

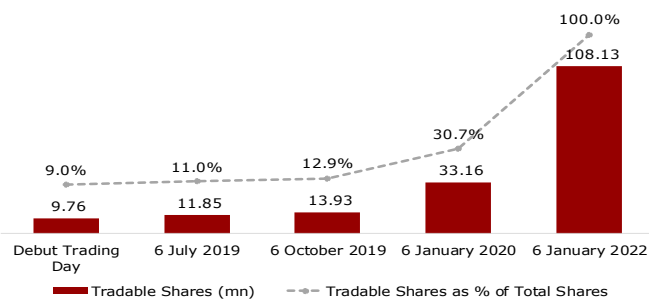
Runner Automobiles Limited

Issuing 13.9mn shares at cut-off price of BDT 75 and Public Offer Price of BDT 67

We initiate an IPO note on Runner Automobiles Limited (RUNNER) with no assigned rating. The company plans to raise BDT 1,000mn through initial public offering (IPO) under book building method. The cut-off price was fixed at BDT 75 after bidding by eligible institutional investors which will be offered at 10% discount to general public (BDT 67). The fund would be utilized mostly for repayment of bank loan (33.0%), die and mold for new models (20.5%), design, development, and R&D (14.7%), workshop and QC machinery (16.0%), machinery for new models (10.0%).

In FY18, company's gross profit margin (GPM), EBIT margin and net profit margin (NPM) stood at 26.6%, 13.3% and 5.9% respectively. Return on equity (ROE) and return on asset (ROA) stood at 9.4% and 4.1% in FY18. Presently, RUNNER has 2 subsidiaries - Runner Motors Limited and Freedom Motors Limited. Runner Automobiles holds 61.7% ownership in Runner Motors and 99.99% ownership in Freedom Motors.

Lock-in Provision



Source: IPO Prospectus

- Pre-IPO shares of Runner Automobiles (94.2mn) is classified into four categories: sponsors & directors (27.1mn), foreign (27.0mn), institution (22.4mn) and general public (17.7mn). In post-IPO basis, total number of shares would increase by 13.9mn to 108.1mn. Out of post-IPO shares, sponsors & directors, foreign shareholders, institution, and general public would hold 27.2mn, 27.0 mn, 30.7mn, and 23.3mn shares respectively.
- On debut trading day, 9.76mn shares will be traded. On 6 July 2019, tradable shares will increase by 2.08mn and on 6 October 2019, tradable shares will increase by additional 2.08mn shares. On 6 January 2020, tradable shares will further increase by 19.23mn and on 6 January 2022 tradable shares will increase by 74.97mn shares.

Equity Research

IPO Note

Runner Automobiles Limited | Engineering | Automobile

IPO Summary

IPO Type	Book-Building
Face Value (BDT)	10.00
Cut-off Price (BDT)	75.00
Public Offer Price (BDT)	67.00
Issue Manager	IDLC Investments Ltd.
Underwriters	1. IDLC Investments Ltd. 2. IIDFC Capital Ltd. 3. LankaBangla Investments Ltd.
Auditor	Hoda Vasi Chowdhury & Co.

Paid-up Capital & No. of Shares

Pre-IPO Paid-up Capital (BDT mn)	942
IPO Size (BDT mn)	1,000
Post-IPO Paid-up Capital (BDT mn)	1,081
Share Premium (BDT mn)	861
Pre-IPO Number of Shares (mn)	94
IPO size (No. of Shares) (mn)	14
Post-IPO Number of Shares (mn)	108
Tradable Shares at Debut Trading Day (mn)	9.8

Shareholding Structure	Pre-IPO			Post-IPO		
	Shares (mn)	BDT Mn	%	Shares (mn)	BDT Mn	%
Sponsors & Directors	27.1	271.5	28.8%	27.1	271.5	25.1%
Foreign	27.0	269.6	28.6%	27.0	269.6	24.9%
Institution	22.4	224.0	23.8%	30.7	307.3	28.4%
General Public	17.7	177	18.8%	23.3	233.0	21.5%
Total	94.2	942.0	100.0%	108.1	1,081.0	100.0%

