

## D.G. Khan Cement Company Limited

### Key Takeaways

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

Pakistan Research

### Corporate briefing key takeaways

- DGKC conducted its corporate briefing today, wherein the management discussed its financial performance during FY22 and 1QFY23 and future outlook of the cement sector. Key takeaways are presented below.
- The management does not see any significant reduction in cement prices post completion of capacity expansion. The prices are expected to remain the same at current levels. Moreover, most of the expansions are financed through expensive debt which does not allow the companies to cut prices. However, revision in prices can not be ruled as industry is already operating at lower utilization levels.
- Local demand is expected to post double digit decline, as per the management.
- The company is currently operating mainly upon Afghan, local and international coal. The Afghan coal mix currently stands at 50% whereas local and international coal accounts for remaining 50%.
- Hub plant is consuming 80% imported coal whereas remaining is alternative fuels. Coal mix in Khairpur plant is 50% Afghan coal and remaining 50% met through imported and local coal. In DG Khan site, the company operates 70% on local and Afghan coal whereas 30% is on imported coal.
- The company is in the process of installing a solar power plant of 6.9MW on the Khairpur site which is expected to come online in 3QFY23.
- The company disclosed that it is using alternate fuel sources such as shredded tyres, agriculture & poultry waste. Shredded tyres are being imported at USD 90/ton where heating value is 9000 Kcal compared to 6000 Kcal of coal.
- The management informed that the Afghan coal is currently available at PKR 50,000/ton on delivered basis, whereas the company has recently opened a LC of imported coal at USD 177/ton. The price of local coal ranges between PKR 25,000/ton to PKR 40,000/ton. The management also informed that the current weighted average price of coal inventory stands at PKR 51,000/ton and will likely go down in the future due to decline in coal prices.
- With regards to imported coal, the management informed that due to lack of dollar availability the imported coal is harder to get. Whereas payment for Afghani coal is mostly done in PKR.
- The management also mentioned that the export market collapsed due to overall economic slowdown, especially China. The clinker is currently selling at USD 33/ton therefore exports outlook is not suitable.
- The management communicated that power mix has shifted from national grid towards captive generation in HUB plant. The power cost of Captive plant is similar to the national grid which is around PKR 28-29/kwh, hence management prefers to operate on captive capacity. The plants at DG Khan and Hub both operate on Captive capacity whereas in Khairpur the company is meeting its power requirements through National grid.
- With regards to cement retention prices the management informed that the current retention price in the north stands at PKR 13,500/ton whereas in south, the retention prices stand at PKR 12,500/ton to PKR 13,500/ton.

#### Key Data

PSX Ticker	DGKC
Target Price (PKR)	95
Current Price (PKR)	55
Upside/(Downside) (%)	+ 72%
Dividend Yield (%)	+0%
Total Return (%)	+ 72%
12-month High (PKR)	52
12-month Low (PKR)	86
Outstanding Shares (mn)	438
Market Cap (PKR mn)	24,100
Year End	June

Source: Company Accounts, Akseer Research

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### Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 95/share. Our price target provides an upside of 72%. 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						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	38,033	45,108	58,044	65,777	62,965	65,516
Cost of sales	36,447	37,036	47,616	55,281	53,110	47,887
<b>Gross Profit</b>	<b>1,586</b>	<b>8,072</b>	<b>10,428</b>	<b>10,496</b>	<b>9,855</b>	<b>17,629</b>
SG & A	2,442	2,597	2,500	2,721	3,008	3,306
<b>Operating Profit</b>	<b>(856)</b>	<b>5,475</b>	<b>7,928</b>	<b>7,775</b>	<b>6,846</b>	<b>14,323</b>
Other income	2,430	2,527	2,714	2,709	2,846	2,901
Other charges	676	414	1,043	663	763	1,321
Finance cost	4,653	2,921	3,571	6,390	4,268	2,847
<b>Profit before tax</b>	<b>(3,756)</b>	<b>4,771</b>	<b>6,020</b>	<b>3,431</b>	<b>4,662</b>	<b>13,056</b>
Taxation	(1,598)	1,050	3,048	1,132	879	3,631
<b>Profit after tax</b>	<b>(2,159)</b>	<b>3,721</b>	<b>2,972</b>	<b>2,299</b>	<b>3,782</b>	<b>9,425</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Unconsolidated						
	FY20A	FY21A	FY22A	FY23F	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	49,513	49,439	49,557
<b>Total Assets</b>	<b>129,552</b>	<b>137,895</b>	<b>136,562</b>	<b>144,733</b>	<b>144,423</b>	<b>144,305</b>
Non-Current liabilities	25,283	24,121	20,555	9,037	5,780	5,068
Current liabilities	37,624	40,296	46,088	59,670	57,688	47,653
<b>Total Liabilities</b>	<b>62,907</b>	<b>64,417</b>	<b>66,643</b>	<b>68,707</b>	<b>63,468</b>	<b>52,721</b>
Equity	66,644	73,478	69,918	76,025	80,954	91,583
<b>Total Equity &amp; liabilities</b>	<b>129,552</b>	<b>137,895</b>	<b>136,562</b>	<b>144,733</b>	<b>144,423</b>	<b>144,305</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Unconsolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(2,159)	3,721	2,972	2,299	3,782	9,425
Non-cash Charges	3,688	12,846	3,379	4,040	4,466	4,600
<b>Operating Cash flows</b>	<b>1,607</b>	<b>19,032</b>	<b>(1,385)</b>	<b>1,909</b>	<b>7,927</b>	<b>13,003</b>
<b>FCFF</b>	<b>(2,964)</b>	<b>6,981</b>	<b>(802)</b>	<b>3,243</b>	<b>7,593</b>	<b>11,148</b>
Net borrowings	6,193	(3,421)	2,617	1,485	(4,437)	(9,289)
<b>FCFE</b>	<b>555</b>	<b>1,282</b>	<b>51</b>	<b>446</b>	<b>(307)</b>	<b>(196)</b>
Net change in cash	(1,571)	4,395	(6,481)	4,255	840	1,007
<b>Closing cash</b>	<b>348</b>	<b>806</b>	<b>410</b>	<b>857</b>	<b>551</b>	<b>355</b>

Source: Company Accounts, Akseer Research

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