

DGKC has announced its 9MFY23 result where it posted a profit after tax of Rs2.11bn (EPS: Rs4.82) as compared to a profit after tax of Rs3.62bn (EPS: Rs8.26) in the same period last year, down by 41.6% YoY owing to a decline in dispatches takeoff and increase in finance cost.

The company had posted a revenue of Rs48.04bn against Rs43.30bn in SPLY, recording a growth of 11% YoY amid higher retention prices. The gross margin has declined to 16.1% as compared to the 18% SPLY amid PKR devaluation. SG&A expenses have decreased by 18.2% YoY to Rs1.69bn as compared to Rs2.07bn during SPLY.

Furthermore, other charges have dropped by 62.4% while finance cost witnessed a surge by 98.8% YoY to Rs4.88bn on the back of higher interest rates. Lastly, effective taxation has jumped to 33.1% as compared to 24.9% in SPLY.

DGKC is currently trading at a FY23E P/E of 6.83x. The scrip is also trading at a FY23E P/B of 0.19x which offers a discount of 31% relative to its historical 3-year average of 0.28x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs52 which provides an upside potential of 18%.

Rupees' millions	3QFY23	3QFY22	YoY	9MFY23	9MFY22	YoY
Net Sales	18,282	15,862	15.3% ▲	48,043	43,297	11.0% ▲
Cost of Sales	-14,802	-12,913	14.6% ▲	-40,306	-35,490	13.6% ▲
Gross Profit	3,480	2,949	18.0% ▲	7,737	7,807	0.9% ▼
SG&A Expenses	-759	-691	9.9% ▲	-1,693	-2,070	18.2% ▼
Operating Profit	2,722	2,258	20.5% ▲	6,044	5,737	5.4% ▲
Other Charges	-38	-52	26.8% ▼	-160	-424	62.4% ▼
Other Income	756	667	13.3% ▲	2,149	1,960	9.6% ▲
Finance Cost	-1,673	-916	82.7% ▲	-4,876	-2,454	98.8% ▲
Profit Before Taxation	1,767	1,958	9.8% ▼	3,157	4,818	34.5% ▼
Taxation	-586	-516	13.7% ▲	-1,045	-1,199	12.9% ▼
Profit After Taxation	1,180	1,442	18.1% ▼	2,112	3,619	41.6% ▼
Earnings Per Share	2.69	3.29	18.1% ▼	4.82	8.26	41.6% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	-	-		-	-	
Gross Margin	19.0%	18.6%	0.4% ▲	16.1%	18.0%	1.9% ▼
SG&A Expenses to Sales	-4.1%	-4.4%	0.2% ▼	-3.5%	-4.8%	1.3% ▼
Other Income to Sales	4.1%	4.2%	0.1% ▼	4.5%	4.5%	0.1% ▼
Ex. Gain / (Loss) to Sales	-4.1%	-4.4%	0.2% ▼	-3.5%	-4.8%	1.3% ▼
Effective Taxation	-33.2%	-26.3%	6.8% ▲	-33.1%	-24.9%	8.2% ▲
Net Margin	6.5%	9.1%	2.6% ▼	4.4%	8.4%	4.0% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	DGKC
TP - Dec 23	52
LDPC	44.00
Upside (%)	18
Free Float ('mn)	219
Market Cap. (Rs. 'mn)	19,277

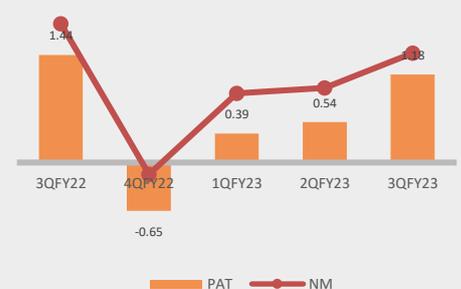
DGKC vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	38,033	45,108	58,044	64,070	70,468	78,314	86,056
Cost of sale	36,447	37,036	47,616	53,742	58,789	65,931	72,316
Gross profit	1,586	8,072	10,428	10,329	11,680	12,383	13,740
Selling and promotion expenses	659	647	751	1,023	1,125	1,250	1,374
Administration expenses	1,783	1,950	1,749	1,235	2,458	2,732	3,002
Other operating expenses	530	414	1,043	164	698	776	852
Operating Profit	- 1,532	5,165	6,877	7,906	7,399	7,625	8,512
Other operating income	2,430	2,527	2,714	2,816	2,816	2,816	2,816
Finance cost	4,653	2,921	3,571	6,504	5,377	4,975	5,276
Profit before taxation	- 3,756	4,771	6,020	4,219	4,838	5,467	6,052
Taxation	- 1,598	1,050	3,048	1,396	1,601	1,809	2,003
Profit after taxation	- 2,159	3,721	2,972	2,823	3,237	3,658	4,049
EPS	- 4.93	8.49	6.78	6.44	7.39	8.35	9.24

