

DGKC - FY21 earnings clocked in at PKR 8.49, DPS PKR 1.00

- DGKC announced its FY21 results today where the company reported net earnings of PKR 8.49/share for FY21 compared to net loss of 4.93/share in FY20.
- The company's payout was lower than our expectation of PKR 2.75/ share and announced a final dividend of PKR 1.00/share along with the results.
- Topline of the company accelerated by 19% YoY and settled at PKR 45.1bn in FY21 in line with our forecast on account of higher prices and surge in volumetric sales (both up 19% YoY each).
- The company, to some extent, managed to pass on the rising cost of coal (+14% YoY) through price hikes during the year which led to gross margins accretion of 14pps in FY21 to settle at 18% compared to single digit margins of 4% in FY20.
- During 4QFY21, net sales of the company grew 1.65x YoY/ 14% QoQ to settle at PKR 12.4bn compared to PKR 7.5bn in 4QFY20. Consequently, gross margins witnessed growth of 11pps YoY and settled at 17.6% in 4QFY21 compared to gross margins of 6.8% in 4QFY20. On sequential basis, though, the margins shrunk by 5pps as the company couldn't fully materialize its rising cost of production (Coal + fuel) in cement price hike, which coupled with lower QoQ other income led to 57% QoQ decline in net earnings to PKR 1.99/ share versus PKR 4.67/ share in 3QFY21.
- Other income of the company was down 21% YoY to PKR 497mn in 4QFY21 due to one big dividend from MCB in 3QFY21. For FY21, it grew by 4% YoY to PKR 2.5bn.
- On a sequential basis, the effective tax rate came in higher at 27% in 4QFY21 compared to 23% in 3QFY21.
- Finance cost of the company remained on the lower side both in 4Q and full year FY21, settling at PKR 2.9bn due to massive reduction of 625bps in interest rate during the year.
- We have a 'BUY' recommendation on DGKC. Our Dec-21 price target (PT) of PKR 181/share provides an upside of 81% along with a dividend yield of 1.0%.

Key Data

PSX Ticker	DGKC
Target Price (PKR)	181
Current Price (PKR)	101
Upside/(Downside) (%)	+ 81%
Dividend Yield (%)	1.0%
Total Return (%)	+ 82%
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	4QFY21	YoY	FY20	FY21	YoY
Net Sales	7,462	12,360	66%	38,033	45,108	19%
Cost of Sales	6,954	10,182	46%	36,447	37,036	2%
Gross Profit	508	2,178	329%	1,586	8,072	409%
Selling & Admin. Exp	479	730	52%	2,442	2,597	6%
Other Income	633	497	-21%	2,430	2,527	4%
Other Charges	67	124	87%	676	414	-39%
Finance cost	994	697	-30%	4,653	2,921	-37%
Profit before tax	(399)	1,197	NM	(3,756)	4,771	NM
Taxation	(90)	324	NM	(1,598)	1,050	NM
Net Income	(309)	873	NM	(2,159)	3,721	NM
EPS	(0.70)	1.99		(4.93)	8.49	
DPS	-	1.00		-	1.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
EPS	20.17	3.67	(4.93)	8.49	7.31	14.92
EPS Growth	11%	-82%	-234%	-272%	-14%	104%
DPS	4.25	1.00	-	1.00	2.25	4.50
PER	4.9	27.0	(20.1)	11.7	13.6	6.6
Dividend Yield	4.3%	1.0%	0.0%	1.0%	2.3%	4.5%
EV/EBITDA	9.8	21.0	(91.5)	13.4	16.9	9.8
P/B	0.6	0.6	0.7	0.6	0.6	0.5
ROE	11.6%	2.2%	-3.1%	5.4%	4.4%	8.4%

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 81% along with a dividend yield of 1.0%. 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	FY21A	FY22F	FY23F
Net sales	30,668	40,517	38,033	45,108	58,725	66,524
Cost of sales	21,928	35,154	36,447	37,036	51,009	54,420
Gross Profit	8,740	5,362	1,586	8,072	7,716	12,104
SG & A	1,523	1,934	2,442	2,597	2,641	2,845
Operating Profit	7,217	3,428	(856)	5,475	5,075	9,258
Other income	3,027	2,427	2,430	2,527	2,681	2,701
Other charges	2,355	561	676	414	445	465
Finance cost	519	3,304	4,653	2,921	3,518	3,095
Profit before tax	7,370	1,991	(3,756)	4,771	3,794	8,399
Taxation	(1,468)	381	(1,598)	1,050	593	1,862
Profit after tax	8,838	1,610	(2,159)	3,721	3,201	6,537

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	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	33,911	40,253	38,799
Total Assets	121,889	125,941	129,552	130,758	152,781	161,291
Non-Current liabilities	22,201	20,766	25,283	23,285	33,413	34,665
Current liabilities	22,553	34,247	37,624	37,169	45,242	45,836
Total Liabilities	44,755	55,013	62,907	60,454	78,655	80,501
Equity	77,134	70,928	66,644	70,303	74,126	80,790
Total Equity & liabilities	121,889	125,941	129,552	130,758	152,781	161,291

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	8,838	1,610	(2,159)	3,721	3,201	6,537
Non-cash Charges	2,304	3,500	3,688	12,846	3,897	4,358
Operating Cash flows	8,978	(97)	1,618	16,459	8,719	10,836
FCFF	(6,750)	(4,412)	(2,964)	4,856	(7,520)	(686)
Net borrowings	10,662	9,047	6,193	(2,067)	13,314	732
FCFE	3,289	1,964	555	511	2,826	(2,364)
Net change in cash	(3,283)	(5,852)	(1,571)	449	3,448	(2,236)
Closing cash	469	489	348	859	3,246	(103)

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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