DG KHAN CEMENT

The emerging hopes for revival of economic activities to attract foreign investment from Middle East and China – which will be a respite for industrial growth. Furthermore the tax incentives to construction sector have boosted the earning expectation for FY24-25.

DGKC INVESTMENT CASE

- DGKC is evaluated at EV/sh of PKR 156/sh – wherein we see DGKC is poised to take advantage of economic development program such as SIFC & green revolution etc ‘initiated’ by incumbent government & military leadership.

- The expansion in plant capacity and cost reduction measures via implementation of new *Alternate Fuel* energy generation plants;
  - new Alternate Fuel Energy plant at its Hub site will reduce production cost and replaces imported coal.
  - also planning to install the on-grid solar power plant of 6.9MW at its site in Khairpur.
  - The Company also plans to install 6MW each solar power plant at its DG. Khan and HUB sites.

  This will help company to reduce its fixed energy cost and replace electricity generated from fossil fuels/bought from the national grid.

- Furthermore DGKC has deployed SSL certificated for web/Cloud traffic as we are using a hybrid solution and a complete cloud computing system is in process to transform company digitally. This adoption will benefit company in efficient controlling of operations and give it a competitive advantage.

DGKC INVESTMENT ANALYSIS…

- DGKC is depicting lower EV/ton in Dollar terms i.e. $36/sh. DGKC yields EV/share of PKR 156/sh.
- FY23 was the year where country faced hardships. Cement sector has also depicted lower local dispatches vs FY22. However we continue to see construction sector as a whole will benefit given ongoing CPEC water reservoir projects as well as certain other initiatives.
- The current year's demand has been somewhat less intense than it was last year. Additionally, overall inflation and interest rates reduced local business activity in FY23.
- The impact of this inflation could also be seen in high sales – thus invariably supporting cement companies which is part of the cartel. We also saw coal prices receding in FY23 after 'disturbed' international commodity cycle in FY22.

Financial Screening ~FY23	
Capacity (tons)	6,700,000
Sales (PKR 000)	60,043,356
EV/ton (PKR)	10,215
EV/ton	36
EV/sh	156
Capex/Sales	4%
Price to sales	42%
Book value per share	168
Long term Debt To Equity	26%
Debt to long term assets	19%
ROCE	4%
ROE	4%

Source: Company's Financials, Scs Research

DGKC: READY TO BURGEON!

DG Khan Cement is amongst the largest cement manufacturer of Pakistan with production capacity of 22,400 tons per day (6.72mn tons per annum). DGKC has four cement plants, two plants located at Dera Ghazi Khan, one at Khairpur Distt. Chakwal and one at Hub Lasbela District in the province of Balochistan.

The company is also Pakistan's largest cement exporter to South Africa. Also UAE and Middle East are key destinations. We still see room for growth in exports.

