

Pakistan Market Savvy

DGKC: Target Price Revised Upward on Better Export Earnings

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REP-079

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DGKC: Target Price Revised Upward on Better Export Earnings

Based on lowest PE and EV/ton along with attractive portfolio, we reiterate 'BUY' stance on DG Khan Cement with revised SOTP based target price of Rs240/share, offering upside potential of 60%. With annual capacity of 6.7mn tons, DGKC is the 5th largest cement player in Pakistan, having 9% market share in the local industry. Moreover, company is the second largest cement exporter in the country with market share of 19%. Interesting company's export sales now contributes 25% compared to 15% last year.

After adjusting downward our long-term coal price estimates (US\$90-95 per ton) while raising our cement export price assumption to US\$45-48 per ton during next few years, we are revising upward our FY26 earnings estimates for DGKC by 45% to Rs27.1/share.

Export to Support Earnings

With rising exports led by elevated cement prices and better gross margin amid lower coal prices, company's export venture has become more attractive. We believe cement exports to contribute 21% in total earnings during FY26 while previously exports were generating slightly positive contribution margins.

With recent decline in local Richard Bay coal prices (down 17% in FY25TD), the cost of production has declined significantly as fuel cost constitutes 55% in overall cost which has lifted gross margins. We expect DGKC's gross margins to remain higher at 29% over the next 3 years versus 14% during the last 5 years.

Thus, we expect DGKC to post impressive earning CAGR of 23% during next 3 years, thanks to recovery in cement demand and stable coal price.

Key Data			
Company	D.G. Khan Cement		
Symbol	DGKC		
Recommendation	Buy		
Current Price (Rs)	151		
Target Price (Rs)	240		
52 Weeks Range (Rs)	73.3 - 150.7		
Current Volume (mn sh)	19.8		
Outstanding Shares (mn sh)	438		
Current Market Cap. (Rs mn)	66,042		
Free Float (mn sh)	219		
Free Float M. Cap. (Rs mn)	33,021		
	3m	6m	12m
Avg. Traded Volume (mn sh)	7.2	7.5	5.8
Avg. Traded Value (Rs mn)	902	844	567

Note: Prices as of May 13, 2025

Source: PSX, Sherman Research

Key Numbers					
	FY23A	FY24A	FY25E	FY26F	FY27F
EPS (Rs)	(8.3)	1.2	16.8	27.1	31.9
P.E. (x)	(6.2)	51.1	9.0	5.6	4.7
P/BV (x)	0.3	0.9	0.8	0.7	0.7
ROE (%)	NM	1%	9%	13%	14%
Div. Yield (%)	0%	0%	3%	5%	5%

FY23-FY24 based on Average Prices, FY25-FY27 based on Current Prices

Source: Company Accounts, Sherman Research

With strong annual EBITDA generation of average Rs25bn over the next 3-year, we believe company will be able to payoff its loan by next 3- year and will have more space for payouts. Moreover, we expect finance cost to decline mainly due to de-leveraging.

Trading at Lowest FY26PE of 5.6x in industry, Top pick in Cement Sector

In our cement cluster, DGKC has become the cheapest stock on PE of 5.6x based on projected earnings while cement industry is trading at PE of 6.5x. Thus, company is trading at a discount whereas historically DGKC traded at premium to the industry due to its diversified portfolio.

Based on 1) better outlook on both local and export market 2) cheapest on PE multiples and 3) attractive EV per ton we are now placing DGKC as our top pick in cement sector in place of MLCF.

Trading at one of the Lowest EV per ton of \$US37

Similarly, company is trading at one of the lowest EV per ton of US\$37 versus industry average of US\$49 (see table 2). Moreover, Barring DGKC, POWER and MLCF, most of the cement plants are now trading close to their historical averages on EV/TON. However, they are at deep discount to their replacement cost as cost of brownfield plant is around US\$65-70/ton.

Interestingly, during last 5 years, DGKC used to trade on premium of 17% to industry. But currently DGKC is available at deep discount of 24% to industry average.

DGKC Trading at Lowest fy26E PE of 5.6x

DGKC	5.6
MLCF	6.2
LUCK	6.4
Industry	6.5
CHCC	6.5
KOHC	6.6
FCCL	7.3
PIOC	8.1

DGKC - Trading at Lowest EV / Ton in Industry

	Current	5Y Avg
KOHC	33	30
DGKC	37	49
POWER	39	55
MLCF	40	43
PIOC	40	38
CHCC	41	42
ACPL	42	40
Industry	49	42
FCCL	54	38
BWCL	72	42

Source: Company Accounts, Sherman Research

SOTP target price of Rs240 including portfolio value of Rs65

The company's Sum-of the Parts (SOTP) valuation arrives at Rs240/share, thus providing upside potential of 60%. Out of Rs240/share, DGKC's core cement business contributes around Rs175/share (based on DCF) while portfolio value contributes around Rs65/share after applying arbitrary discount of 35% on total portfolio value of Rs98/share.

DGKC maintains a well diversified portfolio which includes exposure to banks (MCB), textile (NML, NCL), food (Nishat Dairy) and automobile (Hyundai Nishat). To note, 68% of the portfolio value comes from MCB, of which DGKC holds 102mn shares.

