

DMCI Holdings (DMC PM)

Parent over the kid

Reiterate BUY with higher NAV-TP of PHP12

Factoring in our recent upgrades on Semirara (SCC, CP: PHP35.00, HOLD, TP: PHP34.00; see *Coal: higher for longer*), we raise our NAV-based TP for DMC to PHP12.00 (from PHP11.1) and our FY22/23 earnings forecasts by +37%/+21%. We reiterate BUY on DMC and prefer it over SCC given the higher total returns of c.55%, which includes an 11.5% FY22E yield. We are also positive on its residential (DMCI Homes) and construction (DM Consunji) segments, which should continue to benefit from the country's reopening trajectory.

Residential take-up accelerating, but slow launches

DMCI Homes reported 1Q22 reservation sales of PHP8.1b, up 35% YoY, as its launch of *The Erin Heights* (PHP3.3b total sales value or TSV) in Quezon City boosted take-up. As of Apr 2022, DMCI Homes has not launched any new projects but it targets to launch another project in Jun 2022 and a further 2 projects in 2H22. We slashed our launch assumption by around 50% to c.PHP22b, but forecast launches to rebound to PHP43b in FY23E.

PHP126.5b prospective bids for contractor

DM Consunji continues to book revenues from ongoing projects. Of its PHP27b order book as of Mar-2022, excluding JVs, 68% have completion status of over 25%. As of Apr 2022, DM Consunji has ongoing project bids worth a combined total of PHP126.5b. It remains keen on participating in approximately USD11.7b (PHP566b) worth of rail projects, namely: (a) Metro Manila Subway Phase 1; and (b) South Commuter Railway Phase 3.

Merger of nickel assets under SCC is NAV-neutral

Although there are no concrete details on the proposed merger of DMC's nickel mining assets with SCC, we estimate the impact on DMC's NAV would be minimal, at just 1%, assuming the transaction is a straight cash purchase whereby SCC acquires DMCI mining from DMC for PHP4.3b and considering that DMC owns the majority of SCC (56%), making the corporate restructuring neutral for DMC shareholders. SCC and DMCI Mining currently contribute 37% and 2%, respectively, to DMC's forward NAV.

FYE Dec (PHP m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	67,700	108,343	150,946	128,918	102,008
EBITDA	15,026	33,264	53,657	45,692	34,943
Core net profit	5,859	18,394	32,132	26,448	19,335
Core EPS (PHP)	0.44	1.39	2.42	1.99	1.46
Core EPS growth (%)	(44.4)	214.0	74.7	(17.7)	(26.9)
Net DPS (PHP)	0.48	0.96	0.96	0.96	0.96
Core P/E (x)	12.8	5.6	3.5	4.2	5.7
P/BV (x)	0.9	1.2	1.0	0.9	0.9
Net dividend yield (%)	8.5	12.5	11.5	11.5	11.5
ROAE (%)	7.1	21.7	33.0	23.2	15.7
ROAA (%)	2.9	8.8	13.9	10.3	7.1
EV/EBITDA (x)	8.5	4.8	3.0	3.1	4.0
Net gearing (%) (incl perps)	32.6	31.9	12.9	net cash	net cash
Consensus net profit	-	-	23,438	19,172	18,566
MKE vs. Consensus (%)	-	-	37.1	38.0	4.1

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BUY

Share Price	PHP 8.35
12m Price Target	PHP 12.00 (+54%)
Previous Price Target	PHP 11.10

Company Description

DMCI Holdings, Inc. (DMC PM) is a holding company housing the Consunji family's various business interests including mining and construction.

Statistics

52w high/low (PHP)	9.50/5.48
3m avg turnover (USDm)	1.2
Free float (%)	26.1
Issued shares (m)	13,277
Market capitalisation	PHP110.9B
	USD2.0B

Major shareholders:

Dacon Corp.	50.0%
DFC Holdings, Inc.	19.0%
CONSUNJI ISIDRO ALMEDA	1.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(7)	33
Relative to index (%)	3	7	52

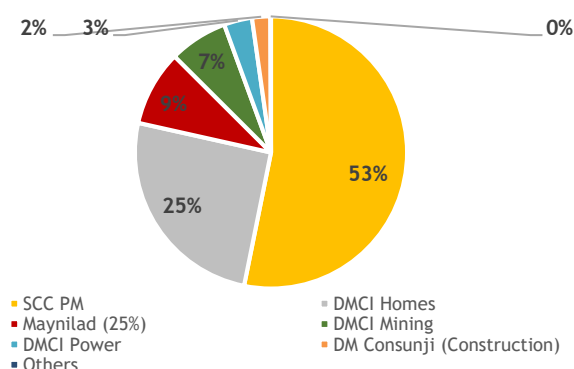
Source: FactSet

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Tear Sheet Insert

Value Proposition

- DMC houses the Consunji family's stakes in SCC, the country's largest coal miner and a major baseload coal power generator (900MW capacity); in D.M. Consunji Inc (not listed), one of the country's leading construction companies; in DMCI Homes (not listed), a mid-end vertical property developer; in water concessionaire Maynilad (not listed); and in various other businesses in nickel mining and off-grid power generation.
- D.M. Consunji built a strong track record of delivering landmark construction projects and has since spun-off subsidiaries to other construction-intensive businesses such as residential development and invested in water utilities.
- SCC, DMCI Homes, and D.M. Consunji account for 81% of FY21 earnings and 80% of DMC's forward NAV.

