



# CEMENT | DGKC | BUY



Date: 03<sup>rd</sup> July'24

REP # 048



**Adarsh Kumar**

Email: [adarsh.kumar@adamsecurities.com.pk](mailto:adarsh.kumar@adamsecurities.com.pk)

Tel: +92-21-32440519 EXT: 117

© Copyright 2022, Adam Securities Limited | All rights reserved



[/AdamSecurities](#)



[/company/adamsecurities](#)



[/AdamSecurities](#)



[/sm.adamsecurities](#)



[Adam Securities Limited](#)



[/adamsecurities](#)



Room# 806-814, 8th Floor,  
Main Pakistan Stock Exchange Building,  
Stock Exchange Road, Karachi.



[info@adamsecurities.com.pk](mailto:info@adamsecurities.com.pk)  
[adamsecurities145@yahoo.com](mailto:adamsecurities145@yahoo.com)  
[sm.adamsecurities@gmail.com](mailto:sm.adamsecurities@gmail.com)



+9221 32444315-16, 32420909,  
32413580, 32437380



سرمایہ کاری مسجد اری کے ساتھ  
[www.jamapunji.pk](http://www.jamapunji.pk)

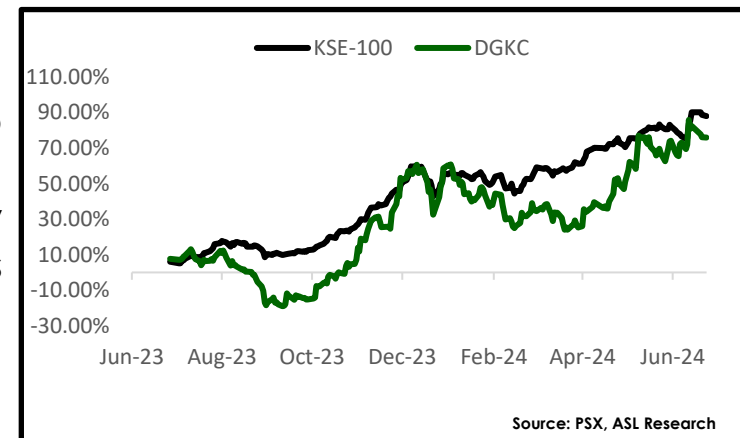
## D.G Khan Cement (DGKC) – “BUY”

REP # 048

- We re-initiate our detailed coverage on D.G. Khan Cement Company Limited (DGKC) with a FY25 target price of Rs.113/sh. offering upside of 26% from today close price.
- We have estimated unconsolidated EPS forecast of Rs.13.2/sh. and Rs.22.8/sh. for FY25F and FY26F, respectively.
- DGKC is amongst the largest cement manufacturers of Pakistan with a production capacity of 22,400 tons per day (6.72 million tons/annum).
- DGKC exports increased by 59% in 11MFY24, mostly exports were clinker to Bangladesh, Sri Lanka, and Middle East at the price of USD28-30 per MT, hardly covering variable costs. However, dispatching inventory generate cash and alleviates the company's working capital pressure. DGKC is in the process of identifying potential buyers in the US market.
- Plants are located at Hub and DG khan which use coal-based power plants to reduce power cost upto Rs.25-28 per kwh. Company is planning to invest in On-Grid power plants at all sites. At Kallar Kahar, DGKC has successfully installed solar plant of 7MW. Additionally, as per management company is considering adding wind power plant at its south plants in FY27 to reduce cost.

"Buy" Rated	
KATS Code	DGKC
Bloomberg Code	DGKC.PA
Reuters Code	DGKC.KA
Market Price	89.74
Target Price	113
Market Cap	Rs39.32bn/USD141.25mn
Free float Market Cap	Rs19.96bn/USD70.63mn
1-Yr High/ Low	Rs96.4/Rs40.3
Average Daily Volume	4,336,137
Free Float	219.06 million (50%)
Outstanding Shares	438.12 million

