

Day Break

Thursday, 24 October 2019

Company Update

Exhibit: Overall dispatches of DGKC have increased immensely but poor retention prices and higher finance costs are expected to eat away profitability.

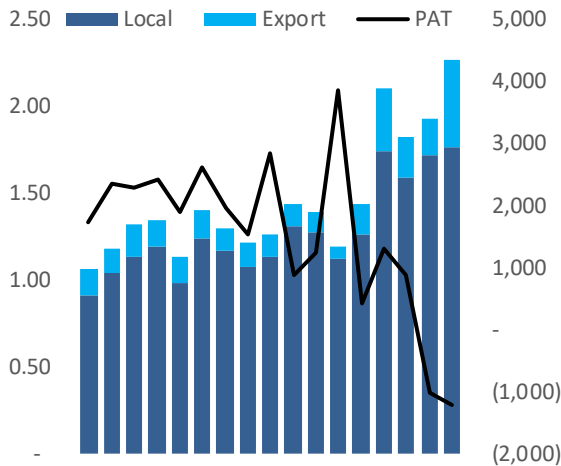
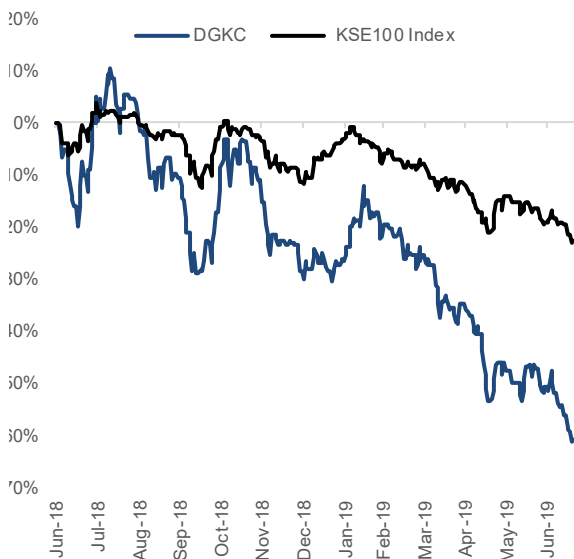


Exhibit: DGKC's Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cements

DGKC: Lower retention prices amid intense competition and finance cost to present loss of PKR 2.72/share during 1QFY20E

- D. G. Khan Cement Company Limited's (DGKC) board meeting is scheduled on 25th Oct-19 to announce financial result for 1QFY20E, wherein on an unconsolidated basis, we expect the company to post a net loss of PKR 1.19bn (LPS PKR 2.72),
- The decline in earnings is primarily driven by a) poor gross margins of the Company led by lower domestic retentions, b) substantial rise in distribution costs of the Company and; c) exorbitant rise in finance charge of the Company.
- Gross margins of the Company are expected to decline to 1%YoY as against 13%YoY reported in the similar period of the preceding year, taking gross profits to mere PKR 62mn as against PKR 1.0bn in the same period last year.
- On a sequential basis, the Company is expected to further its losses by 17%QoQ on account of lower retentions led primarily by non-passing ability of FED by the Company and enhanced distribution and finance costs.

Poor margins, higher distribution costs and elevated finance charge to present loss of PKR 2.72/share in 1QFY20E

D. G. Khan Cement Company Limited's (DGKC) board meeting is scheduled on 25th Oct-19 to announce financial result for 1QFY20E, wherein on an unconsolidated basis, we expect the company to post a net loss of PKR 1.19bn (LPS PKR 2.72), compared to a net profit of PKR 418mn (EPS PKR 0.95) in the same period last year.

The decline in earnings is primarily driven by a) poor gross margins of the Company led by lower domestic retentions, b) substantial rise in distribution costs of the Company and; c) exorbitant rise in finance charge of the Company.

