

Flash Note

Friday, 22 April 2016

Cements

DGKC: Earnings of PKR 5.25/share- In check with Expectations

- Profitability increased by +16%YoY to PKR 2.3bn (EPS: PKR 5.25) in 3QFY16, taking 9MFY16 earnings to PKR 6.3bn (EPS PKR 14.56), a growth of +19%YoY.
- Revenue grew up by +22%YoY to PKR 7.7bn in 3QFY16 on the back of +27%YoY expected growth in total dispatches (local +22%YoY, exports +64%YoY)
- Gross Margin hopped up by massive +801bpYoY to 44% in 3QFY16 due to a) increase in dispatches, b) lower international coal prices, and c) energy production on low cost FO.
- Other Income decreased by +3%YoY in 3QFY16, whereas for 9MFY16, it went up by +5%YoY.
- DGKC is in process of installing green field 3mn tons cement plant expected to come in FY18 in Southern region.

Recommendation

The scrip is currently trading at FY16E P/E of 7.8x, and with our Dec-16 TP of PKR 228, stock provides upsides of +32%. Hence we maintain our **'Buy'** call on the scrip.

Exhibit: Financial Highlights

PKR mn	1QFY16	1QFY15	YoY	9MFY16	9MFY15	YoY
Revenue	7,683	6,290	22%	21,318	18,945	13%
Gross Profit	3,408	2,286	49%	8,895	6,417	39%
Selling and Admin	354	246	44%	982	947	4%
Other Income	567	583	-3%	1,804	1,717	5%
PBT	3,349	2,388	40%	8,928	6,480	38%
Tax	1,050	407	158%	2,550	1,105	131%
Net profit	2,299	1,981	16%	6,378	5,375	19%
EPS	5.25	4.52		14.56	12.26	
Key Ratios						
Gross Margin	44%	36%		42%	34%	
Net Margin	30%	31%		30%	28%	
Effective Tax Rate	31%	17%		29%	17%	

Source: IGI Research, Company Financials

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Analyst Certification

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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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