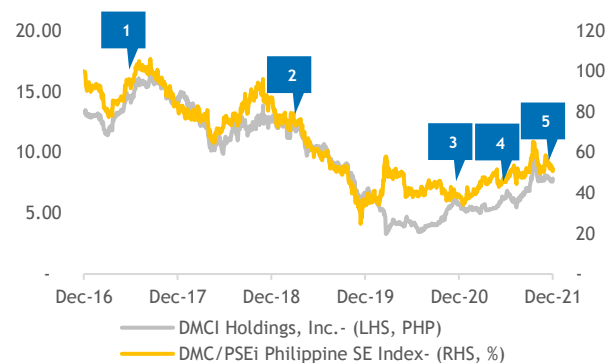
DMC's FY21 earnings mix



Source: Company

Price Drivers

Historical share price trend



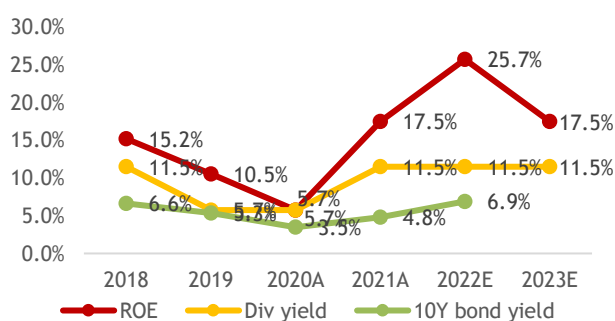
Source: Company, Maybank IBG Research

- SLPGC, SCC's 2x150MW coal plant, was allowed to run its plants at full capacity after being granted a certificate of compliance by the Energy Regulatory Commission.
- DMC-Taisei Corp. JV wins PHP55b contract for North-South Commuter Railway project phase 1.
- The Department of Energy announced a moratorium on endorsement of new coal power plants following its periodic review.
- DMC was deleted from the PSEi.
- BOD approved record high PHP0.96 dividend per share, including PHP0.48 per share special dividend.

Financial Metrics

- We forecast FY22/23E net income to climb to PHP32.1b/PHP26.4b due to pick up in coal prices, offsetting impact of softer residential project revenues and launches and fewer construction contract project wins from FY20-21A.
- We expect SCC to account for 58% of FY22E earnings, followed by DMCI Homes (12%), and D.M. Consunji (4%).
- The group's operating cashflow over FY22/23E should be able to fund its maintenance/ expansion capex of PHP14-16b and sustain a dividend payout ratio of 40-69%, which translates into yields of 11.5%/11.5%.

High ROE and dividend payout



Source: Company

Swing Factors

Upside

- Rise in regional coal prices (Newcastle and ICI4), which are benchmarks for SCC's domestic and export coal prices.
- Coal export shortfalls or bans of other regional producers such as Indonesia.
- Major project wins that significantly add to the contractor's order book.
- Higher-than-expected sales take-up of new launches by consumers to result in higher booked revenues.

Downside

- Rising regulatory pressure globally is hurting demand for coal and depressing prices, which will affect SCC's coal exports, as would any forced coal phase-out.
- Unplanned plant outages in SCC despite FY21 maintenance activity and heavy-duty life extension programme of SCPC.
- Weak reservation sales of DMC Homes and low project awards of DMCI due to competition from other developers or contractors.

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Risk Rating & Score¹	45.8 (Severe)
Score Momentum²	n/a
Last Updated	14 Apr 2021
Controversy Score³ (Updated: 24 Nov 2021)	2 (Moderate)

Business Model & Industry Issues

- Leveraging its engineering background, DMC ventured into coal mining through SCC. By FY09, SCC, being the biggest coal mining company in the Philippines (99% of total domestic production), forward integrated into power generation. As such, SCC is more exposed to environmental and social risks.
- The DOE's moratorium on coal plants affects SCC. Not only does it impact the expansion prospects of its generation segment, it will also likely impact growth prospects of the coal mining business as ~35% of its FY20 coal sales volume was to domestic coal power plants.
- Sustainability's Severe rating is mainly on the back of DMC's high subindustry exposure to coal mining and power, and low ESG integration as it continues to make investments in open-pit nickel mining. DMC is already exploring renewable energy (RE) development; DMCI Power will by 2Q22 complete its 1x4MW Masbate solar plant while SCC announced in Nov 2021 it would allocate PHP1.5b capex and explore potential RE investments. Overall, ESG risk still seems high. The expected rate of improvement for ESG factors is expected to be a small increment given focus is still towards coal, via SCC, while it has found few reinvestment opportunities in the RE space, at least for now.

Material E issues

- Coal mining is among DMC's core business, accounting for 33% of revenue in FY21. A further 18% comes from the generation of its 900MW coal-fired power plants and 136MW diesel and bunker off-grid plants;
- In 2019, SCC completed PHP2.9b rehabilitation of the South Panian mine in 21 months. In an effort to counter carbon emissions, SCC has reforested up to 1.97m inland trees and 640,898 mangroves to date, covering 1,281 hectares of forests and mangroves.
- Direct GHG emissions in FY21 reached 5.82m tco2e for SCC.
- Government closed/suspended 23 mining operations, including DMC's Zambales Diversified Metal Corp. and Berong Nickel Corp, after a nationwide audit in FY17. As of Dec 2020, both mines have been reopened.
- Civil society groups in Sep-2020 filed a petition against the 15MW Narra coal plant, although this is set to start operations by FY22 as it has already secured permits.

Material S issues

- In 2020, DMC spent PHP403m, or 6.9% of earnings on CSR and community donations;
- DMC employed 11,354 direct labour hires in FY20, largely through DMCI and DMCI Homes, and including 997 local community workers, although with only 30 new female hires. 12.5k or 40% of DMC's workforce was fully vaccinated for Covid-19 as of Sep-2021;
- Accidents at SCC's coal mine sites resulted in 24 fatalities in the past 7 years. In Feb 2013, 5 workers died and 5 were reported missing following the collapse of Panian Pit western wall. In 2015, 9 workers were buried alive as part of the open mine pit collapsed. In Sept 2016, 3 workers drowned after inhaling poisonous gas inside a barge at SCC's pier. In Oct 2018, a worker was buried in a mudslide accident at its mining pit. Most recently, in Jul 2020, a limestone boulder hit one of the excavator units, killing 1 worker.

Key G metrics and issues

- The Board of Directors (BOD) comprises 9 members, 3 of whom are executive directors, 4 non-executive directors and 2 independent, non-executive directors;
- Majority of the BOD are male (6 of 9) while in terms of background, 3 have expertise in mining and engineering and 6 in organizational and financial management;
- Currently, 5 out of the 9 members of the BOD are part of the extended Consunji family. Nevertheless, the Risk, Corporate Governance and Audit/Related Party Transaction committees are chaired by non-Consunji family members to ensure checks and balances;
- Among the Consunji family members that are part of the BOD, only Isidro Consunji (Executive Director) and Herbert Consunji (Non-executive Director) have related backgrounds in engineering: civil engineering and industrial management engineering, respectively. Other family members have backgrounds in business/economics. Notwithstanding this, the BOD has approved an Executive Succession Plan to prepare for an eventual permanent leadership change;
- Compensation of DMC's officers and directors totalled PHP16.0m, accounting for 0.01% of FY21 pre-tax profit;
- SyCip Gorres Velayo & Co., a member firm of Ernst & Young, is DMC's external auditor. Audit fees (including subsidiaries') in FY21 totalled PHP19.0m, accounting for 0.01% of FY21 pretax profits.
- RPTs are part of day-to-day operations as both mining and generation business are centred on coal. Coal sales to SCC's power plants accounted for 13% of coal mining revenues (before eliminations) in FY21. Nonetheless, there were no RPTs that met the materiality threshold in FY21.

