

Flash Note

Thursday, 25 October 2018

Cements

D. G. Khan Cement Company Limited (DGKC)

Less than expected dispatches in South, incremental depreciation of new plant and unwounded finance cost diminish earnings by 85%YoY to PKR 0.95/share

- D. G. Khan Cement Company Limited (DGKC) announced its financial results for 1QFY19 with unconsolidated earnings clocking in at PKR 418mn (EPS: PKR 0.95), down by a substantial 85%YoY, as compared to PKR 2.84bn (EPS: PKR 6.48) reported in the same period last year.
- The decline percentage of 85%YoY appears quite alarming, however, 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.
- Net Sales of the Company have increased by +9%YoY, likely due to incremental sales from South plant, which are still below expected levels from managements perspective.
- Gross profits of the Company have been washed away by 61%YoY, largely due to rise in input prices and more so due to inclusion of substantial depreciation expense pertaining to recently inaugurated Hub Plant of the Company.
- Finance cost of the Company leaped up by 7 folds, largely on account of unwinding of finance cost to income statement post inauguration of DGKC Hub Plant.

Exhibit:

DGKC Result Highlights

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	8,186	7,527	9%	7,293	12%
Gross Profit	1,037	2,655	-61%	1,571	-34%
Sell. / Dist. & Admin	347	382	-9%	377	-8%
Non-Operating Income	469	485	n/m	1,388	-66%
EBIT	1,132	2,562	-56%	884	28%
Financial Charges	612	89	6.90x	201	3.73x
Pre-tax Profits	520	2,473	-79%	682	-24%
Taxation	102	(364)	-128%	(3,185)	-103%
Post-tax Profits	418	2,837	-85%	3,868	-89%
EPS	0.95	6.48		8.83	
DPS	-	-		4.25	

Key Ratios

Gross Margin (%)	12.7	35.3		21.5	
Net Margin (%)	5.1	37.7		53.0	
Effective Tax Rate (%)	19.6	n/m		n/m	

Source: Company Accounts, IGI Research

No. of Shares : 438mn

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