

Flash Note

Friday, 25 October 2019

Cements

D. G. Khan Cement Company Limited (DGKC)

Lower retention prices amid intense competition and finance cost generate 1QFY20 loss of PKR (3.26)/share

- D. G. Khan Cement Company Limited (DGKC) announced its financial results for 1QFY20 with an unconsolidated net loss of PKR 1.43bn (LPS: PKR 3.26), down by 5.4xYoY, as compared to PKR 418mn (EPS: PKR 0.95) reported in the same period last year.
- The decline in earnings during 1QFY20 is primarily driven by lower retention prices on domestic cement sales, higher distribution costs and exacerbated finance costs of the Company.
- Net sales of the Company during 1QFY20 grew by +11%YoY as against the comparative period. Though, overall dispatches of the Company are expected to be risen by ~+40%YoY, the Company failed to translate similar trend to net sales due to substantial fall in retention prices possibly due to higher discounts offered to distributors and failure to pass over enhanced FED (+25%YoY) to customers amid intense competition, especially in the North region.
- While cost structure remained almost similar (avg. cost/bag 1QFY20: PKR 272, 1QFY19: PKR 271), the substantial decline in retention prices led to a gross loss of PKR 538mn as against a gross profit of PKR 1.04bn in the comparative period.
- Selling & Distribution costs of the Company grew by +2.7xYoY on account of higher freight and handling charges related to enhanced exports.
- Finance costs of the Company shot up by 2 folds (+2xYoY) largely driven by substantial increase in short term borrowing requirements of the Company and rise in benchmark interest rates during 1QFY20 as against the comparative period.

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

Period end (Dec) - PKRbn	1q'20	2019	4q'19	3q'19	2q'19	1q'19	2018	4q'18	3q'18	2q'18	1q'18	2017
Net Sales	9,069	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	9,607	35,154	9,744	8,828	9,434	7,149	21,928	5,722	5,692	5,642	4,872	18,292
Gross Profit	(538)	5,362	397	1,781	2,147	1,037	8,740	1,571	1,919	2,595	2,655	11,845
Sales Growth %	11%	32%	39%	39%	41%	9%	2%	-3%	-4%	2%	14%	1%
Gross Margin %	-6%	13%	4%	17%	19%	13%	28%	22%	25%	32%	35%	39%
Admin, Selling & Dstb	636	1,934	439	535	613	347	1,523	377	390	374	382	1,530
Other Op. Income	553	2,427	710	573	675	469	3,027	1,388	446	708	485	2,118
EBIT	(623)	5,317	655	1,724	1,806	1,132	7,889	884	1,788	2,655	2,562	11,541
EBIT Margin %	-7%	13%	6%	16%	16%	14%	26%	12%	23%	32%	34%	38%
Financial Charges	1,256	3,304	1,044	912	736	612	519	201	125	104	89	383
Profit Before Taxation	(1,879)	1,991	(412)	813	1,070	520	7,370	682	1,663	2,551	2,473	11,158
Taxation	(451)	381	604	(71)	(254)	102	(1,468)	(3,185)	427	1,655	(364)	3,183
Effective Tax Rate	24%	19%	-147%	-9%	-24%	20%	-20%	-467%	26%	65%	-15%	29%
Profit After Tax	(1,428)	1,610	(1,015)	883	1,324	418	8,838	3,868	1,236	896	2,837	7,975
Net Margin (%)	-16%	4%	-10%	8%	11%	5%	29%	53%	16%	11%	38%	26%
PAT Growth YoY	-5.4x	-82%	-126%	-29%	48%	-85%	11%	154%	-37%	-65%	49%	-9%

EPS	(3.26)	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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