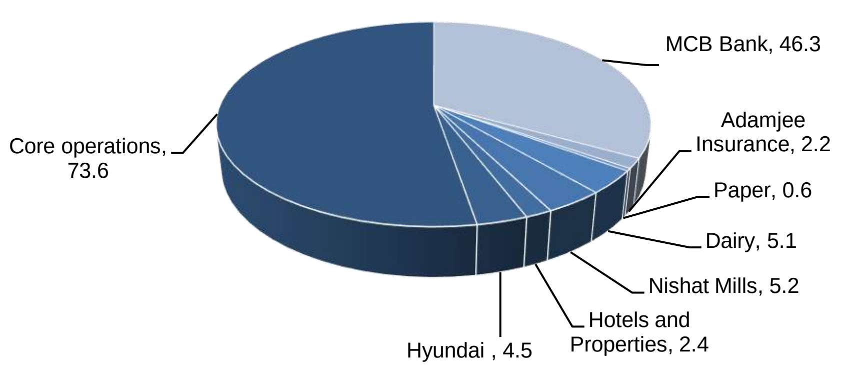
DGKC: Beneficiary of the monetary easing cycle; Buy

- We reiterate our 'Buy' rating for D.G Khan Cement Company Ltd (DGKC) with a Dec-2025 SoTP based target price of Rs140 for the stock, with Rs66 attributed to the company's diversified equity portfolio, offering a potential upside of 40%.
- We expect DGKC to be the key beneficiary of the monetary easing cycle in our Cement universe as we project the company's interest coverage ratio to improve significantly, rising from 1.37x in FY24 to 2.28x in FY25E and further to 3.9x in FY26E.
- We highlight that DGKC's core business margins, which remained sticky for quite some time, are expected to improve due to the gradual convergence of North and South prices and a better sales mix.
- Lower than expected recovery in domestic demand and prices in the long run is a key risk to our investment thesis.

DGKC: Robust investment portfolio to drive valuations

We reiterate our 'Buy' rating on D.G Khan Cement Company Ltd (DGKC). Our Dec-2025 SoTP-based target price (TP) for the stock is Rs140, offering an upside of 40% from current levels. DGKC possesses a well-diversified equity portfolio which includes exposure in Textiles, Banking, Auto, Insurance and Paper & Dairy sectors, having a contribution of Rs66/share to our SoTP-based valuations. Within DGKC's portfolio value, equity stake in MCB Bank alone contributes 70% or Rs46.3/sh. On its core business profitability front, we believe the ongoing monetary easing is likely to result in savings on financial charges and upside to its valuation multiples.

Contribution to SOTP valuation (Rs/sh)



Source: JS Research

Key beneficiary of monetary easing

We expect DGKC to be the key beneficiary of the ongoing monetary easing cycle in our cement universe. For context, company has a total debt of Rs30.7bn as of Sep-2024 financials. Wherein, the company aims to focus on debt reduction (down 20% YoY in 1QFY25), with no plans in sight for capacity expansions or other captive power projects. Consequently, we project DGKC's interest coverage ratio

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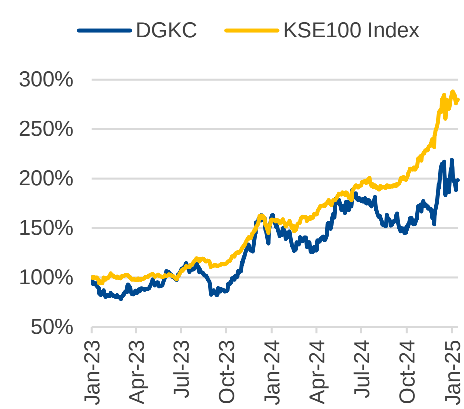
Bloomberg Code: DGKC PA
Target Price: Rs140
Market Price: Rs100.22
Market Cap: Rs44bn, US$158mn
1-yr ADTO: 4.7mn shares, Rs405mn, US$1.5mn
1-yr High / Low: Rs110.75 / 63.58
Estimated free float: 219mn shares (50%)