Utilization of IPO Proceeds

Particulars	BDT mn	%
Repayment of Bank Loan	330.0	33.0%
Die & Mold for New Models	205.0	20.5%
Workshop & QC Machinery	160.0	16.0%
Design, Development and R&D	147.0	14.7%
Machinery for New Models	100.0	10.0%
Estimated IPO Expenses	40.0	4.0%
Development of Existing 80CC/110CC	18.0	1.8%

Annualized EPS (BDT)	Offer Price (BDT)	Theoretical Market Price (BDT)
4.16	67.0	70.0 90.0 110.0 130.0 150.0
Trailing P/E (x)	16.1	16.8 21.6 26.4 31.2 36.0

Financials (BDT mn)	FY16	FY17	FY18
Revenue	5,165	6,495	9,962
EBITDA	855	965	1,414
EBIT	769	880	1,323
Net Profit After Tax	252	303	462
Retained Earnings	1,534	1,839	2,202
Total Assets	12,499	13,800	15,352
Total Liabilities	6,786	7,714	8,795
EPS (Post IPO) (BDT)	2.33	2.81	4.27
BVPS (Post IPO) (BDT)	45.72	48.52	51.86
Revaluation Adjusted BVPS (Post IPO) (BDT)	33.71	36.54	39.89

Analyst

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Research Associate
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COMPANY BACKGROUND

RUNNER manufactures different models of motorcycles ranging from 50 cc to 150 cc. Currently, the company has production capacity of 100,000 motorcycles. RUNNER also distributes three wheelers of BAJAJ RE brand at a limited scale. The company has wide distribution channel all over Bangladesh with 69 active dealers, 212 sales centres, and 152 operational showrooms.

RUNNER has two subsidiaries namely (i) Runner Motors Limited and (ii) Freedom Motors Limited.

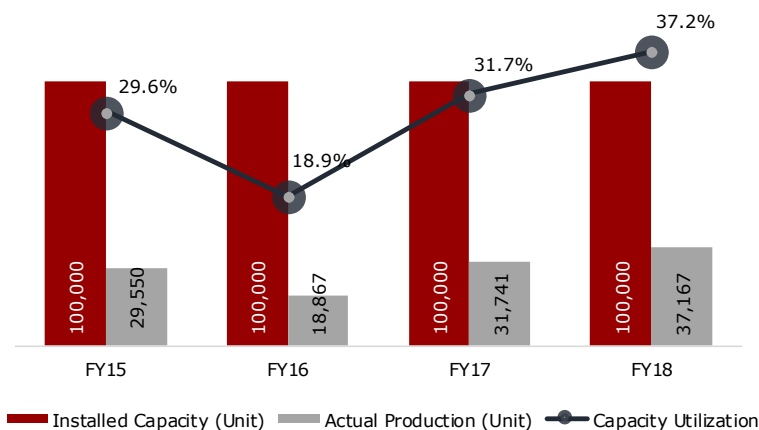
(i) Runner Motors Limited: Runner Motors Limited distributes trucks and pickups of Volvo Eicher Commercial Vehicles Limited India. Runner Automobiles has 61.7% ownership in Runner Motors Limited. In the consolidated revenue Runner Motors contributes around 60.0%.

(ii) Freedom Motors Limited: Freedom Motors Limited was set up to assemble and manufacture all kinds of automobiles and mechanical products. Currently, the company has very limited operation. Runner Automobiles has 99.9% ownership in Freedom Motors Limited.

CAPACITY UTILIZATION

Currently, Runner Automobiles has production capacity of 100,000 motorcycles in a year. The company utilized 31.7% and 37.2% of total installed capacity in FY17 and FY18 respectively.

