

DGKC has announced its 1QFY23 result where it posted a profit after tax of Rs389mn (EPS: Rs0.89) as compared to a profit after tax of Rs908mn (EPS: Rs2.07) in the same period last year, down by 57.2% YoY amid a drop in cement dispatches.

The company had posted a revenue of Rs13.56bn against Rs11.53bn in SPLY, recording a growth of 21.8% YoY amid higher retention prices.

The gross margin has dropped to 15.3% as compared to the 18.8% SPLY amid higher coal prices and PKR devaluation. SG&A expenses have increased by 8.1% YoY to Rs544mn as compared to Rs503mn during SPLY.

Furthermore, other charges have dropped by 92.9% while finance cost has increased by 116.5% YoY. Lastly, effective taxation has jumped to 33.1% as compared to 22.9% in SPLY due to the imposition of super tax by the government.

DGKC is currently trading at a FY23E P/E of 14.35x. The scrip is also trading at a FY23E P/B of 0.25x which offers a discount of 30% relative to its historical 3-year average of 0.36x. We have a **BUY** stance on the scrip with a DCF-based Jun-23 TP of Rs70 which provides an upside potential of 23%.

Rupees' millions	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Net Sales	13,585	11,153	21.8% ▲	58,044	45,108	28.7% ▲
Cost of Sales	-11,512	-9,054	27.2% ▲	-47,616	-37,036	28.6% ▲
Gross Profit	2,073	2,099	1.2% ▼	10,428	8,072	29.2% ▲
SG&A Expenses	-544	-503	8.1% ▲	-2,500	-2,597	3.7% ▼
Operating Profit	1,529	1,596	4.2% ▼	7,928	5,475	44.8% ▲
Other Charges	-16	-226	92.9% ▼	-1,043	-414	151.7% ▲
Other Income	661	543	21.8% ▲	2,705	2,632	2.8% ▲
Finance Cost	-1,593	-736	116.5% ▲	-3,571	-2,921	22.3% ▲
Profit Before Taxation	581	1,178	50.6% ▼	6,020	4,771	26.2% ▲
Taxation	-192	-270	28.7% ▼	-3,048	-1,050	190.2% ▲
Profit After Taxation	389	908	57.2% ▼	2,972	3,721	20.1% ▼
Earnings Per Share	0.89	2.07	57.2% ▼	6.78	8.49	20.1% ▼
Dividend	0.00	0		1.00	1.00	
Bonus	-	0		-	-	
Gross Margin	15.3%	18.8%	3.6% ▼	18%	18%	0.1% ▲
SG&A Expenses to Sales	-4.0%	-4.5%	0.5% ▼	-4.3%	-5.8%	1.4% ▼
Other Income to Sales	4.9%	4.9%	0.0% ▼	4.7%	5.8%	1.2% ▼
Ex. Gain / (Loss) to Sales	-4.0%	-4.5%	0.5% ▼	-4.3%	-5.8%	1.4% ▼
Effective Taxation	-33.1%	-22.9%	10.2% ▲	-50.6%	-22.0%	28.6% ▲
Net Margin	2.9%	8.1%	5.3% ▼	5.1%	8.2%	3.1% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	DGKC
TP - Jun 23	70.00
LDPC	56.94
Upside (%)	23
Free Float ('mn)	219
Market Cap. (Rs. 'mn)	23,746

DGKC vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Ahmed

Phone: (+92) 42 38302028; Ext: 118

Email: mahmed@abbasiandcompany.com

Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	38,033	45,108	58,044	58,029	67,786	83,881	87,531
Cost of sale	36,447	37,036	47,616	49,473	57,365	70,550	72,503
Gross profit	1,586	8,072	10,428	8,556	10,420	13,332	15,028
Selling and promotion expenses	659	647	751	1,393	1,091	1,350	1,409
Administration expenses	1,783	1,950	1,749	899	2,277	2,818	2,941
Other operating expenses	530	414	1,043	87	102	126	131
Operating Profit	- 1,532	5,165	6,877	6,177	6,950	9,038	10,547
Other operating income	2,430	2,527	2,714	2,461	2,461	2,461	2,461
Finance cost	4,653	2,921	3,571	6,044	5,157	5,001	5,372
Profit before taxation	- 3,756	4,771	6,020	2,594	4,254	6,497	7,636
Taxation	- 1,598	1,050	3,048	856	1,404	2,144	2,520
Profit after taxation	- 2,159	3,721	2,972	1,738	2,850	4,353	5,116
EPS	- 4.93	8.49	6.78	3.97	6.51	9.94	11.68