Source: PSX, ASL Research

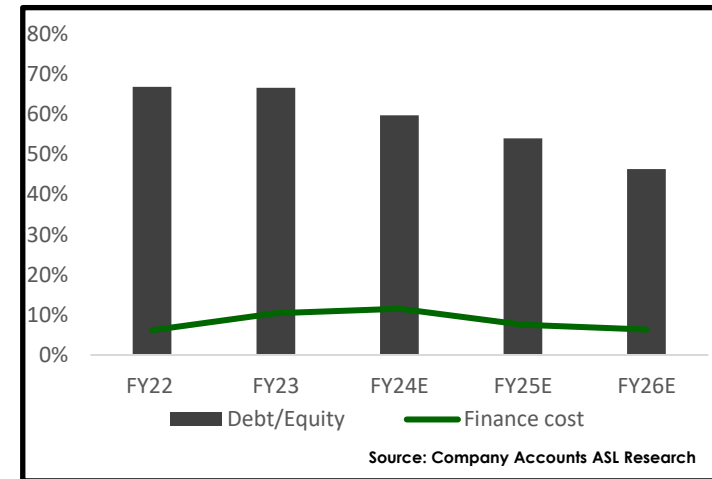
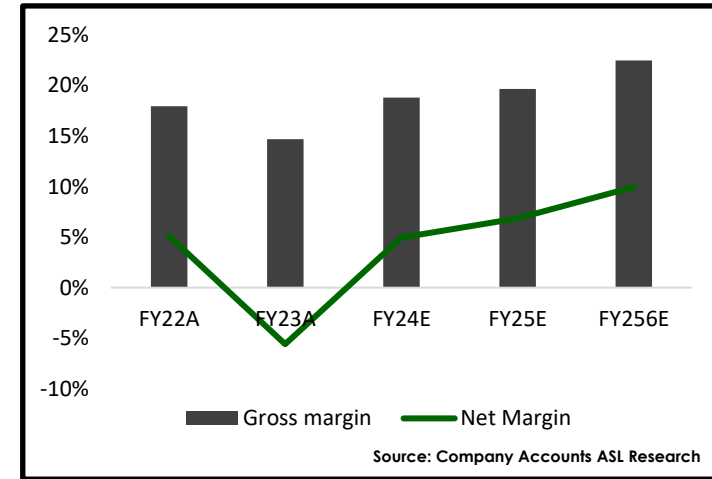


© Copyright 2022, Adam Securities Limited | All rights reserved

# Margins and profitability of company

REP # 048

- We expect DGKC unconsolidated gross margin to remain within 20%-22% over (FY25-26). In 3QFY24 company reported gross margin of 26%. On cumulative basis gross margin for 9MFY24 increased by 262bps, arriving at 18.73% as compared to 16.11% SPLY. Increase in Gross Profit was due to higher cement prices and decrease in international coal prices from Rs60.8k/ton to in FY23 to Rs37.3K/ton.
- We project net profit margin to reach 7%-10% over fiscal years 2025 and 2026. This improvement is anticipated due to an easing of monetary policy, which will reduce the company's financing costs. It's important to note that as of the third quarter of fiscal year 2024, company debt-to-equity ratio sits at 52.36%.
- In Budget FY25, the govt imposed FED of Rs. 200/bag or Rs. 4/kg on cement, which cement companies have passed on to consumers through higher prices. This price increase is likely to raise construction costs and potentially dampen demand. However, the government's ambitious PSDP target of Rs.1.15 trillion could offset some of this impact by stimulating construction activity.
- Richards Bay coal prices have declined from FY23 average of USD207/ton to FY24 average of USD107/ton. In result, local and Afghan coal prices have also declined.
- We expect international coal prices of USD100/ton for FY25, which will translate into a substantial improvement in gross margin.





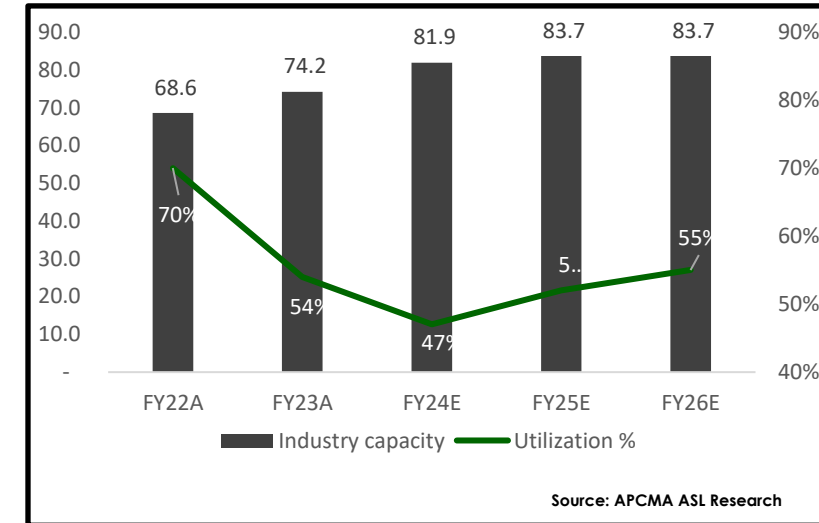
# Cement Industry Sees 10% Sales Improvement

