



## Recommendation Subscribe

IPO in a Nut Shell.....

<b>SHARES TO BE ISSUED</b>	16,700,000
<b>Issue Price</b>	Rs. 15/-
<b>Minimum Subscription</b>	A minimum of 100 shares, additional applied in 100 multiples
<b>Basis of Allotment</b>	Employees - 1,200,000 shares Retail - 3,000,000 shares (> 5000 shares) Non Retail - 12,500,000 shares (< 5000 shares)
<b>Offer Opening</b>	5 <sup>th</sup> July 2010
<b>Closing Date</b>	22 <sup>nd</sup> July 2010 or on the date the issue gets over subscribed which ever is earlier.
<b>Objective</b>	The proceeds of Rs 250.5mn will be utilized for business expansion and business infrastructure development, (Estimated cost Rs 150mn).  Utilize up to Rs 100mn of the issue proceeds to settle outstanding debts.

### Share holders before and after the listing

Holder	BEFORE		AFTER	
	No of Shares	%	No of shares	%
Ms. O D Gunawardena	80,833,100	63.03	80,833,100	55.77
Mr. A D Gunawardena	40,416,900	31.51	40,416,900	27.88
Phoenix Ventures	3,000,000	2.34	3,000,000	2.07
Mr. L W A De Soysa	2,775,000	2.16	2,775,000	1.91
Mr R Gunawardena	1,000,000	0.78	1,000,000	0.69
Mrs A M De Soysa	150,000	0.12	150,000	0.10
Mr. A J De Soysa	75,000	0.06	75,000	0.05
IPO	-		16,700,000	11.52
<b>Total</b>	<b>128,250,000</b>	<b>100%</b>	<b>144,950,000</b>	<b>100%</b>

Prior to the issue that is in Nov 2009, ODEL has subdivided 142,500 shares in to 900 shares each.

**Odel Limited is a well know entity which is into sale of ready made garments, Home ware and Accessories. The company currently extends to 12 branches across the island. In addition the company has 5 fully owned subsidiaries**

- Odel Properties (Pvt) Limited - **BOI**
- Odel Information technology Services ( Pvt) Limited
- Otone ( Pvt) Limited - **BOI**
- Odel Apparels ( Pvt) Limited- **BOI**
- Odel Lanka ( pvt) Limited

Of which 3 companies are BOI approved projects. ODEL Limited a renowned name for housing up market (branded) products and locally labeled products. The revenues of the company is highly exposed to macro economical factors, such as Demand, inflation etc. However as Clothing been a basic necessity for all human beings the demand for clothing will not deteriorate... but the question lies with the quantity and the demand for niche products.

### Financial Perspective

Investor information Rs Mn	2006	2007	2008	2009	2010
Net Turnover	1,578.20	1,684.30	1,941.30	1,950.70	2,416.80
<b>Growth</b>	-	7%	15%	0.48%	24%
PAT	29.50	74.90	66.50	32.20	140.70
<b>Growth</b>	-	154%	-11%	-52%	337%
EPS	0.20	0.60	0.50	0.27	1.10
<b>Diluted EPS</b>	-	-	-	0.22	0.46*
PER (Times)	75	25	30	68	33
<b>Price to Book Value</b>	-	-	-	3.06	1.61
GP Margin %	33	35	35	33	35
NP Margin %	1.9	4.4	3.4	1.7	5.8
ROE	-	14.70	11.60	5.60	15.50
Debt/ Equity	101.60	78.90	76.00	75.00	45.20
Net Asset Value	3.70	4.30	4.70	4.90	9.30

\* EPS on Recurring operations

The net turnover of ODEL has reported a YOY growth over a five year period, the year under review has shown a steep growth of 24%, which has been the highest over the five year period. This was basically due to the recovery in the local economic situation plus the developments in foreign arrivals to the country. This drove up the revenue to Rs. 2.4bn for F/Y 2010 resulting a Profit of 140mn.

However it should be noted that the profits includes a non recurring item worth Rs 76mn during the said financial year 2010. Therefore the Net Profit from recurring items dilutes to Rs 65mn giving a diluted EPS of Rs 0.51 and dilutes further to Rs 0.46 subsequent to the IPO.

In addition from the ODEL's profitability point of view it has generated continuous profits although the Net Profit margins maintained are low as a result of bulk operational cost. However this is expected to continue as the company is planning for further expansions within the up coming years, it is also expected that the financial burden will be lowered as the issue proceeds will be utilized to settle some of the borrowings. Therefore overall impact will be neutralized.

## Financial Forecast

	2010	2011F	2012F
<b>Turnover</b>	<b>2,416,780,762</b>	<b>3,141,814,991</b>	<b>4,241,450,237</b>
<b>Gross Profit</b>	<b>842,222,653</b>	<b>1,225,307,846</b>	<b>1,696,580,095</b>
<b>PBT</b>	<b>211,314,405</b>	<b>263,780,706</b>	<b>465,805,998</b>
<b>PAT</b>	<b>140,692,735</b>	<b>193,159,036</b>	<b>395,184,328</b>
<b>Share Of Equity</b>	<b>141,798,095</b>	<b>189,295,856</b>	<b>391,232,485</b>
<b>EPS*</b>	<b>0.46</b>	<b>1.31</b>	<b>2.70</b>

\*EPS is from recurring operations after dilution

Turnovers are expected to increase by 30%-35% within the next two years time as a result of increased demand in the local market as well as with growth in foreign visitors to Sri Lanka, further the additional revenue expected from new outlets will further contribute to the growth in revenues.

Currently cost of sales accounts for 65% of revenues which is expected to reduce marginally as a result of enjoyed economies of scale, less discounts offered on branded products and better inventory control implemented with accelerated stock turn. In addition finance cost expected to reduce as the company is settling part of its borrowing from the IPO issue proceeds.

For the financial year 2011 a revenue growth of 30% is anticipated that drives up to Rs 3.1bn giving an Earnings of Rs 1.31 per share for the Equity holders. For the F/Y 2012 the expected earnings is nearing Rs 3.00. However based on its normalized earnings the PER is relatively higher than the prevailing market PER, which is 33x and 23x respectively. From a price to book value point of view the share is priced 1.61 times based on a book value of Rs 9.30 book value per share subsequent to the issue will be approximately Rs 8.50.

From the current business perspective ODEL icon has built up a strong image in the local market which is a threat to a new entrant although the possibility is opened for one. Further with its objective of moving to the global arena also symbolizes its strong density towards expansions and stability on its going concern. In addition its current image of capturing a Monopoly status in its product and services gives a positive indication towards investing in its shares.....

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