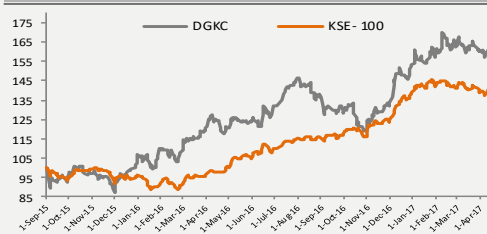
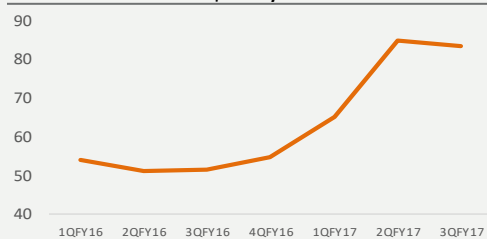


**D.G KHAN CEMENT COMPANY LTD.**
**April 18<sup>th</sup>, 2017**
**BUY**
**Price Target : PKR 269/sh**
**CURRENT MARKET DATA**

Current Price	226
Market Cap (PKR mn)	99,233
52 wk Hi	245.37
52 wk low	170.2
Outstanding shares (mn)	438.12
Free Float (%)	55%
KATS Code	DGKC

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

*Sources: PSX*
**DGKC — EARNINGS HIGHLIGHTS 9MFY17E**

PKR 'mn'	9MFY17E	9MFY16A	YoY
<b>Net Sales</b>	22,517	21,318	6%
<b>Cost of sales</b>	13,085	12,423	5%
<b>Gross Profit</b>	6,520	8,895	-27%
<b>PBT</b>	9,138	8,928	2%
<b>Tax</b>	2,522	2,550	-1%
<b>PAT</b>	6,615	6,379	4%
<b>EPS</b>	<b>15.10</b>	<b>14.56</b>	<b>4%</b>

*Source: Nael Research, Company accounts*
**US\$ Coal /ton**

*Sources: Richard Bay*
**Taha Rehman AC**
**taha@naelcapital.com**
**(+92-21) 32461812-13 (Ext.) 150**
**Earnings to post at PKR 4.82/sh for 3QFY17E, taking a hit by 8%YoY**

- D.G Khan Cement (DGKC) is scheduled to announce its 3QFY17E financial result tomorrow, dated April 19<sup>th</sup>, 2017. We expect DGKC to post earnings of PKR 2.1bn (EPS: PKR 4.82), in comparison to PKR 2.2bn (EPS: PKR 5.25), depicting a downside of 8%YoY.
- Attributable to the surge in local offtake by ~4%YoY topline propelled 2%YoY in 3QFY17E clocking in at PKR 7.8bn, whereas a sequential dip in revenues by 3%QoQ was brought by depressed exports during the quarter and seasonal impact of winters.
- DGKC's significant reliance on coal within its diversified energy/fuel mix the gross profit is likely to take a hit from increase in coal prices, we expect the company to record gross profit of PKR 3bn down by 9%/10% YoY/QoQ.
- We anticipate gross margins to subdue by 3ppts/5pptsQoQ/YoY recording at ~39% for 3QFY17E owing to sudden hike in international coal prices that surged to USD 84/ton during the quarter.
- We revise our investment case maintaining 'BUY' stance on DGKC with our June'17 SOTP based Price target of PKR 269/sh, implying 19% upside potential from the last closing price.

**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 3QFY17E**

PKR 'mn'	3QFY17E	3QFY16A	YoY	3QFY17E	2QFY17A	QoQ
<b>Net Sales</b>	7,829	7,683	2%	7,829	8,088	-3%
<b>Cost of sales</b>	4,738	4,275	11%	4,738	4,660	2%
<b>Gross Profit</b>	3,092	3,408	-9%	3,092	3,428	-10%
<b>Admin Expenses</b>	114	117	-3%	114	135	-16%
<b>Distribution Expenses</b>	175	237	-26%	175	250	-30%
<b>Operating Profit</b>	2,802	3,054	-8%	2,802	3,043	-8%
<b>Other operating expenses</b>	229	236	-3%	229	298	-23%
<b>Other operating income</b>	526	567	-7%	526	659	-20%
<b>EBIT</b>	3,099	3,385	-8%	3,099	3,404	-9%
<b>Financial Charges</b>	41	37	11%	41	89	-54%
<b>Profit before taxation</b>	3,058	3,349	-9%	3,058	3,314	-8%
<b>Taxation</b>	948	1,050	-10%	948	716	32%
<b>Profit after Tax</b>	2,110	2,299	-8%	2,110	2,598	-19%
<b>EPS</b>	<b>4.82</b>	<b>5.25</b>	<b>-8%</b>	<b>4.82</b>	<b>5.93</b>	<b>-19%</b>

*Source: Nael Research, Company accounts*