

Insight alpha

DYNO PA: Methanol crash to lift margins

DYNO holds a prominent position in Urea Formaldehyde (UF) and Melamine Formaldehyde (MF) segment, which is used as primary raw materials in the production of melamine crockery. Company has a resin and molding production capacity of 196k tons and 41k tons, respectively. In recent years, demand for melamine dinnerware is constantly rising, mainly due to durability and nominal prices of melamine crockery compared to glassware and steel ware.

Dyno being the leading player of the industry, is well-positioned to benefit from this growing demand mainly due to its strong presence and customer base which provides company competitive edge over its peers. Moreover, recent decline in methanol prices is silver lining for the company, as methanol is the key ingredient in the production of UF/MF. Therefore, we have a BUY stance on the stock with the DCF based target price of PKR204/sh, implying potential upside of 51%. Our liking for the stock emanates from the following facts i) Growing demand of melamine dinnerware, ii) Strong Market Presence, iii) Subsidized financing to keep insulated from rising finance cost, iv) Decline in methanol prices and v) Diverse Product Portfolio. We believe that current stock price represents an attractive entry point for investors given DYNO's dominant competitive position & growth prospects.

Key risks to our investment thesis include, i) Abrupt increase in methanol prices, ii) Lower than expected demand, and iii) Changes in regulatory regime.

Topline to remain upbeat

In FY22, Dyno's posted PAT of PKR622mn (EPS: PKR32.9) vs. PKR939mn (EPS: PKR49.7) in SPLY. Whereas, its topline witnessed a growth of 40% in FY22, which translates into 5-year topline CAGR of 31%. In 9MFY23, company's revenue grew by 15% YoY, to clocked in at PKR8.37bn vs. PKR7.25bn in SPLY. The robust growth in company's topline is mainly driven by increase in product prices. However, its profitability plunged by ~36% YoY to clock in at PKR445mn. The decline in profitability is mainly attributable to PKR devaluation, increase in input cost and higher financing rates. We expect company's topline to grow at a 5-year CAGR of ~11%.

Growing demand of melamine dinnerware

In recent years, demand for melamine dinnerware has seen decent momentum, mainly driven by increasing urbanization and customer preference for lightweight and reliable dinnerware. Moreover, melamine crockery offers an economical alternative to ceramic and porcelain, making it more accessible to a wide range of consumers. We believe, DYNO is well-positioned to capitalize on the growing demand of melamine dinnerware mainly due to its strong presence and timely expansions along with a strong customer base.

Dyno Pakistan

BUY

HOLD



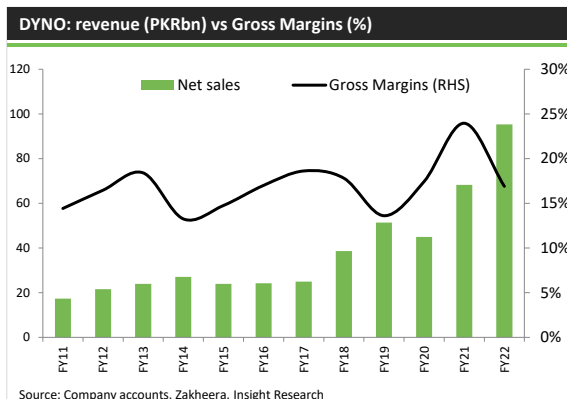
SELL

We recommend BUY with DCF based target price of PKR204/sh, providing 51% Capital Upside

| | | |
|-----------------------|-------------------|---------|
| Current Price | | 135.0 |
| Market cap | PKR b | 2.5 |
| Market cap | US\$ m | 8.9 |
| Free Float Market cap | US\$ m | 5.8 |
| 30-day Avg. turnover | m Shares | 0.01 |
| 30-day Avg. turnover | PKR m | 0.93 |
| 52 week range | PKR/sh | 100-225 |
| Shares Outstanding | m | 19 |
| Free float | % | 65% |
| Major Sponsors | Foreign Investors | |
| Bloomberg Ticker | | DYNO PA |