Capacity Utilization



Source: IPO Prospectus and Company Annual Report

DETAILS ON UTILIZATION OF IPO PROCEEDS

RUNNER plans to introduce new models of two wheelers which would suit contemporary lifestyle. These new models would comprise cruiser bikes, street bike, and scooter bike which ranges from 100CC to 150CC segments. The company has already signed an agreement for production of high range product (2 wheelers) with UM international LLC, USA for distributing the products in local and international market. For this project the company would spend BDT 787mn. BDT 630mn would be financed from IPO proceeds and the rest would be financed from own source.

BOARD OF DIRECTORS

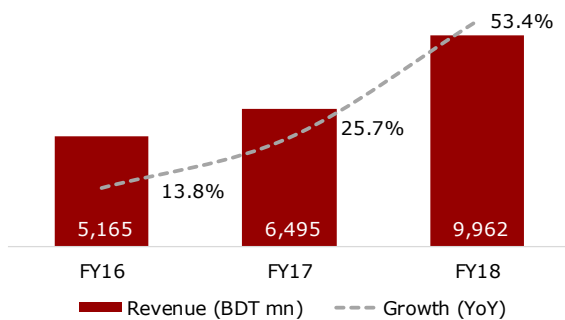
Name	Position
Hafizur Rahman Khan	Chairman
Md. Mozammel Hossain	Vice Chairman
Mukesh Sharma	Managing Director and CEO
Mohammad Ali Deen	Director
Md. Jahurul Alam	Director
Taslim Uddin Ahmed	Director
Khalid Shahidul Quadir	Director
Muallem A Choudhury FCA	Director
Faruq Ahmed Siddiqi	Independent Director
Johannes (Phil) N.H. van Haarlem	Independent Director

Source: IPO Prospectus

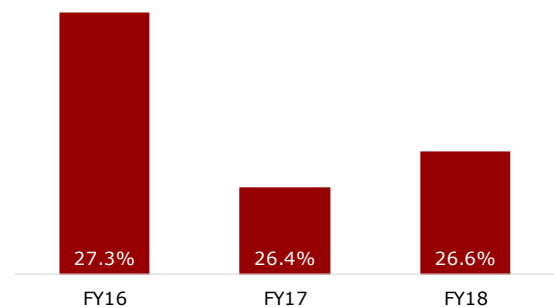
PERFORMANCE ANALYSIS

Revenue grew 53.4% YoY in FY18 and gross profit margin improved to 26.6% in FY18 from 26.4% in FY17. Net profit margin dropped down to 5.9% in FY18 from 6.1% in FY17. Asset turnover improved to 0.68 in FY18 against 0.49 in FY17.

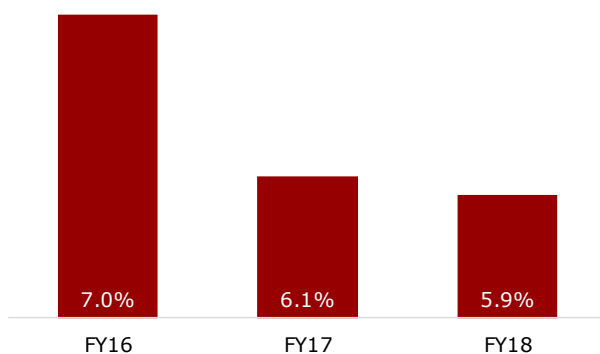
Revenue and Revenue Growth (YoY)



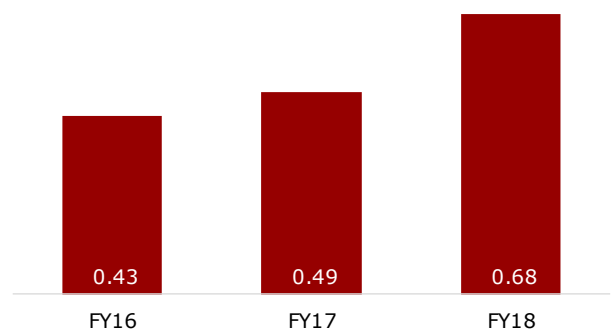
Gross Profit Margin



Net Profit Margin



Asset Turnover (Times)



