

D.G. Khan Cement Company Limited
Result Preview

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

Pakistan Research

DGKC: 4QFY22 EPS is expected to clock in at PKR 0.93, down 53% YoY; DPS of PKR 1.0

- DGKC is scheduled to announce its 4QFY22 financial result on 13th September 2022, where we expect the company to report an EPS of PKR 0.93, down 53% YoY compared to an EPS of PKR 1.99 in 4QFY21. This will take full year EPS to PKR 9.19/share, up 8% YoY in FY22. Along with the result, we expect the company to announce a final cash dividend of PKR 1.0/share.
- Net revenue of the company is expected to reach at PKR 16.1bn, up 31% YoY in 4Q. Higher revenue can be attributable to 87% YoY surge in cement prices. This is despite a decline in cement despatches by 1% YoY.
- The company successfully maintained its gross margins at 18% during 4QFY22. Coal prices increased by 83% YoY, however, higher cement prices offset the rising cost of production.
- Other income is anticipated to grow by 40% YoY to PKR 0.7bn during 4Q due to higher contribution from MCB coupled with higher returns on short term investment.
- Finance cost of the company is likely to increase by 80% YoY to PKR 1.3bn during 4Q due to increase in the interest rates along with higher short term borrowings.
- Despite a 30% YoY increase in PBT, the company's bottom-line is expected to decline by 53% YoY in 4Q. This was due to the new taxes imposed by the government in the FY23 budget. Effective tax rate of the company is expected to reach 70% in 4QFY22 compared to 27% in 4QFY21.
- We have a 'BUY' recommendation on DGKC with our June-23 price target (PT) of PKR 85/share, providing an upside of 40%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	85
Current Price (PKR)	61
Upside/(Downside) (%)	+ 40%
Dividend Yield (%)	+0%
Total Return (%)	+ 40%
12-month High (PKR)	52
12-month Low (PKR)	102
Outstanding Shares (mn)	438
Market Cap (PKR mn)	26,589
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22F	YoY	FY21	FY22F	YoY
Net Sales	12,360	16,160	31%	45,108	59,457	32%
Cost of Sales	10,182	13,272	30%	37,036	48,762	32%
Gross Profit	2,178	2,888	33%	8,072	10,694	32%
Selling & Admin. Exp	730	843	15%	2,597	2,913	12%
Other Income	497	695	40%	2,527	2,655	5%
Other Charges	198	129	-35%	488	514	5%
Finance cost	697	1,252	80%	2,921	3,705	27%
Profit before tax	1,049	1,359	30%	4,593	6,216	35%
Taxation	324	952	194%	1,050	2,151	105%
Net Income	873	407	-53%	3,721	4,026	8%
EPS	1.99	0.93	-53%	8.49	9.19	8%
DPS	1.00	1.00		1.00	1.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EPS	3.7	(4.9)	8.5	9.3	2.9	5.1
EPS Growth	-82%	-234%	-	9%	-69%	74%
DPS	1.00	-	1.00	1.00	-	-
PER	16.5	(12.3)	7.1	6.5	20.9	12.0
Dividend Yield	1.6%	0.0%	1.6%	1.6%	0.0%	0.0%
EV/EBITDA	19.7	-	12.8	8.4	15.3	23.3
P/B	0.4	0.4	0.4	0.4	0.4	0.3
ROE	2.2%	-	5.3%	5.5%	1.7%	2.9%

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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 85/share. Our price target provides an upside of 40%. Our investment case on DGKC is based on (1) improvement in retention prices 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 (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						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	40,517	38,033	45,108	59,457	62,679	59,022
Cost of sales	35,154	36,447	37,036	48,762	56,955	54,579
Gross Profit	5,362	1,586	8,072	10,694	5,724	4,442
SG & A	1,934	2,442	2,597	2,913	1,830	2,017
Operating Profit	3,428	(856)	5,475	7,781	3,894	2,425
Other income	2,427	2,430	2,527	2,655	2,915	3,169
Other charges	561	676	414	514	105	153
Finance cost	3,304	4,653	2,921	3,705	5,114	3,100
Profit before tax	1,991	(3,756)	4,771	6,216	1,590	2,342
Taxation	381	(1,598)	1,050	2,151	317	122
Profit after tax	1,610	(2,159)	3,721	4,065	1,273	2,220

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Unconsolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	79,980	83,537	85,020	81,257	77,889	74,693
Other LT assets	12,338	11,908	16,023	13,080	13,491	13,923
Non-Current Assets	92,318	95,445	101,043	94,336	91,380	88,616
Current assets	33,623	34,106	36,851	38,371	40,370	42,092
Total Assets	125,941	129,552	137,895	132,708	131,750	130,708
Non-Current liabilities	20,766	25,283	24,121	15,905	10,348	6,817
Current liabilities	34,247	37,624	40,296	43,066	45,738	44,862
Total Liabilities	55,013	62,907	64,417	58,970	56,086	51,679
Equity	70,928	66,644	73,478	73,737	75,663	79,029
Total Equity & liabilities	125,941	129,552	137,895	132,708	131,750	130,708

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Unconsolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	1,610	(2,159)	3,721	4,065	1,273	2,220
Non-cash Charges	3,500	3,688	3,563	3,379	5,833	5,710
Operating Cash flows	(97)	1,607	9,749	4,321	8,823	5,666
FCFF	(4,412)	(2,964)	6,981	7,128	10,452	6,090
Net borrowings	9,047	6,193	(3,421)	(3,480)	(5,501)	(3,181)
FCFE	1,964	555	1,282	1,225	856	(29)
Net change in cash	(5,852)	(1,571)	4,395	(2,580)	1,510	1,117
Closing cash	489	348	806	1,594	2,012	1,983

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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