

DGKC - FY21 earnings expected at PKR 8.85/share, DPS at PKR 2.75

- DGKC is scheduled to announce its FY21 financial result on 14th September 2021, where we expect the company to report an EPS of PKR 2.35 in 4QFY21 compared to an LPS of PKR 0.70 in 4QFY20. This will take full year earnings to PKR 8.85/share in FY21 compared to a net loss of PKR 4.93/share in FY20.
- The company is also expected to announce dividend of PKR 2.75 along with the results.
- DGKC's topline is anticipated to surge by 19% to PKR 45.3bn during FY21 on the back of better prices (+20% YoY). During 4QFY21 alone, net sales are likely to witness growth of 68% YoY and settle at PKR 12.5bn, a confluence of higher dispatches (+20% YoY) and improved cement prices (+41% YoY).
- Due to leverage of cost pass-on of rising international coal prices (+14% YoY), gross margins of the company are likely to jump by 14pps and settle at 18% during FY21 compared to single digit gross margins of 4% in FY20.
- Other income of the company is expected to increase by 10% and settle at PKR 2.7bn in FY21 on account of higher dividend payments by associates.
- Positive growth in other income followed by cushioning in finance cost (-36% YoY) would lead the company's profit before tax in positive territory at PKR 4.9bn in FY21 compared to loss of PKR 3.8bn in FY20.
- We have a 'BUY' recommendation on DGKC. Our Dec-21 price target (PT) of PKR 181/share provides an upside of 82% along with a dividend yield of 2.8%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	181
Current Price (PKR)	99
Upside/(Downside) (%)	+ 82%
Dividend Yield (%)	2.8%
Total Return (%)	+ 85.2%
12-month High (PKR)	143.51
12-month Low (PKR)	98.21
Outstanding Shares (mn)	438.12
Market Cap (PKR mn)	44,074
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Sales	7,462	12,533	68%	38,033	45,281	19%
Cost of Sales	6,954	10,165	46%	36,447	37,018	2%
Gross Profit	508	2,368	366%	1,586	8,263	421%
Selling & Admin. Exp	479	726	52%	2,442	2,593	6%
Other Income	633	649	3%	2,430	2,679	10%
Other Charges	67	183	175%	676	473	-30%
Finance cost	994	747	-25%	4,653	2,970	-36%
Profit before tax	(399)	1,361	-441%	(3,756)	4,936	-231%
Taxation	(90)	332	-469%	(1,598)	1,058	-166%
Net Income	(309)	1,029	-433%	(2,159)	3,877	-280%
EPS	(0.70)	2.35		(4.93)	8.85	
DPS	-	2.75		-	2.75	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EPS	20.17	3.67	(4.93)	8.85	7.30	14.91
EPS Growth	11%	-82%	-234%	-280%	-18%	104%
DPS	4.25	1.00	-	2.75	2.25	4.50
PER	4.9	27.0	(20.1)	11.2	13.6	6.6
Dividend Yield	4.3%	1.0%	0.0%	2.8%	2.3%	4.5%
EV/EBITDA	9.8	21.0	(91.5)	12.9	17.0	9.9
P/B	0.6	0.6	0.7	0.6	0.6	0.5
ROE	11.6%	2.2%	-3.1%	5.7%	4.4%	8.5%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for DG Khan Cement Company (DGKC) has been computed using Free cash flow to equity (FCFF) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-21 PT of 181/share. Our price target provides an upside of 82% along with a dividend yield of 2.8%. Our investment case on DGKC is based on (1) normalcy in economic activity post lockdowns (2) boom in construction sector and (3) 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)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net sales	30,668	40,517	38,033	45,281	58,725	66,524
Cost of sales	21,928	35,154	36,447	37,018	51,009	54,420
Gross Profit	8,740	5,362	1,586	8,263	7,716	12,104
SG & A	1,523	1,934	2,442	2,593	2,641	2,845
Operating Profit	7,217	3,428	(856)	5,670	5,075	9,258
Other income	3,027	2,427	2,430	2,679	2,675	2,694
Other charges	2,355	561	676	473	444	464
Finance cost	519	3,304	4,653	2,970	3,517	3,095
Profit before tax	7,370	1,991	(3,756)	4,936	3,788	8,393
Taxation	(1,468)	381	(1,598)	1,058	591	1,861
Profit after tax	8,838	1,610	(2,159)	3,877	3,197	6,532

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PPE	76,494	79,980	83,549	84,585	99,894	109,467
Other LT assets	16,320	12,338	11,908	12,262	12,634	13,025
Non-Current Assets	92,814	92,318	95,456	96,847	112,529	122,492
Current assets	29,076	33,623	34,095	34,059	39,638	38,180
Total Assets	121,889	125,941	129,552	130,906	152,167	160,672
Non-Current liabilities	22,201	20,766	25,283	23,285	33,414	34,665
Current liabilities	22,553	34,247	37,624	37,161	45,242	45,836
Total Liabilities	44,755	55,013	62,907	60,446	78,655	80,501
Equity	77,134	70,928	66,644	70,460	73,512	80,171
Total Equity & liabilities	121,889	125,941	129,552	130,906	152,167	160,672

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net Income	8,838	1,610	(2,159)	3,877	3,197	6,532
Non-cash Charges	2,304	3,500	3,688	3,597	3,897	4,358
Operating Cash flows	8,978	(97)	1,618	7,365	8,718	10,831
FCFF	(6,750)	(4,412)	(2,964)	5,065	(7,521)	(691)
Net borrowings	10,662	9,047	6,193	(2,079)	13,325	732
FCFE	3,289	1,964	555	653	2,836	(2,368)
Net change in cash	(3,283)	(5,852)	(1,571)	591	2,692	(2,241)
Closing cash	469	489	348	1,000	2,632	(722)

Source: Company Accounts, Akseer Research

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