REP # 048

- In FY24 Pakistan economy suffered from stabilization phase. Government dedicated efforts to complete Stand-By Arrangement (SBA) have yielded significant progress in reinstating economic stability. Economy experienced moderate growth with high inflationary pressure leading to monetary tightening.
- In 11MFY24, local cement dispatches declined by 3.8% to 35.1mn tons, compared to 36.5mn tons in 11MFY23. Decline was witnessed due to tight monetary policy and high construction cost.
- In 11MFY24, cement exports increased by 66% YoY to 6.64mn tons. Increase in exports is due to weaker PKR making exports feasible and the industry's efforts to explore new markets. Notably, Pakistan made its first-ever cement shipment to the United Kingdom and is currently exploring opportunities in Mexico, France, and Germany.
- We expect cement sales to show growth of 10% and 8% in FY25 and FY26, respectively. This is, amid expectation of economic stability, new IMF program and FY25 PSDP budget target of Rs.1.15trn, which will boost construction activities.
- We expect industry utilization will improve from 47% in FY24 to 52% in FY25 and 55% in FY26, amid expectations of fantasized FY25 PSDP target of Rs.1.15trn for the revival of the construction and industrial activities.

	FY23	FY24E	FY25E	FY26E
Industry sales	44.6	45.4	50.0	54.0
YoY	-16%	2%	10%	8%
DGKC sales	5.04	4.83	5.34	5.80
YoY	-23%	-4%	11%	9%
Industry exports	4.6	7.3	8.0	8.7
YoY	-13%	60%	10%	8%
DGKC exports	0.9	1.2	1.4	1.6
YoY	-37%	32%	16%	12%

Source: APCMA ASL Research



Source: APCMA ASL Research

# "Valuation Approach: Target Price of PKR113/share with a 26% Upside"

REP # 048

- We have incorporated FCFF valuation approach to come up with a June 2025 TP of Rs113/sh. Our valuation is based on discounted cashflow (DCF) methodology. We have used a risk-free-rate of 16.6% and market risk premium of 6% with a beta of 1.6, our estimated cost of equity is 25.7%.
- Capital structure of DGKC is showing 39% weight in debt while remaining 61% comes from equity. Thus, arriving at WACC of 20.3% which has taken into effect and reflects as a discount factor in FCFF.
- Short-term borrowing during FY24 is expecting to post Rs22bn, showing 10% down compared to Rs25bn in FY23. We also expect the company to record ST borrowings of Rs25.2bn and Rs.22.7bn in FY24 and FY25 respectively.
- We expect the cost of debt to decrease due to a relaxation of monetary policy. In FY23, the company reported earnings before tax (EBT) of 4.87%. As of 9MFY24, EBT stands at 7.47%. We project EBT to reach 11% and 15% in FY25 and FY26, respectively.

FCFF	FY23A	FY24E	FY25E	FY26E
Profit after tax	-3,636	3,426	5,791	9,982
Depreciation & Amortization	3,872	3,284	3,350	3,417
Interest (1-tax rate)	-7,752	4,865	3,893	4,285
Capax	-1,714	-2,576	-2,627	-2,680
WC	2,041	739	1,881	-3,157
FCFF	-10,436	6,148	8,644	8,143

Source: ASL Research

DGKC - Cost of equity	
Risk free rate	17%
Market Risk Premium	6%
Beta	1.6
Cost of Equity	26%
Equity	69,918
Debt	42,747
WACC	20%

Source: ASL Research

Income Statement				
Rsmn	FY23A	FY24E	FY25E	FY26E
Sales	64,984	69,226	84,348	100,302
Cost of sales	-55,428	-56,206	-67,765	-77,749
Gross profit	9,556	13,020	16,583	22,553
Administration expenses	-879	-1,241	-1,389	-1,501
Distribution	-1,818	-2,078	-2,042	-2,139
Other operating expenses	-96	-184	-921	-1,324
Other operating income	3,247	4,074	3,644	3,703
Finance cost	-6,742	-7,975	-6,382	-6,395
Profit before taxation	3,163	5,616	9,493	14,898
Profit after taxation	-3,636	3,426	5,791	9,982
<b>EPS (Rs)</b>	<b>-8.3</b>	<b>7.8</b>	<b>13.2</b>	<b>22.8</b>

