

**DBL SECURITIES**

L I M I T E D

A Subsidiary of Dhaka Bank Limited

DBSL Research  
Update - 12th February, 2013  
**Rating - BUY**  
Fair Value Estimate  
Sector - Fuel & Power

**Lower margin hampers operating profit but strong stance of BDT against USD contributes to hefty net income**

**Company Summary**

52 Week Price Range	126.3-60.4
Current Price (BDT)	78.30
Sector Mkt. Cap ((BDT Mn)	216,173
Company Mkt. Cap (BDT Mn)	23,646
Free Float %	25%
Number of Shares (BDT Mn)	299.30
Year End	June

**Investment Highlights**

1. The company has huge cash and cash equivalent mostly deposited in banks as STD or FDR earn a sizable amount of interest which also add positive move in the company's earnings.
2. As DESCO had already recorded loss in last year on the value of foreign currency loan in line with the BDT depreciation against USD thus On-going appreciation of BDT against USD has become core opportunity to earn huge exchange gain and might strengthen the bottom line.
3. Increased use of power will drive the energy sales volume as govt is opted to provide new electricity connections.
4. Efficient management raised the bill collection ratio and limits the system loss compared to previous years.
5. With the augmentation of power generation, hundreds of new buildings were connected with electricity supply network over the precedings years which enables the company to earn heavy sales revenue compared past periods.

**Revenue & Profit (BDT Mn)**

	2010-11	2011-12	2013(HY)
Total Revenue	12,475	15,962	11,480
Operating Income	2,001	985	485
NPAT	1,478	838	720

**Profitability (%)**

	2010-11	2011-12	2013(HY)
Gross Margin	22.40	12.29	8.13
Operating Margin	16.04	6.49	4.20
Net Margin	11.84	7.69	6.23

**Investment Risks**

1. The gross profit margin is poor for the company as the margin is set by BERC and recent hike in bulk power tariff pushes the Cost of Energy sold for DESCO albeit the rescheduling of existing retail electricity tariff by the BERC will take effect on the last quarter's financials of the company.
2. The company bears a huge amount of Loan taken from ADB and GoB. The total loan of ADB is denominated in USD and any principal or interest payment also must be in USD.
3. Govt is against any increase in power tariff in current financial year so gross margin will continue to be lower than previous periods.

**Average Turnover (BDT Mn)**

	1 Week	1 Month	6 Month
Trade Value	25.06	12.48	25.72

**Per Share Ratio (BDT)**

	2010-11	2011-12	2013(HY)
EPS	5.68	3.22	2.40
PE	23.19	27.36	16.31
PEG	Negative	Negative	0.33
BPS (NAV)	45.98	40.54	43.36

**Financial Statement's Focus Points**

As an electricity distribution company, DESCO's revenue mainly stems from electricity sales to the end users. The company purchases electricity at Bulk Tariff and sells the same at Retail Tariff to its customers. Both of the Bulk and Retail Tariff of electricity is fixed by the Bangladesh Energy Regulatory Commission. In FY2011-12, the company has made some operational improvement regarding reduction of system loss (8.54% in FY11-12 against, 8.79% in FY10-11). Electricity sales increased by 29.79% from the previous year. In the FY11-12, the company suffered from foreign exchange loss due to devaluation of BDT against USD. Net profit after tax registered a 43.2% negative growth in FY11-12 compared to that of FY10-11. Recently, DESCO has reported net profit after tax of BDT 719.82 million with EPS of BDT 2.40 for the first six months of current year (July'12 to Dec'12) as against BDT 405.68 million and BDT 1.36 respectively for the same period of the previous year.

**Other Important Ratios (%)**

	2010-11	2011-12	2013(HY)
ROE	14.90	7.94	6.38
ROA	5.04	2.57	2.17
Debt to Equity	1.38:1	1.44:1	1.30:1
Dividend	10C,25B	10C,15B	
Dividend Yield	0.76	1.14	

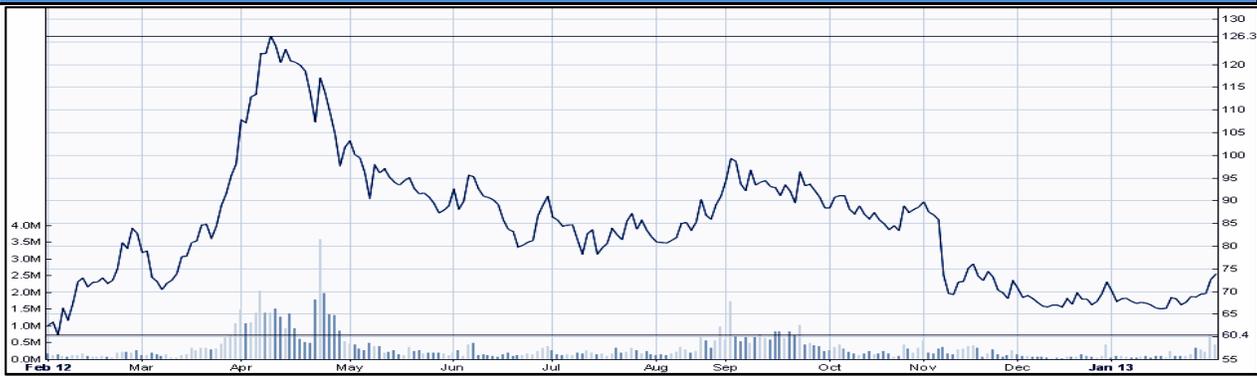
**Growth (%)**

	2010-11	2011-12	2013(HY)
Net Revenue	13.52	29.86	43.85
Operating Income	30.44	-50.77	-1.4
NPAT	-17.38	-43.23	71.69
Total Asset		11.23	1.77
BPS(NAV)	-15.92	-11.84	6.96

**Company Insight**

Field level operations of Dhaka Electric Supply Company Limited (DESCO) started in 1998 with taking over of the electric distribution system of Mirpur area from the previous Dhaka Electric Supply Authority (DESA). (DESCO) is one of the principal electric power distribution companies covering a stipulated zone of Dhaka. The company has extensive experience and expertise in implementing new distribution projects and expanding Bangladesh's distribution system.

## LAST ONE YEAR PRICE & VOLUME MOVEMENT



## TERMINOLOGY

Net Profit After Tax (NPAT): Profit available to the common shareholders of the company.  
 Book Value Per Share (BPS)/Net Asset Value (NAV) per share: Net Asset Value/ Number of Outstanding Common Stocks  
 Return on Asset (ROA): Net Profit after Tax/ Average Asset  
 Return on Equity (ROE): Net Profit after Tax/ Average Equity  
 Free Float : % of total shares not owned by Sponsors/Directors, and Govt.

## RATING CRITERIA & DEFINITION

<b>STRONG BUY</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>BUY</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>HOLD</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>NEUTRAL</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside potential between 0% to -10%
<b>SELL</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside between -10% to -20%
<b>STRONG SELL</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside potential in excess of 20%

## CONTACTS

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