

Walton Hi-tech Industries Limited

**VALUATION REPORT OF SECURITIES
PREPARED BY THE ISSUE MANAGER**

The valuation report is prepared analyzing relevant financial information as well as the information directly or indirectly associated to the issue of securities. Incorporating the guided Rule No 4(2) (a) (i) and Annexure- E (B) (14) of Bangladesh Securities and Exchange Commission (Public Issue) Rules 2015, this valuation report is prepared.

While preparing the valuation report, a number of qualitative factors are measured to ensure the optimum fair value of the securities. Apart from that, the probable impact of these mentioned qualitative factors is reflected in the valuation.

Qualitative Factors:

1. The management body of the company is highly experienced in managing the operations of the company. Additionally, the financial management history reveals that the firm has an impressive track record of earnings management.
2. The profit margin, EPS, ROE, and ROI are providing signals of strong performance as well as indicating better performance in the forthcoming years.
3. The company produces Hi-tech electronics and the company is continuously developing its products design and quality.
4. The company has captured more than 70% market shares, and it is the industry leader in Bangladesh.
5. The market trend is suggesting a rapid growth in the demands for refrigerator, AC and other Hi tech products, which indicates the company will experience growth in future.

Quantitative Valuation:

The guided principles of Rule No 4(2) (a) (i) and Annexure- E (B) (14) suggest that the valuation of a company stock should be duly done under four (4) different methods. Hence, the quantitate valuation of the company stock is done as per the prescribed Rules. The following table represents a summary of the quantitative valuation.

Reference	Valuation Method	Calculated Fair Value (BDT)
Method - 1 (A)	Net Asset Value (NAV) Per Share with Revaluation	243.16
Method - 1 (B)	Net Asset Value (NAV) Per Share without Revaluation	138.53
Method - 2 (A)	Earning Based Value Per Share (Market P/E)	392.46
Method - 2 (B)	Earning Based Value Per Share (Sector P/E)	396.58
Method - 3	Average Market Price of Similar Stocks	207.95
Method - 4	P/BV Multiple of Similar Stocks	994.04
Based on Audited Financial Statement for the year ended June 30, 2019		

METHOD 1 (A)

VALUATION USING NET ASSET VALUE (NAV) PER SHARE WITH REVALUATION

The Net Asset Value (NAV) is calculated using the information from the most recently published audited financial statements on June 30, 2019. To calculate the NAV the net assets of the company is divided by the total number of outstanding shares. The company have revaluation surplus of Tk. 31,390,563,206 in the reported year. Therefore, the NAV of the company with revaluation reserve is found to be 243.26 Taka per share. Details calculation of the valuation is given in the following table:

As on June 30, 2019		
Note	Particulars	Amount in Taka
A	Share Capital	3,000,000,000
B	Retained Earnings	38,587,504,162
C	Revaluation Surplus	31,390,563,206
D	Total Shareholders' Equity as on September 30, 2018 (A+B+C)	72,978,067,368
E	Number of Shares Outstanding	300,000,000
F	Net Asset Value (NAV) per share with revaluation [D/E]	243.16

METHOD 1 (B)

VALUATION USING NET ASSET VALUE (NAV) PER SHARE WITHOUT REVALUATION

The net asset value of the company would stand at 138.63 Taka per share if the revaluation reserve is not incorporated in the valuation of the stocks of the company. The calculations are given in the following table:

As on December 31, 2018		
Particulars	Note	Taka
Share Capital	A	3,000,000,000
Retained Earnings	B	38,587,504,162
Total Shareholder's Equity	A+B=C	41,587,504,162
Number of Shares Outstanding	D	300,000,000
Net Asset Value Per Share	[C/D]	138.53

METHOD 2(A): EARNING BASED VALUATION PER SHARE USING MARKET P/E

The base of earning based valuation is the historical financial information. To calculate the fair value per share, last five years financial statements were used. Especially the historical net income after tax of last five years (2015-2019) were used along with the number of outstanding shares of the company in the respective year. Using the cumulative shares, a weighted average earning per year is calculated, which is then used to calculate weighted average net profit after tax. The weighted average EPS is calculated to be 28.42 Taka. The average market P/E is calculated using the market returns of DSE. It is found that the average market P/E is 13.81, which is multiplied with the weighted average EPS 28.42 to find the fair value of the share of 392.46 Taka per share. Details is given in the following table:

SL.	Year	No. of Shares	Net Profit after Tax (BDT)	Weight on Total Number of Shares	Weighted Average Net Profit after Tax (BDT)
A	30.06.2019	300,000,000	13,761,138,603	0.48	6,552,923,144
B	30.06.2018	300,000,000	3,523,210,384	0.48	1,677,719,230
C	30.06.2017	10,000,000	7,344,818,375	0.02	116,584,419
E	30.06.2016	10,000,000	6,214,633,475	0.02	98,644,976
F	30.06.2015	10,000,000	5,025,571,574	0.02	79,770,977
G	Total	630,000,000		1	8,525,642,747
H	Number of Shares Before IPO				300,000,000
I	Weighted Average Earning Per Share [G/H]				28.42
J	Relevant P/E Multiple *				13.81
K	Historical Earning Based Value Per Share [I*J]				392.46

THE MARKET P/E CALCULATION:

Walton Hi-Tech Industries Limited could be categorized as a company under “Engineering” category according to the analysis on the Nature of the business. The monthly P/E of the market of six months (April 2019 to September 2019) were collected from the monthly review of DSE, and then the average P/E of the market is calculated, which is 13.81. The details of the market P/E calculation are given in following table:

Market P/E	
Month	Market
April 2019	14
May 2019	13.97
June 2019	14.25
July 2019	13.46
August 2019	13.59
September 2019	13.59
Average	13.81
<i>Source: DSE Monthly Review</i>	

METHOD 2(B): EARNING BASED VALUATION PER SHARE USING SECTOR P/E

To calculate the fair value per share, last five years financial statements were used. Especially the historical net income after tax of last five years (2015-2019) were used along with the number of outstanding shares of the company in the respective year. Using the cumulative shares, a weighted average earning per year is calculated, which is then used to calculate weighted average net profit after tax. The weighted average EPS is calculated to be 28.42 Taka. The average sector P/E is calculated assuming the “Engineering” sector as the ideal match to the company. It is found that the average sector P/E is 17.37, which is multiplied with the weighted average EPS 28.42 to find the fair value of the share of 396.58 Taka per share. Details is given in the following table:

SL.	Year	No. of Shares	Net Profit after Tax (BDT)	Weight on Total Number of Shares	Weighted Average Net Profit after Tax (BDT)
A	30.06.2019	300,000,000	13,761,138,603	0.48	6,552,923,144
B	30.06.2018	300,000,000	3,523,210,384	0.48	1,677,719,230
C	30.06.2017	10,000,000	7,344,818,375	0.02	116,584,419
E	30.06.2016	10,000,000	6,214,633,475	0.02	98,644,976
F	30.06.2015	10,000,000	5,025,571,574	0.02	79,770,977
G	Total	630,000,000		1	8,525,642,747
H	Number of Shares Before IPO				300,000,000
I	Weighted Average Earning Per Share [G/H]				28.42
J	Relevant P/E Multiple *				13.96
K	Historical Earning Based Value Per Share [I*J]				396.58

THE SECTOR P/E CALCULATION:

Walton Hi-Tech Industries Limited could be categorized as a company under “Engineering” category according to the analysis on the Nature of the business. The monthly P/E of the sector of six months (April 2019 to September 2019) were collected from the monthly review of DSE, and then the average P/E of the sector is calculated, which is 13.96. The details of the market P/E calculation are given in following table:

Engineering Sector	
Month	P/E
April 2019	13.63
May 2019	14.3
June 2019	14.56
July 2019	14.56
August 2019	13.9
September 2019	12.78
Average	13.96
<i>Source: DSE Monthly Review</i>	

METHOD 3: VALUATION USING THE AVERAGE MARKET PRICE OF SIMILAR STOCKS

Walton Hi-Tech Industries Limited is a company that produces refrigerator, air conditioner, and others hi-tech products, therefore, it is categorized as a company under the “Engineering” sector. To determine the similar stocks that are similar to the company a number of factors were considered.

Sources of Information:

Identification of peer companies required a thorough analysis on all the stocks that are being traded under the “Engineering” sector of Dhaka Stock Exchange (DSE) & Chittagong Stock Exchange (CSE). Hence, the primary information about the peer companies is collected from DSE and CSE websites.

Secondary information such as company operations, products, services, and facilities etc. is collected from the respective company websites. Relevant financial information that is considered for the valuation is taken from the last audited financial statements published on June 30, 2018.

Similarities that were considered:

Although many attributes are considered, while selecting the peer companies, such as company paid up capital, dividend behavior, market category, gross turnover etc., but we put more emphasize on the companies that produces similar products. The following condition would justify the action:

1. The risks of the business operations of electrical and electronics product-based companies are quite different from the other producing companies. This type of companies experience dynamicity risks as majority of these companies’ products seems to be replaced by a new technology at a faster speed than any other production-based industry.
2. Company that are selling electrical and electronics products are dependent on hi quality raw materials and parts that are being imported from outside countries.
3. Therefore, it is concluded that the ideal peer company of Walton Hi-Tech Industries Limited would be the companies that produces similar products and signify similar business nature.

After considering the above, Singer Bangladesh Ltd. is considered to be the best representative company for WHIL’s valuation.

Average Closing Price of Similar Stocks [1 Year]

Yearly Average Market Price of Similar Stocks	
Month	Singer Bangladesh Ltd.
October-18	216.40
November-18	215.10
December-18	221.20
January-19	235.90
February-19	240.00
March-19	193.80
April-19	169.90
May-19	178.60
June-19	193.20
July-19	211.40
August-19	209.40
September-19	210.50
Average	207.95

METHOD 4: VALUATION OF STOCKS USING P/BV MULTIPLE OF PEER COMPANIES

Information collected from the audited accounts of Singer Bangladesh Ltd. for the date June 30, 2018. To calculate the value of stock, the average 12 months' (October 2018 to September 2019) market price of the peer company is divided by respective NAV to find the P/BV ratio of the respective company. The P/BV is then multiplied with the WHIL's NAV to find the fair value of the stocks to be 994.04 Taka per share. The details calculation is given in the following table-

Sl. No.	Company	Average Price	NAV	P/BV
1	Singer Bangladesh Ltd.	207.95	29	7.17
Average P/BV of Above Company				7.17
NAV Per Share of Walton Hi-Tech Industries Limited				138.63
Share Price of Walton Under P/BV Valuation				994.04