

DMCI Holdings (DMC PM)

Robust yields still in FY24/25E

Steady FY24 yield despite coal price correction

DMC posted 1H23 earnings of PHP15.9b (+22 YoY), which beat our/consensus expectations, at 54.9%/59.7% of FY23E forecasts, due to the coal-driven outperformance of SCC. As such, we raise our FY23/24E earnings by 5%/9% and roll-forward our NAV-based TP to mid-2024 at PHP12.1 (+1%). Despite DMC's negative FY23-25 earnings CAGR of 4%, we reiterate our BUY call as we expect DMC's robust operating cashflows in FY24/25E to support healthy dividend yields of 6.9%/6.2%.

Earnings beat in 1H23, driven by SCC

DMC's better-than-expected earnings in 1H23 was due to the outperformance of the coal segment of SCC, which accounted for 43% of DMC's 1H23 earnings (see *Dividend Yields of 10-11%* report). This more than offset the lower-than-expected GPM of DMC's construction segment (1H23: 8.8% vs FY23E:9.2%), which accounts for 2% of total earnings. Contributions from real estate and water utilities, which account for 17%/4% of earnings, were within expectations.

FY23/24E earnings forecasts raised by 5%/9%

Despite cutting the GPM for the construction segment to 8.8% from 9.2% previously, due to the higher incurred prices of fuel and steel, our FY23/24 earnings forecasts for DMC are 5%/9% higher due to our 6%/3% earnings upgrade for SCC, which we project will account for 65%/58% of DMC's FY23E/24E earnings. DMC's earnings will be sensitive to coal and electricity spot prices, such that we expect DMC's earnings to move by +/- 4% and 6% for every USD10/MT change in coal prices and PHP1/kWh change in electricity spot prices from our USD179/161 per MT and PHP7.0/6.0 per kWh base assumptions for FY23/24, respectively.

Maintain BUY, raise TP to PHP12.10

Our BUY call on DMC is premised on its 25% total returns, which we believe is achievable given accelerating residential launches and DMCI's competitive positioning in PHP249b prospective/ongoing bids to participate in the government's infrastructure drive. These projects pose realisable revenue upside for DMC's FY23E/24E earnings and may cushion the impact of sliding coal prices on yield.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	108,343	142,600	128,919	118,917	123,197
EBITDA	33,264	56,843	53,276	48,265	50,932
Core net profit	18,394	31,087	30,324	27,296	27,411
Core EPS (PHP)	1.39	2.34	2.28	2.06	2.06
Core EPS growth (%)	214.0	69.0	(2.5)	(10.0)	0.4
Net DPS (PHP)	0.96	1.06	0.72	0.70	0.63
Core P/E (x)	5.6	5.1	4.5	5.0	5.0
P/BV (x)	1.2	1.5	1.1	1.0	0.8
Net dividend yield (%)	12.5	8.8	7.0	6.9	6.2
ROAE (%)	21.7	32.5	26.6	20.5	18.1
ROAA (%)	8.8	13.6	11.8	9.5	8.6
EV/EBITDA (x)	4.8	3.7	3.4	3.7	3.7
Net gearing (%) (incl perps)	31.9	18.2	0.8	net cash	net cash
Consensus net profit	-	-	27,483	25,292	21,302
MIBG vs. Consensus (%)	-	-	10.3	7.9	28.7

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BUY

Share Price	PHP 10.22
12m Price Target	PHP 12.10 (+25%)
Previous Price Target	PHP 12.00

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)	13.00/8.45
3m avg turnover (USDm)	0.4
Free float (%)	26.1
Issued shares (m)	13,277
Market capitalisation	PHP135.7B USD2.4B

Major shareholders:

Dacon Corp.	49.9%
PCD Nominee Corp.	28.7%
DFC Holdings Inc.	17.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	12	6	5
Relative to index (%)	16	11	13

Source: FactSet

Acronyms used:

BNC- Berong Nickel Corp.
DMCI- DM Consunji Inc. (Construction)
GWh- Gigawatt hours
SCPC- SEM-Calaca Power Corp. (2x300MW coal)
SLPGC- Southwest Luzon Power Generation Cop. (2x150MW coal)
RNAV- Real-time Net Asset Value

Other stocks mentioned:

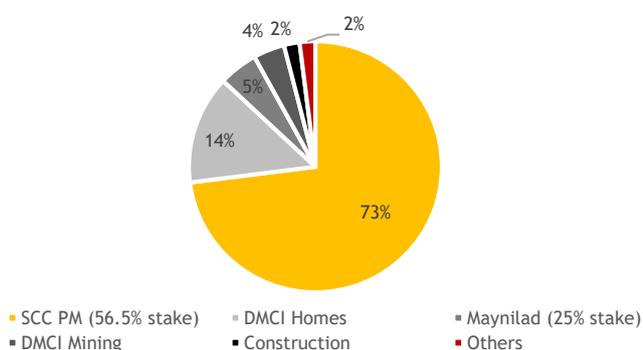
Semirara Mining & Power (SCC PM, CP: PHP31.10, BUY, TP: PHP39.60)

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Tear Sheet Insert

Value Proposition

- DMC holds 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 accounts for 89% of FY22 earnings and 88% of DMC’s 12-month forward NAV.

