

Foundation Alert

Dolmen City REIT: Analyst Briefing Takeaways

Event

- DCR held its Analyst briefing today to discuss financial performance of the company along with its future prospects.
- Following are the key takeaways.

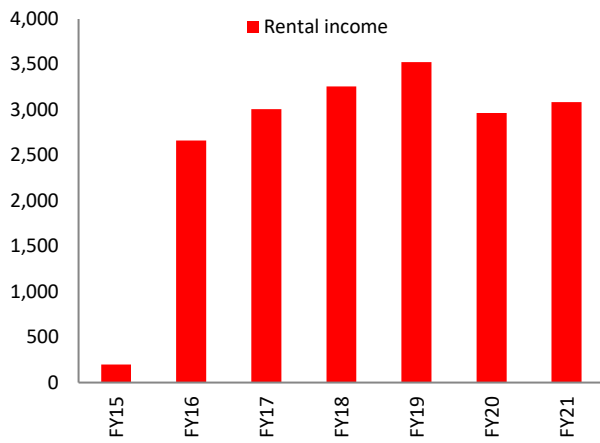
Impact

- To highlight company reported revenue of Rs810mn in 1QFY22, compared to profit of Rs620mn in 1QFY21 (↑30.71% YoY). Company's EPS and DPS increased by 28% and 32% respectively. This is due to gradual revival of economy after Covid spread.
- Company's profitability increased from 554mn to 712mn, up by 27.38% YoY. This growth can be credited to taking away concessions provided to tenants during Covid period.
- DCR's real estate witnessed increasing occupancy levels since inception. Currently, occupancy rate is 94.6% as on 1QFY2022.
- Dolmen mall and Harbor front has occupancy level of 96.8/90% in FY21 as compared to 91.3/86% YoY in FY20 respectively.
- Management is expecting 10% annual increase in rental income from next year.
- As per management, NAV per unit of DCR is PKR 25.81 at the end of 1QFY22 and unit price is PKR 11.72, trading at a discount of 54.6% to its NAV.
- Company distributed Rs1.24/sh of cash dividends translating to a dividend yield of 11.27% for FY21.
- Management highlighted that with recent beneficial reforms incorporated in the finance bill 2021, dividend tax rate declined from 25% to 15% and removed property transfer taxes for RMCs.
- Company have number of potential well selected tenancies in the pipeline for both projects, Mall and Harbour front. Major tenants for Harbor front include Engro/Byco/Philip Morris which occupies 28/11/9% of total occupancy.
- Management further discussed that company faces major risks from 1) Significant future supply of office and retail developments which try to undercut the rental rates in the neighborhood, 2) Default by existing tenants may disrupt the margins and, 3) Rising interest rate scenario can make the DCR yield competitive.

Outlook

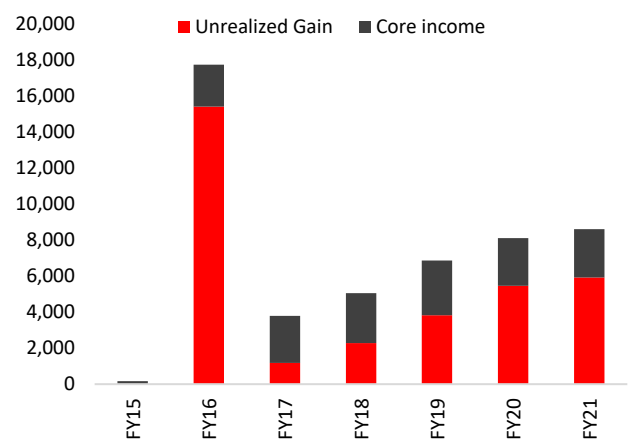
- The company is not in our formal coverage. Rental accelerations would be the prime revenue driver with the mall at optimal occupancy. Marketing activities, long lease expiries, a healthy tenant mix and strong landlord tenant relationships will be highly rewarding for DCR.