| Financials (PKR mn) | FY22 | FY23E | FY24E |
|---------------------|-------|--------|--------|
| Sales | 9,536 | 11,238 | 13,305 |
| Cost of sales | 7,925 | 9,201 | 10,860 |
| Gross Profit | 1,611 | 2,037 | 2,445 |
| Operating Profit | 1,193 | 1,482 | 1,810 |
| Profit Before Tax | 1,010 | 1,127 | 1,626 |
| Profit after Tax | 621 | 755 | 992 |
| Key Ratios | FY22 | FY23E | FY24E |
| EPS | 32.9 | 40.0 | 52.6 |
| DPS | 7.5 | 8.0 | 26.3 |
| Div. Yield | 5% | 6% | 19% |
| P/E | 4.86 | 3.37 | 2.57 |
| P/B | 1.04 | 0.73 | 0.64 |
| ROE | 21% | 21% | 25% |

Source: Company Accounts, Insight Research



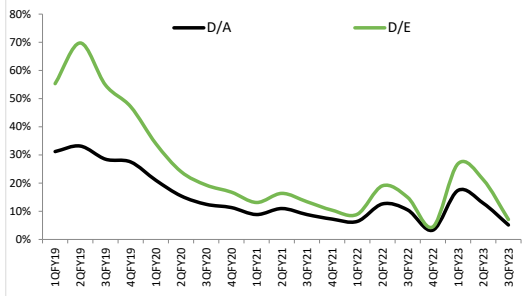
Declining methanol prices to support margins

Methanol is a key raw material in the production of formaldehyde, which is further used to produce UF and MF resins. Recently, methanol prices have plunged to US\$237/ton from its high of US\$490/ton in Sep'21. The decline is mainly attributable to lower prices of natural gas and coal which reduced the methanol cost of production. Moreover, subdued demand from China, US and European region has further affected the price of methanol. This is positive development for the company as raw material accounts for ~85% of company's total COGS.

About the company

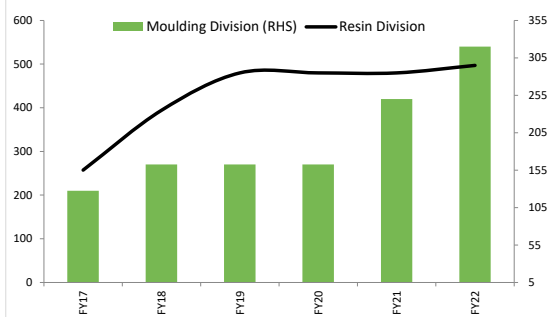
Dynea Pakistan Ltd was incorporated in 1982. It has two production plants; one located in Hub, Balochistan and the other in Gadoon, Khyber Pakhtunkhwa. Dynea Pakistan is a leading manufacturer of formaldehyde, urea formaldehyde and aminoplast compound. AICA Asia Pacific Pte Ltd. owns ~25% of the company's shares, which is the regional leader in developing and delivering high performance adhesives and surfacing solutions for the wood working, other industrial and retail applications, located in Singapore.

DYNO: Debt/Asset (%) vs. Debt/Equity (%)



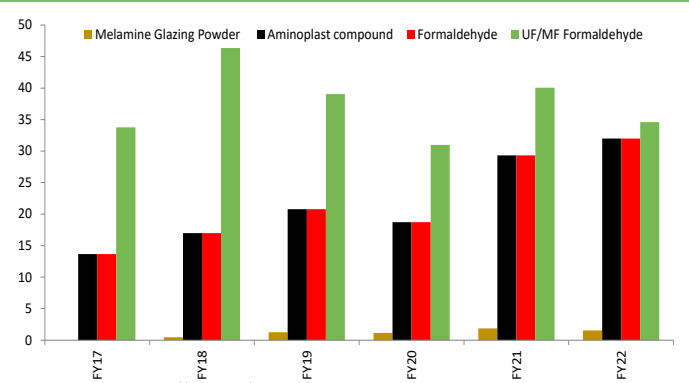
Source: Company accounts, Zakheera, Insight Research