Source: Co.Financials, ASL Research

Balance sheet				
Rsmn	FY23A	FY24E	FY25E	FY26E
Non-Current Assets	95,687	100,583	99,860	99,123
Current Assets	39,027	35,844	43,270	51,830
<b>Total Assets</b>	<b>134,713</b>	<b>136,427</b>	<b>143,130</b>	<b>150,954</b>
Equity	64,192	67,618	74,087	83,029
Non-Current Liabilities	21,845	24,221	24,723	26,580
Current Liabilities	48,676	44,588	44,320	41,344
<b>Total Equity &amp; Liabilities</b>	<b>134,713</b>	<b>136,427</b>	<b>143,130</b>	<b>150,954</b>

Source: Co.Financials, ASL Research

Key Ratios				
	FY23A	FY24E	FY25E	FY26E
Gross margin	15%	19%	20%	22%
Net margin	-5.60%	4.95%	6.87%	9.95%
Operating margin	15%	20%	19%	21%
P/E Ratio	-11	11.48	6.79	3.94
Return on asset	-2.70%	2.51%	4.05%	6.61%
Return on equity	-6%	5.07%	7.82%	12.02%

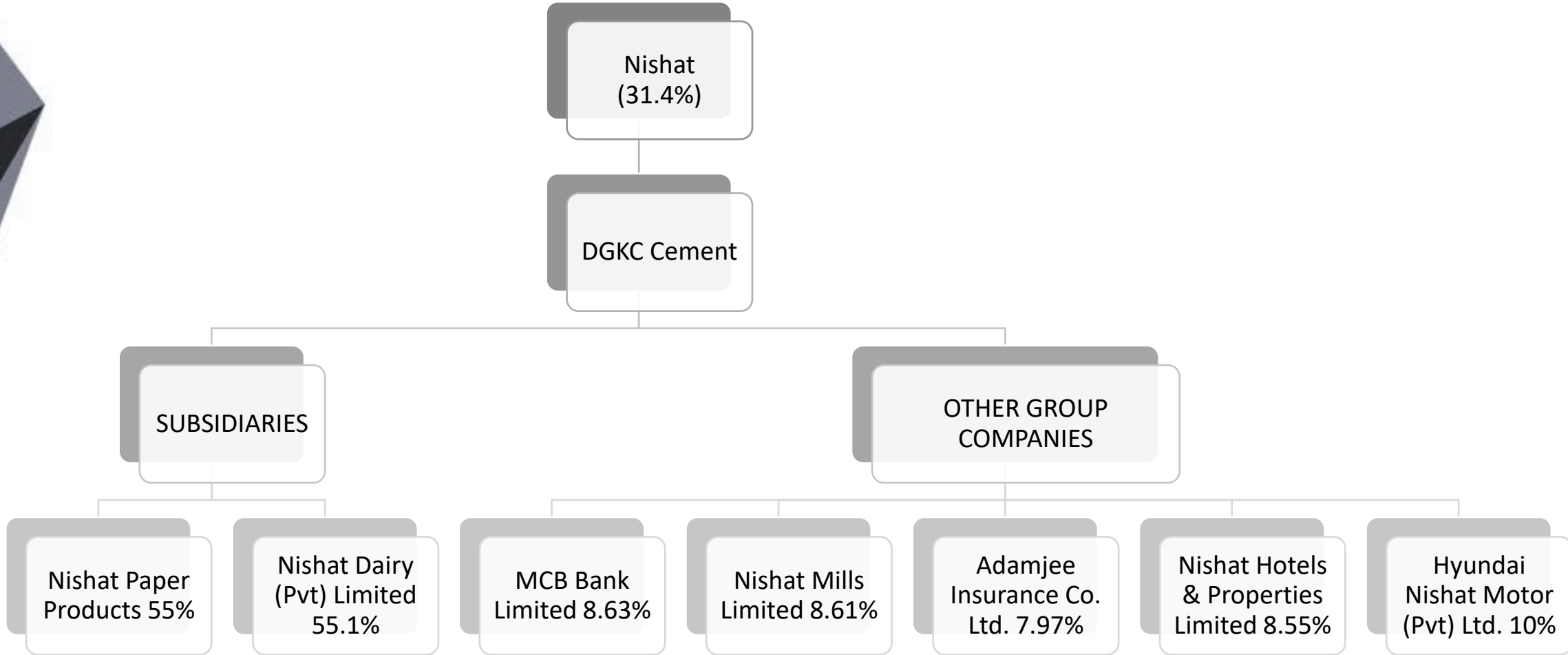
Source: Co.Financials, ASL Research



# Shareholding of DGKC



REP # 048



© Copyright 2022, Adam Securities Limited | All rights reserved



## About DG Khan Cement

- DG Khan Cement Company Limited is a public limited company incorporated in 1978 as a limited liability company in Pakistan. It is a group company of Nishat Group listed in Pakistan Stock exchange and considered as a blue-chip stock.
- The principal business of the company is to produce & sell Clinker and cement to local as well as export market. The company has total market share of approximately 12%. Total market capitalization is about Rs.39.32bn, which is around 5% of the total market capitalization of the cement sector.
- DG Khan cement has strong channels across the country, its presence from North to Center to South with an extensive dealership network of more than 2200. On the export market front, DG Khan cement has a notable presence in Bangladesh, USA, Afghanistan, Sri Lanka, China & other parts of Central Africa.

## Product Features & Capacities

- The company produces three types of products consists of Ordinary Portland Cement, Sulphate Resistant Cement & Clinker. Its key brands include DG Cement, Hathi Cement, Elephant Cement & Block Cement.
- The company has a capacity to produce 22.4k ton per day or 6.72mn ton per annum. Where DGP/KHP/HUB capacities are 6,700/6,700/9,000tons/day respectively.





# Analyst Certification & Disclosures



The research analyst(s) primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Furthermore, it is stated that the research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company. Additionally, the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

### Price Methodology:

To arrive at our period end Target Price, Adam Securities Limited uses different valuation methods which include:  
1) Discounted Cash flow method 2) SOTP method 3) Justified Price to Book Value method and 4) FCFE or FCFF method.

### Company Specific Disclosures:

Adam Securities Limited may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Adam Securities Limited, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. Adam Securities Limited may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities.