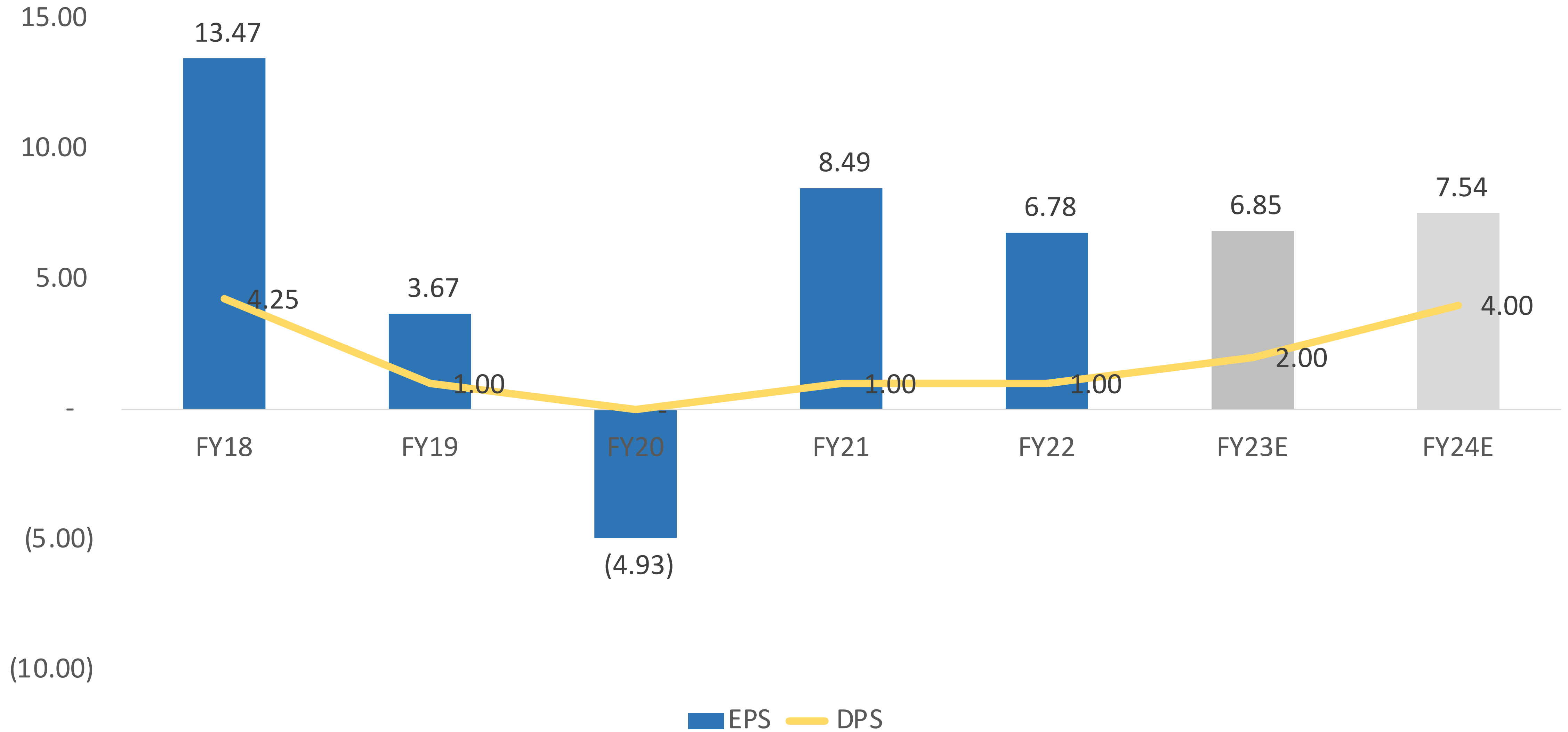
Company sales utilization is improving and with hopes for development economic perspective (revival of construction sector on development expenditures from government accounts and upcoming general elections) we are looking DGKC sales to be PKR 69bn by FY24.

The 9MFY23 sales reported an increase of 11%yoy ~PKR 48bn backed by increase in cement bag prices above PKR 1100/50kg bag. The 9M dispatches were 3.3MT vs 4.07MT last year.

EPS reported in 9MFY23 is PKR 4.82/sh while as per our projection this could close FY23 account at EPS of PKR 6.17/sh. We also expect DGKC to pay FY23 dividend of PKR 2/sh.

We earlier estimated ~PKR 6-8/sh one time cash dividend given taxation on reserve sage. Many other blue-chips resorted to pay 'higher' one-time cash dividend in June 2023 before the advent of Budget.

DGKC: EARNING VS DIVIDEND



Source: Company's Financial, SCS Research

DGKC: ESTIMATED P&L

PKR 000	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	30,668,428	40,516,525	38,033,124	45,107,690	58,043,863	60,043,356	66,047,692
Gross profit	8,740,221	5,362,439	1,585,906	8,071,892	10,428,312	10,807,804	11,888,584
Administrative Expenses	(624,725)	(628,517)	(658,874)	(646,762)	(751,052)	(1,200,867)	(1,320,954)
Selling Expenses	(898,156)	(1,305,695)	(1,783,422)	(1,950,056)	(1,748,859)	(2,401,734)	(2,641,908)
Other Expenses	(2,354,656)	(538,207)	(529,640)	(414,315)	(1,042,803)	(1,801,301)	(1,981,431)
Financial Expenses	(519,267)	(3,304,102)	(4,653,286)	(2,920,875)	(3,571,187)	(3,602,601)	(3,962,861)
Other Income	3,026,661	2,427,266	2,429,575	2,526,818	2,714,340	4,203,035	4,623,338
PBT	7,370,078	2,013,184	(3,609,741)	4,666,702	6,028,751	6,004,336	6,604,769
Taxation	(1,467,530)	381,082.00	(1,597,527.00)	1,050,132.00	3,047,629.00	(3,002,168)	(3,302,385)
PAT	5,902,548	1,609,759	(2,158,661)	3,721,273	2,972,132	3,002,168	3,302,385
EPS	13.47	3.67	(4.93)	8.49	6.78	6.85	7.54
DPS	4.25	1.00	-	1.00	1.00	2.00	4.00

