

# Day Break

Wednesday, 24 April 2019

## COMPANY UPDATE

### D.G. Khan Cement Company Limited

Cement

Recommendation	BUY
Target Price:	31-Dec-19 93.7
Last Closing:	22-Apr-19 69.9
Upside:	34.1
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)	30.6   216.3
Exchange	KSEALL
<b>Price Info.</b>	90D 06M 12M
Abs. Return	(11.2) (17.2) (50.3)
Lo	71.8 71.8 71.8
Hi	100.8 111.1 146.3

### Key Company Financials

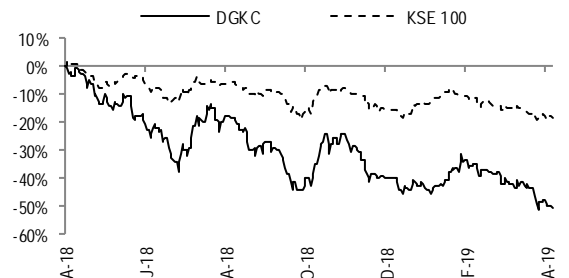
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	30.7	41.1	43.2	43.2
Net Income	8.8	3.9	4.8	4.9
EPS (PKR)	20.2	8.9	11.0	11.1
DPS (PKR)	4.3	2.0	2.5	2.5
Total Assets	108	122	120	118
Total Equity	77	80	84	88

### Key Financial Ratios

ROE (%)	11.5	4.9	5.8	5.6
P/E (x)	3.5	7.8	6.3	6.3
P/B (x)	0.5	0.4	0.4	0.4
DY (%)	6.1	2.9	3.6	3.6

### Relative Price Performance



### 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, PSX &amp; IGI Research

Analyst

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## Cements

### DGKC & MLCF 3QFY19 Results Preview: Earnings down by 51% and 39% YoY

- D. G. Khan Cement Company Limited's (DGKC) board meeting is scheduled today, 24th Apr-19 to announce financial result for 3QFY19, wherein we expect the company to post earnings of PKR 602mn (EPS: PKR 1.38), down by 51%YoY
- The decline in DGKC earnings is primarily driven by deteriorated margins led by a) 25%YoY PKR depreciation, b) 20% YoY increase in FED, c) 23%YoY rise in gas tariff, d) impact of incremental depreciation post commencement of DGKC Hub plant; and e) bulging finance cost post capitalization of Hub Plant
- Maple Leaf Cement Factory Limited's (MLCF) board meeting is also scheduled today, 24th Apr-19, to announce financial result for 3QFY19, wherein we expect the company to post consolidated earnings of PKR 688mn (EPS: PKR 1.16), down by 39%YoY
- The decline in MLCF's earnings is primarily attributed to 31%YoY drop in dispatches and substantial PKR devaluation

### DGKC: 3QFY19E earnings to drop by 51%YoY to PKR 1.38/share

D. G. Khan Cement Company Limited's (DGKC) board meeting is scheduled today, 24th Apr-19 to announce financial result for 3QFY19, wherein we expect the company to post earnings of PKR 602mn (EPS: PKR 1.38), down by 51%YoY, compared to PKR 1.24bn (EPS: PKR 2.82) in the same period last year.

### Deteriorated gross margins wash away notable sales performance

Though net sales of the Company are expected to rise by a substantial +41%YoY on the back of favorable quantity (+26%YoY rise in total dispatches) and price variance (+13%YoY rise in local retentions), we expect the Company to register a downfall of 6%YoY in gross profits. The decline in GP is primarily driven by deteriorated margins led by a) 25%YoY PKR depreciation, b) 20% YoY increase in FED, c) 23%YoY rise in gas tariff; and d) impact of incremental depreciation post commencement of DGKC Hub plant.

### Leveraged balance sheet to hurt net margins in a monetary tightening regime

Moreover, sharp increase in benchmark interest rates of +66%YoY (SBP Discount Rate), enhanced short term borrowings to finance coal procurement under a weakened PKR scenario and unwinding of finance costs to the income statement post capitalization of Hub plant are expected to massively inflate finance costs by 7.8xYoY to PKR 983mn as against PKR 125mn reported in the similar period of the preceding year.

