED FINANCIAL POSITION (IN BDT)

Particulars	2020	2021	2022	2023 Q2
ASSETS:				
Non-Current Assets:	19,286,407,000	18,911,643,000	18,521,502,000	18,168,360,000
PPE-Carrying Value	16,675,338,000	16,384,327,000	16,033,485,000	15,677,699,000
Good Will	317,776,000	317,776,000	317,776,000	317,776,000
Intangible assets	2,293,293,000	2,209,540,000	2,170,241,000	2,172,885,000
Current Assets:	6,932,577,000	10,710,422,000	10,449,977,000	14,787,877,000
Inventories	2,183,534,000	2,903,883,000	2,930,286,000	3,091,480,000
Trade Receivables	1,747,990,000	556,658,000	525,707,000	402,241,000
Other current assets	615,819,000	1,812,216,000	2,150,258,000	3,232,207,000
Advance Income Tax	998,139,000	160,942,000	-	-
Cash and cash equivalents	1,372,660,000	5,276,723,000	4,843,726,000	8,061,949,000
Derivative instruments	14,435,000	-	-	-
TOTAL ASSETS	26,218,984,000	29,622,065,000	28,971,479,000	32,956,237,000
SHAREHOLDERS' EQUITY AND LIABILITIES:				
Shareholders' Equity:	17,289,075,000	19,793,826,000	17,710,330,000	19,823,338,000
Share Capital	11,613,735,000	11,613,735,000	11,613,735,000	11,613,735,000
Retained Earnings	5,442,469,000	8,162,968,000	5,871,541,000	7,744,778,000
Other components of equity	(89,671,000)	(231,712,000)	(214,283,000)	(217,563,000)
Foreign currency translation	322,712,000	249,045,000	439,517,000	682,546,000
Non-Controlling Interest	(170,000)	(210,000)	(180,000)	(158,000)
Non-Current Liabilities:	2,989,408,000	2,675,107,000	2,344,376,000	2,302,847,000
Borrowings	65,876,000	29,111,000	-	-
Lease liabilities	-	-	3,844,000	2,844,000
Deferred tax liabilities	2,587,978,000	2,278,353,000	2,056,545,000	1,983,479,000
Employee benefits	293,689,000	317,150,000	216,786,000	241,167,000
Provisions	41,865,000	50,493,000	67,201,000	75,357,000
Current Liabilities:	5,940,501,000	7,153,132,000	8,916,773,000	10,830,052,000
Trade Payable	5,074,955,000	6,292,140,000	7,218,254,000	8,277,664,000
Other current liabilities	768,700,000	813,050,000	1,051,807,000	905,816,000
Lease liabilities (Borrowings)	37,099,000	29,280,000	27,582,000	15,454,000
Unclaimed Dividend	59,747,000	18,662,000	286,823,000	37,530,000
Current Tax Liability	-	-	332,307,000	401,975,000
Borrowings (Usance Letter of Credit)	-	-	-	1,191,613,000
TOTAL EQUITY AND LIABILITIES:	26,218,984,000	29,622,065,000	28,971,479,000	32,956,237,000
NAVPS (Basic)	14.9	17.0	15.2	17.1

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RATIO ANALYSIS

Particulars	2020	2021	2022	2023 Q2
Liquidity Ratios:				
Current Ratio	1.2	1.5	1.2	1.4
Quick Ratio	0.8	1.1	0.8	1.1
Cash Ratio	0.2	0.7	0.5	0.7
Operating Efficiency Ratios:				
Inventory Turnover Ratio	6.7	8.1	8.1	10.1
Receivable Turnover Ratio	8.2	17.8	43.6	65.8
Average Collection Period (Days)	43.7	20.2	8.3	5.5
Inventory Conversion Period (Days)	53.9	44.6	44.5	35.5
Operating Cycle (Days)	97.6	64.8	52.8	41.0
A/C Payable Turnover Ratio	2.2	2.4	2.3	2.4
Payables Payment Period (Days)	160.2	147.3	159.4	148.2
Cash Conversion Cycle (Days)	(62.6)	(82.5)	(106.6)	(107.2)
Total Asset Turnover	0.6	0.7	0.8	1.0
Fixed Asset Turnover	1.0	1.2	1.5	1.9
Operating Profitability Ratios:				
Gross Profit Margin (GPM)	28.4%	32.3%	35.3%	38.3%
Operating Profit Margin (OPM)	18.2%	23.6%	25.3%	30.1%
Pre Tax Profit Margin	17.6%	23.5%	24.3%	30.0%
Net Profit Margin (NPM)	14.6%	18.9%	18.8%	23.7%
Return on Total Assets (ROA)	8.9%	13.9%	15.2%	23.4%
Return on Equity (ROE)	14.1%	20.9%	23.7%	38.5%
Leverage Ratios:				
Total Debt to Equity	0.6%	0.3%	0.2%	6.1%
Debt to Total Assets	0.4%	0.2%	0.1%	3.7%
Coverage Ratios:				
Times Interest Earned (TIE)	23.8	124.0	21.6	47.7
Valuation Ratios:				
P/B (price to book) Ratio	3.2	4.2	4.2	3.8
NAVPS (Basic)	14.9	17.0	15.2	17.1
EPS (Basic)	2.0	3.3	3.8	6.2
Dividend per Share	2.5	1.5	4.8	-
Dividend Payout Ratio	123.0%	44.9%	125.4%	-
Retention Rate	-23.0%	55.1%	-25.4%	-
P/E Ratio	23.5	21.3	16.9	10.4
Tobin's q	3.2	4.2	4.2	3.8
Growth Rates:				
EPS Growth Rate	35.9%	64.4%	14.5%	62.7%
Dividend Growth Rate	150.0%	-40.0%	220.0%	-
Sales Growth Rate	-9.1%	26.6%	14.9%	29.3%
Gross Profit Growth Rate	1.6%	44.2%	25.5%	40.3%
EBIT Growth Rate	1.1%	63.8%	23.4%	54.1%
Other Data:				
Stock price (End of the Period)	47.8	71.1	64.8	69.3
Number of shares outstanding	1,161,373,500	1,161,373,500	1,161,373,500	1,161,373,500
Market Cap	55,513,653,300	82,573,655,850	75,257,002,800	80,483,183,550

IMPORTANT DISCLOSURES

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