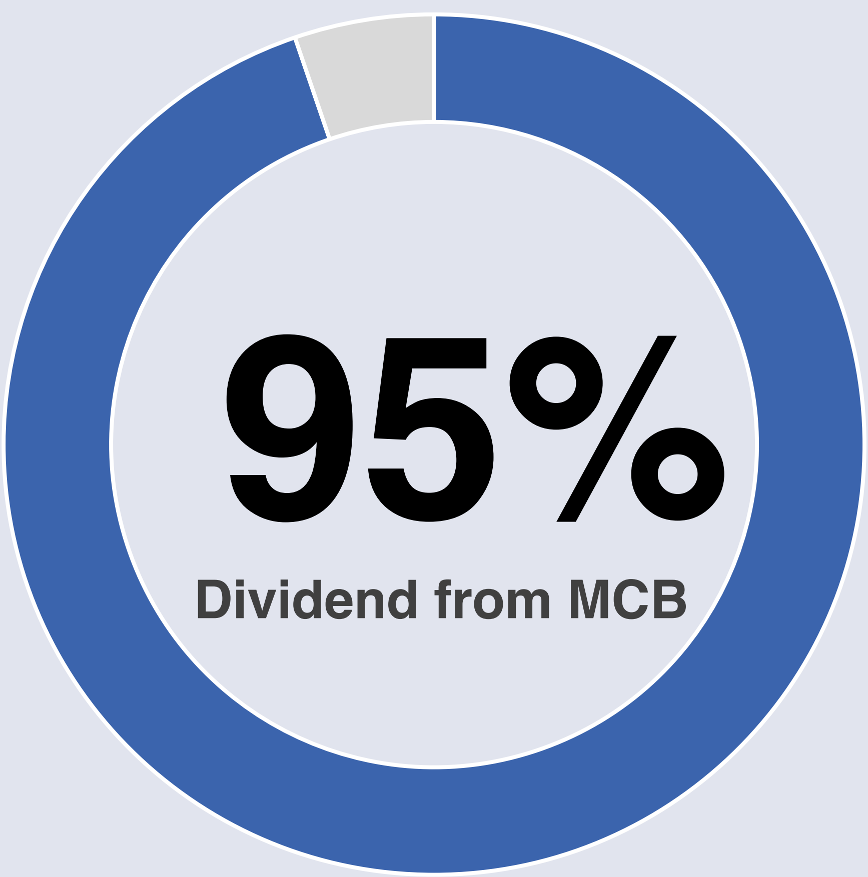
Source: Company's Financial's SCS Research

