

D.G. Khan Cement Company Limited
Result Review

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

Pakistan Research

DGKC: 3QFY22 EPS clocked in at PKR 3.29, down 29.56% YoY

- DGKC reported its 3QFY22 results today wherein the company's profitability declined by 29.56% YoY to PKR 3.29/share. This takes 9MFY22 earnings to PKR 8.26/share compared to PKR 6.50 in 9MFY21. The profitability reported by the company is higher than our expectation primarily due to lower cost of goods sold.
- Topline of the company grew by 46% YoY to PKR 15.86bn during 3QFY22 compared to PKR 10.89bn in 3QFY21 primarily on the back of increased cement MRP as North region witnessed an increase of 28% YoY to PKR 787/bag during 3QFY22 while prices in south increased by 29% YoY to PKR 766/bag.
- DGKC's gross margin settled at 18.6% in 3QFY22, up 4.2ppts compared to 3QFY21. Decline in margins can be attributed to higher cost of goods sold due to abrupt rise in coal prices.
- Selling & admin expense witnessed an increase of 22% YoY to PKR 691mn in 3Q owing to higher cement and clinker exports of 27% YoY to 0.39mn tons.
- Other income decreased significantly by 60% YoY to PKR 667mn in 3Q due to high base effect as MCB declared higher dividend last year.
- Financial cost increased by 32% YoY to 916mn, primarily due to monetary tightening policy.
- On a sequential basis, earnings remained on a rising trend as company witnessed increase in sequential profits by 13.6%, primarily due to improved retention prices of cement bag by 17% QoQ coupled with likely optimal utilization of coal inventory.
- We have a 'BUY' recommendation on DGKC with our Dec-22 price target (PT) of PKR 135/share, providing an upside of 95% from current levels.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	135
Current Price (PKR)	69
Upside/(Downside) (%)	+ 95%
Dividend Yield (%)	-
Total Return (%)	+ 95%
12-month High (PKR)	134
12-month Low (PKR)	62
Outstanding Shares (mn)	438
Market Cap (PKR mn)	33,025
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	10,885	15,862	46%	32,748	43,297	32%
Cost of Sales	8,404	12,913	54%	26,854	35,490	32%
Gross Profit	2,481	2,949	19%	5,894	7,807	32%
Selling & Admin. Exp	565	691	22%	1,867	2,070	11%
Other Income	1,676	667	-60%	2,029	1,960	-3%
Other Charges	242	52	-78%	290	386	33%
Finance cost	695	916	32%	2,224	2,454	10%
Profit before tax	2,656	1,958	-26%	3,543	4,857	37%
Taxation	608	516	-15%	726	1,199	65%
Net Income	2,048	1,442	-30%	2,848	3,619	27%
EPS	4.67	3.29	-30%	6.50	8.26	27%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	3.67	(4.93)	8.49	10.42	22.51	22.55
EPS Growth	-82%	-234%	-272%	23%	116%	0%
DPS	1.00	-	1.00	-	4.50	4.50
PER	18.9	(14.1)	8.2	6.7	3.1	3.1
Dividend Yield	1.4%	0.0%	1.4%	0.0%	6.5%	6.5%
EV/EBITDA	20.8	(90.6)	13.5	9.2	3.9	3.7
P/B	0.4	0.5	0.4	0.4	0.4	0.3
ROE	2.2%	-3.1%	5.3%	6.2%	12.4%	11.0%

Source: Company Accounts, Akseer Research

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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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 135/share. Our price target provides total return of 95%. Our investment case on DGKC is based on (1) higher cement dispatches following election year and resumption in export activities and 2) improved retention 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	40,517	38,033	45,108	65,908	70,359	68,723
Cost of sales	35,154	36,447	37,036	56,244	52,682	51,796
Gross Profit	5,362	1,586	8,072	9,665	17,676	16,927
SG & A	1,934	2,442	2,597	2,594	2,987	3,205
Operating Profit	3,428	(856)	5,475	7,070	14,689	13,722
Other income	2,427	2,430	2,527	2,613	2,640	2,658
Other charges	561	676	414	592	836	839
Finance cost	3,304	4,653	2,921	3,491	3,425	2,430
Profit before tax	1,991	(3,756)	4,771	5,600	13,069	13,111
Taxation	381	(1,598)	1,050	1,036	3,205	3,234
Profit after tax	1,610	(2,159)	3,721	4,563	9,863	9,878

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	79,980	83,537	85,020	78,454	79,389	80,493
Other LT assets	12,338	11,908	16,023	13,080	13,491	13,923
Non-Current Assets	92,318	95,445	101,043	91,533	92,880	94,416
Current assets	33,623	34,106	36,851	41,802	40,990	41,392
Total Assets	125,941	129,552	137,895	133,336	133,869	135,808
Non-Current liabilities	20,766	25,283	24,121	13,621	8,670	5,797
Current liabilities	34,247	37,624	40,296	45,479	40,009	35,767
Total Liabilities	55,013	62,907	64,417	59,100	48,679	41,565
Equity	70,928	66,644	73,478	74,236	85,191	94,243
Total Equity & liabilities	125,941	129,552	137,895	133,336	133,869	135,808

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21F	FY22E	FY23F	FY24F
Net Income	1,610	(2,159)	3,721	4,563	9,863	9,878
Non-cash Charges	3,500	3,688	12,846	3,379	3,783	3,801
Operating Cash flows	(97)	1,607	19,032	5,685	13,354	12,559
FCFF	(4,412)	(2,964)	6,981	11,718	11,221	9,484
Net borrowings	9,047	6,193	(3,421)	(7,200)	(8,317)	(5,751)
FCFE	1,964	555	1,282	1,672	320	1,903
Net change in cash	(5,852)	(1,571)	4,395	(2,133)	1,411	1,077
Closing cash	489	348	806	2,041	2,360	2,291

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%
Sell	Less than or equal to -5%

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