¹**Risk Rating & Score** - derived by Sustainability and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainability in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 11)							
	Particulars	Unit	2019	2020	2021	SCC PM (2021)	BPP TB (2021)
E	Scope 1 GHG emissions	m tCO ₂ e	5.34	6.31	5.81	5.80	3.7
	Scope 2 GHG emissions	m tCO ₂ e	0.02	0.13	0.16	0.02	0.2
	Total	m tCO₂e	5.36	6.44	5.97	5.82	3.9
	Scope 3 GHG emissions	m tCO ₂ e	NA	NA	NA	NA	57.7
	Total	m tCO₂e	5.36	6.44	5.97	5.82	61.6
	Scope 1 emission intensity	tonsCO ₂ e/MWh	NA	NA	NA	1.1	0.6
	Green energy share of capacity	%	0%	0%	0%	0%	27%
	Water recycled as % of usage	%	NA	NA	NA	NA	0.243
	% of flyash recycled/treated	%	NA	NA	NA	NA	0%
	% of recycled material used	%	NA	NA	7.1%	NA	32%
	% of debt from green instruments	%	NA	NA	NA	NIL	0.444
	NOx (excluding N ₂ O)	tons	NA	NA	NA	NA	1,375
	SOx	tons	NA	NA	NA	NA	856
	SPM/particulate matter (PM ₁₀)	tons	NA	NA	NA	NA	370
S	% of women in workforce	%	NA	NA	NA	7.0%	14.8%
	% of women in management roles	%	NA	NA	NA	NA	NA
	Lost time injury frequency rate	number	NA	NA	NA	3.54	0.41
G	MD/CEO salary as % of net profit	%	0.1%	0.2%	0.1%	0.4%	0.01%
	Top 10 employees salary as % of profit	%	NA	NA	NA	NA	0.9%
	Independent director tenure <10 years	%	100%	50%	0%	100%	30%
	Women directors on board	%	33%	33%	33%	27%	8%

Qualitative Parameters (Score: 50)	
a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>DMC has a number of company policies covering material ESG issues of the group centred on community interaction, board diversity, and climate change.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No.</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>DMCI and its subsidiary SCC have a TCFD Working Group to pursue the development of a carbon transition plan. TCFD recommendation have also been followed in updating the firm's Enterprise Risk Management policy and risk register of SCC.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Carbon offsetting through mine rehabilitation, inland reforestation, and mangrove propagation. There is also regular refueling of mining and construction equipment as well as regular plant maintenance to ensure operational efficiency and compliance with environmental laws.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>1.97m inland trees and 640,898 mangroves have been planted by subsidiary SCC to date.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Use SCC's appropriated PHP1.5b "climate investment fund" to develop renewable energy	PHP1.5b	0%
Complete SCC North Panian mine rehabilitation	100%	98%
Transition SCC coal to ISO 45001:2018	ISO 45001:2018	YES
Recertification for ISO 9001 and 14001 for D.M. Consunji	ISO 9001 and 14001	YES
Implement Palawan marine restoration projects under DMCI Power	538 coral nursery units	Signed MOA with government
Impact		
NA		
Overall score: 43		
As per our ESG matrix, DMCI Holdings (DMC PM) has an overall score of 43.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	11	6
Qualitative	25%	50	13
Target	25%	100	25
Total			43

DMC has a sustainability committee at the board of directors' level of SCC, conducts community welfare and environmental mitigation measures for various subsidiaries, and has good board diversity. However, it can improve environmental disclosures and its energy transition plan. DMC's overall ESG score is 43, which makes its ESG rating average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

1. 1Q21 net income above our expectation

1.1 1Q21 net income up 165% YoY

DMC's 1Q22 net income of PHP11.3b rose 165% YoY. The result was ahead of our PHP23.4b FY22E expectation, at 48%, and largely due to the outperformance of SCC, which in turn was due to the higher-than-expected sales volume and coal prices for the quarter (USD264MT vs USD250MT forecast). Contributions from DMCI Homes and DM Consunji were in line with our forecasts.

Fig 1: 1Q22 earnings review

PHP m	1Q22	1Q21	% YoY	4Q21	% QoQ	MKE FY22e	% of FY22e
Revenue	43,764.8	23,895.3	83.2	28,318.1	54.5	132,509.3	33.0
Coal	24,205.2	6,472.3	274.0	8,834.3	174.0	48,964.1	49.4
Electricity	6,230.0	3,662.6	70.1	6,781.6	-8.1	35,215.1	17.7
Real estate	5,948.6	6,872.6	-13.4	5,466.9	8.8	19,939.6	29.8
Construction	5,884.2	5,678.9	3.6	6,002.7	-2.0	23,179.9	25.4
Cost of sales	-17,906.4	-16,056.2	11.5	-15,455.3	15.9	-78,019.6	23.0
Coal	-5,037.9	-3,707.5	35.9	-2,376.8	112.0	-17,278.8	29.2
Electricity	-3,120.9	-2,237.9	39.5	-3,654.6	-14.6	-23,109.0	13.5
Real estate	-3,983.1	-4,718.5	-15.6	-5,894.3	-32.4	-14,250.4	28.0
Construction	-5,272.5	-5,020.5	5.0	-370.2	1324.3	-21,225.4	24.8
Gross income	25,858.4	7,839.1	229.9	12,862.8	101.0	54,489.8	47.5
Gross profit margin	59.1	32.8		45.4		41.1	
Operating expenses	-7,958.1	-2,605.6	205.4	-5,071.4	56.9	-18,331.7	43.4
Income from operations	17,900.3	5,233.5	242.0	7,791.4	129.7	36,158.1	49.5
EBIT margin	40.9	21.9		27.5		27.3	
Interest income	95.0	104.5	-9.1	97.4	-2.5	420.8	22.6
Interest expense	-269.1	-274.0	-1.8	-232.6	15.7	-1,151.8	23.4
Equity in JV and assocs	344.9	464.1	-25.7	309.3	11.5	1,743.4	19.8
Others - net	801.1	529.5	51.3	350.0	128.9	1,306.0	61.3
Income before tax	18,872.1	6,057.6	211.5	8,315.5	127.0	38,476.5	49.0
Provision for income tax	-1,042.2	-737.1	41.4	-795.7	31.0	-5,771.5	18.1
Net income	17,830.0	5,320.5	235.1	7,519.8	137.1	32,705.0	54.5
Net income margin	40.7	22.3		26.6		24.7	
Minority Interest	-6,569.8	-1,070.8	513.6	-2,601.9	152.5	-9,267.1	70.9
Net income to common shareholders	11,260.1	4,249.8	165.0	4,917.9	129.0	23,437.9	48.0