Source: IPO Prospectus and UCBCML Research

Peer Analysis FY18

Companies	Paid up Capital (BDT mn)	Turnover (BDT mn)	Gross Profit (BDT mn)	Net Profit After Tax (BDT mn)	Gross Profit Margin	Net Profit Margin	EPS (BDT)	Forward P/E (x)
IFADAUTOS	2,254	15,005	2,894	1,554	19.3%	10.4%	6.27	14.45
AFTABAUTO	957	4,813	945	256	19.6%	5.3%	2.68	21.57
Runner Automobiles	942	9,962	2,651	592	26.6%	5.9%	4.27*	N/A

Source: Company annual reports, DSE and UCBCML Research
*Post-IPO

FINANCIALS

Income Statement (BDT mn)	FY14	FY15	FY16	FY17	FY18
Revenue	5,126	4,539	5,165	6,495	9,962
Cost of goods sold	3,864	3,396	3,755	4,778	7,311
Gross Profit	1,262	1,142	1,410	1,717	2,651
Selling and Distribution Expense	282	286	427	584	1,001
Administrative Expense	108	103	127	168	236
Operating Expense	390	389	554	752	1,237
EBITDA	872	753	855	965	1,414
Depreciation	69	86	86	85	91
EBIT	803	667	769	880	1,323
Financial Expense	325	253	291	385	510
Other income	61	60	80	94	75
Net Profit before Contribution to WPPF	538	474	558	589	888
Provision for WPPF	26	23	27	30	44
Net Profit before Income Tax and Share of Profit from Associate	512	451	532	559	844
Share of Profit from Associate			1	2	2
Net Profit before Income Tax	512	451	533	561	845
Income Tax Expenses:	144	100	169	167	253
Current Tax Expenses	147	101	178	156	235
Deferred Tax expenses	3	4	1	11	19
Deferred Tax benefits	-6	-5	-10		-2
Net Profit after tax	369	351	364	393	592
Net Profit Attributable to:					
Equity holders of the parent entity	484	294	252	303	462
Non-controlling interest	94	57	111	90	131

Balance Sheet (BDT mn)	FY14	FY15	FY16	FY17	FY18
Non Current Assets	5,166	5,271	6,679	6,790	7,781
Property, Plant & Equipment	3,168	3,932	3,938	4,020	4,029
Intangible assets	1		-	1	1
Capital work-in-Progress	2	102	200	153	544
Investment in subsidiaries	8	10	58	60	54
Trade receivable-non current	1,989	1,227	2,483	2,557	3,154
Current Assets	4,760	5,993	5,820	7,010	7,571
Inventories	890	1,159	1,097	1,280	1,809
Trade and Other Receivables	2,066	2,897	2,414	2,941	3,415
Short term investments	928	811	1,000	1,007	951
Advances, Deposits and Prepayments	748	857	986	1,145	934
Related party receivables	63	95	106	116	30
Other receivables	4	61	107	79	81
Cash and Cash Equivalents	62	113	110	442	350
Total Assets	9,926	11,264	12,499	13,800	15,352
Total Equity	4,088	5,022	5,714	6,086	6,557
Non-Controlling Interest	628	659	770	839	949
Equity attributable to the Shareholders	3,459	4,363	4,944	5,247	5,608
Share Capital	435	652	942	942	942
Share premium	916	916	1,170	1,170	1,170
General reserve	181	-	-	-	-
Revaluation reserve	748	1,299	1,298	1,296	1,294
Retained Earnings	1,180	1,496	1,534	1,839	2,202
Share Money Deposit					
Non-Current Liabilities	1,838	1,766	2,028	2,467	2,274
Long-Term Loan	1,759	1,661	1,935	2,364	2,154
Finance Lease	-	4	1	-	2
Deferred Tax Liabilities	79	101	92	103	118
Current Liabilities	4,001	4,476	4,758	5,247	6,521
Trade and Other Payables	59	61	154	267	878
Short Term Borrowings	2,008	1,813	2,575	2,970	4,056
Current Portion of Long Term Loan	1,195	1,724	1,015	1,222	508
Current Portion of finance lease	11	1	2	1	2
Provision for Income Taxes	461	512	590	254	322
Provision for WPPF & Welfare fund	32	55	82	111	44
Liabilities for expenses and provision	234	311	340	423	711
Total Liabilities	5,839	6,242	6,786	7,714	8,795
Total Equity & Liabilities	9,926	11,264	12,499	13,800	15,352