DGKC: RELATIVE INDEX

Source: Company's Financial, SCS Research

DGKC: DIVIDEND Dilemma

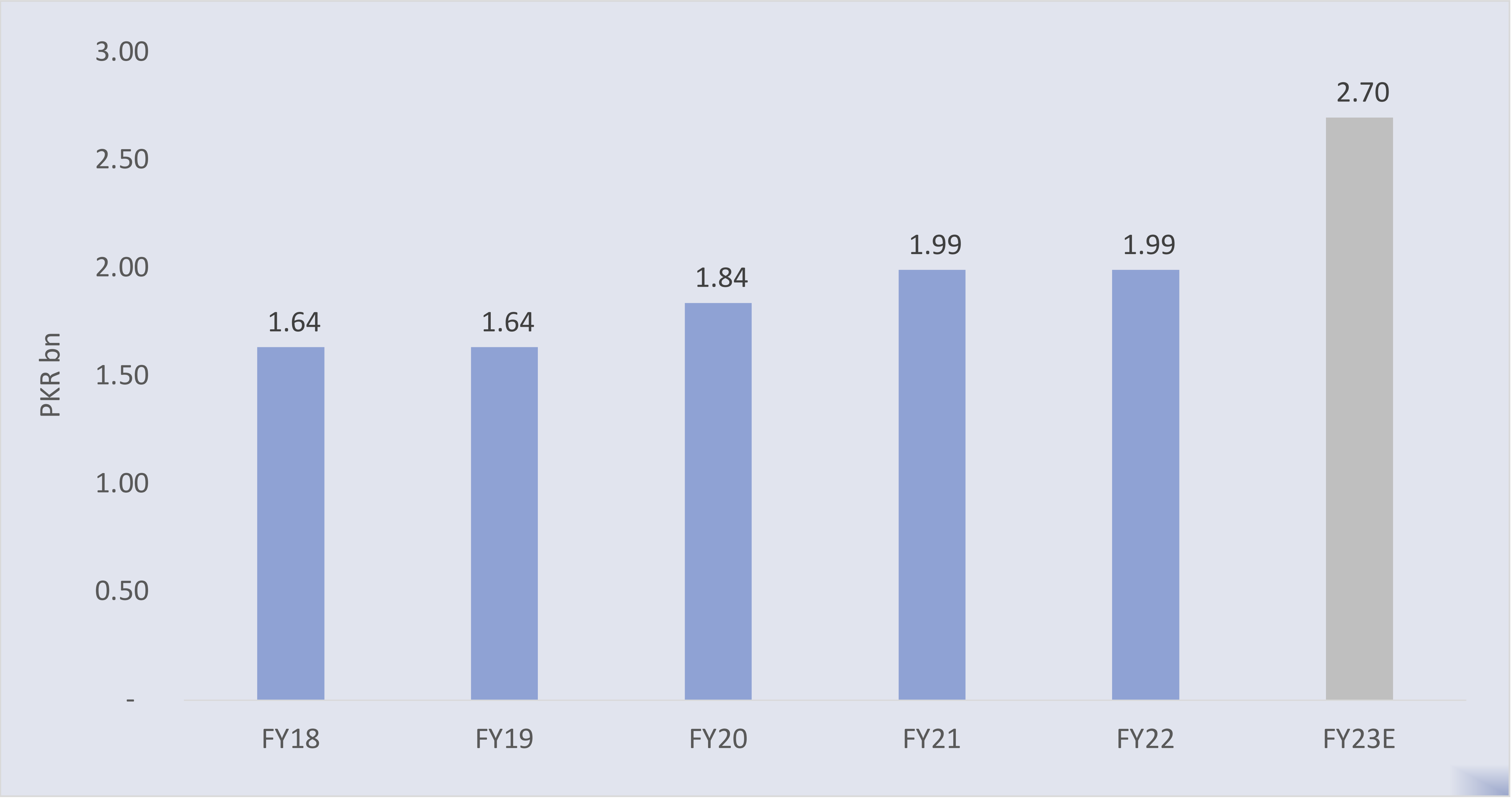
DGKC earns major portion of its dividend income from MCB which accounts to on an average 95% of total dividend income. Furthermore, DGKC has made further investments into Hyundai Nishat Motor (Pvt) Ltd. (HNMPL) of PKR 1 bn against right issue (~100mn shares) and 5.6mn shares of Nishat Chunian Power Limited (NCPL) at PKR 102mn in merger scheme as per company's latest financials.



DGKC Holding (as at June-22)	No. Shares	%
MCB Bank Limited	102,277,232	9%
Nishat Mills Limited	30,289,501	9%
Adamjee Insurance Co. Ltd.	27,877,735	8%
Nishat Paper Products Co. Ltd.	25,595,398	55%
Nishat Dairy (Pvt) Limited	270,000,000	55%
Nishat Hotels and Properties Limited	104,166,667	10%
Hyundai Nishat Motor (Pvt) Ltd.	94,873,000	10%