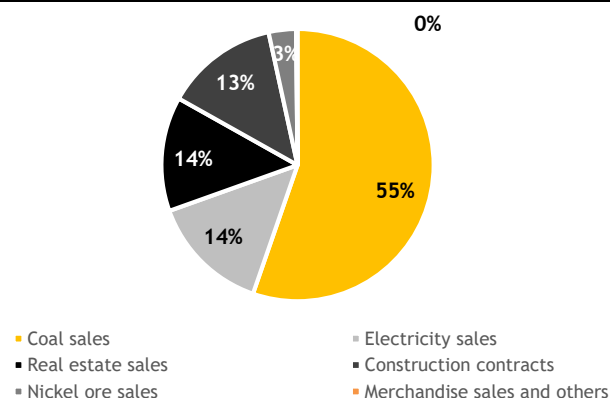
Source: Company, Maybank IBG Research

Fig 2: Net income contributions per subsidiary (PHP m)

	1Q22	1Q21	% ch YoY
Semirara (SCC PM)	8,520	1,324	544%
DMCI Homes (residential)	1,414	1,521	-7%
DMCI Mining (nickel)	499	415	20%
D.M. Consunji (construction)	367	393	-7%
Maynilad (25% stake)	319	287	11%
DMCI Power	132	118	12%
Parent and others	9	192	-38%
Reported net income	11,260	4,250	165%

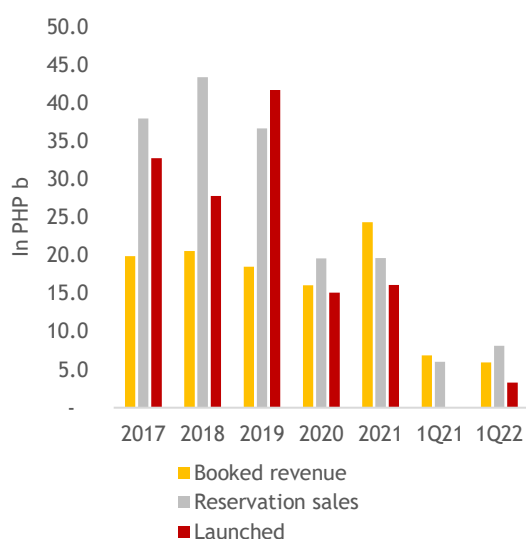
Source: Company

Fig 3: Revenue mix (as of 1Q22)



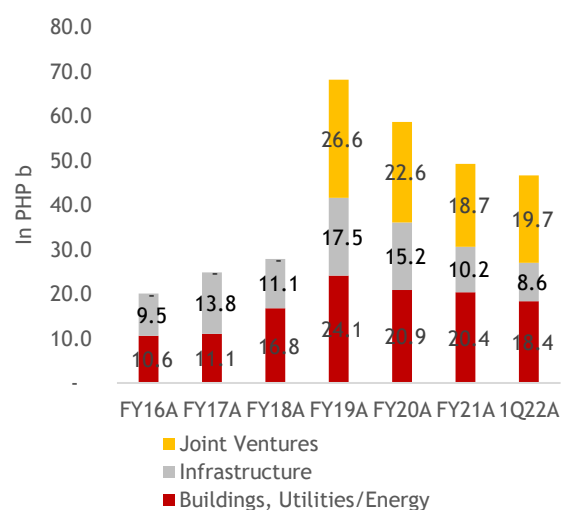
Source: Company

Fig 4: DMCI Homes sales and reservations (PHP b)



Source: Company

Fig 5: Summary of construction order book (PHP b)



Source: Company

Key takeaways:

- SCC: 1Q22 net income contribution was PHP8.5b, up 544% YoY, driven by record high coal shipments of 5.1m metric tonnes (MMT) and average selling prices surging 180% to a record PHP5,125/MT, tracking the 197% surge in Newcastle coal price. (See our latest report [Coal: higher for longer](#) for more details.)
- DMCI Homes: 1Q22 net income contribution down 9% YoY to PHP1.4b as revenues slowed 13% to PHP5.9b, in turn due to lower down-payment recognition from new qualified accounts. Gross margin improved 200bps to 33% (FY22E is 29%) due to cost management and higher selling prices of projects. Opex rose 25% to PHP643m on higher taxes/licences, sales incentive, and software-related expenses.
- DM Consunji: 1Q22 net income contribution up 4% YoY to PHP355m as construction revenues rose 3% to PHP5.8b on bookings from infrastructure project nearing completion. Gross margin edged down from 11.6% to 10.4% given higher cost of sales adjustments in certain infra projects (FY22/23E is 8-10% GPM). Order book slipped 5% QoQ to PHP46.7b on absence of new contracts.
- Maynilad (associate water concessionaire): 1Q22 equity earnings contribution rose 11% to PHP319m. Despite revenues down 3% as billed volume dipped 2% to 124 MWM, total cash costs also fell 2%.
- Others: DMCI Mining 1Q22 net income contribution up 20% to PHP499m. Revenues rose 25% to PHP1.4b as shipments rose 26% to 620,000WMT while mid-grade nickel price rose 34% to USD72/WMT. However, due to depletion of Berong mine, production slowed 43% to 318,000WMT and 1Q22 inventory slipped 72% to 154,000WMT. DMCI Power 1Q22 net income contribution rose 12% YoY to PHP132m as dispatch rose 18% and average selling prices jumped 36% to PHP14.6/kWh.
- Total borrowings of the group were flat QoQ at PHP53.8b, resulting in net gearing of 0.20x and interest coverage ratio of 32x.