DMC’s FY22 earnings mix



Source: Company

Price Drivers

Historical share price trend



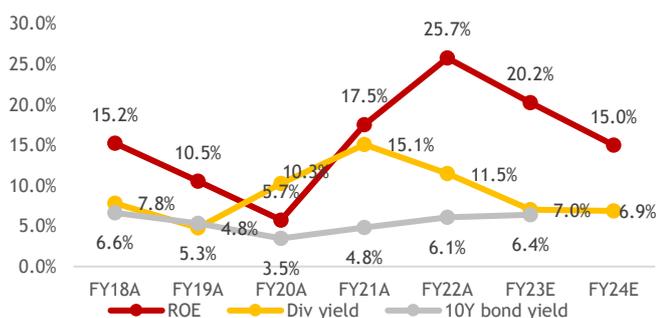
Source: Company, Maybank IBG Research

- DMC-Taisei Corp. JV wins PHP55b contract for North-South Commuter Railway project phase 1.
- Covid-19 lockdown results in oversupply of coal and electricity.
- DOE announces moratorium on new coal power plants.
- Ukraine-Russia conflict results in sanctions on Russian coal.
- DMC BOD approves special dividend of PHP0.72 per share for 2022. Covid-19 lockdown results in oversupply of coal and electricity.
- BOD approved record high PHP0.96 dividend per share, including PHP0.48 per share special dividend.

Financial Metrics

- We forecast FY23/24E net income to fall to PHP30b/PHP27b due to softer coal prices versus FY22 levels and the impact of lower residential project revenues and launches and fewer construction contract project wins from FY20-21A.
- We estimate SCC to account for 65% of FY23E earnings, followed by DMCI Homes (17%), and D.M. Consunji (2%).
- The group’s operating cashflow of PHP39-51b over FY23/24E comfortably funds its maintenance/ expansion capex of PHP14-15b and sustains a dividend pay-out ratio of 31%, above the dividend policy of 25% pay-out, which should still translate into FY24E yield of 6.9%.

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 FY21-22 maintenance activities and heavy-duty life extension program of SCPC.
- Weak reservation sales of DMC Homes and low project awards of DMCI due to competition from other developers or contractors.

Risk Rating & Score ¹	45.8 (Severe)
Score Momentum ²	n/a
Last Updated	14 Apr 2021
Controversy Score ³ (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 since ~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 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)
E	Scope 1 GHG emissions	m tCO ₂ e	5.34	6.31	5.81	5.80
	Scope 2 GHG emissions	m tCO ₂ e	0.02	0.13	0.16	0.02
	Total	m tCO₂e	5.36	6.44	5.97	5.82
	Scope 3 GHG emissions	m tCO ₂ e	NA	NA	NA	NA
	Total	m tCO₂e	5.36	6.44	5.97	5.82
	Scope 1 emission intensity	tonsCO ₂ e/MWh	NA	NA	NA	1.1
	Green energy share of capacity	%	0%	0%	0%	0%
	Water recycled as % of usage	%	NA	NA	NA	NA
	% of flyash recycled/treated	%	NA	NA	NA	NA
	% of recycled material used	%	NA	NA	7.1%	NA
	% of debt from green instruments	%	NA	NA	NA	NIL
	NOx (excluding N ₂ O)	tons	NA	NA	NA	NA
	SOx	tons	NA	NA	NA	NA
	SPM/particulate matter (PM ₁₀)	tons	NA	NA	NA	NA
S	% of women in workforce	%	NA	NA	NA	7.0%
	% of women in management roles	%	NA	NA	NA	NA
	Lost time injury frequency rate	number	NA	NA	NA	3.54
G	MD/CEO salary as % of net profit	%	0.1%	0.2%	0.1%	0.4%
	Top 10 employees salary as % of profit	%	NA	NA	NA	NA
	Independent director tenure <10 years	%	100%	50%	0%	100%
	Women directors on board	%	33%	33%	33%	27%

Qualitative Parameters (Score: 50)	
a) is there an ESG policy in place and is there 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 as 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 has 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 replacement 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 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. 1H23 ahead of our forecast

DMC reported 2Q23 net income of PHP8.2b (-9% YoY; +8% QoQ), bringing its 1H23 net income to PHP15.9b (-22% YoY). This is ahead of our/consensus expectations, at 54.9%/59.7% of FY23 estimates. The earnings beat was largely due to the outperformance of the coal segment of SCC, which accounted for 43% of DMC's 1H23 earnings.

