

Flash Note

Thursday, 13 February 2020

Cements

D. G. Khan Cement Company Limited (DGKC)

DGKC presents earnings surprise, 2QFY20 EPS: PKR 1.33

- ✓ D. G. Khan Cement Company Limited (DGKC) announced its financial results for 2QFY20 with an unconsolidated net earnings of PKR 581mn (EPS: PKR 1.33), down by 56% YoY, as compared to PKR 1.32bn (EPS: PKR 3.02) reported in the same period last year. This brings 1HFY20 unconsolidated net loss to PKR 847mn (LPS: PKR 1.93) as against PKR 1.74bn (EPS: PKR 3.98) reported in the comparative period.
- ✓ The earnings come as a surprise given enhanced competition in the domestic cement space leading to reduced retention prices. We await publication of interim report for an accurate analysis of financial results.
- ✓ Net sales of the Company during 2QFY20 grew by +2% YoY as against the comparative period.
- ✓ Gross profit margins of the Company have only been reduced to 13% as against 19% recorded in the comparative period. This is a surprising element since despite a major 10% decline in cement sales prices in North region (major sales area for DGKC) as against the comparative period and enhanced FED and discounts during the period, the Company has managed to present a gross profit. To recall, DGKC declared a gross loss of PKR 538mn in 1QFY20 (GP margin: -6%).
- ✓ Finance costs of the Company surged by 63% YoY, largely driven by substantial increase in short term borrowing requirements of the Company and rise in benchmark interest rates during 2QFY20 as against the comparative period.

Exhibit: DGKC Result Highlights (Unconsolidated)						
Period end (JUN) - PKRmn	2QFY20	2QFY19	YoY	1HFY20	1HFY19	YoY
Net Sales	11,819	11,581	2%	20,888	19,767	6%
Gross Profit	1,560	2,147	-27%	1,021	3,185	1x
Sell. / Dist. & Admin	731	613	19%	1,367	960	42%
Non-Operating Income	632	675	-6%	1,185	1,145	4%
EBIT	1,407	1,806	-22%	784	2,938	-1x
Financial Charges	1,200	736	63%	2,456	1,348	82%
Pre-tax Profits	157	1,070	-85%	(1,722)	1,590	-3x
Taxation	(424)	(254)	67%	(875)	(152)	5x
Post-tax Profits	581	1,324	-56%	(847)	1,742	-3x
EPS	1.33	3.02		(1.93)	3.98	
Key Ratios						
Gross Margin (%)	13.2	18.5		4.9	16.1	
Net Margin (%)	4.9	11.4		(4.1)	8.8	
Effective Tax Rate (%)	n/m	(23.7)		50.8	(9.6)	

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

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. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. 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.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited



Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>

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
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@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

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

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

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2019 IGI Finex Securities Limited


Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>