

Flash Note

Wednesday, 19 April 2017

Cements

DGKC: Earnings clocked in at PKR 4.45/share for 3QFY17, down by 15%YoY

- D.G Khan Cement Company (DGKC) announced financial results for 3QFY17 with earnings clocking in at PKR 1.95bn (EPS PKR 4.45) down by 15%YoY (19%QoQ) as compared to PKR 2.60bn (EPS PKR 5.93) in the same period last year, taking 9MFY17 cumulative earnings to PKR 6.45bn (EPS PKR 14.73), up by +1%YoY.
- During 3QFY17, net sales increased by +3%YoY to PKR 7.95bn as compared to PKR 7.68bn reported in the same period last year on the back of higher retention prices and increased local sales mix of 88% (3QFY16; 84%).
- Gross margins witnessed a decline of 817bps to 36.2% during 3QFY17 likely owing to higher coal price and increased fuel/power cost as a result of dependence on Khairpur Captive plant utilizing LNG as a source of power generation.
- Finance cost inclined by 2.9xYoY to PKR 109mn during 3QFY17 likely owing to higher short term borrowing cost.
- However, effective tax rate declined by 511bps to 26.2% in 3QFY17 providing some support to earnings.

Exhibit:

DGKC Result Highlights

Period end (JUN) - PKRmn	3QFY17	YoY	QoQ	9MFY17	9MFY16	YoY
Net Sales	7,946	3%	-2%	22,633	21,318	6%
Gross Profit	2,875	-16%	-16%	9,215	8,895	4%
S&A exp	357	1%	-7%	1,123	982	14%
Oth. Income	442	-22%	-33%	1,617	1,804	-10%
Oth. Expense	209	-11%	-30%	715	690	4%
Operating profit	2,751	-19%	-19%	8,994	9,027	0%
Finance Cost	109	196%	22%	272	99	176%
Pre-tax Profits	2,642	-21%	-20%	8,722	8,928	-2%
Tax	693	-34%	-3%	2,268	2,550	-11%
Post-tax Profits	1,948	-15%	-25%	6,454	6,378	1%
EPS	4.45			14.73	14.56	
DPS	-			-	-	
KEY RATIOS						
Gross Margin	36.2%			40.7%	41.7%	
Net Margin	24.5%			28.5%	29.9%	
Effective Tax Rate	26.2%			26.0%	28.6%	

SOURCE: IGI Research, Company accounts, PSX notifications

Recommendation

We maintain our **"BUY"** call on DGKC with our Dec-17 target price of PKR 274/share, offering +20.8% upside from its last closing. The company is currently trading at a FY17E P/E of 10.4x and offers a dividend yield of 3%.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, 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. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **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.

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