

D.G. Khan Cement Company Limited
Result Preview

PSX: DGKC Bloomberg: DGKC: PA Reuters: DGKH. KA

Pakistan Research

DGKC: 3QFY23 EPS is expected to clock in at PKR 1.53, down 53%

- DGKC is scheduled to announce its 3QFY23 financial result on April 19th, 2023, wherein we expect the company to report an unconsolidated EPS of PKR 1.53, down 53% YoY, for 3QFY23 compared to an EPS of PKR 3.29 in 3QFY22. This will take 9MFY23 EPS to PKR 3.66, down 56% YoY. On QoQ basis, EPS is anticipated to improve by 24% on account of 15% improvement in the overall dispatches due to resurgence of export during the 3Q.
- Net revenue of the company is expected to reach at PKR 18.5bn, up 17% YoY during 3QFY23. Growth in revenue can be attributed to 4x YoY increase in exports, despite a 17% YoY decline in cement local despatches, whereas industry domestic dispatches have dropped by 11%.
- DGKC's gross margins are anticipated to decline by 4.5ppt YoY and clock in at 14%. Decline in gross margins is likely due to abrupt increase in coal and power prices which will likely result in 54% YoY increase in fuel and power cost.
- Other income is anticipated to grow by 17% YoY to PKR 0.8bn during 3Q, this is largely due to higher contribution from MCB.
- Finance cost of the company is likely to increase by 90% YoY to PKR 1.7bn during 3Q due to upward revision in the policy rates as well as higher short term borrowings.
- We have a 'BUY' recommendation on DGKC with our Dec-23 price target (PT) of PKR 55/share, providing an upside of 23%.

Key Data

| | |
|-------------------------|--------|
| PSX Ticker | DGKC |
| Target Price (PKR) | 55 |
| Current Price (PKR) | 45 |
| Upside/(Downside) (%) | + 23% |
| Dividend Yield (%) | 0% |
| Total Return (%) | 23% |
| 12-month High (PKR) | 74 |
| 12-month Low (PKR) | 39 |
| Outstanding Shares (mn) | 438 |
| Market Cap (PKR mn) | 19,672 |
| Year End | June |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 3QFY22 | 3QFY23F | YoY | 9MFY22 | 9MFY22F | YoY |
|----------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Net Sales | 15,862 | 18,540 | 17% | 43,297 | 48,301 | 12% |
| Cost of Sales | 12,913 | 15,917 | 23% | 35,490 | 41,421 | 17% |
| Gross Profit | 2,949 | 2,623 | -11% | 7,807 | 6,880 | -12% |
| Selling & Admin. Exp | 691 | 654 | -6% | 2,070 | 1,589 | -23% |
| Other Income | 667 | 779 | 17% | 1,960 | 2,171 | 11% |
| Other Charges | 52 | 69 | 32% | 386 | 154 | -60% |
| Finance cost | 916 | 1,744 | 90% | 2,454 | 4,948 | 102% |
| Profit before tax | 1,958 | 934 | -52% | 4,857 | 2,361 | -51% |
| Taxation | 516 | 266 | -48% | 1,199 | 724 | -40% |
| Net Income | 1,442 | 668 | -53% | 3,619 | 1,600 | -56% |
| EPS | 3.29 | 1.53 | | 8.26 | 3.66 | |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
|----------------|--------|-------|-------|-------|-------|-------|
| EPS | (4.93) | 8.49 | 6.78 | 5.01 | 1.38 | 9.62 |
| EPS Growth | -234% | - | -20% | -26% | -72% | 598% |
| DPS | - | 1.00 | 1.00 | - | - | - |
| PER | (9.1) | 5.3 | 6.6 | 8.9 | 32.4 | 4.6 |
| Dividend Yield | - | 2.2% | 2.2% | - | - | - |
| EV/EBITDA | (78.0) | 11.5 | 8.3 | 7.3 | 14.4 | 6.5 |
| P/B | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| ROE | - | 5.3% | 4.1% | 3.0% | 0.8% | 5.3% |

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for D.G Khan cement(DGKC) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of 55/share. Our price target provides an upside of 23%. Our investment case on DGKC is based on (1) improvement in retention prices and (2) consistent dividend from its associate company (MCB).

Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal, FO, Gas) (2) lower than anticipated growth in cement demand (3) higher than estimated decline in cement prices (4) lower than anticipated decline in interest rates.

Company Description

D.G. Khan Cement Company Limited produces and sells clinker, ordinary Portland, and sulphate resistant cement in Pakistan. The company also manufactures and supplies paper products and packing materials; and produces and sells raw milk. It also exports its products to Afghanistan, Kenya, Madagascar, Maldives, Mozambique, Seychelles, Sri Lanka, and Tanzania. D.G. Khan Cement Company Limited was founded in 1978 and is based in Lahore, Pakistan.

Financial Highlights - DGKC

| Income Statement (PKR mn) – Unconsolidated | | | | | | |
|--|----------------|--------------|---------------|--------------|--------------|--------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| Net sales | 29,118 | 35,640 | 58,044 | 64,071 | 45,597 | 47,534 |
| Cost of sales | 28,532 | 27,040 | 47,616 | 54,778 | 40,318 | 38,349 |
| Gross Profit | 585 | 8,601 | 10,428 | 9,293 | 5,280 | 9,185 |
| SG & A | 1,608 | 2,095 | 2,500 | 1,804 | 1,610 | 1,849 |
| Operating Profit | (1,023) | 6,506 | 7,928 | 7,489 | 3,670 | 7,336 |
| Other income | 146 | 223 | 2,714 | 2,728 | 2,863 | 2,993 |
| Other charges | 161 | 431 | 1,043 | 653 | 524 | 890 |
| Finance cost | 2,897 | 1,327 | 3,571 | 6,288 | 5,107 | 3,147 |
| Profit before tax | (3,934) | 4,970 | 6,020 | 3,276 | 902 | 6,291 |
| Taxation | (375) | 1,142 | 3,048 | 1,081 | 298 | 2,076 |
| Profit after tax | (3,559) | 3,829 | 2,972 | 2,195 | 604 | 4,215 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) – Unconsolidated | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| PPE | 83,537 | 85,020 | 82,804 | 81,123 | 79,618 | 78,077 |
| Other LT assets | 11,908 | 16,023 | 12,945 | 13,491 | 13,923 | 14,377 |
| Non-Current Assets | 95,445 | 101,043 | 95,749 | 94,614 | 93,541 | 92,454 |
| Current assets | 34,106 | 36,851 | 40,813 | 39,273 | 35,545 | 38,149 |
| Total Assets | 129,552 | 137,895 | 136,561 | 133,887 | 129,085 | 130,602 |
| Non-Current liabilities | 25,283 | 24,121 | 20,555 | 9,354 | 5,959 | 5,085 |
| Current liabilities | 37,624 | 40,296 | 46,088 | 49,050 | 45,893 | 42,865 |
| Total Liabilities | 62,907 | 64,417 | 66,643 | 58,404 | 51,852 | 47,950 |
| Equity | 66,644 | 73,478 | 69,918 | 75,483 | 77,233 | 82,652 |
| Total Equity & liabilities | 129,552 | 137,895 | 136,561 | 133,887 | 129,085 | 130,602 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) – Unconsolidated | | | | | | |
|--|----------------|---------------|----------------|---------------|--------------|--------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| Net Income | (2,159) | 3,721 | 2,972 | 2,195 | 604 | 4,215 |
| Non-cash Charges | 3,688 | 12,846 | 3,379 | 4,040 | 4,414 | 4,515 |
| Operating Cash flows | 1,607 | 19,032 | (1,385) | 13,738 | 5,145 | 8,236 |
| FCFF | (2,964) | 6,981 | (802) | 15,609 | 5,658 | 7,370 |
| Net borrowings | 6,193 | (3,421) | 2,617 | (11,124) | (1,567) | (3,123) |
| FCFE | 555 | 1,282 | 51 | 272 | 670 | 2,138 |
| Net change in cash | (1,571) | 4,395 | (6,481) | 3,642 | 1,816 | 3,341 |
| Closing cash | 348 | 806 | 410 | 245 | 914 | 3,052 |

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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| Rating | Expected Total Return |
|--------|-------------------------------|
| Buy | Greater than or equal to +15% |
| Hold | Between -5% and +15% |
| Sell | Less than or equal to -5% |

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