

D.G. Khan Cement Company Limited
Result Preview

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

Pakistan Research

DGKC: 3QFY24 EPS is expected to clock in at PKR 0.62, down 77%

- DGKC is scheduled to announce its 3QFY24 financial result on April 19th, 2024, wherein we expect the company to report an unconsolidated EPS of PKR 0.62, down 77% YoY, compared to an EPS of PKR 2.69 in 3QFY23.
- This will take 9MFY24 EPS to PKR 2.99, down 38% YoY.
- Net revenue of the company is expected to reach at PKR 15.3bn, down 16% YoY during 3QFY24 due to lower despatches.
- Company despatches decrease by 10% YoY in 3QFY24 primarily because of 21% decline in local cement despatches. However, company exports surge by 155% YoY to 0.17mn tons during the quarter.
- DGKC's gross margins are anticipated to decline by 4.6ppt YoY to 14%. Decline in gross margins is likely due to higher proportion of low margin export in sales mix.
- Other income is anticipated to grow by 41% YoY to PKR 1.1bn during 3Q, this is largely due to higher dividend contribution from MCB.
- Finance cost of the company is likely to increase by 31% YoY to PKR 2.2bn during 3Q because of elevated interest rates.
- We have a 'BUY' recommendation on DGKC with our Dec-24 price target (PT) of PKR 93/share, providing an upside of 34%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	93
Current Price (PKR)	70
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	0%
Total Return (%)	34%
12-month High (PKR)	85
12-month Low (PKR)	40
Outstanding Shares (mn)	438
Market Cap (PKR mn)	30,572
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY23	3QFY24E	YoY	9MFY23	9MFY24E	YoY
Net Sales	18,282	15,309	-16%	48,043	50,094	4%
Cost of Sales	14,802	13,099	-12%	40,306	42,340	5%
Gross Profit	3,480	2,210	-36%	7,737	7,754	0%
Selling & Admin. Exp	759	537	-29%	1,693	2,319	37%
Other Income	756	1,065	41%	2,149	3,229	50%
Other Charges	38	99	160%	123	183	49%
Finance cost	1,673	2,193	31%	4,876	6,309	29%
Profit before tax	1,767	446	-75%	3,193	2,171	-32%
Taxation	586	174	-70%	1,045	862	-17%
Net Income	1,180	272	-77%	2,112	1,309	-38%
EPS	2.69	0.62		4.82	2.99	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
EPS	8.49	6.78	(8.30)	4.09	6.71	9.34
EPS Growth	-272%	-20%	-222%	-149%	64%	39%
DPS	1.00	1.00	-	-	1.00	2.75
PER	8.2	10.3	(8.4)	17.1	10.4	7.5
Dividend Yield	1.4%	1.4%	0.0%	0.0%	1.4%	3.9%
EV/EBITDA	13.5	9.7	10.6	9.2	8.5	6.8
P/B	0.4	0.4	0.5	0.5	0.4	0.4
ROE	5.3%	4.1%	-5.4%	2.7%	4.3%	5.7%

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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 93/share. Our price target provides an upside of 34%. Our investment case on DGKC is based on (1) improvement in cement sales 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 and (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						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	45,108	58,044	64,984	69,001	64,426	69,151
Cost of sales	37,036	47,616	55,428	58,142	54,181	57,450
Gross Profit	8,072	10,428	9,556	10,858	10,245	11,701
SG & A	2,597	2,500	2,697	3,374	2,532	2,959
Operating Profit	5,475	7,928	6,858	7,485	7,712	8,742
Other income	2,527	2,714	3,247	4,347	3,019	3,176
Other charges	414	1,043	96	283	792	935
Finance cost	2,921	3,571	6,742	8,214	5,194	4,383
Profit before tax	4,771	6,020	3,163	3,335	4,745	6,601
Taxation	1,050	3,048	6,799	1,542	1,803	2,508
Profit after tax	3,721	2,972	(3,636)	1,792	2,942	4,093

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Unconsolidated						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	85,020	82,804	82,246	78,962	77,698	76,392
Other LT assets	16,023	12,945	13,441	13,923	14,377	14,853
Non-Current Assets	101,043	95,749	95,687	92,885	92,075	91,245
Current assets	36,851	40,813	39,027	37,013	36,304	36,954
Total Assets	137,895	136,562	134,713	129,898	128,379	128,198
Non-Current liabilities	24,121	20,555	21,845	5,767	4,819	4,591
Current liabilities	40,296	46,088	48,676	57,645	53,678	49,594
Total Liabilities	64,417	66,643	70,521	63,412	58,498	54,186
Equity	73,478	69,918	64,192	66,485	69,881	74,013
Total Equity & liabilities	137,895	136,561	134,713	129,898	128,379	128,198

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Unconsolidated						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,721	2,972	(3,636)	1,792	2,942	4,093
Non-cash Charges	12,846	3,379	3,937	5,075	5,227	5,384
Operating Cash flows	19,032	(1,385)	9,501	5,524	7,284	10,252
FCFF	6,981	(802)	(1,622)	8,158	6,541	8,892
Net borrowings	(3,421)	2,617	(3,966)	(3,225)	(3,251)	(5,271)
FCFE	1,282	51	2,164	518	70	905
Net change in cash	4,395	(6,481)	74	1,019	524	943
Closing cash	806	410	676	1,193	1,263	1,729

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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