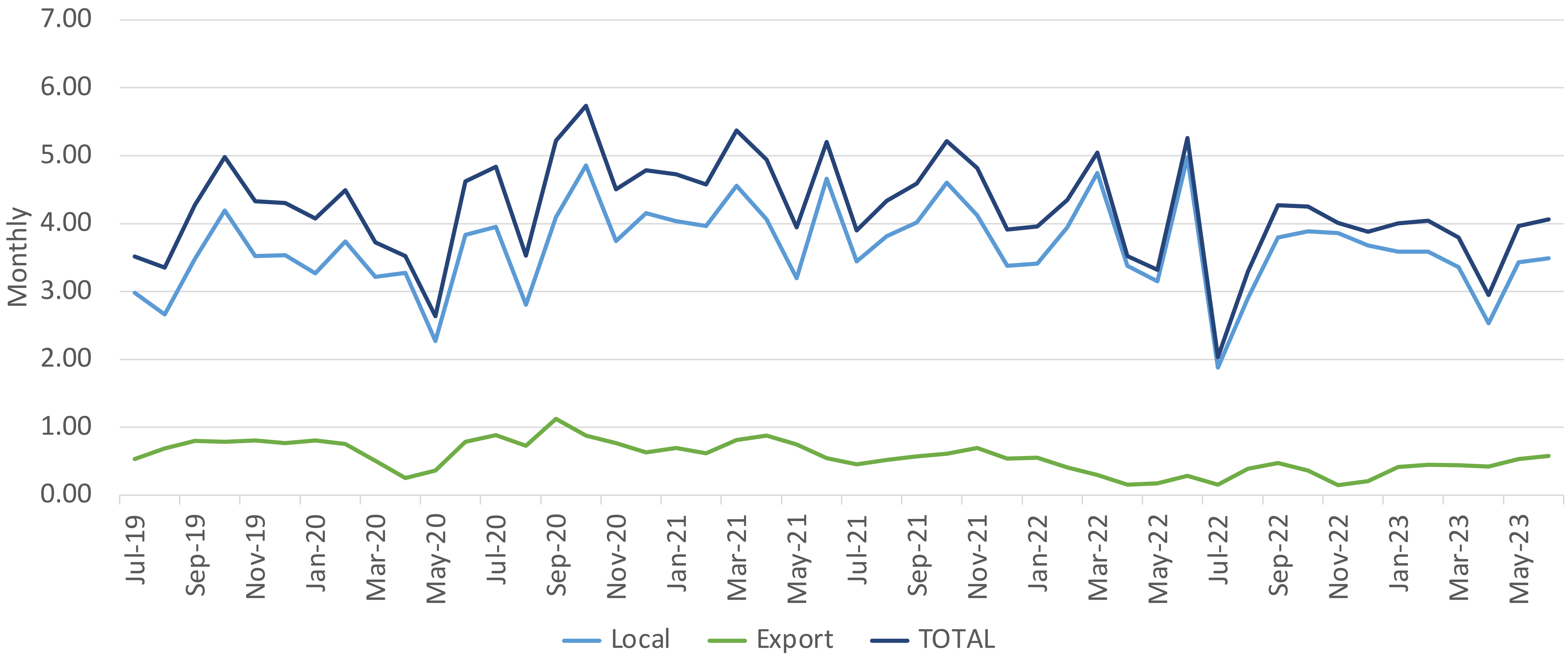
Source: Compnay's Financials SCS Research

DGKC: MCB - A GOLDEN GOOSE!



CEMENT DISPATCHES

As per recent APCMA update, the current year dispatches remain lower by 16%yoy to 44.5 mn Tons. The local dispatches was depressed by 16%yoy and exports by 13%yoy.

