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DGKC has announced its 1HFY23 result where it posted a profit after tax of Rs932mn (EPS: Rs2.13) as compared to a profit after tax of Rs2.18bn (EPS: Rs4.97) in the same period last year, down by 57.2% YoY owing to a decline in dispatches takeoff.

The company had posted a revenue of Rs29.76bn against Rs27.43bn in SPLY, recording a growth of 8.5% YoY amid higher retention prices. The gross margin has declined to 14.3% as compared to the 17.7% SPLY amid higher coal prices and PKR devaluation. SG&A expenses have decreased by 32.3% YoY to Rs934mn as compared to Rs1.38bn during SPLY.

Furthermore, other charges have dropped by 74.5% while finance cost has increased massively by 108.3% YoY to Rs3.20bn on the back of higher interest rate. Lastly, effective taxation has jumped to 33% as compared to 23.9% in SPLY.

DGKC is currently trading at a FY23E P/E of 9.79x. The scrip is also trading at a FY23E P/B of 0.18x which offers a discount of 30% relative to its historical 3-year average of 0.26x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs54 which provides an upside potential of 30%.

Rupees' millions	2QFY23	2QFY22	YoY	1HFY23	1HFY22	YoY
Net Sales	16,176	16,282	0.6% ▼	29,761	27,434	8.5% ▲
Cost of Sales	-13,992	-13,523	3.5% ▲	-25,504	-22,576	13.0% ▲
Gross Profit	2,184	2,759	20.8% ▼	4,257	4,858	12.4% ▼
SG&A Expenses	-391	-877	55.4% ▼	-934	-1,380	32.3% ▼
Operating Profit	1,794	1,882	4.7% ▼	3,323	3,478	4.5% ▼
Other Charges	-69	-108	35.9% ▼	-85	-333	74.5% ▼
Other Income	695	710	2.2% ▼	1,356	1,254	8.2% ▲
Finance Cost	-1,610	-802	100.8% ▲	-3,203	-1,538	108.3% ▲
Profit Before Taxation	809	1,683	51.9% ▼	1,390	2,861	51.4% ▼
Taxation	-266	-414	35.7% ▼	-458	-684	32.9% ▼
Profit After Taxation	543	1,269	57.2% ▼	932	2,177	57.2% ▼
Earnings Per Share	1.24	2.90	57.2% ▼	2.13	4.97	57.2% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	-	-		-	-	
Gross Margin	13.5%	16.9%	3.4% ▼	14.3%	17.7%	3.4% ▼
SG&A Expenses to Sales	-2.4%	-5.4%	3.0% ▼	-3.1%	-5.0%	1.9% ▼
Other Income to Sales	4.3%	4.4%	0.1% ▼	4.6%	4.6%	0.0% ▼
Ex. Gain / (Loss) to Sales	-2.4%	-5.4%	3.0% ▼	-3.1%	-5.0%	1.9% ▼
Effective Taxation	-32.9%	-24.6%	8.3% ▲	-33.0%	-23.9%	9.1% ▲
Net Margin	3.4%	7.8%	4.4% ▼	3.1%	7.9%	4.8% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	DGKC
TP - Dec 23	54
LDCP	41.58
Upside (%)	30
Free Float ('mn)	219
Market Cap. (Rs. 'mn)	18,217

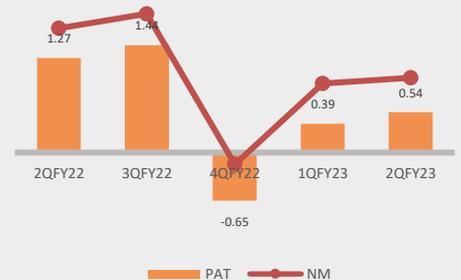
DGKC vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Salman

Phone: (+92) 42 38302028; Ext: 116
Email: salman@abbasiandcompany.com

Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	38,033	45,108	58,044	59,522	67,442	76,976	86,558
Cost of sale	36,447	37,036	47,616	51,010	57,474	65,569	73,573
Gross profit	1,586	8,072	10,428	8,512	9,968	11,407	12,984
Selling and promotion expenses	659	647	751	1,095	1,062	1,212	1,363
Administration expenses	1,783	1,950	1,749	774	2,247	2,564	2,883
Other operating expenses	530	414	1,043	170	675	770	866
Operating Profit	- 1,532	5,165	6,877	6,473	5,985	6,861	7,872
Other operating income	2,430	2,527	2,714	2,712	2,712	2,712	2,712
Finance cost	4,653	2,921	3,571	6,407	5,407	5,172	5,512
Profit before taxation	- 3,756	4,771	6,020	2,778	3,290	4,401	5,071
Taxation	- 1,598	1,050	3,048	917	1,086	1,452	1,674
Profit after taxation	- 2,159	3,721	2,972	1,861	2,204	2,949	3,398
EPS	- 4.93	8.49	6.78	4.25	5.03	6.73	7.76

