

Day Break

Wednesday, 24 October 2018

Company Update

Exhibit: PIOC's 1QFY19 total dispatches have declined by 16%YoY

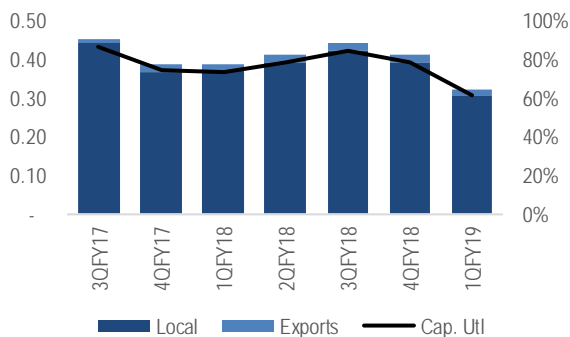


Exhibit: Coal prices have risen sharply over the comparative period, increasing cost of production thereby

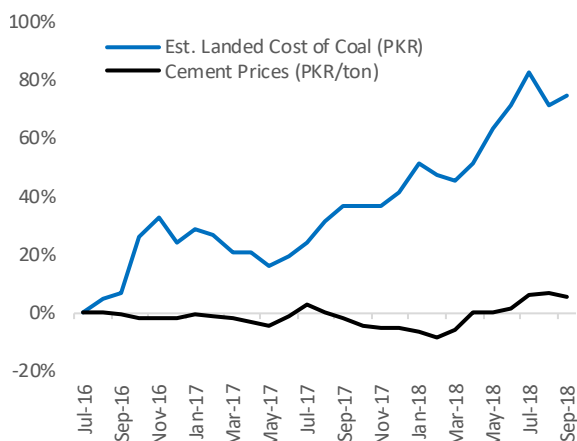
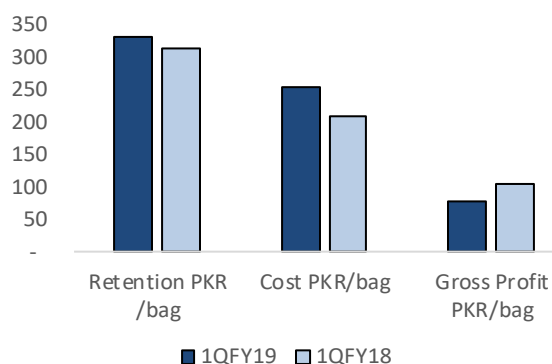


Exhibit: Substantial rise in cost of producing cement has adversely impacted gross margins of the Company.



Source: Company Accounts, Bloomberg & IGI Research

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Cements

PIOC & DGKC results preview for 1QFY19

- The Board of Directors meeting of Pioneer Cement Limited (PIOC) is scheduled to take place on 25th Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 236mn (EPS: PKR 1.04) in the quarter under review as against PKR 417mn (EPS: PKR 1.84) in the same period last year
- We attribute this sharp drop in earnings to a) 16%YoY decline in total dispatches of the Company; and b) increase in cost of producing cement amid elevated coal and FO prices globally and devaluation of PKR against the greenback.
- The Board of Directors' meeting of DG Khan Cement Company Ltd. (DGKC) is also scheduled on 25th Oct-18 to announce financial results for 1QFY19.
- The decline in Profit before tax (PBT), which stands as a better measure in such a situation, is around 73%YoY. In addition to surged cost of producing cement, the results have been considerably marred by inclusion of substantial depreciation worth PKR ~1.36bn (3.11/share) emanating from its recently inaugurated Hub Plant and unwinding of financial charges to the income statement.

PIOC: 1QFY19 earnings expected at PKR 1.04/share, down by 43%YoY

The Board of Directors meeting of Pioneer Cement Limited (PIOC) is scheduled to take place on 25th Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 236mn (EPS: PKR 1.04) in the quarter under review as against PKR 417mn (EPS: PKR 1.84) in the same period last year, marking a sharp decline of 43%YoY.

We attribute this sharp drop in earnings to a) 16%YoY decline in total dispatches of the Company; and b) increase in cost of producing cement amid elevated coal and FO prices globally and devaluation of PKR against the greenback.

Exhibit:

PIOC Result Highlights

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	2,135	2,421	-12%	2,617	-18%
Gross Profit	492	817	-40%	749	-34%
Sell. / Dist. & Admin	71	51	38%	82	-13%
Non-Operating Income	8	(106)	-108%	153	-95%
EBIT	374	616	-39%	575	-35%
Financial Charges	32	20	63%	16	97%
Pre-tax Profits	342	596	-43%	559	-39%
Taxation	106	179	-41%	63	68%
Post-tax Profits	236	417	-43%	495	-52%
EPS	1.04	1.84		2.18	
DPS	-	-		4.07	
Key Ratios					
Gross Margin (%)	23.1	33.7		28.6	
Net Margin (%)	11.1	17.2		18.9	
Effective Tax Rate (%)	31.1	30.0		11.3	

Source: Company Accounts, IGI Research

No. of Shares : 227mn

Exhibit: Utilization levels have fallen post entry of Hub Plant. Dispatches in South have been negligible till now.

