

DG Khan Cement Company Limited
Analyst Briefing Takeaways

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

Pakistan Research

DGKC: FY21 Analyst briefing key takeaways

- DGKC held its analyst briefing today to discuss FY21 results. The company reported net earnings of PKR 8.49/share during FY21 compared to net loss of PKR 4.93/share during FY20, accredited to higher prices and surge in volumetric sales.
- The management disclosed that currently it has halted its expansion plan owing to debt repayment and bleak prospects of growth in demand during the current fiscal year. The company expects to pay off PKR 6bn during FY22.
- Management expects the demand during FY22 to witness single digit growth of 5-7% on the back of recent cut in PSDP by PKR 200bn, deterrence in continuation of dam projects, and a contractionary macroeconomic outlook.
- However, in November 2021, the company expects 10% YoY growth in demand. DGKC's sales are currently hovering around 12,000 tons/day in North and 5,000 tons/day in South. Retention prices are hovering around PKR 9,200-9,400/ton in both regions.
- The company also discussed that higher freight charges have deterred export feasibility. However, the company has recently booked export order of clinker at USD 38/ton and cements at USD 46/ton against quoted price of USD 50/ton.
- Regarding the cost of energy, the management highlighted that at an assumed coal price of USD160/ton, the company would incur cost of PKR 17/unit through its CFPP compared to the cost of electricity of PKR 22/unit from national grid.
- The management highlighted that it has not been able to fully pass on the rising impact of coal. The last purchase of the company was around USD 180/ton, whereas the company was only able to pass on the impact of USD 100/ton.
- The company is currently holding coal inventory at USD 155-160/ton and has booked two orders for USD 142/ton which is expected to suffice till January 2022.
- We have a 'BUY' recommendation on DGKC with a Jun-22 price target (PT) of PKR 163/share, providing a potential upside of 90%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	163.00
Current Price (PKR)	83.91
Upside/(Downside) (%)	+ 94.25%
Dividend Yield (%)	0.00%
Total Return (%)	+ 94.25%
12-month High (PKR)	143.51
12-month Low (PKR)	76.50
Outstanding Shares (mn)	438.12
Market Cap (PKR mn)	34,939
Year End	June

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for DG Khan Cement Company (DGKC) has been computed using Free cash flow to equity (FCFF) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our June-22 PT of 163/share. Our price target provides an upside of 94.25%. Our investment case on DGKC is based on (1) nearing election period (2) higher PSDP releases and, (3) improved retention prices.

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 estimate decline in cement prices (4) prolonged pandemic situation (5) increase 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	40,517	38,033	45,108	64,888	68,486	74,656
Cost of sales	35,154	36,447	37,036	58,292	55,613	57,358
Gross Profit	5,362	1,586	8,072	6,596	12,872	17,299
SG & A	1,934	2,442	2,597	2,437	2,648	2,785
Operating Profit	3,428	(856)	5,475	4,159	10,224	14,514
Other income	2,427	2,430	2,527	2,599	2,637	2,659
Other charges	561	676	414	442	537	828
Finance cost	3,304	4,653	2,921	3,076	3,944	3,398
Profit before tax	1,991	(3,756)	4,771	3,241	8,380	12,947
Taxation	381	(1,598)	1,050	349	1,816	3,047
Profit after tax	1,610	(2,159)	3,721	2,892	6,563	9,900

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	79,980	83,537	85,020	91,364	100,054	98,511
Other LT assets	12,338	11,908	16,023	13,080	13,491	13,923
Non-Current Assets	92,318	95,445	101,043	104,444	113,545	112,434
Current assets	33,623	34,106	36,851	41,642	39,680	38,971
Total Assets	125,941	129,552	137,895	146,086	153,225	151,405
Non-Current liabilities	20,766	25,283	24,121	15,016	11,150	8,240
Current liabilities	34,247	37,624	40,296	58,506	62,404	53,761
Total Liabilities	55,013	62,907	64,417	73,522	73,554	62,002
Equity	70,928	66,644	73,478	72,564	79,672	89,403
Total Equity & liabilities	125,941	129,552	137,895	146,086	153,225	151,405

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21F	FY22E	FY23F	FY24F
Net Income	1,610	(2,159)	3,721	2,892	6,563	9,900
Non-cash Charges	3,500	3,688	12,846	3,984	4,408	5,169
Operating Cash flows	(97)	1,607	19,032	4,261	14,321	16,511
FCFF	(4,412)	(2,964)	6,981	(3,322)	4,312	15,484
Net borrowings	9,047	6,193	(3,421)	6,341	(870)	(11,711)
FCFE	1,964	555	1,282	273	353	1,175
Net change in cash	(5,852)	(1,571)	4,395	(3,532)	897	1,006
Closing cash	489	348	806	642	447	308

Source: Company Accounts, Akseer Research

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