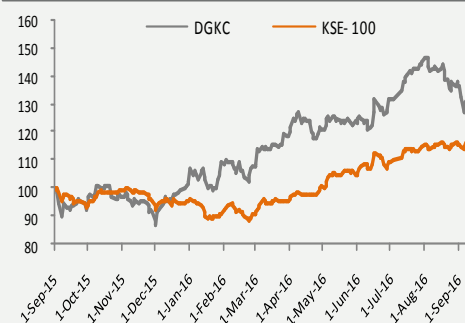


D.G KHAN CEMENT COMPANY LTD.
Oct 27, 2016
BUY
Price Target : PKR 266.4/share
CURRENT MARKET DATA

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
1QFY17 Earnings clocked at PKR 4.35/sh, in line with our expectations

- D.G Khan Cement (DGKC) announced its 1QFY17A financial result today, dated October 27, 2016. The company posted earnings of PKR 1,908mn (EPS: 4.35), in line with our projected earnings of PKR 1,944mn (EPS: 4.44) in its 1st quarter of FY17.
- Topline of DGKC settled at PKR 6,599mn increasing 6%YoY as compared to corresponding period of 1QFY16A, resulting from increased volumetric sales of the company.
- 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 power/energy cost the company posted GP of PKR 2,911mn, an upsurge of 22%YoY.
- Achieving cost efficiencies, gross margins climbed up to ~44% for 1QFY17A/YoY in comparison to 1QFY16A where GP margins stood at 38%.
- On sequential basis, top line of the company witnessed a substantial decline of 21%QoQ from lower domestic sales as compared to the last quarter.
- As projected EBIT of the company grew 23%YoY clocking in at PKR 2,839mn closely in line with our projection of PKR 2,859mn, on the back of lower operating expenses by -13% YoY and growth in other income by 8%YoY.
- We maintain our stance of 'Buy' rating 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 1QFY17A

PKR 'mn'	1QFY17A	1QFY16A	YoY	1QFY17A	4QFY16A	QoQ
Net Sales	6,599	6,244	6%	6,599	8,386	-21%
Cost of sales	3,688	3,865	-5%	3,688	4,612	-20%
Gross Profit	2,911	2,379	22%	2,911	3,773	-23%
Admin Expenses	126	109	16%	126	213	-41%
Distribution Expenses	254	207	23%	254	327	-22%
Operating Profit	2,531	2,063	23%	2,531	3,233	-22%
Other operating expenses	209	240	-13%	209	223	-7%
Other operating income	517	480	8%	517	575	-10%
EBIT	2,839	2,303	23%	2,839	3,584	-21%
Financial Charges	74	30	149%	74	32	132%
Profit before taxation	2,766	2,274	22%	2,766	3,553	-22%
Taxation	858	552	56%	858	1,141	-25%
Profit after Tax	1,908	1,722	11%	1,908	2,411	-21%
EPS	4.35	3.93	11%	4.35	5.50	-21%

Source: Nael Research, Company accounts

Taha Rehman
 taha@naelcapital.com
 (+92-21) 32461812-13 (Ext.) 150