

DGKC has announced its 9MFY22 result where it posted profit after tax of Rs3.62bn (EPS: Rs8.26) as compared to a profit after tax of Rs2.85bn (EPS: Rs6.50) in the same period last year, up by 27% YoY.

The company had posted a revenue of Rs43.29bn against Rs32.75bn in SPLY, recording a growth of 32.2% YoY.

The gross margin has been improved to 18.03% as compared to 17.99% in SPLY. SG&A expenses have increased by 10.9% YoY to Rs2.07bn as compared to Rs1.87bn during SPLY.

Other income has been decreased by 3.4% YoY. Whereas finance cost has been increased by 10.3% YoY to Rs2.45bn.

DGKC is currently trading at a FY22E P/E of 6.30x. The scrip is also trading at a FY22E P/B of 0.27x which offers a discount of 37% relative to its historical 3-year average of 0.43x. We have a **BUY** stance on the scrip with a DCF based Dec-22 TP of Rs100 which provides an upside potential of 45%. Further, the scrip also provides a dividend yield of 2% which makes the total return of 47%.

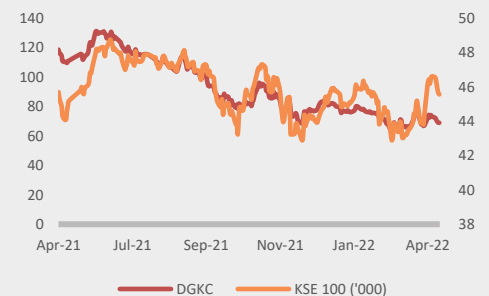
Rupees' millions	3QFY22	3QFY21	YoY	9MFY22	9MFY21	YoY
Net Sales	15,862	10,885	45.7% ▲	43,297	32,748	32.2% ▲
Cost of Sales	-12,913	-8,404	53.6% ▲	-35,490	-26,854	32.2% ▲
<b>Gross Profit</b>	<b>2,949</b>	<b>2,481</b>	<b>18.9% ▲</b>	<b>7,807</b>	<b>5,894</b>	<b>32.5% ▲</b>
SG&A Expenses	-691	-565	22.3% ▲	-2,070	-1,867	10.9% ▲
<b>Operating Profit</b>	<b>2,258</b>	<b>1,916</b>	<b>17.9% ▲</b>	<b>5,737</b>	<b>4,028</b>	<b>42.4% ▲</b>
Other Charges	-52	-242	78.4% ▼	-424	-259	63.8% ▲
Other Income	667	1,676	60.2% ▼	1,960	2,029	3.4% ▼
Finance Cost	-916	-695	31.8% ▲	-2,454	-2,224	10.3% ▲
Profit Before Taxation	1,958	2,656	26.3% ▼	4,818	3,574	34.8% ▲
Taxation	-516	-608	15.2% ▼	-1,199	-726	65.2% ▲
<b>Profit After Taxation</b>	<b>1,442</b>	<b>2,048</b>	<b>29.6% ▼</b>	<b>3,619</b>	<b>2,848</b>	<b>27.1% ▲</b>
<b>Earnings Per Share</b>	<b>3.29</b>	<b>4.67</b>	<b>29.6% ▼</b>	<b>8.26</b>	<b>6.50</b>	<b>27.1% ▲</b>
Dividend	0.00	0.00		0.00	0.00	
Bonus	-	-		0%	0%	
Gross Margin	18.6%	22.8%	4.2% ▼	18.03%	17.99%	0.0% ▲
SG&A Expenses to Sales	-4.4%	-5.2%	0.8% ▼	-4.8%	-5.7%	0.9% ▼
Other Income to Sales	4.2%	15.4%	11.2% ▼	4.5%	6.2%	1.7% ▼
Ex. Gain / (Loss) to Sales	-4.4%	-5.2%	0.8% ▼	-4.8%	-5.7%	0.9% ▼
Effective Taxation	-26.3%	-22.9%	3.4% ▲	-24.9%	-20.3%	4.6% ▲
Net Margin	9.1%	18.8%	9.7% ▼	8.4%	8.7%	0.3% ▼