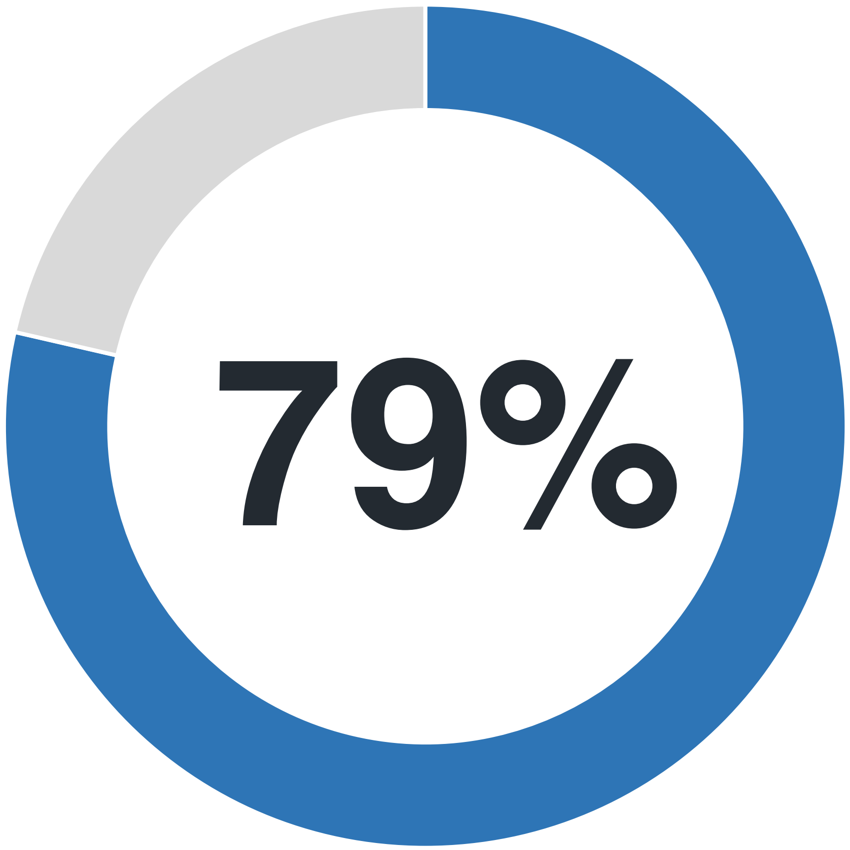


Source: APCMA Company's Financial, SCS Research

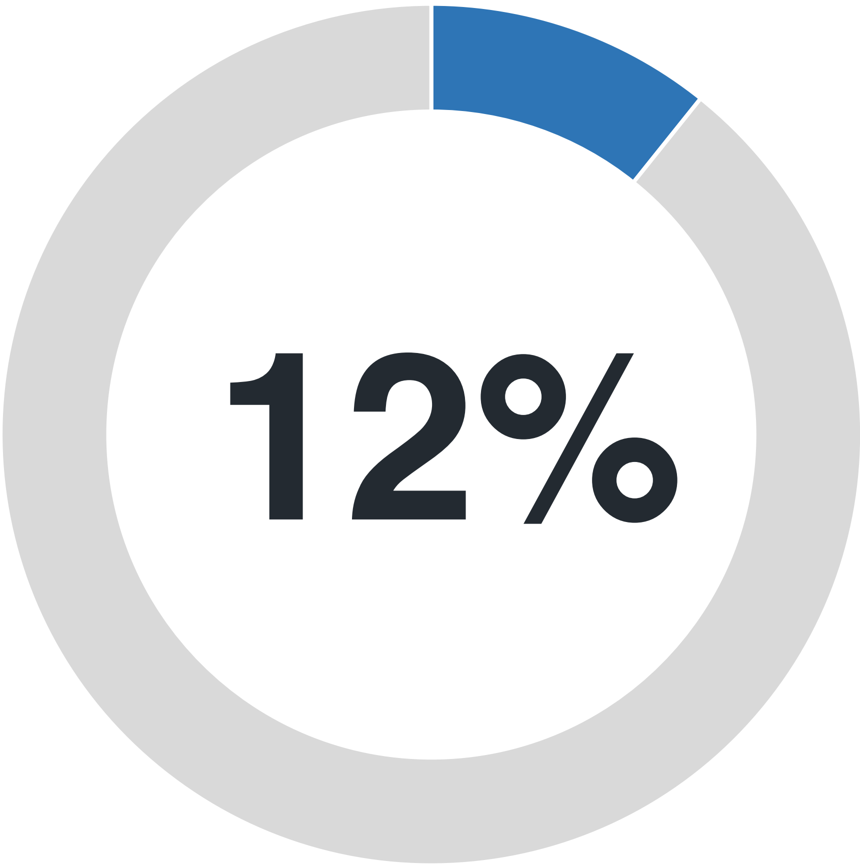
DGKC MARKET SHARE

Total market share of the company (local and export) is about 12%. As per APCMA update, FY23 total dispatches was 44mn tons of which DGKC dispatched ~5.2mn tons of cement. **DGKC capacity utilization remains above industry**.