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	-6.1%	18.6%	28.7%	2.5%	13.3%	14.1%	12.4%
Cost of sale	3.7%	1.6%	28.6%	7.1%	12.7%	14.1%	12.2%
Gross profit	-70.4%	409.0%	29.2%	-18.4%	17.1%	14.4%	13.8%
Selling and promotion expenses	4.8%	-1.8%	16.1%	45.8%	-3.0%	14.1%	12.4%
Administration expenses	36.6%	9.3%	-10.3%	-55.8%	190.4%	14.1%	12.4%
Other operating expenses	-1.6%	-21.8%	151.7%	-83.7%	296.7%	14.1%	12.4%
Operating Profit	-153.4%	-437.1%	33.1%	-5.9%	-7.5%	14.6%	14.7%
Other operating income	0.1%	4.0%	7.4%	-0.1%	0.0%	0.0%	0.0%
Finance cost	40.8%	-37.2%	22.3%	79.4%	-15.6%	-4.3%	6.6%
Profit before taxation	-288.7%	-227.0%	26.2%	-53.9%	18.4%	33.8%	15.2%
Taxation	-519.2%	-165.7%	190.2%	-69.9%	18.4%	33.8%	15.2%
Profit after taxation	-234.1%	-272.4%	-20.1%	-37.4%	18.4%	33.8%	15.2%
EPS	-234.1%	272.4%	-20.1%	-37.4%	18.4%	33.8%	15.2%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	4.17	17.89	17.97	14.30	14.78	14.82	15.00
NP Margin	%	-5.68	8.25	5.12	3.13	3.27	3.83	3.93
OP Margin	%	-4.03	11.45	11.85	10.88	8.87	8.91	9.09
ROE	%	-3.24	5.06	4.25	1.86	2.16	2.81	3.15
ROCE	%	-1.89	3.17	2.55	1.25	1.47	1.89	2.06
ROA	%	-1.67	2.70	2.18	1.74	2.08	2.71	2.96
Cost per ton	'mn	6.86	5.39	9.51	12.39	13.09	13.85	14.49
EBITDA per ton	'mn	0.40	1.33	2.01	2.54	2.26	2.26	2.29
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	0.91	0.91	0.89	0.19	0.17	0.21	0.28
Acid-test	x	0.42	0.38	0.26	-0.31	-0.35	-0.28	-0.21
Cash to current liab.	x	0.01	0.02	0.01	-0.51	-0.54	-0.44	-0.36
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Average Inventory		4,033,527	3,540,792	4,355,052	5,087,055	5,245,531	5,843,843	6,726,030
Inventory Turnover	x	9	10	11	10	11	11	11
Inventory Days		40	35	33	36	33	33	33
Receivables Days		22	14	9	9	9	9	9
Payables Days		113	147	97	102	107	112	117
Operating Cycle		-51	-99	-54	-56	-64	-70	-74
Utilization	%	76	93	76	58	62	67	72
Export Revenue	%	92	94	94	66	66	66	66
Local Revenue	%	19	29	29	34	34	34	34
Export Market Share	%	0	1	0	0	0	0	0
Local Market Share	%	0	11	0	0	0	0	0
Total Market Share	%	0	11	0	0	0	0	0
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
EPS		-4.93	8.49	6.78	4.25	5.03	6.73	7.76
DPS		0.00	1.00	1.00	1.00	1.00	1.00	1.00
Div. Yield	%	0.00	2.41	2.41	2.41	2.41	2.41	2.41
Dividend Cover		0.00	8.49	6.78	4.25	5.03	6.73	7.76
BVPS		152.11	167.71	159.59	228.16	233.19	239.42	246.18
Payout	%	0.00	11.77	14.74	23.54	19.88	14.86	12.89
Retention	%	100.00	88.23	85.26	76.46	80.12	85.14	87.11
No. of Shares	'mn	438	438	438	438	438	438	438
P/E		-8.44	4.90	6.13	9.79	8.26	6.18	5.36
Sales per share		86.81	102.96	132.48	135.86	153.94	175.70	197.57
P/BV		0.27	0.25	0.26	0.18	0.18	0.17	0.17
Price to Sales		0.48	0.40	0.31	0.31	0.27	0.24	0.21
Gearing Ratios		FY20E	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	0.71	0.60	0.67	0.49	0.47	0.48	0.53
L.T. Debt to Equity	x	0.33	0.26	0.20	0.08	0.03	0.01	0.00
Total Debt to Assets		0.37	0.32	0.34	0.46	0.45	0.47	0.50
L.T. Debt to Assets		0.17	0.14	0.10	0.07	0.03	0.01	0.00
Interest Cover	x	-0.33	1.77	1.93	1.01	1.11	1.33	1.43

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

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Market Weight	Neutral
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RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com