Cash Flow Statement (BDT mn)	FY13	FY14	FY15	FY16	FY17	FY18
Net Cash Inflow/(Outflow) from Operating Activities	(1,361)	211	244	148	72	249
Net Cash Inflow/(Outflow) from investing activities	(849)	(694)	(219)	(436)	(345)	80
Net Cash inflow/(outflow) from Financing Activities	2,250	403	25	286	605	(420)
Pre-IPO OCFPS (BDT)	(14.44)	2.24	2.59	1.57	0.77	2.64
Post-IPO OCFPS (BDT)	(12.58)	1.95	2.26	1.37	0.67	2.30

KEY RATIOS

Particulars	FY14	FY15	FY16	FY17	FY18
Growth YoY					
Revenue	70.9%	-11.5%	13.8%	25.7%	53.4%
Gross Profit	95.8%	-9.5%	23.4%	21.8%	54.4%
EBITDA	112.5%	-13.6%	13.6%	12.8%	46.5%
EBIT	133.1%	-16.9%	15.3%	14.4%	50.3%
Net Profit After Tax	138.9%	-4.7%	3.5%	8.2%	50.5%
Margin					
Gross Profit Margin	24.6%	25.2%	27.3%	26.4%	26.6%
EBITDA Margin	17.0%	16.6%	16.6%	14.9%	14.2%
EBIT Margin	15.7%	14.7%	14.9%	13.5%	13.3%
Pre Tax Profit Margin	10.0%	9.9%	10.3%	8.6%	8.5%
Net Profit Margin	7.2%	7.7%	7.0%	6.1%	5.9%
Per Share Data					
EPS - Post IPO (BDT)	4.48	2.72	2.33	2.81	4.27
BVPS- Post IPO (BDT)	31.99	40.35	45.72	48.52	51.86
BVPS - Post IPO (Revaluation Adjusted) (BDT)	25.08	28.34	33.71	36.54	39.89
Return and Valuation					
ROE	9.3%	7.7%	6.8%	6.7%	9.4%
ROA	4.0%	3.3%	3.1%	3.0%	4.1%
Operating Efficiency Ratio					
Inventory Turnover Ratio (x)	4.1	3.3	3.3	4.0	4.7
Receivable Turnover Ratio (x)	2.9	1.8	1.9	2.4	3.1
Average Collection Period (Days)	124	196.8	185.1	148.4	114.9
Inventory Conversion Period (Days)	87.2	108.6	108.1	89.5	76.1
Operating Cycle (Days)	211.2	305.4	293.2	237.9	190.9
A/C Payable Turnover Ratio (x)	55.2	56.5	34.9	22.7	12.8
Payables Payment Period (Days)	6.5	6.4	10.3	15.8	28.2
Cash Conversion Cycle (Days)	204.7	299	282.9	222.1	162.7
Total Asset Turnover (x)	0.6	0.4	0.4	0.5	0.7
Fixed Asset Turnover (x)	1.7	1.3	1.3	1.6	2.5
Liquidity Ratios					
Current Ratio (x)	1.2	1.3	1.2	1.3	1.2
Quick Ratio (x)	1.0	1.1	1.0	1.1	0.9
Cash Ratio (x)	0.0	0.0	0.0	0.1	0.1
Leverage Ratio					
Debt-Equity	143.4%	119.1%	111.8%	124.9%	119.8%
Debt-Asset	50.0%	46.1%	44.2%	47.5%	43.8%

Source: IPO Prospectus, Company Annual Report and UCBCML Research

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We calculate our target price by weighting DCF, DDM, SOTP, asset-based and other relative valuation methods, and applying appropriate premiums/ discounts and/or other relevant adjustments.

Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

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