

D.G. Khan Cement Company Limited
Result Review

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

Pakistan Research

DGKC: 2QFY23 EPS came in at PKR 1.2, down 57% YoY

- DGKC announced its 2QFY23 financial result today, wherein the company posted an unconsolidated EPS of PKR 1.2, down 57% YoY, compared to an EPS of PKR 2.9 in 2QFY22. This takes cumulative earnings in 1H FY23 to PKR 2.1/share, down 57% YoY. The result came in lower than our expectation possibly due to lower than anticipated increase in retention prices.
- The company's revenue experienced a marginal decline of 1% YoY and settled at PKR 16.2bn. This was primarily due to a decrease in dispatches by 13% YoY.
- Selling & admin expense dipped by 55% YoY to PKR 391mn in 2Q owing to 47% YoY decline in exports.
- Finance cost of the company augmented by 101% YoY, owing to increase in short term borrowing accompanied by upward revision in interest rates.
- On a sequential basis, the company gross margins declined by 1.5ppt and settled at 13.5%. Decline in gross margin can be attributed to company's inability to pass on its prices as the cost per bag increased by 3% whereas the price per bag increased by 1%.
- We have a 'BUY' recommendation on DGKC with our Dec-23 price target (PT) of PKR 55/share, providing an upside of 32% from current levels.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	55
Current Price (PKR)	42
Upside/(Downside) (%)	+ 32%
Dividend Yield (%)	-
Total Return (%)	+ 32%
12-month High (PKR)	78
12-month Low (PKR)	40
Outstanding Shares (mn)	438
Market Cap (PKR mn)	18,217
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1H FY22	1H FY23	YoY
Net Sales	16,282	16,176	-1%	27,434	29,761	8%
Cost of Sales	13,523	13,992	3%	22,576	25,504	13%
Gross Profit	2,759	2,184	-21%	4,858	4,257	-12%
Selling & Admin. Exp	877	391	-55%	1,380	934	-32%
Other Income	749	731	-2%	1,292	1,392	8%
Other Charges	146	106	-28%	372	121	-67%
Finance cost	802	1,610	101%	1,538	3,203	108%
Profit before tax	1,683	809	-52%	2,861	1,390	-51%
Taxation	414	266	-36%	684	458	-33%
Net Income	1,269	543	-57%	2,177	932	-57%
EPS	2.9	1.2	-57%	5.0	2.1	-57%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(4.9)	8.5	6.8	8.1	2.9	7.2
EPS Growth	-234%	NM	-20%	20%	-65%	151%
DPS	-	1.00	1.00	-	-	-
PER	NM	4.9	6.1	5.1	14.6	5.8
Dividend Yield	-	2%	2%	-	-	-
EV/EBITDA	-	11.2	8.1	5.3	9.3	7.2
P/B	0.3	0.2	0.3	0.2	0.2	0.2
ROE	-	5%	4%	5%	2%	4%

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 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 total return of 32%. Our investment case on DGKC is based on (1) improved retention prices and (2) a decline in the coal 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	38,033	45,108	58,044	70,403	66,262	65,930
Cost of sales	36,447	37,036	47,616	58,727	58,737	57,067
Gross Profit	1,586	8,072	10,428	11,676	7,525	8,863
SG & A	2,442	2,597	2,500	2,209	2,365	2,747
Operating Profit	(856)	5,475	7,928	9,467	5,160	6,116
Other income	2,430	2,527	2,714	2,694	2,717	2,760
Other charges	676	414	1,043	782	585	788
Finance cost	4,653	2,921	3,571	6,074	5,428	3,412
Profit before tax	(3,756)	4,771	6,020	5,305	1,864	4,676
Taxation	(1,598)	1,050	3,048	1,751	615	1,543
Profit after tax	(2,159)	3,721	2,972	3,554	1,249	3,133

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	83,537	85,020	82,804	81,730	81,061	80,371
Other LT assets	11,908	16,023	12,945	13,491	13,923	14,377
Non-Current Assets	95,445	101,043	95,749	95,221	94,984	94,748
Current assets	34,106	36,851	40,813	36,790	37,950	38,829
Total Assets	129,552	137,895	136,562	132,011	132,934	133,577
Non-Current liabilities	25,283	24,121	20,555	8,995	5,797	5,126
Current liabilities	37,624	40,296	46,088	46,172	47,898	44,876
Total Liabilities	62,907	64,417	66,643	55,167	53,695	50,001
Equity	66,644	73,478	69,918	76,843	79,238	83,574
Total Equity & liabilities	129,552	137,895	136,561	132,010	132,933	133,576

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(2,159)	3,721	2,972	3,554	1,249	3,133
Non-cash Charges	3,688	12,846	3,379	4,040	4,466	4,600
Operating Cash flows	1,607	19,032	(1,385)	17,797	6,040	7,479
FCFF	(2,964)	6,981	(802)	18,918	5,879	5,856
Net borrowings	6,193	(3,421)	2,617	(14,412)	(1,522)	(3,190)
FCFE	555	1,282	51	437	720	379
Net change in cash	(1,571)	4,395	(6,481)	3,807	1,867	1,582
Closing cash	348	806	410	410	1,130	1,509

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%
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