Operational Capacity Utilization

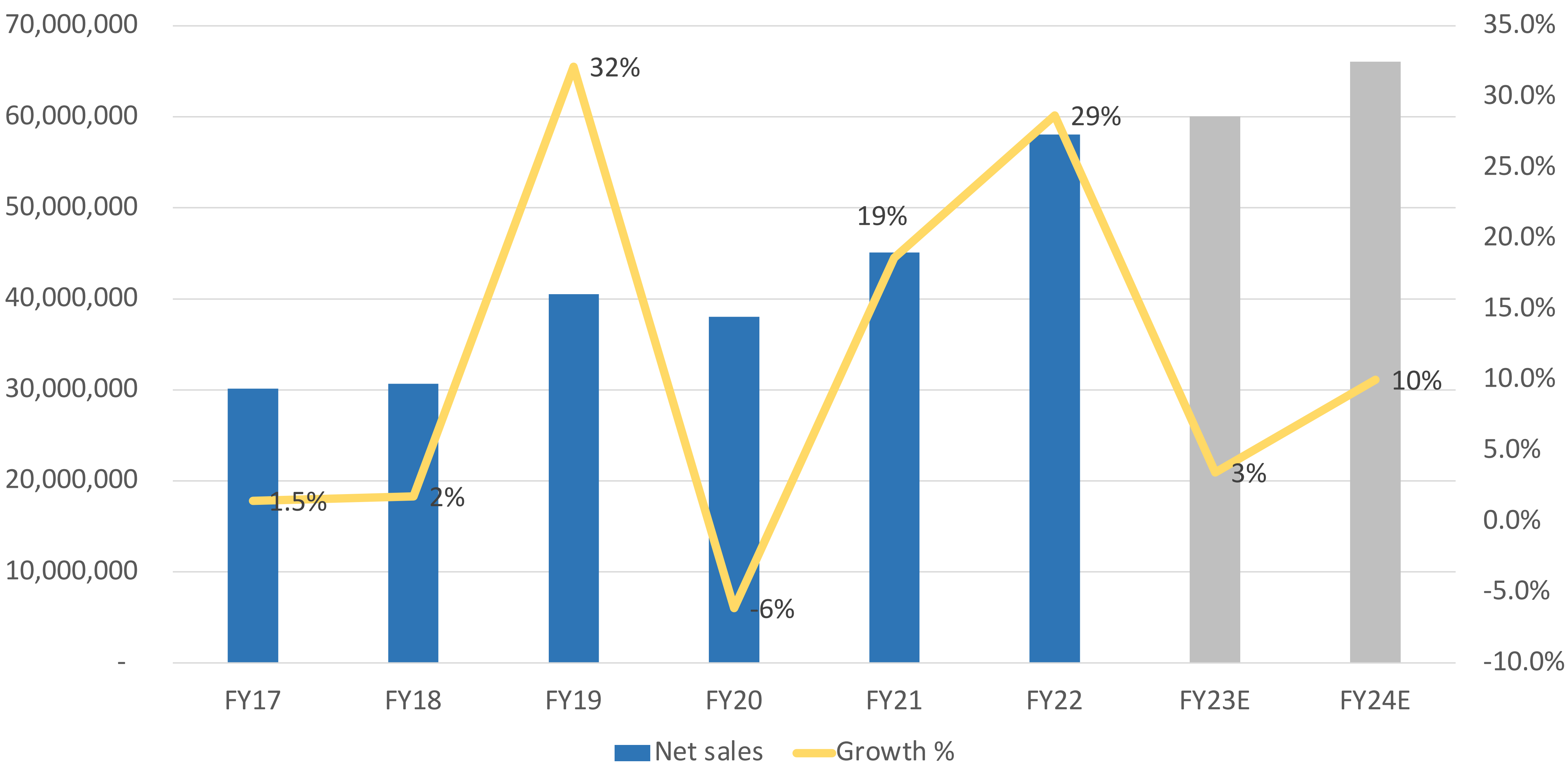


Market Share



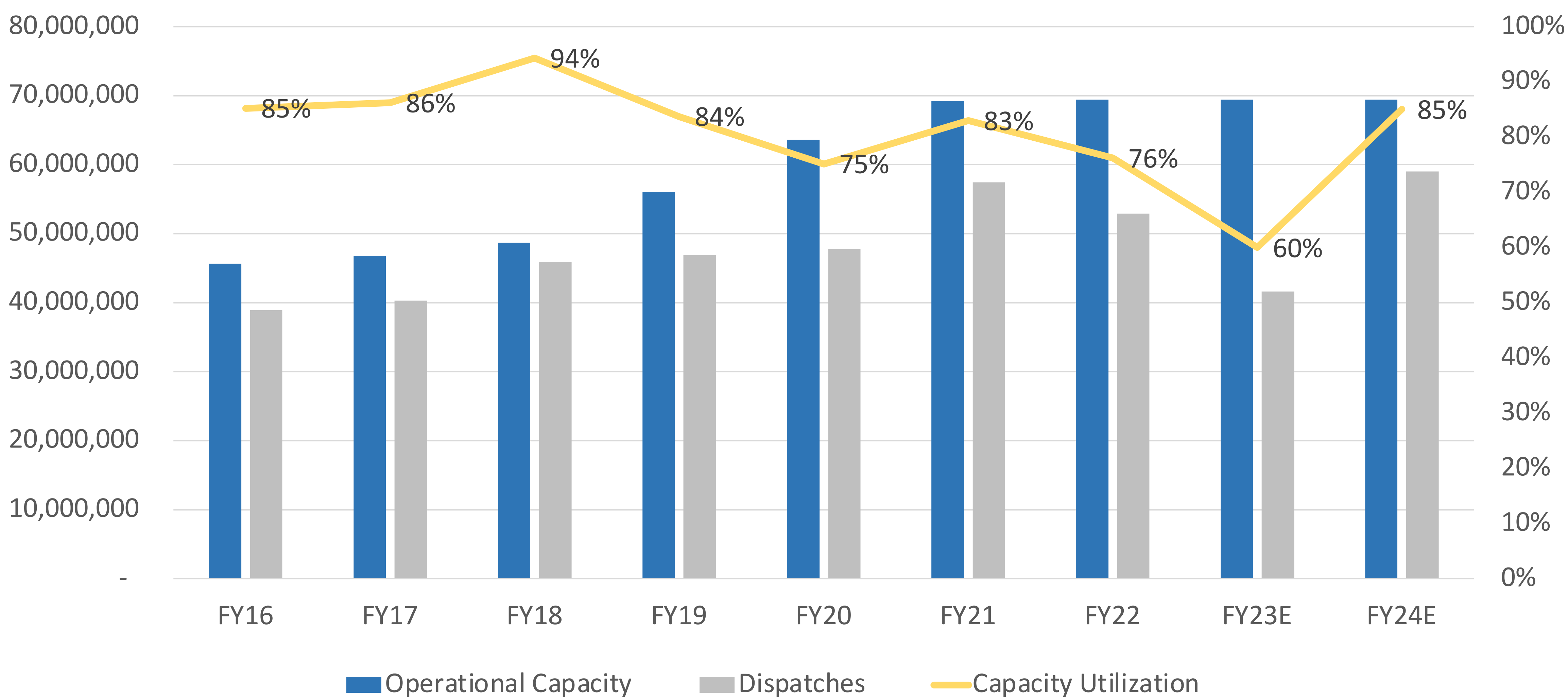
Source: APCMA Company's Financial, SCS Research