DYNO & WAHN: Resin and Moulding Division Capacity per ton (000')



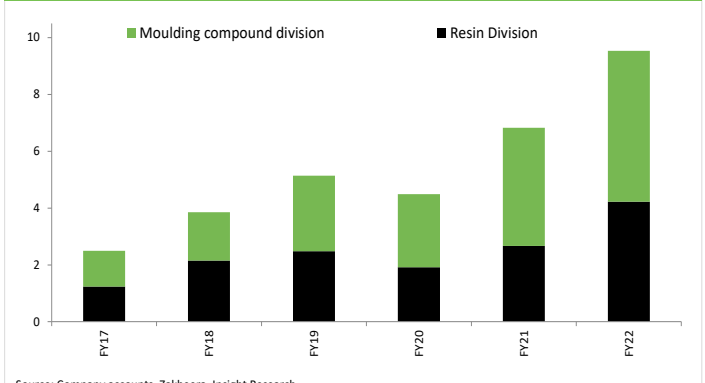
Source: Company accounts, Insight Research

DYNO: Year wise production (000')



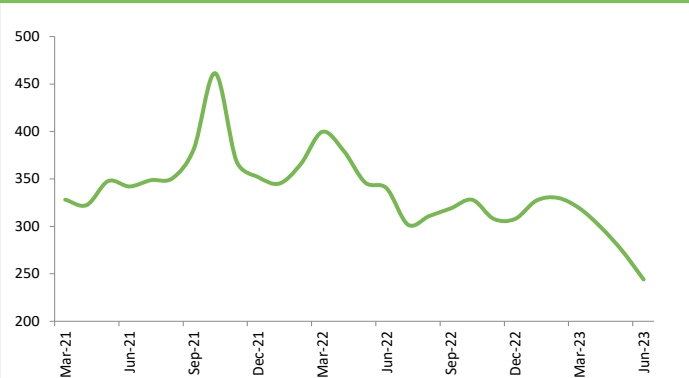
Source: Company accounts, Zakheera, Insight Research

DYNO's Revenue Mix (PKRbn)



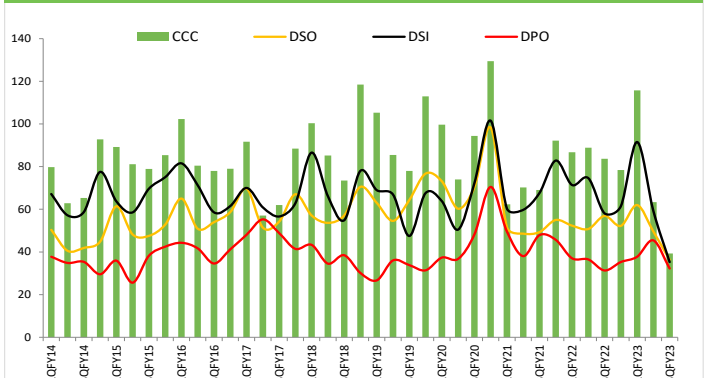
Source: Company accounts, Zakheera, Insight Research

Methanol Price: US\$/ton



Source: Investing, Insight Research

Cash Conversion Cycle (Days)



Source: Company accounts, Insight Research

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Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

| | | | | | |
|-------------|---------------------------|-------------|-------------------------|-------------|-------------------------------|
| TP | Target Price | DCF | Discounted Cash Flows | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DDM | Dividend Discount Model |
| SOTP | Sum of the Parts | P/E | Price to Earnings ratio | P/Bv | Price to Book ratio |
| P/S | Price to Sales | EVA | Economic Valued Added | BVPS | Book Value per Share |
| EPS | Earnings per Share | DPS | Dividend per Share | DY | Dividend Yield |
| ROE | Return on Equity | ROA | Return on Assets | CAGR | Compounded Annual Growth Rate |

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