Key highlights

- During 1QFY20E net sales of the Company are expected to grow by +22%YoY, on account of +40%YoY overall dispatches growth led largely by clinker exports (+2.6xYoY) and domestic offtakes as against the comparative period (+16%YoY).
- Gross margins of the Company are expected to decline to 1%YoY as against 13%YoY reported in the similar period of the preceding year, taking gross profits to mere PKR 62mn as against PKR 1.0bn in the same period last year. The decline in margins is primarily driven by substantial fall in retention prices amid a stable cost structure.
- Retention prices of the Company are expected to recede by almost 13%YoY owing to enhanced FED (up +25%YoY) and greater discounts offered to distributors (+~53%YoY) amid stiff competition faced in the domestic market, especially in the North region, during 1QFY20.
- Selling and Distribution costs of the Company are expected to increase more than 2 fold (+2.4xYoY), largely due to rise in freight and handling charges ancillary to rising clinker export sales.
- Finance charge of the Company is expected to shoot up by 2.3x to PKR 1.4bn, largely on account of substantial increase in short term borrowing

requirements of the Company and rise in benchmark interest rates during 1QFY20 as against the comparative period.

- We expect a loss before tax of PKR 1.58bn and loss after tax of PKR 1.19bn (LPS: PKR 2.72) during 1QFY20 as against profit before tax of 520mn and profit after tax of PKR 418mn (EPS: PKR 0.95) reported in the similar period of the preceding year.
- On a sequential basis, the Company is expected to further its losses by 17%QoQ on account of lower retentions led primarily by non-passing ability of FED by the Company and enhanced distribution and finance costs.

Exhibit: D.G. Khan Cement Company Limited (DGKC) Financial highlights

Period end (Jun) - PKRbn	1q'20	2019	4q'19	3q'19	2q'19	1q'19	2018	4q'18	3q'18	2q'18	1q'18	2017
Net Sales	9,973	40,517	10,141	10,608	11,581	8,186	30,668	7,293	7,612	8,236	7,527	30,136
Cost of sales	9,911	35,154	9,744	8,828	9,434	7,149	21,928	5,722	5,692	5,642	4,872	18,292
Gross Profit	62	5,362	397	1,781	2,147	1,037	8,740	1,571	1,919	2,595	2,655	11,845
Sales Growth %	22%	32%	39%	39%	41%	9%	2%	-3%	-4%	2%	14%	1%
Gross Margin %	1%	13%	4%	17%	19%	13%	28%	22%	25%	32%	35%	39%
Selling & Distribution	762	1,934	439	535	613	347	1,523	377	390	374	382	1,530
Other Op. Income	575	2,427	710	573	675	469	3,027	1,388	446	708	485	2,118
EBIT	(160)	5,317	655	1,724	1,806	1,132	7,889	884	1,788	2,655	2,562	11,541
EBIT Margin %	-2%	13%	6%	16%	16%	14%	26%	12%	23%	32%	34%	38%
Financial Charges	1,422	3,304	1,044	912	736	612	519	201	125	104	89	383
Profit Before Taxation	(1,581)	1,991	(412)	813	1,070	520	7,370	682	1,663	2,551	2,473	11,158
Taxation	(389)	381	604	(71)	(254)	102	(1,468)	(3,185)	427	1,655	(364)	3,183
Effective Tax Rate	25%	19%	-147%	-9%	-24%	20%	-20%	-467%	26%	65%	-15%	29%
Profit After Tax	(1,192)	1,610	(1,015)	883	1,324	418	8,838	3,868	1,236	896	2,837	7,975
Net Margin (%)	-12%	4%	-10%	8%	11%	5%	29%	53%	16%	11%	38%	26%
PAT Growth YoY	-4.9x	-82%	-126%	-29%	48%	-85%	11%	154%	-37%	-65%	49%	-9%
EPS	(2.72)	3.67	(2.32)	2.02	3.02	0.95	20.17	8.83	2.82	2.05	6.48	18.20
DPS	-	1.00	1.00	-	-	-	4.25	4.25	-	-	-	7.50

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