### Exhibit: DGKC Result Highlights

Period end (JUN) - PKRmn	3QFY19	3QFY18	YoY	9MFY19	9MFY18	YoY
Net Sales	10,716	7,612	41%	30,484	23,375	30%
Gross Profit	1,809	1,919	-6%	4,993	7,169	-30%
Sell. / Dist. & Admin	517	390	32%	1,477	1,146	29%
Non-Operating Income	508	446	14%	1,652	1,639	1%
EBIT	1,736	1,788	-3%	4,674	7,006	-33%
Financial Charges	983	125	7.8x	2,331	318	7.3x
Pre-tax Profits	753	1,663	-55%	2,343	6,688	-65%
Taxation	151	427	-65%	(1)	1,718	n/m
Post-tax Profits	602	1,236	-51%	2,344	4,970	-53%
EPS	1.38	2.82		5.35	11.34	

Source: Company Accounts, IGI Research

No. of Shares : 438mn

## COMPANY UPDATE

### Maple Leaf Cement Factory Limited

Cement

Recommendation	BUY
Target Price:	31-Dec-19 44.7
Last Closing:	22-Apr-19 27.6
Upside:	62.0

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 8M

### Market Data

	MLCF PA		
Bloomberg Tkr.	593.7		
Shares (mn)	267.2		
Free Float Shares (mn)	45.0%		
Free Float Shares (%)	16.4	115.7	
Market Cap (PKRbn   USDmn)			KSE ALL
Exchange	90D	06M	12M
Price Info.	(33.0)	(26.9)	(60.5)
Abs. Return	28.7	28.7	28.7
Lo	49.7	54.6	73.4
Hi			

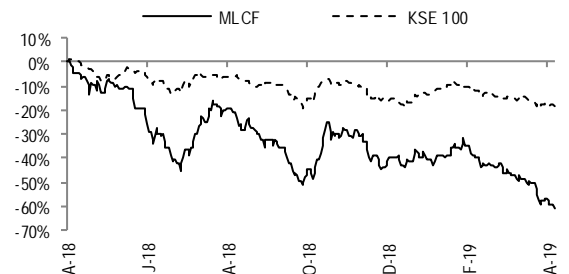
### Key Company Financials

Period End: Jun	FY18A	FY19E	FY20F	FY21F
PKRbn				
Total Revenue	25.7	25.7	32.9	31.9
Net Income	3.6	4.4	1.9	2.0
EPS (PKR)	6.1	7.4	3.2	3.4
DPS (PKR)	2.5	3.0	1.3	1.5
Total Assets	39	59	64	63
Total Equity	30	33	34	35

### Key Financial Ratios

ROE (%)	12.1	13.5	5.6	5.8
P/E (x)	4.5	3.7	8.7	8.2
P/B (x)	0.6	0.5	0.5	0.5
DY (%)	9.1	10.9	4.5	5.4

### Relative Price Performance



### About the Company

The Company was incorporated in Pakistan on April 13, 1960 as a public company limited by shares. The shares of the Company are quoted on Pakistan Stock Exchange Limited. It is engaged in production and sale of cement. The Company is a subsidiary of Kohinoor Textile Mills Limited

Source: Bloomberg, PSX & IGI Research

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## MLCF: 3QFY19E consolidated earnings to decline by 39%YoY to PKR 1.16/share

Maple Leaf Cement Factory Limited's (MLCF) board meeting is also scheduled today, 24<sup>th</sup> Apr-19, to announce financial result for 3QFY19, wherein we expect the company to post consolidated earnings of PKR 688mn (EPS: PKR 1.16), down by 39%YoY, compared to PKR 1.12bn (EPS: PKR 1.89) in the same period last year.

The decline in MLCF's earnings is primarily attributed to 31%YoY drop in dispatches and substantial PKR devaluation which in turn has restricted gains of Maple Leaf Power Limited, a 100% owned subsidiary of MLCF.

### Exhibit: MLCF Results Highlights - Consolidated

Period end (JUN) - PKRmn	3QFY19	3QFY18	YoY	9MFY19	9MFY18	YoY
Net Sales	5,625	7,024	-20%	17,874	19,302	-7%
Gross Profit	1,709	2,415	-29%	5,084	6,807	-25%
Sell. / Dist. & Admin	388	526	-26%	1,136	1,439	-21%
Non-Operating Income	9	7	20%	29	55	-48%
EBIT	1,234	1,736	-29%	3,702	4,995	-26%
Financial Charges	390	263	7.8x	1,111	593	7.3x
Pre-tax Profits	843	1,474	-43%	2,591	4,402	-41%
Taxation	156	352	-56%	569	1,032	n/m
Post-tax Profits	688	1,122	-39%	2,022	3,370	-40%
EPS	1.16	1.89		3.41	5.68	
DPS	-	-		-	1.50	

Source: Company Accounts, IGI Research

No. of shares: 594mn

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Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**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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