CAPITAL ALLIANCE

Upgrade DOCK to BUY

Date: 27th May 2009

Ticker
DOCK

Recommendation
BUY

ASPI Index Level*
2,142.46

MPI Index Level*
2,444.28

Share Price*
Rs.72.00

Market Cap*
Rs. 4,927,469,mn

*CSE DATA on 26th May 2009

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Dockyard – Upgrade to Buy after getting our Sell call wrong

- On the 10th of October when Dockyard was Rs65 and the MPI was at 2231 and the ASPI at 2013.1, we downgraded Dockyard to SELL.
- We are changing our view and are now issuing a Buy recommendation at a higher price. It was a bad Sell call, and we got it wrong.
- In October, we downgraded Dockyard to a SELL on a view that "*the outlook for the global ship repair and ship building industry would clearly have worsened on the back of global financial turmoil.*"
- *"The sharp appreciation of the Sri Lanka rupee against competitor currencies in recent weeks also does not help an export driven businesses such as Dockyard."*
- *"While historic valuations are extremely attractive, forecasts going forward will have to be cut deeply to reflect the deteriorating global environment and will lead to valuations based on forecasts no longer being very attractive."*
- *"We recommend that Investors Sell the counter aggressively even into weakness in the market, and reallocate fund to the liquid big caps counters we like which have exposure to the domestic economy whose valuations continued to improve. "*
- Many of the liquid Big Caps we were recommending such as JKH, and Banking Sector counters have given a return equivalent and sometime better than Dockyard so far. Thus it could be argued that the reallocation could have made money for investors. But Dockyard outperformed the overall market and as such our Sell recommendation was not appropriate.

Summary Investment View

- Dock appears to have weathered the global crisis well, maintaining a very strong order book on ship building until 2010.
- 2009 is expected to be a better year than 2008, which itself was a record year.
- The first quarter saw profits rise to Rs518m from Rs244m in the first quarter of 2008.
- With Debt being paid off, Dividends last year rose to Rs7 per share, and we feel dividends have room to improve further.
- Though the strong results would lead to the stock price rising in the near term, we are likely to maintain our recommendation even as the stock price jumps another 10%. We would therefore urge our investors to aggressively re-accumulate a position in the counter.

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