Source: ACPL Research, Company Financials

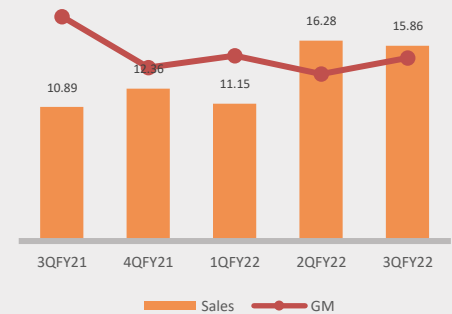
## Key Statistics

Symbol	DGKC
TP - Dec 22	100.00
LDPC	68.86
Upside (%)	45
Free Float ('mn)	219
Market Cap. (Rs. 'mn)	30,344

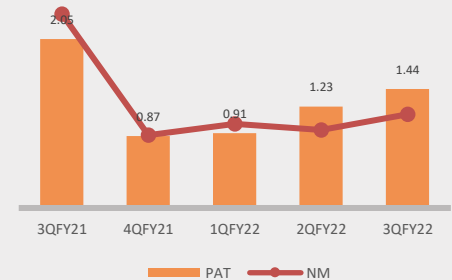
## DGKC vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

**Muhammad Nauman Naeem**

Phone: (+92) 42 38302028; Ext: 116

Email: nauman@abbasiandcompany.com

## Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	40,517	38,033	45,108	58,222	73,847	83,014	92,239
Cost of sale	35,154	36,447	37,036	47,457	60,913	67,444	74,518
<b>Gross profit</b>	<b>5,362</b>	<b>1,586</b>	<b>8,072</b>	<b>10,765</b>	<b>12,934</b>	<b>15,570</b>	<b>17,721</b>
Selling and promotion expenses	629	659	647	728	923	1,038	1,153
Administration expenses	1,306	1,783	1,950	2,137	2,710	3,047	3,385
Other operating expenses	538	530	414	524	665	747	830
<b>Operating Profit</b>	<b>2,868</b>	<b>- 1,532</b>	<b>5,165</b>	<b>7,377</b>	<b>8,636</b>	<b>10,738</b>	<b>12,352</b>
Other operating income	2,427	2,430	2,527	2,526	2,526	2,526	2,526
Finance cost	3,304	4,653	2,921	3,061	2,266	1,404	950
Profit before taxation	1,991	- 3,756	4,771	6,842	8,896	11,859	13,928
Taxation	381	- 1,598	1,050	2,053	2,669	3,558	4,178
<b>Profit after taxation</b>	<b>1,610</b>	<b>- 2,159</b>	<b>3,721</b>	<b>4,789</b>	<b>6,227</b>	<b>8,302</b>	<b>9,749</b>
EPS	<b>3.67</b>	<b>- 4.93</b>	<b>8.49</b>	<b>10.93</b>	<b>14.21</b>	<b>18.95</b>	<b>22.25</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	32.1%	-6.1%	18.6%	29.1%	26.8%	12.4%	11.1%
Cost of sale	60.3%	3.7%	1.6%	28.1%	28.4%	10.7%	10.5%
<b>Gross profit</b>	<b>-38.6%</b>	<b>-70.4%</b>	<b>409.0%</b>	<b>33.4%</b>	<b>20.1%</b>	<b>20.4%</b>	<b>13.8%</b>
Selling and promotion expenses	0.6%	4.8%	-1.8%	12.5%	26.8%	12.4%	11.1%
Administration expenses	45.4%	36.6%	9.3%	9.6%	26.8%	12.4%	11.1%
Other operating expenses	-77.1%	-1.6%	-21.8%	26.5%	26.8%	12.4%	11.1%
<b>Operating Profit</b>	<b>-41.0%</b>	<b>-153.4%</b>	<b>-437.1%</b>	<b>42.8%</b>	<b>17.1%</b>	<b>24.3%</b>	<b>15.0%</b>
Other operating income	-19.8%	0.1%	4.0%	0.0%	0.0%	0.0%	0.0%
Finance cost	536.3%	40.8%	-37.2%	4.8%	-25.9%	-38.0%	-32.3%
Profit before taxation	-73.0%	-288.7%	-227.0%	43.4%	30.0%	33.3%	17.4%
Taxation	-126.0%	-519.2%	-165.7%	95.5%	30.0%	33.3%	17.4%
<b>Profit after taxation</b>	<b>-81.8%</b>	<b>-234.1%</b>	<b>-272.4%</b>	<b>28.7%</b>	<b>30.0%</b>	<b>33.3%</b>	<b>17.4%</b>
EPS	<b>-81.8%</b>	<b>-234.1%</b>	<b>272.4%</b>	<b>28.7%</b>	<b>30.0%</b>	<b>33.3%</b>	<b>17.4%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	13.24	4.17	17.89	18.49	17.51	18.76	19.21
NP Margin	%	3.97	-5.68	8.25	8.23	8.43	10.00	10.57
