

Flash Note

Tuesday, 20 February 2018



Securities

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Cements

DGKC: Likely reversal of 1QFY18 tax benefit drags 2QFY18 earnings to PKR 2.05/share, down by 65%YoY

- D.G Khan Cement Company Limited (DGKC) announced its financial results for 2QFY18 with unconsolidated earnings clocking at PKR 896bn (EPS: PKR 2.05) down by 65%YoY (down by 68%QoQ) as compared to PKR 2.60bn (EPS PKR 5.93) in the same period last year. This brings 1HFY18 unconsolidated earnings to PKR 3.73bn (EPS: PKR 8.52) down by 17%YoY as against PKR 4.51bn (EPS: PKR 10.28) in the corresponding period last year.
- Net sales of the Company witnessed a meagre growth of +2%YoY (+9%QoQ) to arrive at a level of PKR 8.24bn, majorly driven by stable dispatches growth.
- The gross profit margins of the Company were significantly eroded to 32% as against 42% in the corresponding quarter of preceding year due to lower retention prices accredited to a) falling cement prices in the region; b) rising coal prices globally; and c) imposition of enhanced FED through Finance Act 2017-18.
- Major downfall to after tax earnings stemmed from application of 65% effective tax rate for 2QFY18, likely on the back of reversal of 10% 65B tax credit incorporated in 1QFY18 and being replaced with estimated tax charge for the six month period.
- The Board has decided to invest PKR 850mn in Hyundai Nishat Motor (Pvt) Limited (HNMPL) for subscription at par, of fully paid 85mn ordinary shares of PKR 10 each in addition to arranging guarantee worth PKR 1bn for a period of 7.5yrs in favor of lenders of HNMPL.
- The Board also reviewed the progress on Production Line III at existing D.G Khan Khofli Sattai site and decided to continue to obtain applicable regulatory permissions from Government authorities for setting up brownfield production line.

Exhibit:

DGKC Result Highlights

Period end (JUN) - PKRmn	2QFY18	2QFY17	YoY	1HFY18	1HFY17	YoY
Net Sales	8,236	8,088	2%	15,764	14,687	7%
Gross Profit	2,595	3,428	-24%	5,250	6,340	-17%
Sell. / Dist. & Admin	374	386	-3%	756	766	-1%
Non-Operating Income	708	659	7%	1,193	1,176	1%
EBIT	2,655	3,404	-22%	5,217	6,243	-16%
Financial Charges	104	89	16%	193	163	18%
Pre-tax Profits	2,551	3,314	-23%	5,025	6,080	-17%
Taxation	1,655	716	131%	1,291	1,574	-18%
Post-tax Profits	896	2,598	-65%	3,734	4,506	-17%
EPS	2.05	5.93	-65%	8.52	10.28	-17%
DPS	-	-				
Key Ratios						
Gross Margin (%)	31.5	42.4		33.3	43.2	
Net Margin (%)	10.9	32.1		23.7	30.7	
Effective Tax Rate (%)	64.9	21.6		25.7	25.9	

Source: Company Accounts, IGI Research

No. of Shares : 438mn

Analyst

Muhammad Saad

muhammad.saad@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 816

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Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762