### Research Dissemination Policy:

Adam Securities Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

### Disclaimer:

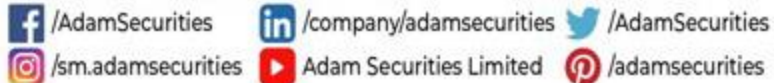
Adam Securities Limited has produced this report for private circulation only. The information and statistical data herein have been obtained from reliable sources to our knowledge where such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness or correction. This report makes use of forward-looking statements that are based on assumptions made and information currently available to us and those are subject to certain risks and uncertainties that could cause the actual results to differ. This report is not a solicitation or any offer to buy or sell any of the securities mentioned herein. It is meant for information purposes only and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Neither Adam Securities Limited nor any of its affiliates or any other person connected with the company accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.

### Rating System:

Adam Securities Limited employs a 3-tier rating mechanism i.e. Buy, Hold and Sell, which is based upon the level of expected return for a specific stock. Time horizon is usually the annual financial reporting period of the company. If total expected return exceeds or equals to 15.0%, a Buy rating is issued. If total expected return falls or equals to 10.0%, a sell rating is issued. If return is in between the two ranges, hold rating is assigned. Aforementioned ratings are subject to change on the basis of change in stock price, change in analyst's estimates, change in assessment of company's business risk or a combination of these factors.

Stance Criterion	
Buy	≥15.0%
Sell	≤10.0%
Hold	Between - 10.0% to 15.0%

© Copyright 2022, Adam Securities Limited | All rights reserved



Room# 806-814, 8th Floor,  
Main Pakistan Stock Exchange Building,  
Stock Exchange Road, Karachi.



info@adamsecurities.com.pk  
adamsecurities145@yahoo.com  
sm.adamsecurities@gmail.com



+9221 32444315-16, 32420909,  
32413580, 32437380





## ADAM SECURITIES LIMITED

Corporate Member of Pakistan Mercantile Exchange (PMEX) – Reg No. BRC – 017  
TREC Holder Pakistan Stock Exchange Limited – TRE Certificate No. 145  
SECP Broker License No. 145  
Management Rating by VIS – BMR2+



**DOWNLOAD AT**  
[WWW.ADAMSECURITIES.COM.PK/DOWNLOADS](http://WWW.ADAMSECURITIES.COM.PK/DOWNLOADS)



© Copyright 2022, Adam Securities Limited | All rights reserved



/AdamSecurities



/company/adamsecurities



/AdamSecurities



/sm.adamsecurities



Adam Securities Limited



/adamsecurities



Room# 806-814, 8th Floor,  
Main Pakistan Stock Exchange Building,  
Stock Exchange Road, Karachi.



info@adamsecurities.com.pk  
adamsecurities145@yahoo.com  
sm.adamsecurities@gmail.com



+9221 32444315-16, 32420909,  
32413580, 32437380



سرمایہ کاری مسجد اری کے ساتھ  
[www.jamapunji.pk](http://www.jamapunji.pk)