

Foundation Alert

DGKC: Analyst Briefing Takeaways

Event

- D.G. Khan Cement Company Limited (DGKC PA) held its Analyst briefing session yesterday to discuss financial/operational performance of FY22 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- D.G. Khan Cement Company Limited (DGKC PA) reported profitability of Rs3.0bn (EPS of Rs6.8, down 20% YoY) in FY22 as compared to profit of Rs3.7bn (EPS of Rs8.5) in FY21.
- Management attributes decrease in company's profitability to (1) lower dispatches, (2) higher fuel and energy prices, (3) higher exchange losses (4) elevated interest expense and (5) higher effective tax rate.
- Moreover, company revenue increased 29% YoY in FY22 due to better retention prices due to multiple price hikes by the company in order to pass on the impact of higher fuel/energy cost. Whereas, current north/south retention prices are Rs13,500/12,500-13,000/ton.
- DGKC domestic dispatches declined by 3.98% YoY in FY22, while its clinker exports decreased significantly by 39.38% YoY in FY22. Subsequently, company total market share stood at ~12%.
- According to management, exports will remain subdued as the clinker export market is on the verge of collapse (export price at \$33/ton) due to slowdown in China and Taiwan amid higher Richard bay coal prices due to constraint supply.
- DGKC current production capacity stands at 22,400 tons/day, whereby DGP/KHP/HUB capacities are 6,700/6,700/9,000tons/day.
- DGKC/industry capacity utilization declined 10/7% YoY to 93/76% in FY22. Lower utilization will increase fixed costs which can impact profitability margins, as per management.
- Company has plan to install a new alternate power plant at its Hub site, whereas LC related issues has delayed the process. The project is expected to complete in FY24. In addition, installation of 6.9/6.0/6.0MW solar power plants at Khairpur/DG. Khan/Hub sites are also on the cards.
- Regarding coal consumption, management states that company is currently using 50% Afghan coal while remaining requirement is met through a mix of Imported and Local coal.
- At Hub site more than 80% of coal is imported and at DG Khan plant coal mix is 30/70% Local & imported/afghan while for Kallar Kahar 100% of coal is imported from Afghanistan.
- At present, Afghan and Local coal average cost is ~ 50k/ton and 27-40k/ton, respectively.
- According to management, major challenges being faced by the company are (1) declining construction activity amid higher borrowing costs (2) fear of intense price competition as new capacities are coming online, (3) rising energy prices, and (4) volatile Rs-\$ parity.

Outlook

- Company near term profitability is expected to remain under pressure given its inability to completely pass on the impact of rise in fuel cost and inflationary pressures given slowdown in demand amid economic consolidation. Furthermore, demand from NPHP may decline in future due to limited fiscal space and conditions of IMF program.

- However, aforementioned factors are already incorporated in current market prices, thus we have positive stance on the scrip. Furthermore, company would benefit from strong profitability of portfolio companies.

Fig 01: DGKC - 1QFY23 Financial Highlights (Rs mn)

	1QFY23	1QFY22	YoY	QoQ	FY22	FY21	YoY
Net Sales	13,585	11,153	22%	-8%	58,043	45,108	29%
Cost of sales	11,512	9,054	27%	-5%	47,616	37,036	29%
Gross Profit	2,073	2,099	-1%	-21%	10,428	8,072	29%
Admin Expenses	211	185	14%	6%	751	647	16%
Selling and Distribution Expenses	333	317	5%	44%	1,749	1,950	-10%
Other operating expenses	16	226	-93%	-97%	1,052	414	154%
Other operating income	661	543	22%	-12%	2,714	2,632	3%
EBIT	2,174	1,913	14%	-6%	9,591	7,692	25%
Financial Charges	1,593	736	117%	43%	3,571	2,921	22%
Profit before taxation	581	1,178	-51%	-52%	6,019	4,771	26%
Taxation	192	270	-29%	-90%	3,048	1,050	190%
Profit after Tax	389	908	-57%	-160%	2,972	3,721	-20%
EPS	0.89	2.07			6.78	8.49	
Gross margins	15.3%	18.8%			18.0%	17.9%	
EBIT Margin	16.0%	17.2%			16.5%	17.1%	
Net margins	2.9%	8.1%			5.1%	8.2%	
Effective tax rate	33.1%	22.9%			50.6%	22.0%	

Source: Company accounts, Foundation Research, November 2022

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.