

# Flash Note

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## Cements

### DGKC: EPS PKR 20.06 accompanied by DPS PKR 6.00 in FY16

- DG Khan Cement Company's profitability increased by +15%YoY to PKR 8.8bn (EPS PKR 20.06) in FY16, whereas earnings improved by a mere of +7%YoY to PKR 2.4bn (EPS PKR 5.50) in 4QFY16. Company also announced final cash dividend of PKR 6/share.
- Revenue augmented by +14%YoY to PKR 29.7bn in FY16 on the back of +11%YoY expected growth in total dispatches (local +15%YoY, exports -6%YoY).
- Gross Margin elevated by 643bpYoY to 43% in FY16 due to a) increase in local dispatches resulting in higher net retention price, b) soft international coal prices, and c) energy production on low cost FO.
- Other Income stepped up by +3%YoY to PKR 2.379bn (Pre-tax PKR 5.43/share).
- Board of Directors also approved loan of PKR 1bn (if and when required) for company's subsidiary Nishat Hotels and Properties Limited (NHPL) at average borrowing cost plus 0.3%.
- DGKC is in process of installing green field 3mn tons cement plant expected to come in FY18 in Southern region.

### Recommendation

The scrip is currently trading at FY17F P/E of 8.3x, and with our Dec-16 TP of PKR 242/share, stock provides upside of +21%. Hence we maintain our **BUY** call on the scrip.

#### Exhibit: Financial Highlights

PKR mn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Revenue	8,386	7,159	17%	29,704	26,105	14%
Gross Profit	3,773	3,038	24%	12,668	9,455	34%
Selling and Admin	540	272	99%	1,522	1,219	25%
Other Income	575	604	-5%	2,379	2,320	3%
PBT	3,553	3,067	16%	12,481	9,547	31%
Tax	1,141	817	40%	3,691	1,922	92%
Net profit	2,411	2,250	7%	8,790	7,625	15%
EPS	5.50	5.14		20.06	17.40	
DPS	6.00	5.00		6.00	5.00	
Key Ratios						
Gross Margin	45%	42%		43%	36%	
Net Margin	29%	31%		30%	29%	
Effective Tax Rate	32%	27%		30%	20%	

Source: IGI Research, Company Financials

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### Analyst Certification

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Recommendation	Rating System
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### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

#### Time Horizon

- Dec - 2016

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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