

D.G. Khan Cement Company Limited
Result Review

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

Pakistan Research

DGKC: 3QFY24 EPS came in at PKR 2.69

- DGKC announced its 3QFY24 financial result today, wherein the company posted an unconsolidated EPS of PKR 2.69 compared to an EPS of PKR 2.69 in 3QFY23. This takes cumulative earnings in 9MFY24 to PKR 5.06/share, up 5% YoY.
- The earning is above our estimates given higher than expected gross margins due to lower cost of sales. However, we wait for clarity on this front.
- Revenue experienced a significant decrease of 22% YoY to PKR 14.26bn primarily because of lower dispatches.
- Company's dispatches decreased by 10% YoY in 3QFY24 primarily because of 21% YoY decline in local cement dispatches. However, company exports surge by 155% YoY to 0.17mn tons during the quarter.
- Selling & admin expense observed a moderate decrease of 5% YoY and was reported at PKR 0.72bn because of higher Admin expenses, up 40% YoY.
- Finance cost of the company increased by 17% YoY, due to higher policy rate.
- Other income of the company clocked in at PKR 1.01bn, up 34% YoY. This is likely due to higher dividends from MCB.
- Company's effective tax rate clocked in at 39% in 3QFY24 compared to 33% in 3QFY22 due to higher Super Tax charge.
- We have a 'BUY' recommendation on DGKC with our Dec-24 price target (PT) of PKR 94/share, providing an upside of 34%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	94
Current Price (PKR)	70
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	0%
Total Return (%)	34%
12-month High (PKR)	85
12-month Low (PKR)	40
Outstanding Shares (mn)	438
Market Cap (PKR mn)	30,554
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Net Sales	18,282	14,266	-22%	48,043	49,051	2%
Cost of Sales	14,802	10,623	-28%	40,306	39,864	-1%
Gross Profit	3,480	3,644	5%	7,737	9,187	19%
Selling & Admin. Exp	759	722	-5%	1,693	2,504	48%
Other Income	756	1,013	34%	2,149	3,177	48%
Other Charges	38	58	51%	123	142	15%
Finance cost	1,673	1,957	17%	4,876	6,073	25%
Profit before tax	1,767	1,921	9%	3,193	3,645	14%
Taxation	586	740	26%	1,045	1,429	37%
Net Income	1,180	1,180	0%	2,112	2,217	5%
EPS	2.69	2.69		4.82	5.06	5%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	8.49	6.78	(8.30)	6.07	6.85	9.48
EPS Growth	-272%	-20%	na	na	13%	38%
DPS	1.00	1.00	-	-	1.00	2.75
PER	8.2	10.3	(8.4)	11.5	10.2	7.4
Dividend Yield	1.4%	1.4%	0.0%	0.0%	1.4%	3.9%
EV/EBITDA	13.5	9.7	10.6	7.8	8.4	6.7
P/B	0.4	0.4	0.5	0.5	0.4	0.4
ROE	5.3%	4.1%	-5.4%	4.0%	4.3%	5.7%

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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 94/share. Our price target provides an upside of 34%. Our investment case on DGKC is based on (1) improvement in cement sales 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 and (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						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	45,108	58,044	64,984	68,054	64,426	69,151
Cost of sales	37,036	47,616	55,428	55,666	54,181	57,450
Gross Profit	8,072	10,428	9,556	12,388	10,245	11,701
SG & A	2,597	2,500	2,697	3,560	2,532	2,959
Operating Profit	5,475	7,928	6,858	8,828	7,712	8,742
Other income	2,527	2,714	3,247	4,240	3,025	3,173
Other charges	414	1,043	96	228	798	941
Finance cost	2,921	3,571	6,742	7,946	5,103	4,278
Profit before tax	4,771	6,020	3,163	4,895	4,837	6,696
Taxation	1,050	3,048	6,799	2,238	1,838	2,545
Profit after tax	3,721	2,972	(3,636)	2,658	2,999	4,152

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Unconsolidated						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	85,020	82,804	82,246	78,962	77,698	76,392
Other LT assets	16,023	12,945	13,441	13,923	14,377	14,853
Non-Current Assets	101,043	95,749	95,687	92,885	92,075	91,245
Current assets	36,851	40,813	39,027	36,147	36,678	36,780
Total Assets	137,895	136,562	134,713	129,032	128,753	128,025
Non-Current liabilities	24,121	20,555	21,845	5,768	4,820	4,592
Current liabilities	40,296	46,088	48,676	55,913	53,129	48,438
Total Liabilities	64,417	66,643	70,521	61,681	57,950	53,031
Equity	73,478	69,918	64,192	67,351	70,804	74,994
Total Equity & liabilities	137,895	136,561	134,713	129,032	128,753	128,025

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Unconsolidated						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,721	2,972	(3,636)	2,658	2,999	4,152
Non-cash Charges	12,846	3,379	3,937	5,075	5,227	5,384
Operating Cash flows	19,032	(1,385)	9,501	5,796	7,928	10,311
FCFF	6,981	(802)	(1,622)	8,328	7,129	8,887
Net borrowings	(3,421)	2,617	(3,966)	(4,105)	(2,913)	(5,878)
FCFE	1,282	51	2,164	(90)	1,052	357
Net change in cash	4,395	(6,481)	74	411	1,506	395
Closing cash	806	410	676	585	1,637	1,556

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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JV employs a three- tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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