

Day Break

Tuesday, 14 February 2017

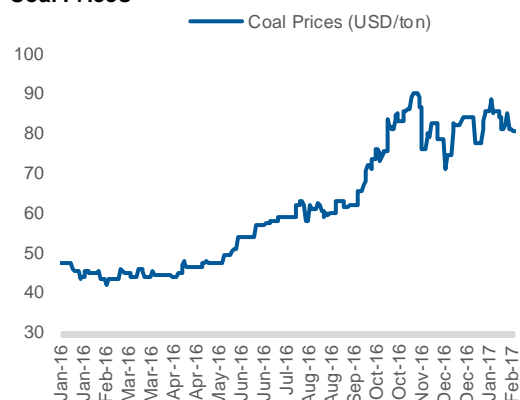
Sector Update

Cement Sector	TP	Upside	P/E	D.Yld
DGKC	274.5	13%	11	3%
MLCF	131.6	-2%	13	3%
FCCL	51.3	9%	17	4%

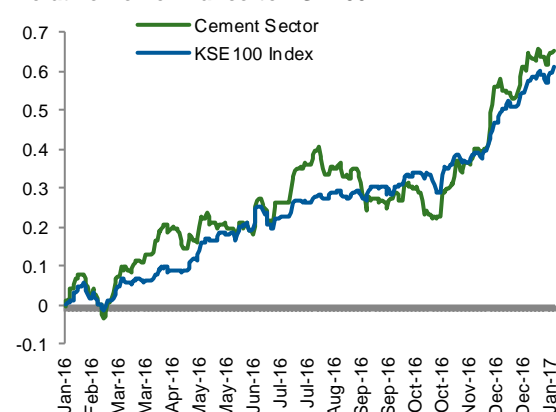
Earnings	2QFY17	YoY	1HFY17	YoY
DGKC	5.80	8%	10.15	9%
MLCF	2.61	-8%	4.93	11%
FCCL	0.55	-55%	0.99	-51%

Dividend	2QFY17	YoY	1HFY17	YoY
DGKC	-	-	-	-
MLCF	1.50	0%	1.50	0%
FCCL	0.75	-57%	0.75	-57%

Coal Prices



Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

Jawad Ameer Ali

jaw.ad.ameer@igi.com.pk

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

Cements

DGKC, MLCF & FCCL Result Preview for 2QFY17

- D.G. Khan Cement Company Ltd. (DGKC) is scheduled to announce its 2QFY17 financial result on 16thFeb-17, where we expect company to post PAT of PKR 2.54bn (EPS PKR 5.80) as compared to PKR 2.36bn (EPS PKR 5.38) registered in corresponding period last year, up by +8%YoY.
- Maple Leaf Cement Factor Ltd. (MLCF) is expected to post earnings of PKR 2.60bn (EPS PKR 4.93) in 1HFY17 as compared to PKR 2.34bn (EPS PKR 4.44) in 1HFY16. We anticipate company to announce an interim cash dividend of PKR 1.50/share.
- Fauji Cement Company Ltd. (FCCL) is expected to post earnings of PKR 755mn (EPS PKR 0.55) as against 1,674mn (EPS PKR 1.21) registered in corresponding period last year. Along with the result, we expect FCCL to pay an interim cash dividend of PKR 0.75/share.

DGKC: 2QFY17 earnings expected at PKR 5.80/share

D.G. Khan Cement Company Ltd. (DGKC) is scheduled to announce its 2QFY17 financial result on 16thFeb-17, where we expect company to post PAT of PKR 2.54bn (EPS PKR 5.80), up by +8%YoY as compared to PKR 2.36bn (EPS PKR 5.38) registered in corresponding period last year. We attribute this growth to a) +13%YoY growth in topline owing to increase in domestic offtake of +17%YoY, b) cost efficiency from coal fired CPP, and c) hefty other income from investments. However, increase in short term borrowing will keep finance cost inflated (+75%YoY).

