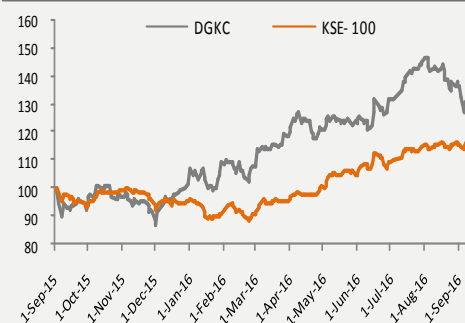


## D.G KHAN CEMENT COMPANY LTD.

**Oct 26, 2016**
**BUY**
**Price Target : PKR 266.4/share**
**CURRENT MARKET DATA**

Current Price	175.9
Market Cap (PKR mn)	77,065.3
52 wk Hi	212.22
52 wk low	125.76
Outstanding shares (mn)	438.12
Free Float (%)	55%
KATS Code	DGKC

*Sources: PSX*
**RELATIVE TO KSE—100**

*Sources: PSX*
**Earnings likely to clock in at PKR 4.44/sh for 1QFY17E**

- D.G Khan Cement (DGKC) is scheduled to announce its 1QFY17E financial result tomorrow, dated October 27, 2016. We expect DGKC to post earnings of PKR 1,944mn (EPS: PKR 4.44), in comparison to PKR 1,722mn (EPS: PKR 3.93) registered in 1QFY16A, depicting sound growth of 13%YoY.
- On yearly basis, projected increase in topline of DGKC is primarily attributable to surge in local offtake by ~10% and export volumetric growth of ~8% during 1QFY17E as compared to corresponding period of 1QFY16A, resulting from an uptick in demand.
- The key trigger for the boost in the earning potential of DGKC is its coal based captive power plant of 30MW commissioned in Dera Ghazi Khan site. Owing to the said reason and subdued energy cost the company is expected to post GP of PKR 2,871mn, an upsurge of 21%YoY.
- We anticipate gross margins to climb up to ~42% for 1QFY17E in comparison to the same quarter of the previous year where GP margins stood at 37%, however on sequential basis a minute decline in the margins is anticipated owing to sudden hike in coal prices during the 1st quarter.
- On quarterly basis, top line of the company is expected to witness a noteworthy decline of 19%QoQ from lower domestic sales as compared to the last quarter.
- On the back of lower operating expenses by -12%YoY and growth in other income by 9% YoY, EBIT is projected to grow 24%YoY clocking in at PKR 2,859mn.
- We revise our investment case maintaining 'Buy' stance on DGKC with our June'17 SOTP based Price target of PKR 266.4/sh, implying 51% upside potential from the last closing price of PKR 176/sh.

**Investment Risk:** The key risks to our investment thesis are 1) Surge in international coal & oil prices 2) Breakdown of Price arrangement 3) Decline in local demand 4) Delay in hub expansion 5) Increase in Interest rates & 6) Concentrated portfolio investment.

**FINANCIAL HIGHLIGHTS 1QFY17E**

PKR 'mn'	1QFY17E	1QFY16A	YoY	1QFY17E	4QFY16A	QoQ
Net Sales	6,808	6,244	9%	6,808	8,386	-19%
Cost of sales	3,937	3,865	2%	3,937	4,612	-15%
Gross Profit	2,871	2,379	21%	2,871	3,773	-24%
Admin Expenses	103	109	-6%	103	213	-52%
Distribution Expenses	224	207	8%	224	327	-31%
Operating Profit	2,544	2,063	23%	2,544	3,233	-21%
Other operating expenses	211	240	-12%	211	223	-5%
Other operating income	526	480	9%	526	575	-8%
EBIT	2,859	2,303	24%	2,859	3,584	-20%
Financial Charges	42	30	41%	42	32	31%
Profit before taxation	2,817	2,274	24%	2,817	3,553	-21%
Taxation	873	552	58%	873	1,141	-23%
Profit after Tax	1,944	1,722	13%	1,944	2,411	-19%
EPS	4.44	3.93	13%	4.44	5.50	-19%

*Source: Nael Research, Company accounts*

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