

Day Break

Tuesday, 30 August 2016

Company Update

D. G. Khan Cement Co.

Cement

Recommendation	BUY
Target Price	242.0
Last Closing	197.8
Upside	22%

Market Data

Bloomberg Tkr.	DGKC PA
Shares (mn)	438.1
Market Cap (PKRbn USDmn)	86.6 826.9
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	10.9	19.7	36.4
Low	175.6	163.7	127.8
High	212.2	212.2	212.2

Key Company Financials

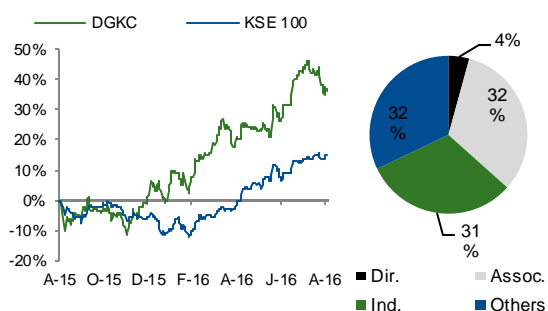
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	26.1	29.3	31.7	41.0
Net Income	7.6	8.6	10.3	11.6
EPS (PKR)	17.4	19.6	23.6	26.4
DPS (PKR)	5.0	6.0	7.3	8.1
Total Assets	74.4	81.9	96.4	112.8
Total Equity	62.3	68.2	75.4	83.4

Key Financial Ratios

	FY15A	FY16E	FY17F	FY18F
ROE (%)	12%	13%	14%	14%
P/E (x)	11.4	10.1	8.4	7.5
P/B (x)	1.4	1.3	1.1	1.0
DY (%)	2.5	3.0	3.7	4.1

Relative Price Performance & Shareholding



About the Company

D. G. Khan Cement Company Limited is a public limited company incorporated in Pakistan. It is principally engaged in production and sale of Clinker, Ordinary Portland and Sulphate Resistant Cement.

Source: Bloomberg, KSE 100 & IGI Research

Analyst

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DG Khan Cement Company

Profitability marred by Super Tax

- DG Khan Cement Company's (DGKC) board meeting is scheduled on 31st Aug-16 to announce financial results for FY16, where we expect the company to post profit of PKR 8.6bn (EPS PKR 19.57), up by +12%YoY.
- We estimate super tax to drag down the quarterly earnings by 2%YoY to PKR 2.2bn (EPS PKR 5.01), whereas gross margin are set to improve by 425bps to 47% mainly driven by 15/39% lower coal/FO prices during the quarter.
- DGKC is currently trading at FY16/FY17 P/E multiple of 10.1x/8.4x, respectively. With our Dec-16 TP of PKR 242/share, the stock offers capital upside of +22% and dividend yield of 3%, hence we recommend 'BUY' call on the scrip.

Profitability to go up by +12%YoY in FY16 to PKR 19.57/share

DG Khan Cement Company's (DGKC) board meeting is scheduled on 31st Aug-16 to announce financial results for FY16, where we expect the company to post profit of PKR 8.6bn (EPS PKR 19.57), up by +12%YoY. Revenue is likely to swell by +12%YoY to PKR 29.3bn on the back of +11%YoY growth expected in cement sales (Local: +15%YoY, Exports: -6%YoY). Moreover, we foresee company's capacity utilization to hover around 101% in FY16 as compared to 91% achieved in FY15. Gross margin is estimated to augment by 681bps to 43% in FY16 as a result of 20%YoY/40%YoY decline in international coal/FO prices. However, earnings are expected to dilute by PKR 0.9/share due to 3% super tax. DGKC is also anticipated to announce final cash dividend of PKR 6/share in FY16, along with the result.

Super tax to drag 4QFY16 earnings

We estimate super tax to drag down the quarterly earnings by 2%YoY to PKR 2.2bn (EPS PKR 5.01), whereas gross margin are set to improve by 425bps to 47% mainly driven by 15%YoY/39%YoY lower coal/FO prices during the quarter.

Outlook

We believe 30MW coal power plant and expansion in Southern region will derive core value of the company. Whereas bottlenecks in

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CPEC investment coupled with recent expansion wave in the cement sector pose risks to our long term valuations.

Exhibit: Financial Highlights

PKR mn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Revenue	8,016	7,159	12%	29,334	26,105	12%
Gross Profit	3,743	3,038	23%	12,638	9,455	34%
Selling and Admin	270	272	0%	1,253	1,219	3%
Other Income	584	604	-3%	2,388	2,320	3%
PBT	3,760	3,067	23%	12,688	9,547	33%
Tax	1,565	817	91%	4,114	1,922	114%
Net profit	2,196	2,250	-2%	8,574	7,625	12%
EPS	5.01	5.14		19.57	17.40	
DPS	6.00	5.00		6.00	5.00	
Key Ratios						
Gross Margin	47%	42%		43%	36%	
Net Margin	27%	31%		29%	29%	
Effective Tax Rate	42%	27%		32%	20%	

Source: IGI Research, Company Financials

Recommendation

DGKC is currently trading at FY16/FY17 P/E multiple of 10.1x/8.4x, respectively. With our Dec-16 TP of PKR 242/share, the stock offers capital upside of +22% and dividend yield of 3%, hence we recommend **BUY** call on the scrip.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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