Exhibit:

DGKC Financial Highlights

	2QFY17E	2QFY16	YoY	1HFY17E	1HFY16	YoY
<i>Income Statement</i>						
Revenue	8,360	7,391	13%	14,959	13,635	10%
Gross Profit	3,594	3,108	16%	6,505	5,487	19%
Sell & Admin	393	312	26%	773	628	23%
Fin cost	56	32	75%	130	62	110%
PBT	3,681	3,306	11%	6,446	5,580	16%
Tax	1,141	948	20%	1,999	1,500	33%
Net profit	2,540	2,358	8%	4,447	4,080	9%
EPS	5.80	5.38		10.15	9.31	
<i>Key Ratios</i>						
Gross Margin	43%	42%		43%	40%	
Net Margin	30%	32%		30%	30%	
Effective Tax Rate	31%	29%		31%	27%	

Source: IGI Research, Company Financials

MLCF: Muted volumes to restrict earnings growth in 2QFY17

The Board of Directors' meeting of Maple Leaf Cement Factory Ltd. (MLCF) is scheduled on 15th Feb-17 to announce financial result for 2QFY17. We expect the company to post PAT of PKR 1.38bn (EPS PKR 2.61) as compared to PKR 1.50bn (EPS PKR 2.83) observed in corresponding period last year, down by 8%YoY. In our view, decline in bottom line is mainly on account of a) muted sales growth (+0.9%YoY) and b) higher input cost. Along with the financial results, we expect company to announce an interim cash dividend of PKR 1.50/share.

On cumulative basis, we expect MLCF to post earnings of PKR 2.60bn (EPS PKR 4.93) in 1HFY17 as compared to PKR 2.34bn (EPS PKR 4.44) in 1HFY16. Revenues are anticipated to surge by +7%YoY to PKR 11.64bn resulting from +6%YoY growth in total offtake. On the other hand, swift repayment of loans is likely to result in decline of finance cost by 71%YoY to PKR 92mn.

Exhibit:

MLCF Financial Highlights

	2QFY17E	2QFY16	YoY	1HFY17E	1HFY16	YoY
<i>Income Statement</i>						
Revenue	6,082	5,894	3%	11,638	10,860	7%
Gross Profit	2,564	2,587	-1%	4,945	4,413	12%
Sell & Admin	403	471	-15%	898	887	1%
Fin cost	46	131	-65%	92	317	-71%
PBT	1,968	1,880	5%	3,663	3,033	21%
Net profit	1,378	1,495	-8%	2,601	2,342	11%
EPS	2.61	2.83		4.93	4.44	
<i>Key Ratios</i>						
Gross Margin	42%	44%		42%	41%	
Net Margin	23%	25%		22%	22%	
Effective Tax Rate	30%	20%		29%	23%	

Source: IGI Research, Company Financials

FCCL: Earnings expected to clock in at PKR 0.55/share in 2QFY17

The financial result of Fauji Cement Company Ltd. (FCCL) for 2QFY17 is scheduled to be announced on 15th Feb-17. We expect company to post earnings of PKR 755mn (EPS PKR 0.55) as against 1,674mn (EPS PKR 1.21) registered in corresponding period last year. This is mainly on account of higher cost of clinker procurement. Along with the result, we expect FCCL to pay an interim cash dividend of PKR 0.75/share.

As per our estimates, revenue of company is likely to rise by +3%YoY on account of growth in total dispatches by +5%YoY. We expect margins to be under pressure on the back of elevated coal prices and higher procurement cost of clinker. To highlight, large inventory of clinker was already maintained by the company in previous quarter.

Exhibit:

FCCL Financial Highlights

	2QFY17E	2QFY16	YoY	1HFY17E	1HFY16	YoY
<i>Income Statement</i>						
Revenue	5,740	5,569	3%	10,131	9,950	2%
Gross Profit	1,320	2,699	-51%	2,367	4,577	-48%
Sell & Admin	142	138	3%	254	245	4%
Fin cost	66	122	-46%	143	320	-55%
PBT	1,079	2,331	-54%	1,910	3,861	-51%
Net profit	755	1,674	-55%	1,364	2,777	-51%
EPS	0.55	1.21		0.99	2.01	
<i>Key Ratios</i>						
Gross Margin	23%	48%		23%	46%	
Net Margin	13%	30%		13%	28%	
Effective Tax Rate	30%	28%		29%	28%	

Source: IGI Research, Company Financials

Recommendation

With our Dec-17 TP of PKR 274/share for DGKC, we maintain our **'BUY'** call on scrip offering upside potential of +13%. However, we recommend **'HOLD'** call on FCCL and MLCF with Dec-17 TP of PKR 51/share (+9%) and PKR 131/share (-2%), respectively.

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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):

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext.: 966	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) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	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 # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
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, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter, Opp. Radio
Station, MansehraRoad, Abbottabad
Phone: (+92-99) 2408243 - 44