1.2 Company updates

DMCI Homes reported 1Q22 reservation sales of PHP8.1b, up 35% YoY, as its launch of *The Erin Heights* (PHP3.3b total sales value) in Quezon City boosted take-up. The residential development unit was able to presell 1,145 units, 28% more than 1Q21, and saw average selling prices of these units rise 5% to PHP6.5m/unit and up 4% to PHP117,000/sqm.

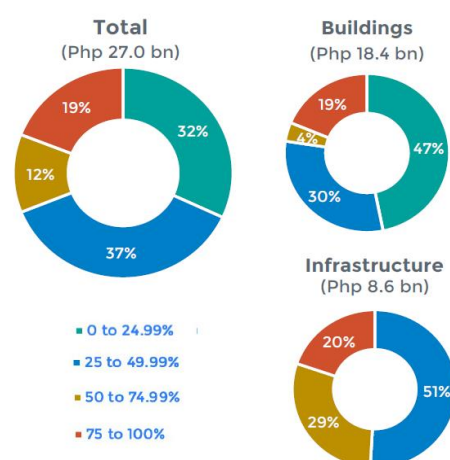
However, as of Apr 2022, there have been no new launches following *The Erin Heights* but the company targets to launch another project in Jun 2022 and a further 2 projects in 2H22. We initially forecasted PHP43b worth of launches in FY22E but given the pace at which DMCI Homes is launching, we slashed our forecast by around 50% to c.PHP22b.

Fig 6: The Erin Heights project launched in Mar 2022



Source: Company

Fig 7: DMCI project completion per segment (in %)



Source: Company

D.M. Consunji did not secure any new projects in 1Q22 but continues to book revenues from ongoing projects. Of its PHP27b orderbook, excluding JVs, 68% of its projects have completion status of over 25%. Currently, DMC's ongoing project bids as of Apr-2022 are worth a combined PHP126.5b.

We expect new construction projects to pick up after the transition to a new administration under president-elect Bongbong Marcos. The contractor is banking on continuation of the backlog of *Build Build Build* infrastructure programme after the Department of Public Works and Highways reported just 12 projects out of the 119 total infrastructure flagship projects worth PHP5.08t would be completed by the outgoing Duterte administration. DM Consunji is keen on participating in c.USD11.7b (PHP566b) worth of rail projects, namely: (a) Metro Manila Subway Phase 1; and (b) South Commuter Railway Phase 3. It is also looking to do allied services for North-South Commuter Railway contractors.

DMCI Power, the off-grid power unit of DMC, remains on track for commercial operations of its 8-MW diesel plant by 3Q22 and 15-MW thermal plant by 2Q23. DMCI mining still targets shipments of 1.5MMT for 2022.

1.3 Merger of nickel assets with SCC is NAV-neutral

In its annual shareholders meeting, DMC announced it was considering merging SCC and DMCI Mining, with SCC as the likely surviving entity. This would consolidate all mining-related businesses under one entity, diversifying earnings drivers for SCC shareholders. We do not see any

immediate cost synergies as operations are geographically separate, where SCC's mining operations are in Semirara Island while DMCI Mining's operations are in Zambales and Palawan. However, the consolidation of DMC's established and cash-rich coal mining subsidiary (SCC) and its developable but still cash-dependent nickel mining assets should streamline the group's financial structuring, enabling DMCI Mining to leverage SCC's strong balance sheet.

Although there are no concrete details yet, we expect the transaction to be a straight cash purchase, where SCC acquires 100% of DMCI Mining from its parent, DMC, for c.PHP4.3b in cash, given SCC's large cash pile of PHP19.0b, as of 1Q22. If so, the transaction should be EPS and NAV-accretive for SCC by 6% and 3%, respectively, while the transaction would be neutral to DMC's NAV as it would be reduced by just 1%, considering it also owns the majority of SCC.

2. Forecast revisions

We raise our FY22/FY23 net income forecasts by 37%/21% due to the following:

Fig 8: Summary of forecast changes

in PHP m	FY22 Old	FY22 New	% Change	FY23 Old	FY23 New	% Change	Notes
Revenue	132,509	150,946	13.9	115,738	128,918	11.4	
<i>Semirara</i>	<i>78,449</i>	<i>94,890</i>	<i>21.0</i>	<i>67,254</i>	<i>80,422</i>	<i>19.6</i>	Revised as function of coal price assumption adjustments. NEWC is derived using its average ICE futures prices as of 10 Jun and PHP:USD rate of PHP52/51 for FY22/23E. See <u>Coal: higher for longer</u> report.
<i>DMCI Homes</i>	<i>19,940</i>	<i>23,069</i>	<i>15.7</i>	<i>16,837</i>	<i>18,000</i>	<i>6.9</i>	Assumed faster revenue booking as seen in 1Q22 on continued pickup of construction for ongoing projects. We are assuming PHP21b/PHP43b in yearly launches over FY22/FY23E although these will not translate to revenues for 2-3 years.
<i>D.M. Consunji</i>	<i>23,180</i>	<i>23,180</i>	<i>0.0</i>	<i>20,438</i>	<i>20,438</i>	<i>0.0</i>	We are still assuming new project awards of PHP11/14b over FY22/23E. Significant revenues will still be booked from current order book of PHP46.7b.
<i>DMCI Mining</i>	<i>4,650</i>	<i>3,439</i>	<i>-26.1</i>	<i>4,627</i>	<i>3,422</i>	<i>-26.1</i>	Changes are a function of our trimmed nickel average selling price assumption from PHP3.7k (+80% YoY) to PHP2.3k/WMT (+11% YoY). Nickel price growth did not track LME Nickel futures in 1Q22.
<i>DMCI Power</i>	<i>5,730</i>	<i>5,730</i>	<i>0.0</i>	<i>6,092</i>	<i>6,092</i>	<i>0.0</i>	
COGS	-78,020	-74,750	-4.2	-69,573	-68,478	-1.6	Adjustments are a function of cost adjustments at SCC, with more efficient mining extraction in 1Q22 due to low overburden.
Gross Profit	54,490	76,195	39.8	46,165	60,440	30.9	
<i>GPM</i>	<i>41.12%</i>	<i>50.48%</i>		<i>39.89%</i>	<i>46.88%</i>		
<i>SGA</i>	<i>-18,332</i>	<i>-31,262</i>	<i>70.5</i>	<i>-15,818</i>	<i>-23,577</i>	<i>49.1</i>	Higher government royalties paid by SCC, which is historically 12-16% of its coal revenues.
EBIT	36,158	44,933	24.3	30,347	36,863	21.5	
<i>EBIT margin</i>	<i>27.29%</i>	<i>29.77%</i>		<i>26.22%</i>	<i>28.59%</i>		
<i>Equitized earnings</i>	<i>1,743</i>	<i>1,743</i>	<i>0.0</i>	<i>1,812</i>	<i>1,812</i>	<i>0.0</i>	
<i>Finance income</i>	<i>421</i>	<i>533</i>	<i>26.5</i>	<i>662</i>	<i>995</i>	<i>50.3</i>	Higher cash on hand.
<i>Finance costs</i>	<i>-1,152</i>	<i>-1,152</i>	<i>0.0</i>	<i>-1,152</i>	<i>-1,152</i>	<i>0.0</i>	
<i>Other income/charges</i>	<i>1,306</i>	<i>1,400</i>	<i>7.2</i>	<i>1,258</i>	<i>1,293</i>	<i>2.8</i>	
Income before income tax	38,476	47,457	23.3	32,928	39,811	20.9	
<i>Provision for income tax</i>	<i>-5,771</i>	<i>-2,621</i>	<i>-54.6</i>	<i>-5,268</i>	<i>-6,370</i>	<i>20.9</i>	Despite expiry of the income tax holiday (ITH) of SCC's Molave coal site in Sep 2022, the Narra site ITH will commence 4Q22.
<i>Effective tax rate</i>	<i>-15%</i>	<i>-6%</i>		<i>-16%</i>	<i>-16%</i>		
Net income	32,705	44,837	37.1	27,660	33,441	20.9	
<i>Minority interest</i>	<i>-9,267</i>	<i>-12,705</i>	<i>37.1</i>	<i>-5,784</i>	<i>-6,993</i>	<i>20.9</i>	
NI attributable to equity holders of DMCI	23,438	32,132	37.1	21,875	26,448	20.9	

Source: Company, Maybank IBG Research

We are still of the view construction-linked residential development and contractor businesses are reopening beneficiaries as they continue to book revenues from a sizable portfolio of previously launched projects, which in turn are driven by better percentage-of-completion levels amid less COVID-related disruptions in construction sites. Moreover, we see upside starting next year from a pickup in both residential launches and construction projects that will eventually translate into revenues.

Despite downside risk posed by broad inflation of input costs for residential and construction, we continue to expect DMC to be able to maintain EBITDA margin recovery for these segments. Its construction arm locked in costs in early 1Q22 for major construction materials, such as steel rebars and cement (18% of cost of sale), offsetting the expected impact of direct fuel-related costs (2% of cost of sale) while its residential developer has done the same for cement. It also has cost-recovery provisions for some construction contracts while higher prices of residential units should pass on some of the higher costs to buyers. The construction unit also continues to rationalize expenses related to rental and overtime.

3. Valuations

We raise our NAV-based TP for DMC to PHP12.00 (+8%) on the back of our higher TP for SCC. (See Coal: higher for longer for more details.)

Fig 9: SOTP target price

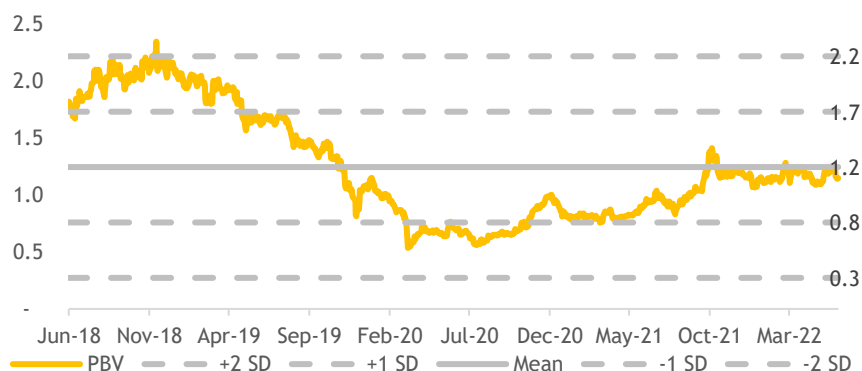
	Shares o/s (m)	Stake	Valuation method	Old TP	Net asset value (m)	New TP	Net asset value (m)	Change	Notes
Semirara (SCC PM)	4,251	56.5%	SOTP DCF	27.5	65,996	34.0	81,595	24%	TP raised, driven by higher SCC coal selling price assumptions.
Water/ others		25.2%	PER		23,019		19,010	-17%	Forward PER of regional peers trimmed from 17x to 10.9x.
DM Consunji (Construction)		100.0%	DCF		27,726		28,517	3%	-
DMCI Homes		100.0%	SOTP		70,997		73,342	3%	Market value assumptions for landbank were little changed.
DMCI Power		100.0%	Book value		3,542		3,180	-10%	Using 1Q22A book value
DMCI Mining		100.0%	Book value		4,318		4,361	1%	Using 1Q22A book value
Gross Asset Value					195,599		210,004	7%	-
Parent net (debt)/cash					9,816		9,816	0%	-
NAV					205,414		219,820	7%	
Conglomerate premium/(discount)					(58,088)		(65,946)	14%	5-year conglomerate discount from 28% to 30%. This compares to live NAV discount of c.47%.
TP				10.0		12.00		16%	

Source: Maybank IBG Research

Our new TP offers c.55% total return, including an 11.5% dividend yield, which in our view is a conservative estimate given we assumed only PHP0.96/share DPS – same as last year. We estimate DMC is trading at an RNAV discount of 48%, a steep discount to 5-year average discount to NAV of 30%, reinforcing our BUY.