Price performance relative to KSE100



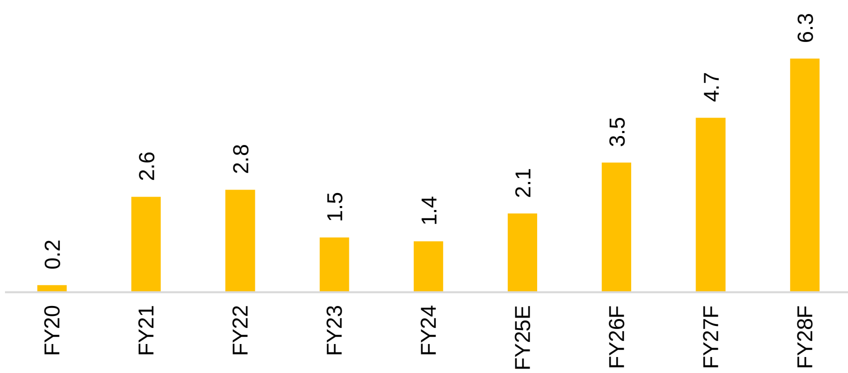
Source: PSX, JS Research

to improve from 1.37x in FY24 to 2.12x in FY25E, and further to 3.48x in FY26F, supported by declining interest rates and continued debt repayments.

Lower cement prices to impact earnings for FY25E

We have revised our earnings downwards for FY25E due to the pressure seen on cement prices in the Northern region during recent few weeks. However, we do expect prices to rebound in the latter part of FY25E to normalized levels led by resurgence in local demand, with ongoing monetary easing yet to reflect colours. Additionally, lower financial charges (estimated to be down 43% YoY in FY25), and normalized tax levels compared to higher effective tax charge of 78% in FY24 are expected to support earnings in FY25E.

Interest cover (Times)

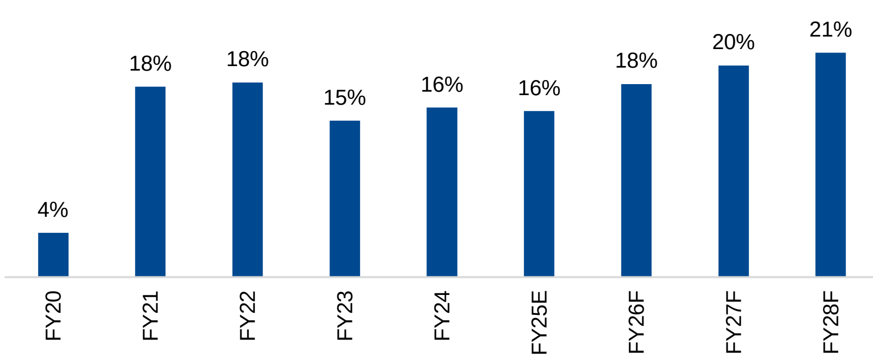


Source: Company Accounts, JS Research

Sub-par gross margins, expected improvement ahead

DGKC recorded the lowest gross margins in our cement universe for FY24, weighed down by low local retention prices, particularly from its southern region operations. Additionally, the company reported an export price of Rs471/bag in FY24, falling short of covering the variable cost of Rs542/bag. This was primarily due to 87% of the total export dispatches of 1.23mn tons in FY24 consisting of clinker, which fetches a very low export price. However, we anticipate an improvement in the export sales mix going forward, enabling the company to secure higher prices for its exports. Moreover, an expected increase in southern MRPs as demand recovers should further support DGKC's margins.

Gross Margins (%)



Source: Company Accounts, JS Research

EPS Sensitivity to MRP

MRP (Rs/bag)	FY25E EPS (Rs)
1,380	7.8
1,390	**8.2**
1,400	8.6
1,410	8.9
1,420	9.3
1,430	9.7

Source: JS Research

DGKC: Key statistics

(Rs mn)	FY24	FY25E	FY26F
Sales	66,039	62,694	70,317
YoY Growth	2%	-5%	12%
Gross Margin	16%	16%	18%
PAT	646	3,586	5,868
YoY Growth	-118%	455%	64%
EPS (Rs)	1.47	8.18	13.39
DPS (Rs)	0.00	0.00	2.75
P/E (x)	NM	12.24	7.48
DY	0.0%	0.0%	2.7%

Source: Company accounts, JS Research
Valuation multiples calculated on avg. prices

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