

# Day Break

Wednesday, 22 April 2020

## COMPANY UPDATE

### D.G. Khan Cement Company Limited

Cement

<b>Recommendation</b>	<b>SELL</b>
Target Price: Dec/20	54.8
Last Closing: 21-Apr-20	86.2
Upside / (Down side) %:	(36.48)
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

#### Market Data

Bloomberg Tkr.	DGKC PA		
Shares (mn)	438.1		
Free Float Shares (mn)	219.1		
Free Float Shares (%)	50.0%		
Market Cap (PKRbn   USDmn)	37.8	244.7	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	13.7	60.3	16.8
Lo	50.1	50.1	42.3
Hi	87.9	87.9	87.9

#### Key Company Financials

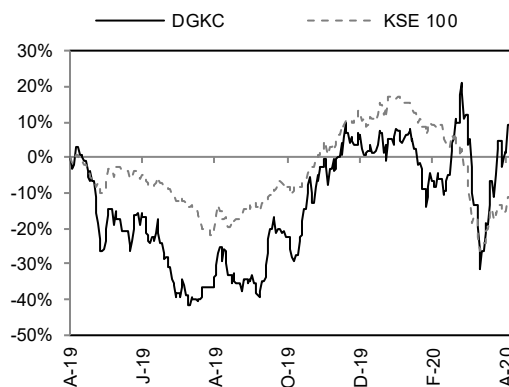
Period End: Jun

PKRbn	2020e	2021f	2022f	2023f
Total Revenue	33.8	29.6	38.6	46.5
Net Income	(3.4)	0.0	3.0	5.8
EPS (PKR)	(7.8)	0.0	6.9	13.2
DPS (PKR)	-	0.5	1.5	4.0
Total Assets	121.6	116.4	115.9	115.3
Total Equity	67.1	67.1	69.9	75.0

#### Key Financial Ratios

ROE (%)	(5.0)	0.0	4.4	8.0
P/E (x)	- 11.0	3,402.8	12.5	6.6
P/B (x)	0.6	0.6	0.5	0.5
DY (%)	-	0.6	1.7	4.6

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Cements

### DGKC: Losses to continue; 3QFY20E LPS to clock in at PKR (3.28), 9MFY20 LPS comes to PKR (5.21)

- ✓ DGKC's financial result for 3QFY20 is scheduled on 23<sup>rd</sup> Apr-20, wherein we expect the company to post a net loss of PKR 1.44bn, compared to a net profit of PKR 883mn in the same period last year.
- ✓ Net sales of the Company during 3QFY20E are expected to decline by 23%YoY, largely due to substantially reduced domestic retention prices which unable to cover cost of sales, are expected to present gross losses for the Company.
- ✓ Further injury is expected from massive +48%YoY rise in finance costs due to increased borrowings and higher benchmark interest rates.

### DGKC to continue losses in 3QFY20E with LPS of PKR 3.28; 9MFY20 loss to accumulate to PKR 5.21/share

D. G. Khan Cement Company Limited's (DGKC) board meeting is scheduled on 23<sup>rd</sup> Apr-20 to announce financial result for 3QFY20, wherein we expect the company to post an unconsolidated net loss of PKR 1.44bn (LPS: PKR 3.28), down by almost -4xYoY, compared to a net profit of PKR 883mn (EPS: PKR 2.02) in the same period last year. This will bring 9MFY20E unconsolidated net loss to PKR 2.29bn (LPS: PKR 5.21), down by -0.9xYoY, as against PKR 2.63bn (EPS: PKR 5.99) reported in the similar period of the preceding year.

Net sales of the Company during 3QFY20E are expected to decline by 23%YoY, despite stable dispatches made during the quarter, largely due to substantially reduced domestic retention prices (decline of ~29%YoY). This massive decline in retentions is not anticipated to cover cost of sales of the Company, which are expected to remain relatively controlled, and resultantly we expect DGKC to present a gross loss of PKR552mn as against profit of PKR 1.78bn in the same period last year. Further injury is expected to occur on account of substantial +48%YoY rise in finance costs driven largely by enhanced short term borrowing requirements and higher benchmark interest rates during the quarter under review.

#### Exhibit: DGKC Result Highlights

Period end (JUN) - PKRmn	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	8,138	10,608	-	29,026	30,376	-4%
Gross Profit	(552)	1,781	-	469	4,965	-
Sell. / Dist. & Admin	580	535	8%	1,947	1,495	30%
Non-Operating Income	575	573	0%	1,760	1,718	2%
EBIT	(572)	1,724	-	212	4,662	-
Financial Charges	1,351	912	48%	3,807	2,260	68%
Pre-tax Profits	(1,924)	813	-	(3,645)	2,402	-
Taxation	(486)	(71)	6.9x	(1,361)	(222)	6.1x
Post-tax Profits	(1,438)	883	-	(2,285)	2,625	-
EPS	(3.28)	2.02		(5.21)	5.99	
<b>Key Ratios</b>						
Gross Margin (%)	(6.8)	16.8		1.6	16.3	
Net Margin (%)	(17.7)	8.3		(7.9)	8.6	
Effective Tax Rate (%)	25.3	(8.7)		37.3	(9.3)	

Source: Company Accounts, IGI Research

No. of Shares : 438mn

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2020

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

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