Fig 1: Rental income recovers post Covid



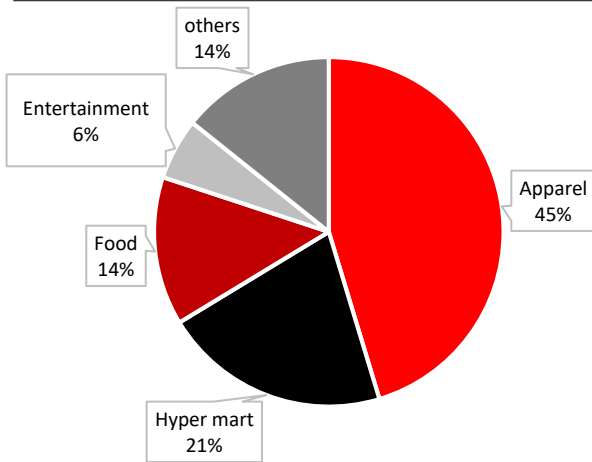
Source: PSX, Foundation Research, Dec'21

Fig 2: Income driven mainly from unrealized gains



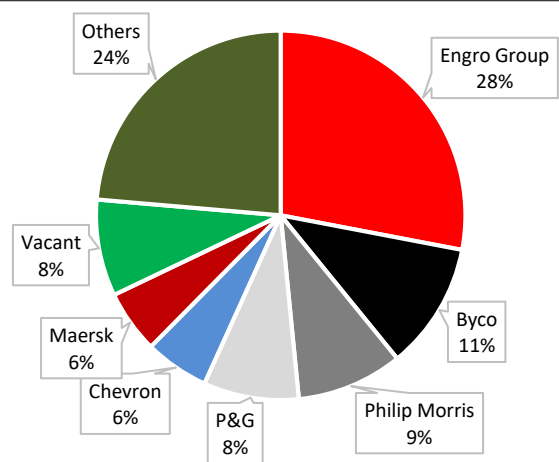
Source: PSX, Foundation Research, Dec'21

Fig 3: Occupancy by segment for Mall



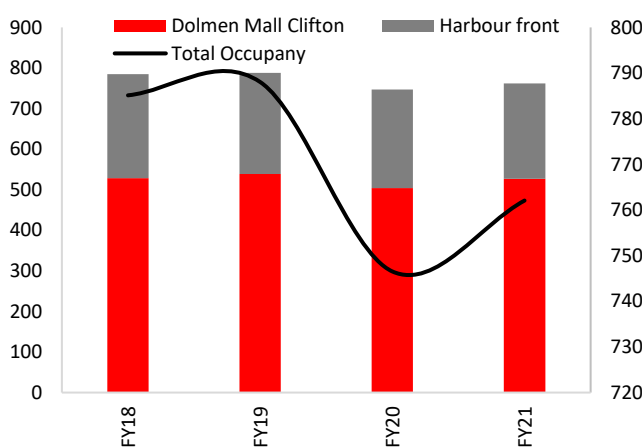
Source: PSX, Foundation Research, Dec'21

Fig 4: Occupancy for harbor front at 92%



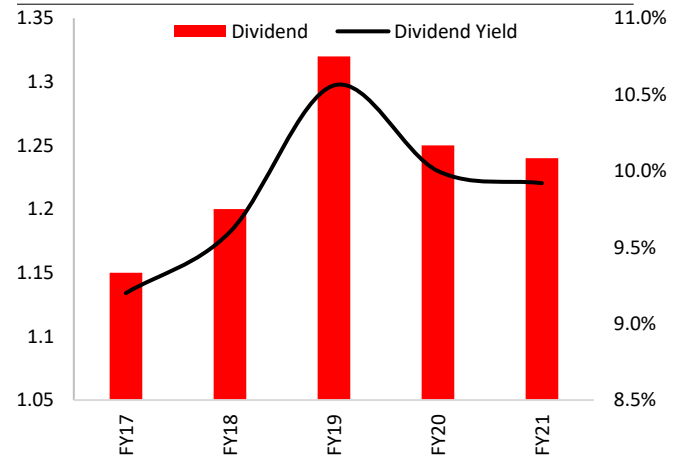
Source: PSX, Foundation Research, Dec'21

