

Cements

DGKC: Earnings of PKR 5.38/share- In check with Expectations

- Profitability increased by +5%YoY to PKR 2.4bn (EPS: PKR 5.38) in 2QFY16, taking 1HFY16 earnings to PKR 4.1bn (EPS PKR 9.31), a growth of +20%YoY.
- Revenue grew up by +8%YoY to PKR 7.4bn in 2QFY16 on the back of +3%YoY expected growth in total dispatches (local +10%YoY, exports -29%YoY)
- Gross Margin hopped up by massive +837bpYoY in 2QFY16 due to a) higher net retention prices as revenue mix is expected to tilt more towards local sales, b) lower international coal prices, and c) energy production on low cost FO.
- Other Income increased by +9%YoY in 2QFY16, likely due to increased dividend from investments.
- DGKC is in process of installing green field 3mn tons cement plant expected to come in FY18. 40MW coal power plant by the end of FY16 is also anticipated to reduce energy cost further.

Recommendation

The scrip is currently trading at FY16E P/E of 8.3x, and with our Dec-16 TP of PKR 228, stock provides upsides of +44%. Hence we maintain our **'Buy'** call on the scrip.

Exhibit: Financial Highlights

PKR'mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Net Sales	7,391	6,844	8%	13,635	12,655	8%
Gross Profit	3,108	2,305	35%	5,487	4,131	33%
Selling and Admin	312	373	-16%	628	701	-10%
Other income	757	697	9%	1,237	1,134	9%
Finance Cost	32	89	-64%	62	156	-60%
PBT	3,306	2,450	35%	5,580	4,092	36%
Taxation	948	214	342%	1,500	699	115%
PAT	2,358	2,236	5%	4,080	3,394	20%
EPS	5.38	5.10		9.31	7.75	
Key Ratios						
Gross Margin	42%	34%		40%	33%	
Net Margin	32%	33%		30%	27%	
Effective Tax Rate	29%	9%		27%	17%	

Source: IGI Research, Company Financials

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Analyst Certification

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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

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