Fig 1: 1H23 earnings review

PHP m	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY	MIBG FY23e	% of FY23e
Revenue	36,956.7	37,701.5	-2.0	33,032.3	11.9	69,989.0	81,466.3	-14.1	129,125.4	54.2
Coal	16,956.7	18,133.1	-6.5	12,983.1	30.6	29,939.8	42,338.3	-29.3	47,339.9	63.2
Electricity	8,971.5	6,797.1	32.0	9,440.5	-5.0	18,412.0	13,027.1	41.3	39,223.0	46.9
Real estate	5,887.5	6,498.4	-9.4	4,848.5	21.4	10,736.0	12,447.0	-13.7	20,241.2	53.0
Construction	3,986.5	4,948.1	-19.4	4,367.1	-8.7	8,353.6	10,832.3	-22.9	17,325.0	48.2
Cost of sales	-19,185.9	-18,499.4	3.7	-15,489.0	23.9	-34,674.9	-36,405.8	-4.8	-66,637.0	52.0
Gross income	17,770.8	19,202.1	-7.5	17,543.2	1.3	35,314.1	45,060.6	-21.6	62,488.4	56.5
Gross profit margin	48.1	50.9		53.1		50.5	55.3		48.4	
Operating expenses	-5,304.3	-5,964.4	-11.1	-5,577.4	-4.9	-10,881.7	-13,922.5	-21.8	-19,750.1	55.1
EBIT	12,466.6	13,237.7	-5.8	11,965.8	4.2	24,432.4	31,138.1	-21.5	42,738.3	57.2
EBIT margin	33.7	35.1		36.2		34.9	38.2		33.1	
Interest income	482.9	145.6	231.7	383.0	26.1	865.9	240.6	259.9	1,498.0	57.8
Interest expense	-223.6	-302.1	-26.0	-275.2	-18.7	-498.9	-571.2	-12.7	-1,103.4	45.2
Others- net	1,369.9	1,655.3	-17.2	865.0	58.4	2,234.8	2,801.3	-20.2	3,730.7	59.9
Income before tax	14,095.8	14,736.6	-4.3	12,938.5	8.9	27,034.3	33,608.8	-19.6	46,863.6	57.7
Income tax	-1,439.9	-999.5	44.1	-1,414.3	1.8	-2,854.2	-2,041.6	39.8	-5,122.7	55.7
Net income	12,655.9	13,737.1	-7.9	11,524.2	9.8	24,180.1	31,567.1	-23.4	41,740.9	57.9
Net income margin	34.2	36.4		0.3		34.5	38.7		32.3	
Minority Interest	-4,413.3	-4,706.7	-6.2	-3,907.9	12.9	-8,321.2	-11,276.6	-26.2	-12,876.1	64.6
Net income to common sh.	8,242.5	9,030.4	-8.7	7,616.3	8.2	15,858.9	20,290.5	-21.8	28,864.8	54.9

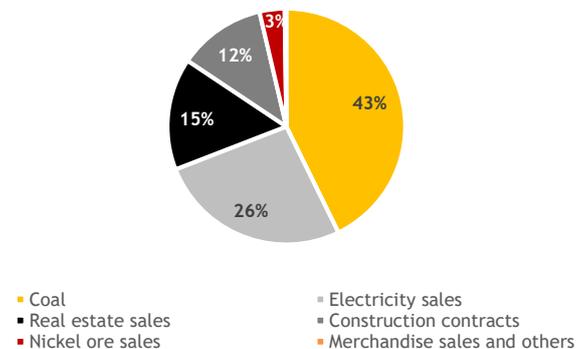
Source: Company, Maybank IBG Research

Fig 2: Net income contributions of subsidiaries

	1H23	1H22	% to 1H23	% ch YoY
SCC (56.65% owned)	10,879	14,630	69%	-26%
DMCI Homes	2,491	2,722	16%	-8%
Maynilad (25% owned)	997	712	6%	40%
DMCI Mining	723	1,009	5%	-28%
D.M. Consunji, Inc.	412	883	3%	-53%
DMCI Power	365	337	2%	8%
Parent and others	-8	-2	0%	300%
Net income	15,859	20,291	100%	-22%

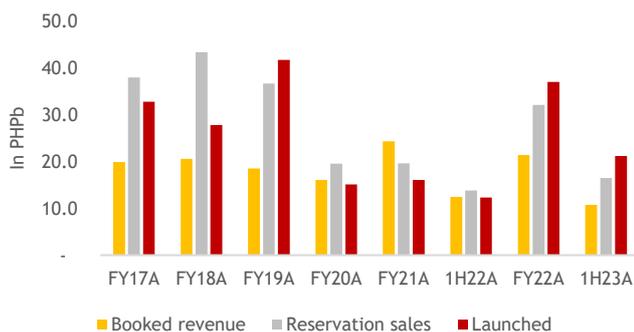
Source: Company

Fig 3: Revenue mix (as of 1H23)



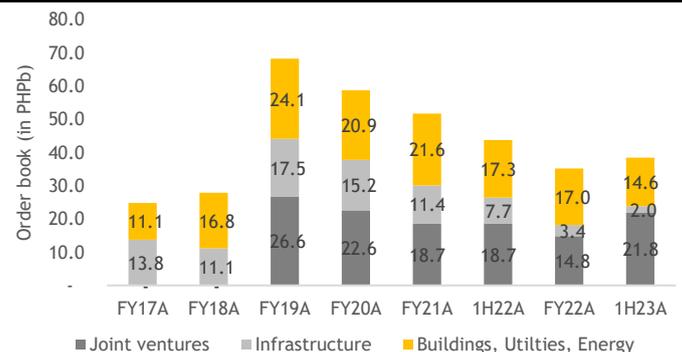
Source: Company

Fig 4: DMCI Homes' sales and reservations (PHPb)



Source: Company

Fig 5: DMCI's construction order book (PHPb)



Source: Company

1H23 takeaways:

- **SCC** (coal mining/power; 69% of 1H23 earnings): Please see [*Dividend Yields of 10-11%*](#) report for more details.
- **DMCI Homes** (residential real estate; 16% of 1H23 earnings): Earnings contribution from DMCI Homes earnings slipped 8% YoY to PHP2.5b in 1H23, which is within our FY23 PHP4.7b forecast. Aside from slower project launches in FY20-22A, which translated to a 14% YoY decline in 1H23 revenues to PHP10.7b, GPM was also lower-than-expected at 32.2% (FY23E: 33.9%) due to higher cement/steel costs.
- 1H23 sales take-up climbed 19% YoY to PHP16.5b (2Q23: PHP5.4b, -6% YoY) driven by launch of Sage Residences and Allegra Garden Place units in 1Q23. Land bank grew 2% YoY to 217 ha following acquisition of a 2.3 ha property in Mindanao.
- **DMCI** (construction; 3% of 1H23 earnings): Earnings contribution from DMCI contracted by 53% YoY to PHP412m in 1H23, falling behind our PHP918m FY23E forecast, at 45%. Although construction revenues (1H23: PHP8.4b) were in-line, GPM was lower-than-expected at 8.8% (FY23E: 9.2%) due to higher-than-expected fuel and steel, which DMC was unable to pass on to its predominantly infrastructure and buildings customer base.
- **Maynilad** (utilities; 6% of 1H23 earnings): Earnings contribution from its investment in Maynilad improved 40% YoY to PHP997m amid implementation of higher water tariff.
- **Others** (10% of 1H23 earnings): DMCI Power's 1H23 earnings rose 8% YoY to PHP365m, in-line with our FY23 forecast of PHP758m due to higher electricity sales. DMCI Mining's contribution eased 28% YoY to PHP723m on lower nickel selling prices.

2. Forecast revisions

We raise our FY23/24E earnings by 5%/9% on the back of the following:

Fig 6: Summary of forecast changes

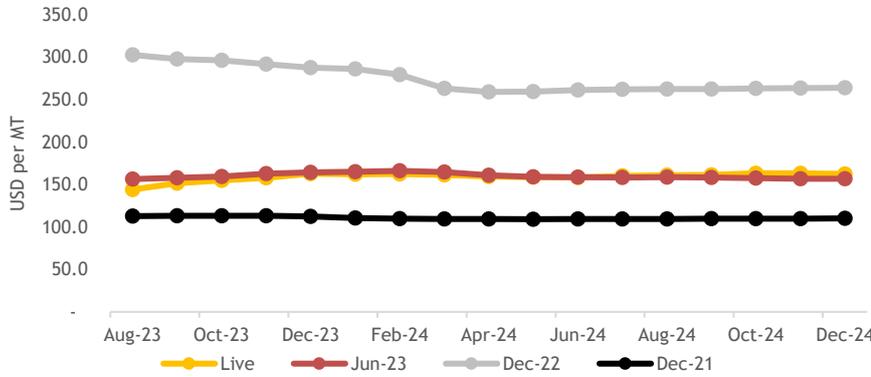
in PHP m	FY23 Old	FY23 New	% Change	FY24 Old	FY24 New	% Change	Notes
Revenue	129,125	128,919	-0.2	118,595	118,917	0.3	
<i>Semirara</i>	78,934	79,426	0.6	66,239	66,067	-0.3	Based on (i) FY23E coal contracting mix of 66%:33% of spot/indexed contracts versus fixed pricing contracts, using 4Q22 ASP of PHP4,861/MT, and (ii) average PHP:USD exchange rates of 55/51 (from 55/53) for FY23/24E (See Decent Upside and Dividend Yields of 10-11% reports).
<i>DMCI Homes</i>	20,241	20,729	2.4	23,387	23,951	2.4	Slightly faster revenue booking to account for more clients reaching collection threshold of 14.5% equity.
<i>D.M. Consunji</i>	17,325	17,325	0.0	16,791	16,791	0.0	
<i>DMCI Mining</i>	4,504	3,394	-24.7	4,633	3,515	-24.1	Lower average selling price of PHP2,263/PHP2,344 per WMT (from PHP3,003/3,089 per WMT), reflecting LME Nickel of USD20,051/USD20,769 per MT (from USD25,655/USD26,386 per MT).
<i>DMCI Power</i>	7,629	7,554	-1.0	7,093	8,139	14.8	Revise FY23/24E sales volume to 444GWh/548GWh (from 505GWh/558GWh) on decline of Masbate availability amid improving availability of competitors' RE plants; Revise FY23/24 ASP to PHP17.0/PHP14.9 per kWh (from PHP15.1/12.7 per kWh).
COGS	-66,637	-65,208	-2.1	-67,131	-62,038	-7.6	Factors in: - higher FY23/24 GPM of SCC (see Decent Upside and Dividend Yields of 10-11% reports). - lower FY23/24 GPM of DMCI construction unit of 8.8% (from 9.2%) previously due to higher-than-budgeted fuel and materials (cement, steel) prices incurred.
Gross Profit	62,488	63,711	2.0	51,464	56,879	10.5	
<i>GPM</i>	48.4%	49.4%		43.4%	47.8%		
SGA	-19,750	-19,136	-3.1	-14,569	-16,862	15.7	See Decent Upside and Dividend Yields of 10-11% reports.
EBIT	42,738	44,575	4.3	36,895	40,018	8.5	
<i>EBIT margin</i>	33.1%	34.6%		31.1%	33.7%		
Equity in JV and other items	3,731	3,614	-3.1	3,654	3,654	0.0	
Finance income	1,498	1,941	29.6	1,729	1,924	11.3	Higher interest income due to higher cash balance placed into money market placements with high rates. Effective interest rate at 3.0%/3.0%, from 3.8%/3.0% previously. FY23/24E cash and equivalents rose to PHP51b/PHP644b (from PHP50b/PHP57b).
Finance costs	-1,103	-1,103	0.0	-1,103	-1,103	0.0	
Earnings before tax	46,864	49,027	4.6	41,174	44,492	8.1	
Income tax	-5,123	-5,176	1.0	-4,501	-4,697	4.4	See Decent Upside and Dividend Yields of 10-11% reports.
<i>Effective tax rate</i>	-10.9%	-10.6%		-10.9%	-10.6%		
Net income	41,741	43,851	5.1	36,673	39,795	8.5	
Minority interest	-12,876	-13,527	5.1	-11,522	-12,499	8.5	
NI attrib. to comm sh.	28,865	30,324	5.1	25,152	27,296	8.5	

Source: Company, Maybank IBG Research

3. Earnings sensitivity analysis

The negative FY23-25E earnings CAGR of DMC is attributable to its heavy coal exposure via SCC.

Fig 7: Newcastle coal futures curve (FY23E)

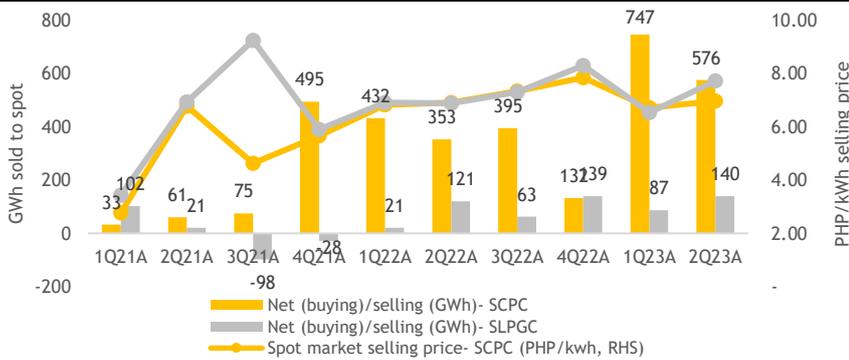


Newcastle coal index has continued its sharp correction since the start of 2023, as indicated by the Newcastle coal commodity curve as of 14 Aug 2023.

Our forecasts factor in the uptick in FY23/24E Newcastle futures to USD179/161 per MT as of 14 Aug (from USD170/137 as of 14 Jul),

Source: Bloomberg

Fig 8: Net spot market position (GWh)



SCC has remained in a favourable net selling position for six straight quarters from 1Q22 to 1Q23 to the spot market, amid rising spot prices.

We forecast SCC to continue to sell at elevated FY23/24E spot prices of PHP7 per kWh/PHP6 per kWh.

Source: Company

Based on our analysis, DMC’s FY24 earnings moves by:

- -/+4% for every -/+USD10 per MT swing in coal prices;
- -/+6% earnings sensitivity for every -/+PHP1 per kWh swing in domestic electricity spot prices;
- -/+ 2% for every -/+10% swing in real estate sales;
- -/+ 0.1% for every -/+10% swing in construction order book

Fig 9: DMC/SCC earnings sensitivity to -/+USD10 per ton coal price

	+20USD/MT	+10USD/MT	Base	-10USD/MT	-20USD/MT
SCC (PHPm)	31,460	29,723	27,986	26,248	24,511
DMC (PHPm)	29,257	28,277	27,296	26,315	25,334
SCC (% change)	12.4%	6.2%	0.0%	-6.2%	-12.4%
DMC (% change)	7.2%	3.6%	0.0%	-3.6%	-7.2%

Source: Maybank IBG Research

DMC has an earnings sensitivity of c.4% for every USD10 per MT swing in coal prices. SCC, which has more direct exposure to coal mining, has a higher earnings sensitivity of 6%.

Fig 10: DMC/SCC earnings sensitivity to -/+PHP1 per kWh electricity spot prices

	+PHP2/kWh	+PHP1/kWh	Base	-PHP1/kWh	-PHP2/kWh
SCC (PHPm)	34,266	31,126	27,986	24,845	21,703
DMC (PHPm)	30,842	29,069	27,296	25,522	23,749
SCC (% change)	22.4%	11.2%	0.0%	-11.2%	-22.4%
DMC (% change)	13.0%	6.5%	0.0%	-6.5%	-13.0%

Source: Maybank IBG Research

DMC has an earnings sensitivity of c.6% for every PHP1 per kWh swing in electricity spot prices. SCC, which has more direct exposure to spot prices, has an even steeper earnings sensitivity of 11%.

From Jan-Jun 2023, electricity spot prices averaged at PHP7.2/kwh, inline our PHP7.0/kwh forecast.

Fig 11: DMC/DMCI Homes earnings sensitivity to +/-5% swing in real estate sales

	+10%	+5%	Base	-5%	-10%
DMCI Homes (PHPm)	5,780	5,517	5,254	4,992	4,729
DMC (PHPm)	27,821	27,558	27,296	27,033	26,770
DMCI Homes (% change)	10.0%	5.0%	0.0%	-5.0%	-10.0%
DMC (% change)	1.9%	1.0%	0.0%	-1.0%	-1.9%

Besides SCC, DMCI Homes is the next largest earnings contributor at 17% of FY23E. However, DMC already exhibits a significantly less significant 1% earnings sensitivity to its residential development sales and earnings.

We forecast FY23/24E real estate revenues of PHP20.7b/PHP24.0b largely booked from cumulative PHP71b worth of sales take-up over FY20-22A.

Source: Maybank IBG Research

Fig 12: DMC/SCC earnings sensitivity to +/-PHP1 per kWh electricity spot prices

	+PHP4b	+PHP2b	Base	-PHP2b	-PHP4b
DMCI order book (PHPm)	42,913	40,913	38,913	36,913	34,913
% change	0.11%	0.05%	0.0%	-0.05%	-0.11%

Despite being the cornerstone business of DMC, DMC has an earnings sensitivity of just 0.1% for every 10% (PHP4b) swing in DMCI's construction order book value.

Orderbook as of Jun 2023 is at PHP38.4b vs our PHP38.9b forecast.

Source: Maybank IBG Research

4. Valuation

4.1 TP raised to PHP12.10

Our earnings adjustments and our higher TP for SCC raises our rolled-forward NAV-based TP to PHP12.10.

Fig 13: SOTP-based target price computation

Segment	Stake	Shares (m)	Current price (PHP/sh)	Attrib. valuation (PHPm)	Valuation method	RNAV		Forward NAV- old		Forward NAV- new		Notes
						TP (PHP/sh)	Attrib. valuation (PHPm)	TP (PHP/sh)	Attrib. valuation (PHPm)	Change		
SCC PM	56.46%	4,250.55	31.10	74,636	DCF	39.00	93,595	39.60	95,034	2%	Higher TP for SCC. See Dividend Yields of 10-11%	
Water	25.20%			10,119	DCF		7,566		10,119	34%	Rollforward of TP, slightly higher margins.	
Construction	100.00%			34,359	DCF		33,710		34,359	2%	Rollforward of DCF valuation base to 1H24.	
Residential	100.00%			70,162	SOTP		74,198		70,162	-5%	Higher net debt of PHP58b (from PHP54b)	
DMCI Power	100.00%			4,606	12-month FWD BV		4,246		4,606	8%	Higher book value.	
DMCI Mining	100.00%			5,808	12-month FWD BV		6,716		5,808	-14%	Lower selling prices.	
Asset value				199,691			220,030		220,090			
Net cash/(debt)				2,829			8,826		12,712	44%	Higher parent cash and equivalents; upward FY24 dividends of PHP5.3b from SCC.	
NAV				202,520			228,856		232,802			
NAV/sh				15.25			17.24		17.53			
Conglo discount				34%			30%		31%		Higher 5-year average discount	
TP							12.00		12.10			

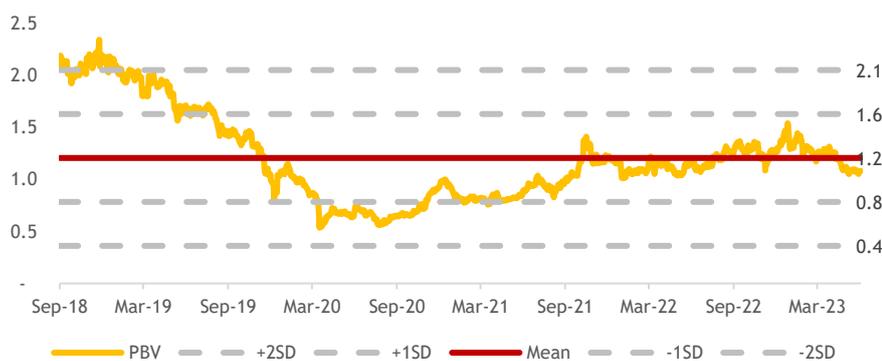
Source: Maybank IBG Research

Despite DMC's negative earnings trajectory, we maintain BUY as the stock still offers total returns of 25%, including a 6.9% yield, while accelerating residential launches and the government's infrastructure drive pose realisable revenue upside for FY23E/24E which may cushion the impact of sliding coal prices on yield. DMC also trades at a 34% discount to NAV—wider than its 5-year average of 31%.

However, we see no urgency to get into the stock as DMC’s FY24E yield may not be realisable until Apr 2024.

Both DMC and SCC still significantly outperform versus the 10-year government bond yield of 6.4% in terms of upside potential but we continue to prefer SCC as its volume and margin upside from its spot-price driven power generation business leads to more compelling FY24/25E dividend yields of 10.1%/9.0% and a higher 12-month forward total return of 36%.

Fig 14: DMC’s 5-year PBV band

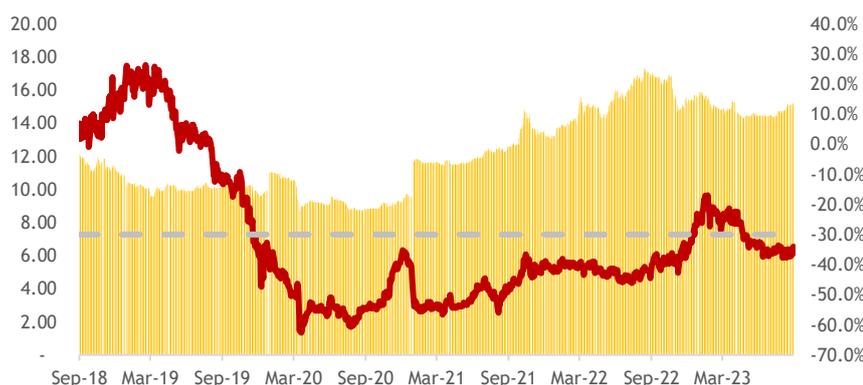


DMC’s share price pullback has taken its PBV to below its 5-year average of 1.2x while it is also trading at a NAV discount of 34%, below its 5-year mean of 31%.

Besides offering same exposure to the narrative of still relatively high coal prices and spot electricity prices, DMC offers diversification into construction and residential development— both beneficiaries of the economic reopening.

Source: Bloomberg, Maybank IBG Research

Fig 15: DMC’s discount to NAV



The stock is also trading at a 34% discount to RNAV, wider than its 5-year discount of 31%.

Between DMC and SCC, which is also oversold at current valuations, we prefer SCC over DMC as its volume and margin upside from its spot-price driven power generation business should provide more catalysts for the stock, relative to its parent.

Source: Bloomberg, Maybank IBG Research

Fig 16: Peer comparison (as of 2 Sep 2023)

Name	Ticker	CP (PHP)	TP (PHP)	Upside (%)	Rec	PBV (x)		ROE (%)		Div Yld (%)
						FY23E	FY24E	FY23E	FY24E	FY24E
<i>Median</i>						1.0	0.9	12.1	12.5	1.1
Ayala Corp.	AC PM	625.00	990.00	58.4	BUY	0.9	0.9	10.4	11.2	1.1
DMCI Holdings*	DMC PM	10.22	12.10	18.4	BUY	1.1	1.0	20.2	15.0	6.9
GT Capital	GTCAP PM	572.00	1,020.00	78.3	BUY	0.5	0.5	10.6	11.3	1.0
JG Summit	JGS PM	36.80	57.00	54.9	BUY	0.8	0.8	5.8	5.2	1.1
SM Investments	SM PM	820.00	1,290.00	57.3	BUY	1.8	1.5	13.7	13.6	0.8
Semirara Mining*	SCC PM	31.45	39.60	25.9	BUY	1.6	1.4	41.2	28.5	10.1

Source: Bloomberg, Maybank IBG Research

Note: SCC/DMC historically pay out regular dividends in April and special dividends in November.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	4.6	3.9	4.5	5.0	5.0
Core P/E (x)	5.6	5.1	4.5	5.0	5.0
P/BV (x)	1.2	1.5	1.1	1.0	0.8
P/NTA (x)	1.2	1.5	1.1	1.0	0.8
Net dividend yield (%)	12.5	8.8	7.0	6.9	6.2
FCF yield (%)	15.7	22.7	26.4	18.9	7.9
EV/EBITDA (x)	4.8	3.7	3.4	3.7	3.7
EV/EBIT (x)	6.4	4.3	4.0	4.5	4.5
INCOME STATEMENT (PHP m)					
Revenue	108,342.9	142,599.7	128,918.9	118,917.0	123,196.8
EBITDA	33,263.8	56,842.7	53,275.6	48,265.1	50,932.5
Depreciation	(8,674.7)	(7,817.9)	(8,700.4)	(8,247.5)	(8,668.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	24,589.1	49,024.8	44,575.2	40,017.7	42,264.0
Net interest income / (exp)	(744.4)	(250.1)	838.0	820.5	878.0
Associates & JV	1,612.3	1,506.3	2,295.8	2,335.9	2,699.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	1,969.3	2,918.7	1,317.7	1,317.7	1,317.7
Pretax profit	27,426.3	53,199.7	49,026.7	44,491.8	47,159.0
Income tax	(1,759.2)	(4,723.7)	(5,176.1)	(4,697.3)	(7,073.9)
Minorities	(7,272.9)	(17,388.5)	(13,526.9)	(12,498.9)	(12,675.2)
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18,394.2	31,087.5	30,323.8	27,295.6	27,411.0
Core net profit	18,394.2	31,087.5	30,323.8	27,295.6	27,411.0
Distributable Income	18,394.2	31,087.5	30,323.8	27,295.6	27,411.0
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	18,342.0	28,408.5	51,186.7	64,365.3	66,287.2
Accounts receivable	23,537.4	26,738.9	24,561.8	26,193.2	30,431.7
Inventory	54,208.9	61,524.5	64,547.4	68,401.9	82,374.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	59,356.0	57,638.3	64,027.8	69,422.7	74,887.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	17,522.9	18,195.3	22,001.5	26,385.3	28,440.7
Other assets	42,178.3	48,254.4	45,729.9	47,568.0	52,343.5
Total assets	215,145.5	240,760.0	272,055.1	302,336.3	334,764.8
ST interest bearing debt	11,435.6	7,887.9	7,887.9	7,887.9	7,887.9
Accounts payable	28,122.2	28,376.7	25,381.1	25,192.6	25,929.6
LT interest bearing debt	41,613.0	44,669.9	44,669.9	44,669.9	44,669.9
Other liabilities	25,128.0	27,156.0	27,156.0	27,156.0	27,156.0
Total Liabilities	106,298.9	108,090.4	105,094.7	104,906.2	105,643.3
Shareholders Equity	87,757.1	103,451.4	124,215.4	142,186.1	161,202.3
Minority Interest	21,089.5	29,218.2	42,745.1	55,244.0	67,919.2
Total shareholder equity	108,846.6	132,669.6	166,960.5	197,430.1	229,121.5
Total liabilities and equity	215,145.5	240,760.0	272,055.1	302,336.3	334,764.8
CASH FLOW (PHP m)					
Pretax profit	27,426.3	53,199.7	49,026.7	44,491.8	47,159.0
Depreciation & amortisation	8,674.7	7,817.9	8,700.4	8,247.5	8,668.4
Adj net interest (income)/exp	744.4	250.1	(189.4)	(820.5)	(878.0)
Change in working capital	(9,360.0)	(9,217.6)	(1,375.2)	(7,512.4)	(22,249.2)
Cash taxes paid	(2,198.6)	(6,354.4)	(5,176.1)	(4,697.3)	(7,073.9)
Other operating cash flow	(1,798.0)	(2,221.0)	(2,295.8)	(2,335.9)	(2,699.3)
Cash flow from operations	22,473.5	42,721.8	50,631.9	39,297.0	24,908.5
Capex	(6,451.9)	(6,514.1)	(14,761.1)	(13,642.4)	(14,133.3)
Free cash flow	16,021.6	36,207.8	35,870.8	25,654.7	10,775.2
Dividends paid	(18,476.6)	(25,189.1)	(9,559.8)	(9,324.9)	(8,393.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,160.0	(490.8)	0.0	0.0	0.0
Other invest/financing cash flow	713.1	(1,744.4)	(3,532.7)	(3,151.2)	(459.6)
Effect of exch rate changes	5.4	1,283.0	0.0	0.0	0.0
Net cash flow	(576.4)	10,066.5	22,778.3	13,178.5	1,921.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	60.0	31.6	(9.6)	(7.8)	3.6
EBITDA growth	121.4	70.9	(6.3)	(9.4)	5.5
EBIT growth	258.4	99.4	(9.1)	(10.2)	5.6
Pretax growth	213.3	94.0	(7.8)	(9.2)	6.0
Reported net profit growth	214.0	69.0	(2.5)	(10.0)	0.4
Core net profit growth	214.0	69.0	(2.5)	(10.0)	0.4
Profitability ratios (%)					
EBITDA margin	30.7	39.9	41.3	40.6	41.3
EBIT margin	22.7	34.4	34.6	33.7	34.3
Pretax profit margin	25.3	37.3	38.0	37.4	38.3
Payout ratio	69.3	45.3	31.5	34.2	30.6
DuPont analysis					
Net profit margin (%)	17.0	21.8	23.5	23.0	22.2
Revenue/Assets (x)	0.5	0.6	0.5	0.4	0.4
Assets/Equity (x)	2.5	2.3	2.2	2.1	2.1
ROAE (%)	21.7	32.5	26.6	20.5	18.1
ROAA (%)	8.8	13.6	11.8	9.5	8.6
Liquidity & Efficiency					
Cash conversion cycle	215.6	219.1	271.2	315.8	363.3
Days receivable outstanding	73.0	63.5	71.6	76.8	82.7
Days inventory outstanding	279.3	304.1	348.0	385.7	424.5
Days payables outstanding	136.8	148.4	148.4	146.7	143.9
Dividend cover (x)	1.4	2.2	3.2	2.9	3.3
Current ratio (x)	2.2	2.9	3.5	4.0	4.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.2	2.6	2.9	3.2
Net gearing (%) (incl perps)	31.9	18.2	0.8	net cash	net cash
Net gearing (%) (excl. perps)	31.9	18.2	0.8	net cash	net cash
Net interest cover (x)	33.0	nm	na	na	na
Debt/EBITDA (x)	1.6	0.9	1.0	1.1	1.0
Capex/revenue (%)	6.0	4.6	11.4	11.5	11.5
Net debt/ (net cash)	34,706.6	24,149.3	1,371.1	(11,807.5)	(13,729.4)

Source: Company; Maybank IBG Research

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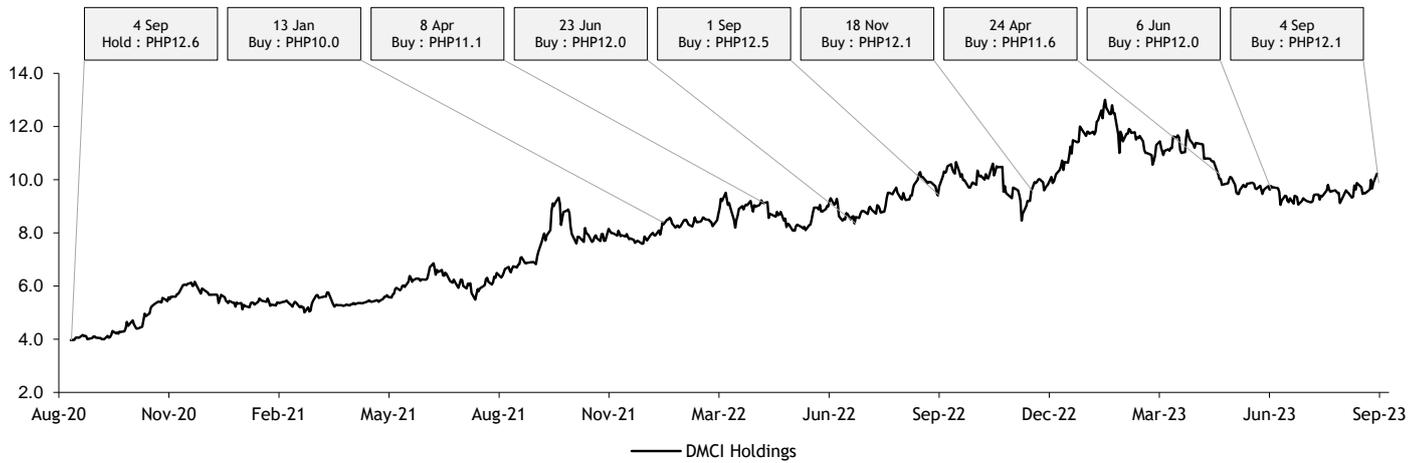
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