

Flash Note

Tuesday, 26 February 2019

Cements

D. G. Khan Cement Company Limited (DGKC)

Elevated cost structure outweigh substantial increase in clinker export sales; pushes EBIT down by 32%YoY... However positive tax impact and accounting anomaly present a positive case

- D. G. Khan Cement Company Limited (DGKC) announced its financial results for 2QFY19 with unconsolidated earnings clocking in at PKR 1.32bn (EPS: PKR 3.02), up by a substantial +48%YoY, as compared to PKR 896mn (EPS: PKR 2.05) reported in the same period last year. However, the results are impressive on a sequential basis, reflecting a two fold increase.
- The inclined percentage of +48%YoY is subject to anomaly with respect to its base figure. To recall, DGKC in 1QFY18 had recorded early recognition of tax incentives due on its Hub Plant, which it subsequently reversed in 2QFY18 probably on recommendations of its external auditors. This eventually led to declined PAT in 2QFY18, thus propelling an apparent YoY increase.
- Net Sales of the Company have increased by +41%YoY, likely due to substantial export clinker exports from South plant.
- Gross profits of the Company have been washed away by 17%YoY, largely due to rise in input prices and more so due to inclusion of substantial depreciation expense pertaining to recently inaugurated Hub Plant of the Company.
- EBIT of the Company has collapsed by a significant 32%YoY, driven by +64%YoY increase in Selling, Distribution and Admin costs of the Company, which in turn was subject to incremental freight costs incidental to export sales.
- Finance cost of the Company leaped up by 7 folds, largely on account of unwinding of finance cost to income statement post inauguration of DGKC Hub Plant.
- The downside impact was arrested by a positive tax reversal, likely on account of unused tax credits available on investments made in DGKC Hub Plant.

Exhibit:

DGKC Result Highlights

Period end (JUN) - PKRmn	2QFY19	2QFY18	YoY	1QFY19	QoQ	1HFY19	1HFY18	YoY
Net Sales	11,581	8,236	41%	8,186	41%	19,767	15,764	25%
Gross Profit	2,147	2,595	-17%	1,037	107%	3,185	5,250	-39%
Sell. / Dist. & Admin	613	374	64%	347	77%	960	756	27%
Non-Operating Income	675	708	-5%	469	44%	1,145	1,193	-4%
EBIT	1,806	2,655	-32%	1,132	60%	2,938	5,217	-44%
Financial Charges	736	104	7.08x	612	20%	1,348	193	6.00x
Pre-tax Profits	1,070	2,551	-58%	520	2.06x	1,590	5,025	-68%
Taxation	(254)	1,655	n/m	102	n/m	(152)	1,291	n/m
Post-tax Profits	1,324	896	48%	418	2.17x	1,742	3,734	-53%
EPS	3.02	2.05		0.95		3.98	8.52	
DPS	-	-		-		-	-	
Key Ratios								
Gross Margin (%)	18.5	31.5		12.7		16.1	33.3	
Net Margin (%)	11.4	10.9		5.1		8.8	23.7	
Effective Tax Rate (%)	n/m	64.9		19.6		n/m	25.7	

Source: Company Accounts, IGI Research

No. of Shares : 438mn

Analyst

Muhammad Saad, ACCA

muhammad.saad@igi.com.pk

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

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. ROE: Return on equity is the amount of net income returned as a percentage of shareholders' equity. P/E: Price to Earnings ratio of a company's share price to its per-share earnings. P/B: Price to Book ratio used to compare a stock's market value to its book value. DY: The dividend yield is dividend per share, divided by the price per share. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tr: Thousands/Million/Billion/Trillion.

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
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
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) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@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	mahtab.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 # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Saddar Cantt.
Tel: (92-91) 5273035, 5223882

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
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
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

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

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258028

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited