

Company Background

Sea Pearl Beach Resort & Spa Limited (the owner of "Royal Tulip Sea Pearl Beach Resort & Spa Cox's Bazar") is a five-star resort & hotel in Cox's Bazar, Bangladesh. Cox's Bazar is the longest natural sea beach in the world with an unbroken length of 120 km and it is also a major tourist destination of Bangladesh. Royal Tulip is located in Inani Beach which is a stony beach near Cox's Bazar. The business activities connected with the resort & hotel business are carried out through a Franchise Agreement between Sea Pearl Beach Resort & Spa Limited (Franchisee) and GT Investments BV (the "Franchisor"), a limited liability company organized under the laws of the Netherlands.

Sea Pearl Beach Resort & Spa Limited was incorporated on May 26, 2009 as a private limited company. The company started its commercial operation in September 2015. It was converted into a public limited company on November 14, 2017. The registered office of Sea Pearl is situated at Mymensingh. The corporate office is located at Karwan Bazar, Dhaka. Sea Pearl is a single entity and it has neither any holding company nor any subsidiary.

Md. Aminul Haque, Lucy Akhtary Mahal, Md Ekramul Hoque, and Shamim Enterprise (Pvt.) Limited are the sponsors of the company. They hold 2.30%, 2.04%, 2.09%, and 40.40% shares of the company (Post-IPO) respectively. The individual sponsors are members of the board of directors of the majority shareholder Shamim Enterprise (Pvt.) Ltd. as well. Lucy Akhtary Mahal is serving as the chairman of the company and Md. Aminul Haque is the Managing Director of the company. All of the directors except for the independent directors are relatives. Shamim Enterprise is represented by Sarjana Islam in the board of directors who is the daughter in law of the chairman & the managing director.

There are 493 guest rooms available in the hotel and the company currently operates 241 of those. The occupancy rate of FY 2018 was 61.12%.

Sea Pearls' product wise revenue contribution is provided below:

Particulars	Room Revenue	Food & Beverage Revenue	Minor Operating Department	Space Rent & Other Revenue
Revenue Contribution	51.22%	41.28%	5.25%	2.23%

IPO Details

Sea Pearl Beach Resort & Spa Limited will raise BDT 150 Mn as initial public offering (IPO) through fixed price method by offering 15 million ordinary shares of BDT 10.0 each. The fund raised through IPO will be used for interior, finishing, furniture & fixture of 157 rooms and acquisition of 100 decimals land at Inani, Cox's Bazar. The break down of the use of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Interior, finishing, furniture & fixture	106.8	71.2%
Acquisition of land	26.7	17.8%
Sub Total	133.5	89.0%
IPO Expenses	16.5	11.0%
Grand Total	150.0	100.0%

Key Points

- The tourism industry in Bangladesh is a promising industry. Even though the number of foreigners visiting Bangladesh is very few compared to other nearby countries, domestic tourists make up for that void. The official figure for international tourists visiting Bangladesh is 0.6 million whereas the number is 10 million for India and 1.4 million for Nepal. But on the other hand, the number of domestic tourists is 13.7 million. About 70% of tourists prefer visiting Cox's Bazar and Chittagong Hill Tracts, followed by Sundarban and Sylhet. That's why Cox's Bazar hosts a lot of hotels and resorts. Travel and tourism contributed BDT 427.5 billion - 2.2% of the total GDP in 2017. According to the World Travel and Tourism Council (WTTTC) data, this will rise by 6.1% in 2018. The reason for this growth is because of the increase in per capita income, the large young population of our country, and a growing tendency to go for trips a few times in a year for the middle-class population. The development of infrastructure will help in tourism as well. The current condition of the infrastructure, maintenance of tourist places, and security issues are still a hindrance to attract foreign tourists. But Sea Pearl is situated in Cox's Bazar and Cox's Bazar is well maintained to cater to a large number of foreign tourists. However, the hotel is situated in Inani which is a little far from the main tourist spots. So, the location may not attract the majority of tourists. But as Sea Pearl brands itself as a 5-star hotel, the target market is from upper-middle class to upper class.
- Sea Pearl started its commercial operation in 2015 and it started reporting revenue from FY 2016. During 2016-18, it reported a top line CAGR of 151%. It started generating profit from 2017 and reported 41.4% NPAT growth in 2018. The company has been maintaining around 78%-79% Gross Profit margin and 9% net profit margin for the last two years.
- The receivables turnover and the inventory turnover decreased significantly from in FY 2018. But if compared to industry peers, receivables turnover is similar to the peers but inventory turnover is significantly still higher than the peers. So, inventory turnover may reach around 7x-8x as the company moves further in its maturity cycle. The low return on asset and low return on equity are due to high leverage and it is on a similar level to its peers. ROE decreased significantly in FY 2018 due to BDT 915 Mn increase in share capital. The ROA & ROE may increase in the future if the hotel gains more popularity through its service, achieve better occupancy, and pay back loans.
- Sea Pearl's business model absolves itself from being dependent on any single supplier. The utility requirements are of significant importance for the company as any disruption of utility to the customers can have a huge impact on potential revenue due to reputational loss. Sea Pearl has three diesel generators as alternative power sources.
- Sea Pearl has a BDT 3.25 billion outstanding convertible bond. Sea Pearl needs to pay BDT 434 million as principal repayment and ~BDT 331 million on average as coupon payment per year during 2020-2025. This will make a huge dent in the company's profitability.

Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the Travel & Leisure sector are given:

DSE Ticker	Market Cap (BDT Mn)*	LTM Earnings (BDT Mn)*	LTM P/E
UNIQUEHRL	14,896.6	607.3	24.5x
PENINSULA	2,954.8	130.1	22.7x

*Source: DSE, BEPL Research

Company Summary

Post IPO No. of Shares (Mn)	115
Post-IPO Paid-up Capital (Mn BDT)	1,150
Pre-IPO Paid-up Capital (Mn BDT)	1,000
New Shares Issued (Mn)	15
IPO Proceeds (Mn BDT)	150
Face Value	10
Market Lot	500
Free Float	13.04%
Accounting Year End	June
Auditor	Mahfel Huq & Co
Issue Manager	Banco Finance and Investment Limited Prime Bank Investment Ltd.

Income Statement

Mn BDT	2014A	2015A	2016A	2017A	2018A
Revenue	-	-	74.6	331.6	468.9
Cost of Goods Sold	-	-	(26.4)	(67.7)	(102.1)
Gross profit	-	-	48.2	263.9	366.8
Administrative expenses	-	-	(52.5)	(117.6)	(176.8)
Selling & Distributing expenses	-	-	(1.8)	(3.2)	(4.2)
Profit from operation	-	-	(6.1)	143.0	185.9
Financial Expenses	-	-	(38.1)	(96.5)	(97.9)
Profit/(Loss) before Contribution to WPPF	-	-	(44.2)	46.6	87.9
WPPF	-	-	-	-	(4.2)
Net Profit before Tax	-	-	(44.2)	46.6	83.7
Income Tax Expenses	-	-	15.5	(16.3)	(37.6)
Net Profit after tax	-	-	(28.7)	30.3	46.1
Diluted EPS (BDT)	-	-	(0.29)	0.30	0.46
Diluted EPS—Post IPO (BDT)	-	-	(0.25)	0.26	0.40

Balance Sheet

Mn BDT	2014A	2015A	2016A	2017A	2018A
Non-Current Assets	2,063.2	2,824.2	3,746.7	4,043.2	4,331.0
Property, Plant & Equipment	0.0	0.0	985.4	1,829.0	2,825.7
Capital work in progress	2,059.5	2,823.9	2,745.6	2,214.2	1,505.3
Current Assets	423.9	554.5	157.4	85.9	456.3
Inventories	0.0	0.0	1.2	4.3	20.5
Accounts receivable	0.0	0.0	3.0	7.2	69.7
Advance, Deposits and Payments	341.0	384.6	125.2	44.0	109.7
Cash & Cash Equivalent	70.0	148.5	12.6	10.9	231.0
Total Assets	2,487.1	3,378.7	3,904.0	4,129.2	4,787.3
Shareholders' Equity	62.5	62.5	33.8	86.6	1,047.7
Share Capital	62.5	62.5	62.5	85.0	1,000.0
Retained earning	0.0	0.0	-28.7	1.6	47.7
Non-Current Liabilities	2,318.7	3,275.8	2,974.8	3,690.7	3,523.1
Long Term Loan	1,903.8	2,848.5	2,465.3	3,202.9	22.4
Convertible Secured Bond	0.0	0.0	0.0	0.0	3,472.2
Share Money Deposit	414.8	427.3	509.5	487.0	0.0
Deferred Tax Liabilities	0.0	0.0	0.0	0.8	28.6
Current Liabilities	105.9	40.5	895.4	351.9	216.5
Current Portion of Term Loan	0.0	0.0	653.8	147.5	12.8
Accounts Payable	105.1	39.4	95.5	58.2	49.1
Short Term Borrowings	0.0	0.0	130.1	136.7	113.4
Accruals & Provisions	0.8	1.0	16.0	9.4	41.2
Total Equity and Liabilities	2,487.1	3,378.7	3,904.0	4,129.2	4,787.3

Cash Flow Statement

Mn BDT	2014A	2015A	2016A	2017A	2018A
Operating Activities	(0.0)	0.0	31.4	169.8	182.7
Investing Activities	(1,273.0)	(878.6)	(612.3)	(312.9)	(361.4)
Financing Activities	1,329.8	957.1	444.9	141.4	398.7
Net Cash Flow	56.7	78.5	(136.0)	(1.7)	220.0

Ratios

	2014A	2015A	2016A	2017A	2018A
Gross Profit Margin	N/A	N/A	64.7%	79.6%	78.2%
Op. Profit margin	N/A	N/A	-8.1%	43.1%	39.6%
Net Profit Margin	N/A	N/A	-38.5%	9.1%	9.8%
Revenue Growth	-	N/A	N/A	344.5%	41.4%
NPAT growth	-	N/A	N/A	205.5%	79.8%
Receivable Turnover	-	N/A	50.1x	65.4x	12.2x
Inventory Turnover	-	N/A	126.8x	122.2x	37.9x
Debt to Asset	0.8x	0.8x	0.8x	0.8x	0.8x
Net Debt to Equity	29.3x	43.2x	95.8x	40.2x	3.2x
Return on Asset	-	0.0%	-0.8%	0.8%	1.0%
Return on Equity	-	0.0%	-59.6%	50.3%	8.1%
Effective Tax Rate	N/A	N/A	35.0%	35.0%	45.0%

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Ayaz Mahmud, CFA	Deputy Head of Research	ayaz.mahmud@bracepl.com	01708 805 221
Md. Sakib Chowdhury	Research Analyst	sakib.chowdhury@bracepl.com	01709 641 247
S. M. Samiuzzaman	Research Analyst	sm.samiuzzaman@bracepl.com	01708 805 224
Sadman Sakib	Research Associate	sadman.sakib@bracepl.com	01730 727 939
Ahmed Zaki Khan	Research Associate	zaki.khan@bracepl.com	01708 805 211
Md. Rafiqul Islam	Research Associate	mrafiquislam@bracepl.com	01708 805 229
Md. Mahirul Quddus	Research Associate	mmahirul.quddus@bracepl.com	01709 636 546

International Trade and Sales

Ahsanur Rahman Bappi	Head of International Trade & Sales	bappi@bracepl.com	01730 357 991
----------------------	--	--	---------------

BRAC EPL Research

www.bracepl.com

Symphony, Plot No.: S.E.(F) – 9(3rd Floor), Road No.: 142

Gulshan Avenue, Dhaka – 1212

Phone: + (880)-2-9852446-50

Fax: + (880)-2-9852451-52

E-Mail: research@bracepl.com