Fig 5: Occupancy ('000sq ft) recovers



Source: PSX, Foundation Research, Dec'21

Fig 6: Annual dividend per share



Source: PSX, Foundation Research, Dec'21

Table 1: DCR Key financial and operational ratios

Rs mn		FY15	FY16	FY17	FY18	FY19	FY20	FY21
Rental income		200	2,664	3,010	3,257	3,527	2,965	3,086
Net operating income		181	2,319	2,582	2,773	3,014	2,568	2,664
Other income		0.098	109	123	113	140	192	130
Unrealized gain		0	15,422	1,181	2,279	3,835	5,459	5,921
Profit before taxation		170	17,743	3,787	5,055	6,870	8,118	8,610
Profit after taxation		170	17,743	3,787	5,055	6,870	8,118	8,610
Share capital		22,237	22,237	22,237	22,237	22,237	22,237	22,237
Total Shareholders Equity		22,688	40,261	41,735	42,232	46,233	51,282	57,424
Fixed assets		22,237	37,659	38,840	41,119	44,954	50,413	56,334
Current assets		982	3,227	3,560	1,879	2,068	1,621	1,750
Total assets		23,219	40,886	42,400	42,998	47,022	52,034	58,084
Current liabilities		207	327	471	552	589	548	415
Dividend	%	0.08	1.04	1.15	1.2	1.32	1.25	1.24
RATIOS:								
PROFITABILITY								
OP Margin	%	90.7	87.0	85.8	85.1	85.4	86.6	86.3
PBT Margin	%	85.0	665.9	125.8	155.2	194.8	273.8	279.0
NP Margin (LHS)	%	85.0	665.9	125.8	1262.4	1274.5	273.8	279.0
RETURN TO SHAREHOLDERS								
ROE before tax	%	0.7	44.1	9.1	12.0	14.9	15.8	15.0
ROE after tax	%	0.7	43.4	8.9	11.8	14.6	15.6	14.8
EPS	Rs	0.1	8.0	1.7	2.3	3.1	3.7	3.9
Sales to fixed assets		0.0	0.1	0.1	0.1	0.1	0.1	0.1
Sales to total assets		0.0	0.1	0.1	0.1	0.1	0.1	0.1
LIQUIDITY/LEVERAGE/VALUATION								
Current ratio		1.8	2.2	2.4	2.1	1.9	3.0	4.2
Book Value per Share		10.2	18.1	18.8	19.0	20.8	23.1	25.8

Source: Company accounts, Foundation Research, December 2021

Table 2: DCR 1QFY22 earnings preview

Income Statement (Rs mn)	1QFY22	1QFY21	YoY	4QFY21	QoQ
Rental income	770	603	28%	742	4%
Revenue from marketing activities	40	17	134%	39	3%
Administrative and operating expenses	-98	-100	-2%	(89)	10%
Net operating income	712	520	37%	691	3%
Other income	22	55	-60%	28	-22%
Other expense	-28	-21	37%	(27)	3%
PBT	706	554	27%	692	2%
Net Profit	706	554	27%	692	2%
EPS	0.32	0.25		0.31	
Operating Margins	105.15%	102.81%		105.19%	
Net Margins	91.62%	91.93%		93.31%	

Source: Company Accounts, Foundation Research, December 2021

About the company

Dolmen City REIT (the Scheme) was established under Trust Deed, dated 20 January 2015, executed between Arif Habib Dolmen REIT Management Limited (AHDRML), as the REIT Management Company (RMC) and Central Depository Company of Pakistan Limited (CDCPL), as the Trustee; and is governed under the the Real Estate Investment Trust Regulations, 2015 (REIT Regulations 2015), promulgated and amended from time to time by the Securities & Exchange Commission of Pakistan (the SECP).

Auditor: KPMG Taseer Hadi & Co.

Table 3: DCR Pattern of shareholding

Pattern of shareholders	Shares (mn)	Holding
INTERNATIONAL COMPLEX PROJECTS LTD.	1,667.78	75.0%
Banks, DFIs & NBFIs	286.19	12.9%
General public	162.77	7.3%
Others	106.96	4.8%
Free float	555.92	25%

Source; Company Accounts, Foundation research, Dec 2021

Table 4: DCR key personnel

Key Personnel	Name	Designation
Board of Directors	Mr. Nasim Beg	Chairman
	Mr. Muhammad Ejaz	Chief Executive Officer
	Mr. Nadeem Riaz	Director
	Mr. Qamar Hussain	Director
	Mr. Naeem Ilyas	Director
	Ms. Tayyaba Rasheed	Director
	Mr. Abdus Samad A. Habib	Director
	Mr. Faisal Nadeem	Director
	Mr. Sajidullah Sheikh	Director
Management	Mr. Muhammad Ejaz	Chief Executive Officer
	Mr. Zohaib Yaqoob	Chief Financial Officer

Source; Company Accounts, Foundation research, Dec 2021

Analyst

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.