

# Day Break

Thursday, 13 February 2020



## COMPANY UPDATE

### D.G. Khan Cement Company Limited

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	74.5
Last Closing: 9-Feb-20	66.6
Upside:	11.9
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 11M

#### 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)	29.2	188.9	
Exchange	KSE 100		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	4.8	44.2	(28.5)
Lo	63.4	44.3	42.3
Hi	79.8	79.8	100.8

#### Key Company Financials

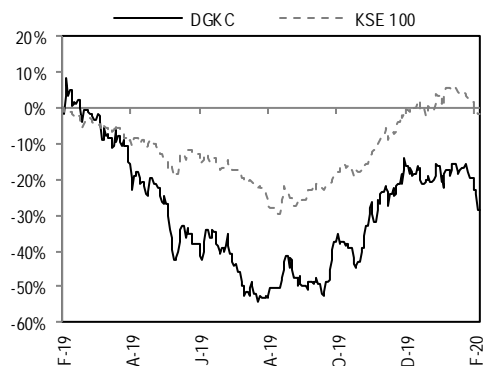
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	40.5	38.0	40.4	45.3
Net Income	1.6	(5.9)	(2.7)	1.4
EPS (PKR)	3.7	(13.5)	(6.1)	3.1
DPS (PKR)	1.0	-	-	1.0
Total Assets	125.9	122.8	118.8	117.2
Total Equity	70.9	64.6	61.9	63.3

#### Key Financial Ratios

ROE (%)	11.6	2.2	(8.7)	(4.2)
P/E (x)	18.1	- 4.9	- 10.9	21.2
P/B (x)	0.4	0.4	0.5	0.5
DY (%)	1.5	-	-	1.5

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Cements

### DGKC: Losses to continue; 2QFY20E LPS to clock at PKR (3.23), 1HFY20 comes to PKR (6.49)

- ✓ DGKC's financial result for 2QFY20 is scheduled on 13<sup>th</sup> Feb-20, wherein we expect the company to post a net loss of PKR 1.42bn, compared to a net profit of PKR 1.32bn in the same period last year.
- ✓ Net sales of the Company during 2QFY20E are expected to decline by 4%YoY, largely due to substantially reduced domestic retention prices which unable to cover production costs, are expected to present gross losses for the Company.
- ✓ Further injury is expected from massive +75%YoY rise in finance costs due to increased borrowings and higher benchmark interest rates.

### DGKC to continue losses in 2QFY20E with LPS of PKR 3.23; 1HFY20 loss to accumulate to PKR 6.49/share

D. G. Khan Cement Company Limited's (DGKC) board meeting is scheduled on 13<sup>th</sup> Feb-20 to announce financial result for 2QFY20, wherein we expect the company to post an unconsolidated net loss of PKR 1.42bn (LPS: PKR 3.23), down by almost 2xYoY, compared to a net profit of PKR 1.32bn (EPS: PKR 3.02) in the same period last year. This will bring 1HFY20E unconsolidated net loss to PKR 2.85bn (LPS: PKR 6.49), down by 2.6xYoY, as against PKR 1.74bn (EPS: PKR 3.98) reported in the similar period of the preceding year.

Net sales of the Company during 2QFY20E are expected to decline by 4%YoY despite a healthy 25%YoY rise in overall dispatches, largely due to substantially reduced domestic retention prices (decline of ~33%YoY). This massive decline in retentions is not expected to cover production costs, which are anticipated to be controlled marginally, and resultantly we expect DGKC to present a gross loss of PKR394mn as against profit of PKR 2.15bn in the same period last year. Further injury is expected to occur on account of substantial +75%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	2QFY20	2QFY19	YoY	1HFY20	1HFY19	YoY
Net Sales	11,090	11,581	-4%	20,159	19,767	2%
Gross Profit	(394)	2,147	-1x	(932)	3,185	1x
Sell. / Dist. & Admin	685	613	12%	1,321	960	38%
Non-Operating Income	520	675	-23%	1,073	1,145	-6%
EBIT	(574)	1,806	-2x	(1,197)	2,938	-1x
Financial Charges	1,290	736	75%	2,547	1,348	89%
Pre-tax Profits	(1,865)	1,070	-3x	(3,744)	1,590	-3x
Taxation	(448)	(254)	76%	(899)	(152)	5x
Post-tax Profits	(1,416)	1,324	2x	(2,845)	1,742	-3x
EPS	(3.23)	3.02		(6.49)	3.98	
<b>Key Ratios</b>						
Gross Margin (%)	(3.6)	18.5		(4.6)	16.1	
Net Margin (%)	(12.8)	11.4		(14.1)	8.8	
Effective Tax Rate (%)	24.0	(23.7)		24.0	(9.6)	

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 – 2019

**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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