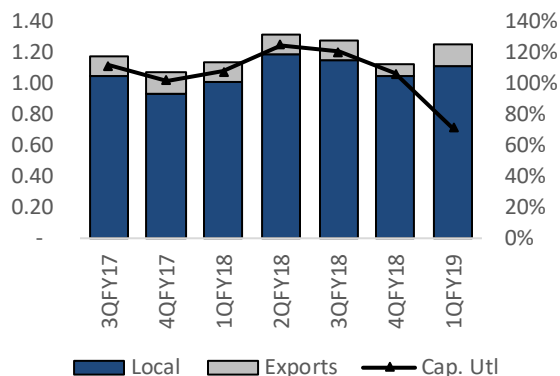


Exhibit: Depreciation and finance cost have doubled post capitalization of Hub Plant, thus diminishing margins

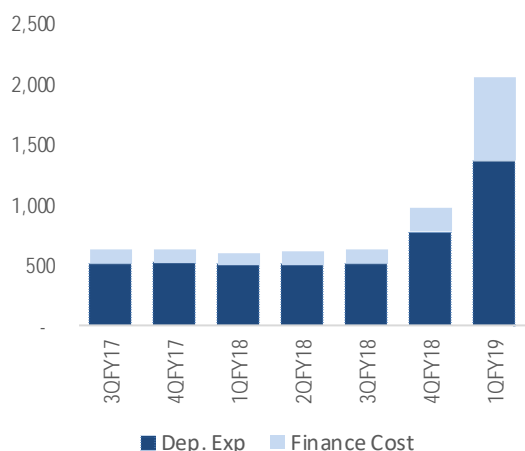
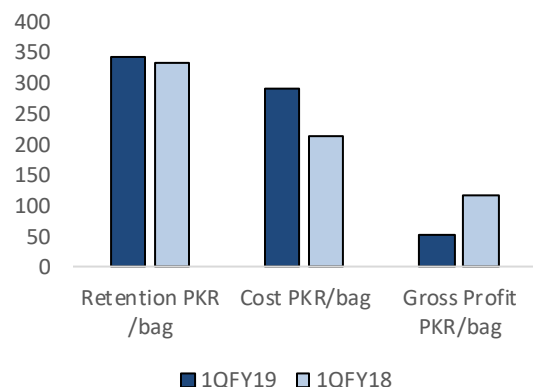


Exhibit: Higher input costs and incremental depreciation costs reduce gross margins of the Company



Source: Bloomberg, PSX & IGI Research

DGKC: 1QFY19 EPS: 1.08/share, down by 83%YoY. Depreciation and finance cost from Hub Plant eat away profits

The Board of Directors' meeting of DG Khan Cement Company Ltd. (DGKC) is also scheduled on 25th Oct-18 to announce financial results for 1QFY19.

We expect the Company to post earnings of PKR 475mn (EPS: PKR 1.08) in the quarter under review as against PKR 2.84bn (EPS: PKR 6.48) reported in the same period last year, marking a decline of 83%YoY.

Though the decline percentage appears quite alarming, it is prone 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. The tax incentives were eventually recognized in 4QFY18 on inauguration of the plant.

The decline in Profit before tax (PBT), which stands as a better measure in such a situation, is around 73%YoY. In addition to surged cost of producing cement, the results have been considerably marred by inclusion of substantial depreciation worth PKR ~1.36bn (3.11/share) emanating from its recently inaugurated Hub Plant and unwinding of financial charges to the income statement.

On an EBITDA basis though, the Company is expected to lose its ground by 11%YoY wherein EBITDA margins are expected to contract to 32% as against 41% recorded in the similar period of the preceding year.

Exhibit:

DGKC Result Highlights - Standalone

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	8,543	7,527	13%	7,293	17%
Gross Profit	1,286	2,655	-52%	1,571	-18%
Sell. / Dist. & Admin	447	382	17%	377	19%
Non-Operating Income	600	485	24%	1,388	-57%
EBIT	1,369	2,562	-47%	884	55%
EBITDA	2,732	3,067	-11%	1,660	65%
Financial Charges	690	89	7.78x	201	3.43x
Pre-tax Profits	679	2,473	-73%	682	0%
Taxation	204	(364)	n/m	(3,185)	n/m
Post-tax Profits	475	2,837	-83%	3,868	-88%
EPS	1.08	6.48		8.83	
DPS	-	-		-	

Key Ratios			
Gross Margin (%)	24.1	45.8	24.6
Gross Margin (%)	32.0	40.7	22.8
Net Margin (%)	8.9	48.9	60.6
Effective Tax Rate (%)	30.1	n/m	n/m

Source: Company Accounts, IGI Research

No. of Shares: 438mn

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