

**D.G. Khan Cement Company Limited**  
Result Preview

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

Pakistan Research

**1QFY23 EPS is expected to grow by 7% YoY to PKR 2.22**

- DGKC's board meeting is scheduled on 25th September 2022 to consider 1QFY23 financial result. The company is expected to report an EPS of PKR 2.22, up 7% YoY compared to an EPS of PKR 2.07 in 1QFY22.
- Net revenue of the company is anticipated to reach at PKR 15.5bn, up 39% YoY in 1Q. Higher revenue can be attributable to 62% YoY surge in cement retention prices.
- Despite escalating coal prices along with mounting energy cost, the company is likely to maintain its gross margins at 18.8% in 1QFY23 vs 18.6% in 1QFY22.
- Selling and admin expenses of the company are likely to decline by 13% YoY to PKR 0.44bn on account of lower dispatches of 15% YoY.
- Other income is anticipated to decline by 10% YoY to PKR 0.49bn during 1Q due to lower contribution from MCB.
- Finance cost of the company is likely to increase by 80% YoY to PKR 1.4bn during 1Q due to increase in the interest rates along with higher short term borrowings.
- We have a 'BUY' recommendation on DGKC with our June-23 price target (PT) of PKR 95/share, providing an upside of 62%.

**Key Data**

PSX Ticker	DGKC
Target Price (PKR)	95
Current Price (PKR)	58.6
Upside/(Downside) (%)	+ 62%
Dividend Yield (%)	+0%
Total Return (%)	+ 62%
12-month High (PKR)	52
12-month Low (PKR)	99
Outstanding Shares (mn)	438
Market Cap (PKR mn)	25,674
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	1QFY22	1QFY23F	YoY
Net Sales	11,153	15,514	39%
Cost of Sales	9,054	12,620	39%
<b>Gross Profit</b>	<b>2,099</b>	<b>2,894</b>	<b>38%</b>
Selling & Admin. Exp	503	438	-13%
Other Income	543	492	-10%
Other Charges	226	168	-26%
Finance cost	736	1,447	97%
Profit before tax	<b>1,178</b>	<b>1,333</b>	13%
Taxation	270	358	33%
<b>Net Income</b>	<b>908</b>	<b>974</b>	<b>7%</b>
EPS	2.07	2.22	7%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	(4.93)	8.49	6.78	5.25	8.63	21.51
EPS Growth	-	-	-20%	-23%	65%	149%
DPS	-	1.00	-	-	-	2.25
PER	-	7.1	8.9	11.5	7.0	2.8
Dividend Yield	0.0%	1.7%	0.0%	0.0%	0.0%	3.7%
EV/EBITDA	-	12.7	9.2	9.5	10.2	4.2
P/B	0.4	0.4	0.4	0.3	0.3	0.3
ROE	-	5.3%	4.1%	3.2%	4.8%	10.9%

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 95/share. Our price target provides an upside of 62%. 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>136,561</b>	<b>144,732</b>	<b>144,422</b>	<b>144,304</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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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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