

DGKC: 1QFY22 earnings clocked in at PKR 2.07, up 4% QoQ

- DGKC announced its 1QFY22 results today where the company reported above expectations net earnings of PKR 2.07/share compared to a net loss of 0.80/share in 1QFY21..
- Divergence in earnings came from lower cost of sales as we expected the cost of sales to grow by 11% YoY in 1QFY22 versus actual reduction of 5% YoY possibly due to coal inventory at lower levels. Similarly, the cost of sales declined by 11% on a sequential basis due to probable lower effective coal cost and efficient energy mix resulting from installation of 10 MW WHR plant in last quarter of FY21.
- Topline of the company grew by 6% YoY to settle at PKR 11.2bn during 1QFY22 compared to PKR 10.5bn in 1QFY21 primarily on the back of higher cement MRP as North region witnessed an increase of 25% YoY to PKR 660/bag during 1QFY22 while prices in south increased by 11% YoY to PKR 680/bag.
- Combination of higher cement MRP prices and reduced cost of sales led to significant gross margins accretion of 9pps YoY to settle at 19% during 1QFY22 compared to 9.6% in 1QFY21.
- Selling and admin expenses decreased by 34% YoY to PKR 503mn during 1QFY22 due to lower dispatches.
- Other income of the company surged 6.7x during 1QFY22 due to dividend by MCB and AICL.
- We have a 'BUY' recommendation on DGKC. Our June-22 price target (PT) of PKR 163/share provides a potential upside of 100% along with a dividend yield of 1.5%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	163
Current Price (PKR)	82
Upside/(Downside) (%)	+ 100%
Dividend Yield (%)	1.5%
Total Return (%)	+ 101.5%
12-month High (PKR)	143.51
12-month Low (PKR)	76.50
Outstanding Shares (mn)	438.12
Market Cap (PKR mn)	35,662
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY21	1QFY22	YoY	4QFY21	QoQ
Net Sales	10,514	11,153	6%	12,360	-10%
Cost of Sales	9,507	9,054	-5%	10,182	-11%
Gross Profit	1,008	2,099	108%	2,178	-4%
Selling & Admin. Exp	763	503	-34%	730	-31%
Other Income	70	543	673%	497	9%
Other Charges	2	226	14935%	124	82%
Finance cost	771	736	-5%	697	6%
Profit before tax	(457)	1,178	-357%	1,123	5%
Taxation	(107)	270	-353%	324	-17%
Net Income	(351)	908	-359%	873	4%
EPS	(0.80)	2.07	-359%	1.99	4%
DPS	-	-		1.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	3.67	(4.93)	8.49	6.60	14.98	22.60
EPS Growth	-82%	NM	NM	-22%	127%	51%
DPS	1.00	-	1.00	1.25	3.00	4.50
PER	22.3	NM	9.6	12.4	5.5	3.6
Dividend Yield	1.2%	0.0%	1.2%	1.5%	3.7%	5.5%
EV/EBITDA	18.8	NM	13.8	17.1	6.3	4.1
P/B	0.5	0.5	0.5	0.5	0.5	0.4
ROE	2.2%	-3.1%	5.3%	4.0%	8.6%	11.7%

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 100% along with a dividend yield of 1.5%. 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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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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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