D.G KHAN CEMENT

ICON CAPITAL MANAGEMENT (PVT.) LTD.

DGKC

D.G Khan Cement – 'BUY' With Target of Rs 150

D.G. Khan Cement Company Limited is amongst largest cement manufacturers of Pakistan with a production capacity of 14,000 tons per day. DGKC has three cement plants, two plants located at Dera Ghazi Khan and one at Khairpur Distt. Chakwal. All the plants are based on latest Dry Process Technology. On back of higher cement prices and slight rise in sales volume, the cumulative net revenue of the company reached Rs 12,655 million in 1HFY15 which is 2% YoY up from Rs 12,403 million in 1HFY14. The volumetric sales of the company reached 1.88 million tons in 1HFY15 growing slightly by 1% YoY as against a sales volume of 1.86 million tons in the similar period in FY14.
However owing to hike in electricity prices, the cost of sales surge by 4% YoY

PKR` Millions	FY14	HFY15 Jul-Dec	FY15 (P)
Sales	26,542,509	12,655,187	26,575,893
G.P	9,257,568	4,130,947	9,527,413
Total Operating Cost	2,444,438	1,016,381	2,517,771
Other Income	1,647,126	1,133,679	2,267,358
Profit from Operations	8,460,256	4,248,245	9,277,000
Profit before tax	7,851,397	4,092,286	8,956,082
Profit after tax	5,965,498	3,393,534	7,567,578
EPS	13.62	7.75	17.27

The Financial Review

With start of mega construction projects, cement sector was able to post top-line growth of 10% in 2QFY15 to Rs53.3bn as against Rs48.5bn in 1QFY15. The prime growth driver remained 14% rise in local cement dispatches as it rose to 7mn tons in 2QFY15 versus 6mn tons in 1QFY15. Exports however declined by 2.6% to 2.0mn tons versus 2.06mn tons in 1QFY15 due to lower dispatches to Afghanistan.

- During these six months under review GP, selling costs, other operating expenses, finance costs, and taxation reduced by 1.77%, 38%, 11%, 57% and 14% respectively.
- Sales, cost of sales, other income, PAT and PBT increased by 2%, 4%, 18%, 17% and 27% respectively when compared with figures of comparative half year.
- Out of total other income; dividend income is PKR 860 million as compared to PKR 792 million in comparative period while major dividend is from MCB.
- Present cement prices to remain stable and sales may grow in second half as winter is over and remaining months of financial year are sunny.
- Low furnace oil prices would bring reduction in electricity rates.
- Negotiations with prospective suppliers are in progress. Letter of credit amounting to USD 23.6 million for 30MW coal based captive power project at DG Khan Site has been opened in favor of Sinoma Energy Conservation Ltd. of China. The project is expected to be commissioned within about 16 months.

What's next!!!

Cement sector is gradually shifting from export based demand to local consumption, which is positive for the industry as the margins are high. During summer season (2HFY) cement sector perform better due to higher demand of Cement. Further, DGKC's expansion announcement now seems likely and even if 20% (about 8-9mn tons) of capacity is added to the industry by FY18, utilization levels will still remain close to current levels because industry demand may grow by about 15-20% over the same period as well, which will offset the addition supply with no threat of price war. D.G Khan being one of the biggest player in cement sector will take maximum benefit from the increase in demand with more production capacity. At current price level we recommend our clients to "**BUY**" DGKC with target price of RS 150/Share by the end of FY15.

April 1st, 2015

DGKC: BUY

Current Price: 112.00

Target Price: 150

Key Data

Ticker	DGKC
Current Price (PKR/sh)	106.7
52-Week High (PKR/sh)	134.75
52-Week Low(PKR/sh)	69.57
Market Cap.(PKR Bn)	48.98

	EPS	Book Value
2011	0.45	69
2012	9.38	75.1
2013	12.56	109.5
2014	13.62	140.4
2015H	7.75	146.4

Equity Portfolio

NPPCL	50%	AICL	3%
NML	9%	MCB	2%
NCL	3%		

Research Desk
Email: equitydesk@iconcapital.net
Website: www.iconcapital.net
Tel: +92 21 32432316-20