DGKC SALES GROWTH



Source: Company's Financial, SCS Research

DGKC OPERATIONAL OUTLOOK



Source: Company's Financial, SCS Research

TAX changes: CONSTRUCTION SECTOR

The government has introduce number of incentives for builders and individuals engaged in new construction projects.

- Under the new measures, builders will enjoy a tax relief of either 10% or PKR 5mn on their business income for the next three years.
- Similarly, individuals undertaking construction projects will receive a tax relief of 10% or PKR 1mn for the next three years.
- These tax benefits will apply to projects that commence after July 1, 2023.
- a concessional tax rate for banks providing loans to these sectors at lower rate of 20% on the income generated through loans to these sectors, as opposed to the standard rate of 39% has been extended till 2025.
- Furthermore government has proposed incentives for land developers too by taking them into a separate head i.e. Under this new system, land development businesses, including banks and insurance companies, will be subject to scheduler taxation.
- The proposed minimum tax rate for land developers is set at 5% of turnover, by Section 113 (Turnover Tax). This rate is significantly lower than the standard tax rate of 1.25% applicable to individuals, associations of persons (AOPs), and companies.

ECONOMY REVIVAL PLAN!

The on going developments into economy with compelling army's Special Investment Facilitation Council (SIFC) to attract foreign investors and proposed tax benefits to construction developers are accrediting a massive rally into construction sector which is poised to be reflected in improved earrings of listed companies in PSX. DGKC remains a blue-chip cement sector entity.

The government is initially expecting over $20 bn investments from Saudi Arabia, UAE, and Qatar into agriculture and refinery sector. This may be a good omen as a whole for the cash strapped economy.

In addition to it the recent deposit of over $1bn from IMF has ignite confidence for inflow of foreign investment into Pakistan and development opportunities. This is a $3bn program with relatively stringent conditions – which Pakistani economy withstanding resiliently.

GWADAR IN LIMELIGHT: Proximity to DGKC's Hub plant

Gwardar the game changer development for Pakistan has been growing at slow pace but since Pakistan is on its way for good fortune the rival of undertake projects are seems to get online too;

The projects entail desalination potable water plant, Gwadar Free Zone North (Phase 11), Gwadar Safe City Project, New Gwadar International Airport, three electricity projects, Gwadar Smart Port City Master Plan, Gwadar Tourism Project, New management model of Pak-China Technical and Vocational Institute (PCT & VI), State of Art Shipyard Project, Oil Refinery project, Green Gwadar Project, Pak-China Friendship Hospital, fisher community projects, Gwadar Port dredging project, Export-oriented projects, Fishing industry, Warehouse industry, and Gwadar Huafa Exhibition and Trading Center. More than 20 new projects are on the way of completion in 2023 and onward years as per their scheduled timeframes. Furthermore;

- The national project worth PKR 194.6 bn approved for the protection from the floods in which pkr10.86 bn will be spent from foreign financing.
- The ECNEC approved a project for providing water to the Sindh Thar Coal through Makhi Farash Link Canal which would cost over PKR 12 bn to the exchequer.
- The ECNEC approved the Kachhi Canal project worth PKR 8.28 bn.
- The project for the construction of the 36-kilometre-long Sindh Coastal Highway worth PKR 16.2 bn
- The ECNEC also cleared the construction project for Sanghar-National Highway N-5 which will be completed with the reviewed cost of PKR 12.52 bn.

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Price to earnings & Price to Book, EV-EBITDA multiple
Discounted Cash flows or Dividend Discount Model or Enterprise Value