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	-6.1%	18.6%	28.7%	0.0%	16.8%	23.7%	4.4%
Cost of sale	3.7%	1.6%	28.6%	3.9%	16.0%	23.0%	2.8%
Gross profit	-70.4%	409.0%	29.2%	-18.0%	21.8%	27.9%	12.7%
Selling and promotion expenses	4.8%	-1.8%	16.1%	85.4%	-21.7%	23.7%	4.4%
Administration expenses	36.6%	9.3%	-10.3%	-48.6%	153.2%	23.7%	4.4%
Other operating expenses	-1.6%	-21.8%	151.7%	-91.7%	16.8%	23.7%	4.4%
Operating Profit	-153.4%	-437.1%	33.1%	-10.2%	12.5%	30.0%	16.7%
Other operating income	0.1%	4.0%	7.4%	-9.3%	0.0%	0.0%	0.0%
Finance cost	40.8%	-37.2%	22.3%	69.2%	-14.7%	-3.0%	7.4%
Profit before taxation	-288.7%	-227.0%	26.2%	-56.9%	64.0%	52.7%	17.5%
Taxation	-519.2%	-165.7%	190.2%	-71.9%	64.0%	52.7%	17.5%
Profit after taxation	-234.1%	-272.4%	-20.1%	-41.5%	64.0%	52.7%	17.5%
EPS	-234.1%	272.4%	-20.1%	-41.5%	64.0%	52.7%	17.5%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	4.17	17.89	17.97	14.74	15.37	15.89	17.17
NP Margin	%	-5.68	8.25	5.12	3.00	4.20	5.19	5.85
OP Margin	%	-4.03	11.45	11.85	10.64	10.25	10.77	12.05
ROE	%	-3.24	5.06	4.25	1.74	2.78	4.08	4.61
ROCE	%	-1.89	3.17	2.55	1.17	1.89	2.77	3.04
ROA	%	-1.67	2.70	2.18	1.64	2.71	3.96	4.43
Cost per ton	'mn	6.86	5.39	9.51	12.02	12.69	13.26	13.70
EBITDA per ton	'mn	0.40	1.33	2.01	2.47	2.41	2.42	2.71
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	0.91	0.91	0.89	0.17	0.16	0.24	0.31
Acid-test	x	0.42	0.38	0.26	-0.37	-0.39	-0.34	-0.23
Cash to current liab.	x	0.01	0.02	0.01	-0.57	-0.58	-0.52	-0.39
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Average Inventory		4,033,527	3,540,792	4,355,052	6,098,190	6,710,562	8,034,383	8,985,181
Inventory Turnover	x	9	10	11	8	9	9	8
Inventory Days		40	35	33	45	43	42	45
Receivables Days		22	14	9	9	9	9	9
Payables Days		113	147	97	97	97	97	97
Operating Cycle		-51	-99	-54	-42	-45	-46	-42
Utilization	%	76	93	76	58	64	75	75
Export Revenue	%	81	71	71	66	69	68	68
Local Revenue	%	19	29	29	34	31	32	32
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	3.97	6.51	9.94	11.68
DPS		0.00	1.00	1.00	1.00	1.00	1.00	1.00
Div. Yield	%	0.00	1.76	1.76	1.76	1.76	1.76	1.76
Dividend Cover		0.00	8.49	6.78	3.97	6.51	9.94	11.68
BVPS		152.11	167.71	159.59	227.88	234.38	243.32	253.50
Payout	%	0.00	11.77	14.74	25.21	15.37	10.06	8.56
Retention	%	100.00	88.23	85.26	74.79	84.63	89.94	91.44
No. of Shares	'mn	438	438	438	438	438	438	438
P/E		-11.56	6.70	8.39	14.35	8.75	5.73	4.88
Sales per share		86.81	102.96	132.48	132.45	154.72	191.46	199.79
P/BV		0.37	0.34	0.36	0.25	0.24	0.23	0.22
Price to Sales		0.66	0.55	0.43	0.43	0.37	0.30	0.29
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	0.52
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	0.46	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	1.02	1.35	1.81	1.96

Source: ACPL Research, Company Financials

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

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

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) 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 email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. 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

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

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