We still prefer DMC over SCC, despite SCC being the direct play to benefit from coal prices, as DMC already offers more compelling total returns potential in our view. As SCC's largest shareholder, DMC offers similar exposure to the same narrative of rising coal prices but also at a more reasonable valuation and comparably high dividend yield. Moreover, DMC offers diversification into construction and mid-to-high end residential real estate sectors, which are reopening beneficiaries that also gain on the upswing from rising urbanisation and backlog of infrastructure developments, among others.

Fig 10: DMC's 5-year PBV band

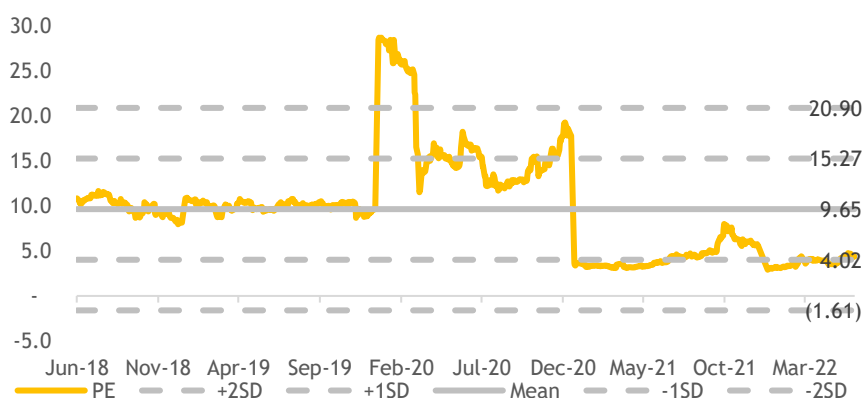


DMC's PBV band is within its 5-year average, but DMC is also trading at a steep discount to 5-year average NAV discount of 30%.

Besides offering same exposure to narrative of rising coal prices, we like that DMC offers diversification into construction and residential development, which are reopening beneficiaries.

Source: Bloomberg, Maybank IBG Research

Fig 11: SCC's 5-year PER band



SCC's PER is attractive at -1 SD, but does not capture eventual expected correction in NEWC. We prefer DMC for higher total returns.

Still, higher EPS presents opportunity for high dividend payout for FY22/FY23E, benefiting both SCC and its parent, DMC.

Source: Bloomberg, Maybank IBG Research

Fig 12: Peer comparison

	CP PHP	TP PHP	Upside (%)	Rec	EPSg		PER (x)		PBV (x)		Div Yield (%)		ROE	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
AC	601.00	1,080.00	79.7	BUY	2.8	21.3	13.1	10.8	1.0	0.9	1.2	1.2	8.2	9.2
DMC	8.35	12.00	43.7	BUY	74.7	(17.7)	3.5	4.2	1.0	0.9	11.5	11.5	25.7	17.5
GTCAP	468.00	817.00	74.6	BUY	17.1	14.9	7.8	6.8	0.5	0.5	3.0	3.0	6.4	7.0
JGS	47.90	55.00	14.8	HOLD	-	-	(62.7)	68.5	1.1	1.1	0.8	0.8	-	1.6
SM	769.50	1,090.00	41.7	BUY	20.7	31.3	19.9	15.2	2.0	1.8	1.2	1.5	9.9	11.8

Source: Maybank IBG Research

Note: Prices as of 22 Jun 2022

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	10.6	4.6	3.5	4.2	5.7
Core P/E (x)	12.8	5.6	3.5	4.2	5.7
P/BV (x)	0.9	1.2	1.0	0.9	0.9
P/NTA (x)	0.9	1.2	1.0	0.9	0.9
Net dividend yield (%)	8.5	12.5	11.5	11.5	11.5
FCF yield (%)	4.3	15.9	27.3	38.6	19.0
EV/EBITDA (x)	8.5	4.8	3.0	3.1	4.0
EV/EBIT (x)	18.6	6.4	3.6	3.8	5.3

INCOME STATEMENT (PHP m)

Revenue	67,700.1	108,342.9	150,945.8	128,918.4	102,008.1
EBITDA	15,026.0	33,263.8	53,656.6	45,691.9	34,943.0
Depreciation	(8,166.0)	(8,674.7)	(8,723.4)	(8,828.8)	(8,951.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	6,860.0	24,589.1	44,933.1	36,863.1	25,992.0
Net interest income / (exp)	(688.0)	(744.4)	(619.3)	(156.9)	201.9
Associates & JV	1,546.1	1,612.3	1,743.4	1,812.3	1,882.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	1,034.6	1,969.3	1,400.1	1,292.8	1,378.6
Pretax profit	8,752.7	27,426.3	47,457.4	39,811.2	29,454.6
Income tax	(1,344.6)	(1,759.2)	(2,620.7)	(6,369.8)	(5,007.3)
Minorities	(1,549.2)	(7,272.9)	(12,704.7)	(6,993.2)	(5,112.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	5,858.9	18,394.2	32,132.0	26,448.3	19,334.9
Core net profit	5,858.9	18,394.2	32,132.0	26,448.3	19,334.9

BALANCE SHEET (PHP m)

Cash & Short Term Investments	18,918.5	18,342.0	34,889.4	64,561.8	70,758.2
Accounts receivable	20,422.3	23,537.4	25,603.9	22,007.4	20,856.1
Inventory	53,895.4	54,208.9	57,598.4	47,868.4	48,433.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	62,023.8	59,356.0	66,991.8	72,135.0	74,239.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	16,590.6	17,522.9	18,507.6	19,547.6	20,646.1
Other assets	32,543.1	42,178.3	45,032.7	40,980.6	39,683.4
Total assets	204,393.5	215,145.5	248,623.9	267,100.8	274,616.5
ST interest bearing debt	11,225.8	11,435.6	11,435.6	11,435.6	11,435.6
Accounts payable	24,813.8	28,122.2	29,510.3	27,292.1	24,833.3
LT interest bearing debt	40,663.2	41,613.0	41,613.0	41,613.0	41,613.0
Other liabilities	26,488.0	25,128.0	25,128.0	25,128.0	25,128.0
Total Liabilities	103,190.8	106,298.9	107,687.0	105,468.7	103,009.9
Shareholders Equity	81,646.3	87,757.1	107,142.8	120,844.7	125,706.8
Minority Interest	19,556.5	21,089.5	33,794.2	40,787.4	45,899.7
Total shareholder equity	101,202.8	108,846.6	140,937.0	161,632.0	171,606.5
Total liabilities and equity	204,393.5	215,145.5	248,623.9	267,100.8	274,616.5