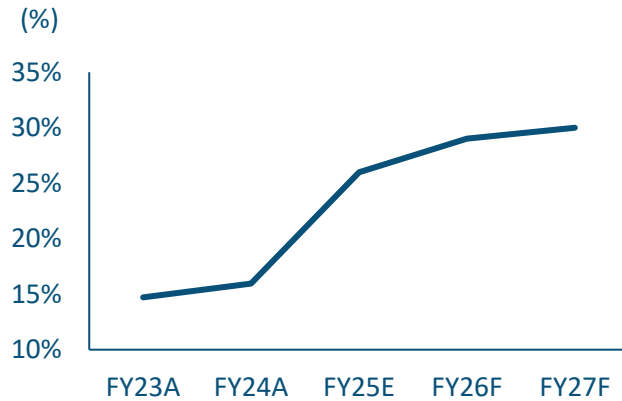
Moreover, DGKC's share price is currently at premium of 53% to its portfolio value of Rs43bn (Rs98/share). While, during last 10 years, DGKC traded at average premium of 74% to its portfolio value. With record earnings expected in FY26, we may see DGKC breaching historical premium.

DGKC Portfolio Companies

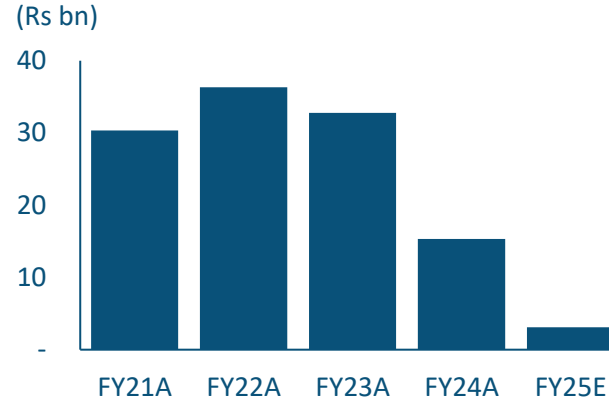
Company	# of Shares (mn)	Value (Rs mn)
MCB Bank Ltd.	102.3	29,303
Hyundai Nishat Motors (Pvt.) Ltd.	195.6	3,672
Nishat Mills Ltd.	30.3	3,447
Nisat Dairy (Pvt.) Ltd.	256.5	2,215
Nishat Hotels & Properties Ltd.	104.2	2,002
Adamjee Insurance Ltd.	27.9	1,310
Others	-	895
Total		42,844
Portfolio Value / Share (Rs)		98

Source: Company Accounts, Sherman Research

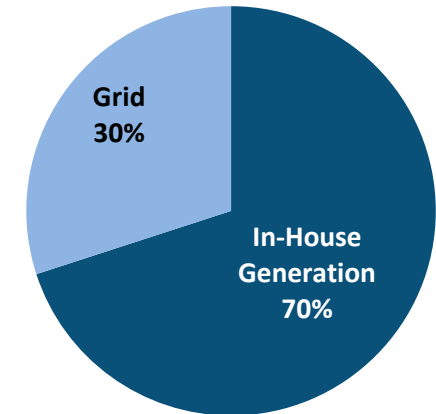
Gross Margin to Remain Elevated



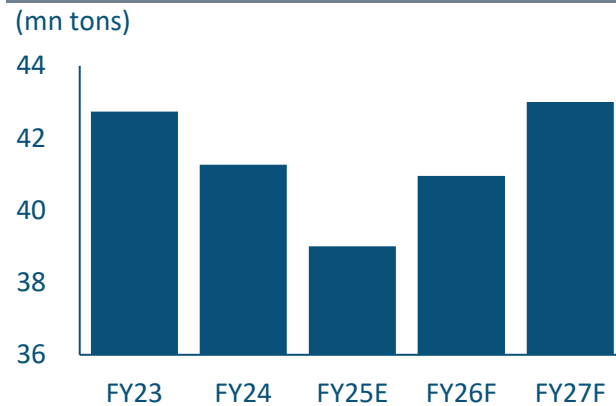
Net Debt on Declining Trend



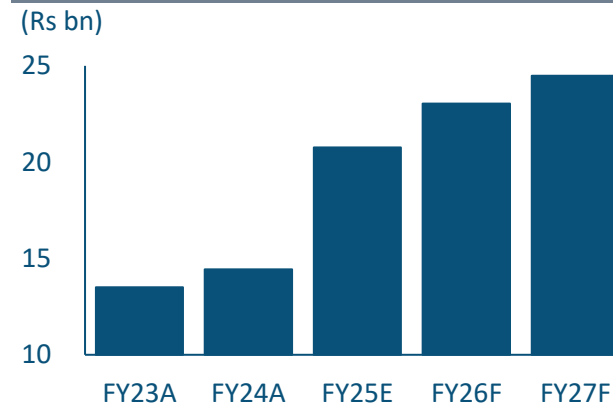
Power Mix



Local Cement Demand to Recover



EBITDA Generation over next years



Risks to Valuation:

Risks to valuation includes: 1) Change in coal and oil prices. 2) Lower than expected growth in dispatches. 3) Change in export prices. 4) Higher than expected interest.

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Price Methodology:

To arrive at our period end Target Price, Sherman Securities uses different valuation methods which include : 1) Discounted Cash flow method 2) Relative Valuation method and 3) Justified Price to Book Value method.

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Rating Interpretation	
Buy	≥ 16.5%
Sell	≤ -10.0%
Hold	Between -10.0% to 16.5%