

D.G. Khan Cement Company Limited
Result Review

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

Pakistan Research

DGKC: 3QFY23 EPS comes in at PKR 2.69, down 18% YoY

- DGKC announced its 3QFY23 financial result today, wherein the company posted an unconsolidated EPS of PKR 2.69, down 18% YoY, compared to an EPS of PKR 3.29 in 3QFY22. This takes cumulative earnings in 9MFY23 to PKR 4.82/share, down 42% YoY.
- The company's revenue experienced a marginal increase of 15% YoY and settled at PKR 18.3bn. This was primarily due to increase in export dispatches by 4x YoY.
- Selling & admin expense observed an increase of 10% YoY and was reported at PKR 0.76bn largely due to resurgence of exports.
- Finance cost of the company expanded by 83% YoY, owing to increase in short term borrowing accompanied by upward revision in interest rates.
- Other income of the company clocked in at PKR 756mn, up 13% YoY. This is likely due to higher dividends from MCB.
- On QoQ basis, DGKC's gross margins improved by 6 ppt and registered at 19%.0 vs 13.5% in 2QFY23. The improvement in gross margins can primarily be attributed to utilization of cheaper coal mix.
- We have a 'BUY' recommendation on DGKC with our Dec-23 price target (PT) of PKR 55/share, providing an upside of 24% from current levels.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	55
Current Price (PKR)	44
Upside/(Downside) (%)	+ 24%
Dividend Yield (%)	-
Total Return (%)	24%
12-month High (PKR)	72
12-month Low (PKR)	39
Outstanding Shares (mn)	438
Market Cap (PKR mn)	18,217
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Sales	15,862	18,282	15%	43,297	48,043	11%
Cost of Sales	12,913	14,802	15%	35,490	40,306	14%
Gross Profit	2,949	3,480	18%	7,807	7,737	-1%
Selling & Admin. Exp	691	759	10%	2,070	1,693	-18%
Other Income	667	756	13%	1,960	2,149	10%
Other Charges	52	38	-27%	386	123	-68%
Finance cost	916	1,673	83%	2,454	4,876	99%
Profit before tax	1,958	1,767	-10%	4,857	3,193	-34%
Taxation	516	586	14%	1,199	1,045	-13%
Net Income	1,442	1,180	-18%	3,619	2,112	-42%
EPS	3.29	2.69		8.26	4.82	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(4.93)	8.49	6.78	5.93	1.39	9.63
EPS Growth	-234%	-272%	-20%	-13%	-77%	593%
DPS	-	1.00	1.00	-	-	-
PER	(9.0)	5.2	6.5	7.5	32.0	4.6
Dividend Yield	0.0%	2.3%	2.3%	0.0%	0.0%	0.0%
EV/EBITDA	(77.8)	11.5	8.3	6.7	14.2	6.4
P/B	0.3	0.3	0.3	0.3	0.3	0.2
ROE	-3.1%	5.3%	4.1%	3.6%	0.8%	5.3%

Source: Company Accounts, Akseer Research

Altamash Hemani
altamash.hemani@alphacapital.com.pk

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 24%. 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	64,706	45,597	47,534
Cost of sales	36,447	37,036	47,616	54,778	40,318	38,349
Gross Profit	1,586	8,072	10,428	9,928	5,280	9,185
SG & A	2,442	2,597	2,500	1,804	1,610	1,849
Operating Profit	(856)	5,475	7,928	8,124	3,670	7,336
Other income	2,430	2,527	2,714	2,734	2,870	3,000
Other charges	676	414	1,043	691	524	891
Finance cost	4,653	2,921	3,571	6,288	5,107	3,147
Profit before tax	(3,756)	4,771	6,020	3,878	908	6,298
Taxation	(1,598)	1,050	3,048	1,280	300	2,078
Profit after tax	(2,159)	3,721	2,972	2,599	609	4,220

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	83,537	85,020	82,804	81,123	79,618	78,077
Other LT assets	11,908	16,023	12,945	13,491	13,923	14,377
Non-Current Assets	95,445	101,043	95,749	94,614	93,541	92,454
Current assets	34,106	36,851	40,813	39,677	35,953	38,562
Total Assets	129,552	137,895	136,562	134,292	129,494	131,016
Non-Current liabilities	25,283	24,121	20,555	9,354	5,959	5,085
Current liabilities	37,624	40,296	46,088	49,050	45,893	42,865
Total Liabilities	62,907	64,417	66,643	58,404	51,852	47,950
Equity	66,644	73,478	69,918	75,887	77,642	83,065
Total Equity & liabilities	129,552	137,895	136,561	134,291	129,493	131,015

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(2,159)	3,721	2,972	2,599	609	4,220
Non-cash Charges	3,688	12,846	3,379	4,040	4,414	4,515
Operating Cash flows	1,607	19,032	(1,385)	14,113	5,179	8,240
FCFF	(2,964)	6,981	(802)	15,985	5,691	7,375
Net borrowings	6,193	(3,421)	2,617	(11,124)	(1,567)	(3,123)
FCFE	555	1,282	51	647	703	2,142
Net change in cash	(1,571)	4,395	(6,481)	4,018	1,849	3,346
Closing cash	348	806	410	620	1,323	3,465

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

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.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alphacapital.com.pk