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DGKC: Tax benefits for DGKC's upcoming line

- As per the latest quarterly accounts of DGKC, the company recorded an EPS of PKR6.48/sh (49%YoY/87%QoQ) where the surge in EPS is attributed to the deferred tax asset of PKR364mn in 1QFY18.
- The company availed tax benefit on account of 1) depreciation allowance on new investment and 2) tax credit of 10% on the total investment (~PKR40bn) under section 65B of the Income Tax Ordinance 2001 on its upcoming greenfield expansion at Hub (9000tpd).
- As per our channel checks, DGKC shall avail ~PKR1.5bn annual deferred tax asset in FY18 (PKR364mn has been recorded in 1QFY18) which may have an EPS impact of PKR2.6/sh for the remaining 9MFY18 along with nil current tax for FY18.
- Moreover, we anticipate the company to avail 5 year tax holiday as per Income Tax Circular 2 of 2015 for timely commencement of its Hub project, resulting into tax savings in the future.

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The rating system

Rating Definition	
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Hold	$0\% \leq$ Total stock return $<$ 15%
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* Total stock return = capital gains + dividend yield

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