OP Margin	%	7.08	-4.03	11.45	12.67	11.69	12.94	13.39
ROE	%	2.27	-3.24	5.06	4.26	5.27	6.60	7.25
ROCE	%	1.43	-1.89	3.17	3.28	4.29	5.71	6.50
ROA	%	1.28	-1.67	2.70	4.35	5.38	6.64	7.08
Cost per ton	'mn	6.71	6.86	5.39	8.39	9.57	10.60	11.71
EBITDA per ton	'mn	1.13	0.40	1.33	1.94	1.93	2.26	2.51
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	0.98	0.91	0.91	0.50	0.63	0.88	1.17
Acid-test	x	0.46	0.42	0.38	-0.12	-0.09	0.10	0.37
Cash to current liab.	x	0.01	0.01	0.02	-0.57	-0.54	-0.35	-0.08
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Average Inventory		2,545,827	4,033,527	3,540,792	3,381,977	4,607,436	5,457,206	6,035,649
Inventory Turnover	x	14	9	10	14	13	12	12
Inventory Days		26	40	35	26	28	30	30
Receivables Days		11	22	14	14	14	14	14
Payables Days		83	113	147	104	104	104	104
Operating Cycle		-46	-51	-99	-64	-63	-61	-61
Utilization	%	79	76	93	80	90	90	90
Export Revenue	%	95	81	71	74	77	77	77
Local Revenue	%	5	19	29	26	23	23	23
Export Market Share	%	0	0	1	0	0	0	0
Local Market Share	%	0	0	11	0	0	0	0
Total Market Share	%	0	0	11	0	0	0	0
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
EPS		3.67	-4.93	8.49	10.93	14.21	18.95	22.25
DPS		1.00	0.00	1.00	1.29	1.67	2.23	2.62
Div. Yield	%	1.49	0.00	1.45	1.87	2.43	3.24	3.80
Dividend Cover		3.67	0.00	8.49	8.49	8.49	8.49	8.49
BVPS		161.89	152.11	167.71	256.76	269.68	286.96	306.98
Payout	%	27.22	0.00	11.77	11.77	11.77	11.77	11.77
Retention	%	72.78	100.00	88.23	88.23	88.23	88.23	88.23
No. of Shares	'mn	438	438	438	438	438	438	438
P/E		18.24	-13.98	8.11	6.30	4.84	3.63	3.09
Sales per share		92.48	86.81	102.96	132.89	168.55	189.48	210.53
P/BV		0.41	0.45	0.41	0.27	0.26	0.24	0.22
Price to Sales		0.72	0.79	0.67	0.52	0.41	0.36	0.33
Gearing Ratios		FY19A	FY20E	FY21A	FY22E	FY23E	FY24E	FY25E
Debt to Equity	x	0.58	0.71	0.60	0.30	0.23	0.16	0.11
L.T. Debt to Equity	x	0.23	0.33	0.26	0.13	0.09	0.04	0.00
Total Debt to Assets		0.33	0.37	0.32	0.30	0.23	0.16	0.11
L.T. Debt to Assets		<b>0.13</b>	<b>0.17</b>	<b>0.14</b>	<b>0.13</b>	<b>0.09</b>	<b>0.04</b>	<b>0.00</b>
Interest Cover	x	0.87	-0.33	1.77	2.41	3.81	7.65	13.00

Source: ACPL Research, Company Financials

## DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

### VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

### DEFINITION OF TERMS

<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

### RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

### RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

### OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

#### RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

#### HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

#### BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com