

D.G. Khan Cement Company Limited
Result Review

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

Pakistan Research

DGKC: 2QFY22 EPS came in at PKR 2.90, up 10% YoY and 40% QoQ

- DGKC reported its 2QFY22 results today wherein the company's profitability grew by 10% YoY and 40% QoQ to PKR 2.90/share. This takes 1HFY22 earnings to PKR 4.97/share compared to PKR 1.83 in 1HFY21.
- Topline of the company grew by 43% YoY to settle at PKR 16.2bn during 2QFY22 compared to PKR 11.3bn in 2QFY21 primarily on the back of higher cement dispatches (+11% YoY) and increased cement MRP as North region witnessed an increase of 31% YoY to PKR 723/bag during 2QFY22 while prices in south increased by 22% YoY to PKR 745/bag.
- DGKC's gross margin settled at 17% in 2QFY22, down 4ppts compared to 2QFY21. Decline in gross margin can be attributed to higher coal prices (+103% YoY) and inability of the company to pass on the full impact of higher cost of production.
- Selling & admin expense surged by 63% YoY to PKR 877mn in 2Q owing to higher cement and clinker exports of 84% YoY to 0.72mn tons.
- Other income of the company surged by 164% YoY to PKR 749mn mainly due to receipt of dividend from MCB.
- On a sequential basis, earnings of the company remained higher by 40% QoQ supported by higher local (15% QoQ) and export (167% QoQ) cement dispatches. The gross margin of the company shrunk by 2ppts QoQ due to rising cost of production.
- We have a 'BUY' recommendation on DGKC with our Dec-22 price target (PT) of PKR 135/share, providing an upside of 80% from current levels.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	135
Current Price (PKR)	75
Upside/(Downside) (%)	+ 80%
Dividend Yield (%)	-
Total Return (%)	+ 80%
12-month High (PKR)	143
12-month Low (PKR)	67
Outstanding Shares (mn)	438
Market Cap (PKR mn)	33,025
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	11,348	16,282	43%	21,863	27,434	25%
Cost of Sales	8,942	13,523	51%	18,449	22,576	22%
Gross Profit	2,406	2,759	15%	3,413	4,858	42%
Selling & Admin. Exp	540	877	63%	1,302	1,380	6%
Other Income	283	749	164%	354	1,292	265%
Other Charges	16	146	828%	17	372	2053%
Finance cost	757	802	6%	1,529	1,538	1%
Profit before tax	1,376	1,683	22%	919	2,861	211%
Taxation	225	414	84%	118	684	479%
Net Income	1,152	1,269	10%	801	2,177	172%
EPS	2.63	2.90	10%	1.83	4.97	172%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	3.67	(4.93)	8.49	9.00	22.50	22.53
EPS Growth	-82%	NM	NM	6%	150%	0%
DPS	1.00	-	1.00	-	4.50	4.50
PER	20.5	NM	8.9	8.4	3.4	3.3
Dividend Yield	1.3%	-	1.3%	0.0%	6.0%	6.0%
EV/EBITDA	21.5	NM	13.9	11.1	4.1	3.9
P/B	0.5	0.5	0.4	0.4	0.4	0.4
ROE	2.2%	NM	5.3%	5.4%	12.5%	11.1%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for D.G. Khan Cement Company Limited (DGKC) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 135/share. Our price target provides total return of 80%. Our investment case on DGKC is based on (1) higher cement dispatches following election year and resumption in export activities and 2) 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	65,003	70,359	68,723
Cost of sales	35,154	36,447	37,036	56,244	52,682	51,796
Gross Profit	5,362	1,586	8,072	8,759	17,676	16,927
SG & A	1,934	2,442	2,597	2,594	2,987	3,205
Operating Profit	3,428	(856)	5,475	6,165	14,689	13,722
Other income	2,427	2,430	2,527	2,603	2,629	2,647
Other charges	561	676	414	537	835	838
Finance cost	3,304	4,653	2,921	3,491	3,425	2,430
Profit before tax	1,991	(3,756)	4,771	4,739	13,058	13,101
Taxation	381	(1,598)	1,050	795	3,202	3,231
Profit after tax	1,610	(2,159)	3,721	3,944	9,856	9,870

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	79,980	83,537	85,020	78,454	79,389	80,493
Other LT assets	12,338	11,908	16,023	13,080	13,491	13,923
Non-Current Assets	92,318	95,445	101,043	91,533	92,880	94,416
Current assets	33,623	34,106	36,851	41,183	40,363	40,757
Total Assets	125,941	129,552	137,895	132,716	133,242	135,173
Non-Current liabilities	20,766	25,283	24,121	13,621	8,670	5,797
Current liabilities	34,247	37,624	40,296	45,479	40,009	35,767
Total Liabilities	55,013	62,907	64,417	59,100	48,679	41,565
Equity	70,928	66,644	73,478	73,616	84,564	93,609
Total Equity & liabilities	125,941	129,552	137,895	132,716	133,242	135,173

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21F	FY22E	FY23F	FY24F
Net Income	1,610	(2,159)	3,721	3,944	9,856	9,870
Non-cash Charges	3,500	3,688	12,846	3,379	3,783	3,801
Operating Cash flows	(97)	1,607	19,032	5,119	13,293	12,551
FCFF	(4,412)	(2,964)	6,981	11,212	11,161	9,477
Net borrowings	9,047	6,193	(3,421)	(7,200)	(8,317)	(5,751)
FCFE	1,964	555	1,282	1,106	259	1,895
Net change in cash	(5,852)	(1,571)	4,395	(2,699)	1,350	1,070
Closing cash	489	348	806	1,474	1,733	1,657

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

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