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Today's Daily

■ DGKC: Strong fundamentals, attractive valuations

Post release of 1HFY18 detailed accounts, we reiterate our liking for DGKC with our rolled forward Dec'18 TP standing at PkR198/sh (upside: 30%). Our recommendation is underpinned on the back of: 1) upcoming Greenfield expansion in the South Region (2.80mpta), estimated to add PkR1.73/2.48bn (EPS Impact: PkR3.95/PkR5.65) to DGKC's bottom-line from FY19/FY20 (assuming 50%/62% utilization in FY19/FY20), 2) additional tax credit of ~PkR2.90bn or PkR6.2/sh, to be recorded in 4QFY18F/FY19F (in addition to the 4 years tax holiday on the new plant from FY19), 3) impressive growth in total cement offtake in 7MFY18 (up 15%YoY) with utilization reaching 120% and 4) further diversification of its portfolio business in the shape of planned new investment in Hyundai Nishat Motors Limited (HNMP) of up to PkR850mn or 10% equity stake. Additionally, the recent uptick in local prices is a major positive especially after declining consistently in the past few months (cements prices in the North Region declined by almost 11% or PkR60/bag since Jun'17). Having lost 29%FYTD, the stock currently trades at a cheap FY19/20F PE of 7.2x/7.7x, a 33%/16% discount over the AKD cement universe's (ex-LUCK) FY19/FY20F PE of 10.5x/9.1x.

KSE100 - Index

Current 43,829.07
Previous 43,740.49
Chg. 0.20%

Mkt Cap. (PkRbn/US\$bn)

Current 9,150 / 82.76
Previous 9,110 / 82.40
Chg. 0.43%

Daily Turnover (mn)

Current 137.04
Previous 229.93
Chg. -40.4%

Value Traded (PkRmn/US\$m)

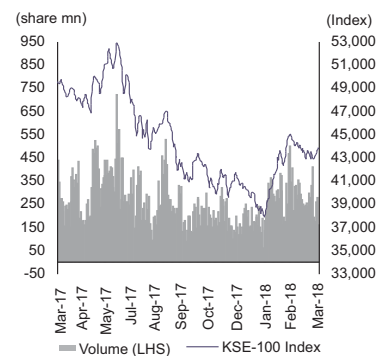
Current 5,937 / 53.70
Previous 9,648 / 87.26
Chg. -38.5%

AKD Daily

Tuesday, Mar 06 2018

News and Views

- The National Accountability Bureau has formally approved supplementary references against ousted Prime Minister Nawaz Sharif and others in Azizia Steel Mills, Hill Metals, Flagship Investment and Avenfield properties corruption cases.
- Pakistan is reportedly in talks with a Chinese financial institution to obtain US\$1bn as a foreign commercial loan, as its recent internal assessment revealed that inflows from traditional lenders would fall below budgeted projections. To recall, the country has already obtained US\$1bn as foreign commercial loan from the Industrial and Commercial Bank of China (ICBC) in the past three months.
- As per planning commission's statistics, the gov't has released over PkR550.291bn under its FY18 Public Sector Development Program (PSDP) for various ongoing and new schemes against the total allocations of PkR1,001bn.



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1HFY18 Result Review: DGKC posted NPAT PkR3.73bn (EPS: PkR8.52) in 1HFY18 compared to PkR4.51bn (EPS: PkR10.28) in 1HFY17, down 17%YoY. Key highlights of 1HFY18 result includes: 1) 7%YoY increase in topline due to healthy growth in cement dispatches (up 11%YoY) and 2) 9.9pptsYoY fall in GMs to 33.3% (avg. coal prices up 37%YoY during Apr-Sept'17 coupled with 1.6%YoY decline in local cement prices in 1HFY18).

Greenfield plant in South is the key: Work on upcoming Greenfield expansion at Hub Baluchistan in the South Region, (2.80mpta) is progressing at a rapid pace, scheduled to come online by Jun'18. This new plant is estimated to add PkR1.73/2.48bn (EPS: 3.95/5.65) to DGKC's bottom-line from FY19/FY20 (assuming 50%/62% utilization in FY19/FY20). Upon commencement of its operations in Jun'18, DGKC's market share in the South is estimated to be around ~15% (assuming 50% utilization in the first year of its operation, i.e. FY19). In addition to this, the new cement plant in the South also comes with the tax advantages in the form of: 1) four year tax holiday (FY19-22) and 2) applicable tax credit for investment estimated at PkR2.9bn or PkR6.2/sh. under section 65B of the Income Tax Ordinance, 2001 which will be recognized upon commencement of its operations. Out of ~PkR6.2/sh applicable tax credit, PKR PkR5.4/sh is estimated to be recorded in 4QFY18, whereas remaining PkR1.2/sh benefit will be credit forward to FY19, to be realized in 1QFY19.

Another expansion cannot be ruled out: Following impressive growth

DGKC: Earnings Forecast breakup

(PkR/sh)	FY18F	FY19F	FY20F
EPS - Base plant (North)	15.86	16.07	18.53
EPS - New plant (South)	-	3.95	5.65
Tax Credit 65B	5.46	1.16	-
Total	21.33	21.18	24.18

Source: AKD Research



in total cement offtake in 7MFY18 (up 15%YoY), utilization level of DGKC's North plant has scaled up to its highest level ever (currently running at 120% - the highest in the industry). In this regard, another brownfield expansion in the North region cannot be ruled out where our per channel checks, DGKC's management is currently in talk with the GoP for the necessary regulatory approval for the new line (estimated to be above 2mpta).

Hyundai Nishat Motors is an additional sweetener: In order to further diversify its portfolio business, DGKC's BOD has recently approved investment in Hyundai Nishat Motors Limited (HNMPL) of up to PkR850mn or 10% equity stake. This will further strengthen the strong portfolio base of the company, aiding growth to the bottom-line in the form of consistent future dividend incomes from investment companies.

Investment Perspective: Having lost 29%FYTD, the stock currently trades at a cheap FY19/20F PE of 7.2x/7.7x, a 33%/16% discount over the AKD cement universe (ex-LUCK) FY19/FY20F PE of 10.5x/9.1x (considering DGKC's strong earnings profile -5yr forward earnings CAGR of 13%). Our rolled forward Dec'18 TP for DGKC stands at PkR198/sh, implying Buy stance at current levels (upside 30%).



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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