CASH FLOW (PHP m)

Pretax profit	8,752.7	27,426.3	47,457.4	39,811.2	29,454.6
Depreciation & amortisation	8,166.0	8,674.7	8,723.4	8,828.8	8,951.0
Adj net interest (income)/exp	688.0	1,139.3	619.3	156.9	(201.9)
Change in working capital	(2,897.1)	(9,360.0)	(6,396.2)	15,160.5	(575.1)
Cash taxes paid	(1,636.1)	(2,198.6)	(2,620.7)	(6,369.8)	(5,007.3)
Other operating cash flow	(1,337.8)	(1,944.8)	(1,743.4)	(1,812.3)	(1,882.0)
Cash flow from operations	10,805.9	22,721.5	46,572.3	56,770.3	32,093.0
Capex	(7,543.4)	(6,451.9)	(16,359.3)	(13,972.0)	(11,055.5)
Free cash flow	3,262.5	16,269.6	30,213.1	42,798.3	21,037.5
Dividends paid	(8,680.6)	(18,476.6)	(12,746.4)	(12,746.4)	(14,472.8)
Equity raised / (purchased)	(3.2)	0.0	0.0	0.0	0.0
Change in Debt	4,915.4	1,160.0	0.0	0.0	0.0
Other invest/financing cash flow	(2,167.3)	713.1	(1,167.3)	(379.6)	(368.3)
Effect of exch rate changes	(6.2)	5.4	0.0	0.0	0.0
Net cash flow	(2,679.4)	(328.4)	16,299.4	29,672.4	6,196.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(22.9)	60.0	39.3	(14.6)	(20.9)
EBITDA growth	(39.3)	121.4	61.3	(14.8)	(23.5)
EBIT growth	(55.9)	258.4	82.7	(18.0)	(29.5)
Pretax growth	(47.3)	213.3	73.0	(16.1)	(26.0)
Reported net profit growth	(44.4)	214.0	74.7	(17.7)	(26.9)
Core net profit growth	(44.4)	214.0	74.7	(17.7)	(26.9)
Profitability ratios (%)					
EBITDA margin	22.2	30.7	35.5	35.4	34.3
EBIT margin	10.1	22.7	29.8	28.6	25.5
Pretax profit margin	12.9	25.3	31.4	30.9	28.9
Payout ratio	108.8	69.3	39.7	48.2	65.9
DuPont analysis					
Net profit margin (%)	8.7	17.0	21.3	20.5	19.0
Revenue/Assets (x)	0.3	0.5	0.6	0.5	0.4
Assets/Equity (x)	2.5	2.5	2.3	2.2	2.2
ROAE (%)	7.1	21.7	33.0	23.2	15.7
ROAA (%)	2.9	8.8	13.9	10.3	7.1
Liquidity & Efficiency					
Cash conversion cycle	285.4	215.6	189.1	194.4	206.6
Days receivable outstanding	97.5	73.0	58.6	66.5	75.6
Days inventory outstanding	359.0	279.3	269.2	277.2	285.5
Days payables outstanding	171.1	136.8	138.8	149.3	154.5
Dividend cover (x)	0.9	1.4	2.5	2.1	1.5
Current ratio (x)	2.3	2.2	2.6	3.0	3.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.0	2.3	2.5	2.7
Net gearing (%) (incl perps)	32.6	31.9	12.9	net cash	net cash
Net gearing (%) (excl. perps)	32.6	31.9	12.9	net cash	net cash
Net interest cover (x)	10.0	33.0	72.6	nm	na
Debt/EBITDA (x)	3.5	1.6	1.0	1.2	1.5
Capex/revenue (%)	11.1	6.0	10.8	10.8	10.8
Net debt/ (net cash)	32,970.5	34,706.6	18,159.2	(11,513.2)	(17,709.6)

Source: Company; Maybank IBG Research

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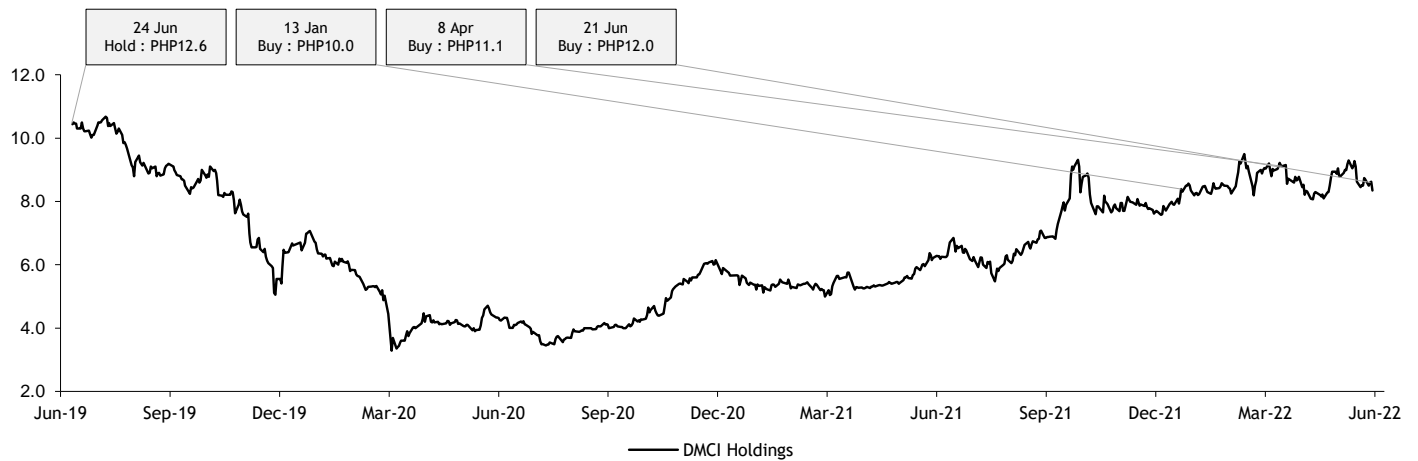
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