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	-6.1%	18.6%	28.7%	10.4%	10.0%	11.1%	9.9%
Cost of sale	3.7%	1.6%	28.6%	12.9%	9.4%	12.1%	9.7%
Gross profit	-70.4%	409.0%	29.2%	-1.0%	13.1%	6.0%	11.0%
Selling and promotion expenses	4.8%	-1.8%	16.1%	36.2%	10.0%	11.1%	9.9%
Administration expenses	36.6%	9.3%	-10.3%	-29.4%	99.0%	11.1%	9.9%
Other operating expenses	-1.6%	-21.8%	151.7%	-84.2%	324.8%	11.1%	9.9%
Operating Profit	-153.4%	-437.1%	33.1%	15.0%	-6.4%	3.1%	11.6%
Other operating income	0.1%	4.0%	7.4%	3.8%	0.0%	0.0%	0.0%
Finance cost	40.8%	-37.2%	22.3%	82.1%	-17.3%	-7.5%	6.1%
Profit before taxation	-288.7%	-227.0%	26.2%	-29.9%	14.7%	13.0%	10.7%
Taxation	-519.2%	-165.7%	190.2%	-54.2%	14.7%	13.0%	10.7%
Profit after taxation	-234.1%	-272.4%	-20.1%	-5.0%	14.7%	13.0%	10.7%
EPS	-234.1%	272.4%	-20.1%	-5.0%	14.7%	13.0%	10.7%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	4.17	17.89	17.97	16.12	16.57	15.81	15.97
NP Margin	%	-5.68	8.25	5.12	4.41	4.59	4.67	4.71
OP Margin	%	-4.03	11.45	11.85	12.34	10.50	9.74	9.89
ROE	%	-3.24	5.06	4.25	2.80	3.11	3.41	3.65
ROCE	%	-1.89	3.17	2.55	2.15	2.48	2.77	2.95
ROA	%	-1.67	2.70	2.18	2.58	2.96	3.25	3.39
Cost per ton	'mn	6.86	5.39	9.51	12.56	13.26	14.17	14.83
EBITDA per ton	'mn	0.40	1.33	2.01	2.78	2.56	2.47	2.52
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	0.91	0.91	0.89	0.33	0.34	0.43	0.55
Acid-test	x	0.42	0.38	0.26	-0.49	-0.50	-0.42	-0.27
Cash to current liab.	x	0.01	0.02	0.01	-0.79	-0.78	-0.69	-0.51
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Average Inventory		4,033,527	3,540,792	4,355,052	6,366,307	7,068,089	7,833,683	8,683,330
Inventory Turnover	x	9	10	11	8	8	8	8
Inventory Days		40	35	33	43	44	43	44
Receivables Days		22	14	9	9	9	9	9
Payables Days		113	147	97	102	107	112	117
Operating Cycle		-51	-99	-54	-49	-53	-59	-63
Utilization	%	76	93	76	60	63	66	69
Export Revenue	%	92	94	94	66	66	65	65
Local Revenue	%	19	29	29	34	34	35	35
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	6.44	7.39	8.35	9.24
DPS		0.00	1.00	1.00	1.00	1.00	1.00	1.00
Div. Yield	%	0.00	2.27	2.27	2.27	2.27	2.27	2.27
Dividend Cover		0.00	8.49	6.78	6.44	7.39	8.35	9.24
BVPS		152.11	167.71	159.59	230.35	237.74	245.09	253.33
Payout	%	0.00	11.77	14.74	15.52	13.53	11.98	10.82
Retention	%	100.00	88.23	85.26	84.48	86.47	88.02	89.18
No. of Shares	'mn	438	438	438	438	438	438	438
P/E		-8.93	5.18	6.49	6.83	5.96	5.27	4.76
Sales per share		86.81	102.96	132.48	146.24	160.84	178.75	196.42
P/BV		0.29	0.26	0.28	0.19	0.19	0.18	0.17
Price to Sales		0.51	0.43	0.33	0.30	0.27	0.25	0.22
Gearing Ratios		FY20E	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	0.71	0.60	0.67	0.30	0.25	0.23	0.24
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	0.28	0.24	0.22	0.22
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	1.22	1.38	1.53	1.61

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

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