

## D.G. Khan Cement (DGKC)

2QFY18 EPS Rs1.8, -70% YoY (72% QoQ); 1HFY28 EPS Rs8.1, down 19% YoY

Below expectations

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## Tax reversal significantly dented earnings

DGKC: Financial highlights (Consolidated)							
Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Sales	8,908	8,629	3%	10%	17,018	15,746	8%
Cost of sales	6,339	5,112	24%	17%	11,757	9,280	27%
Gross profit	2,569	3,517	-27%	-5%	5,261	6,466	-19%
Administrative expense	165	149	11%	-2%	333	288	16%
Selling and distribution expense	232	256	-9%	-2%	470	514	-8%
Other operating expense	314	341	-8%	12%	595	639	-7%
Other Income	665	708	-6%	35%	1,156	1,152	0%
Profit from Operations	2,522	3,479	-28%	1%	5,019	6,178	-19%
Finance Cost	116	95	22%	20%	213	180	18%
Profit/(Loss) before Tax	2,406	3,384	-29%	0%	4,806	5,998	-20%
Taxation	1,673	722	132%	NM	1,340	1,608	-17%
Profit/(Loss) after Tax	733	2,662	-72%	-73%	3,466	4,390	-21%
<b>Attributable to:</b>							
Owners of Holding Company	783	2,651	-70%		3,563	4,425	-19%
Non-Controlling Interests	(50)	12			(97)	(34)	
EPS	1.8	6.0			8.1	10.1	

Source: PSX, Company Accounts, Topline Research

- DGKC's consolidated earnings clocked-in at Rs783mn (EPS Rs1.8/share) in 2QFY18, below consensus estimates, mainly due to one-time tax reversal. To recall, the company booked huge tax credit (availing 65B of the Income Tax Ordinance, 2001) in 1QFY18 on account of investment in new cement line (Hub, Baluchistan). While we await management clarity, we believe that due to timing difference (the plant is expected to commence operations in 4QFY18), the company will now avail the tax benefit in 2HFY18.

## Tax reversal significantly dented earnings

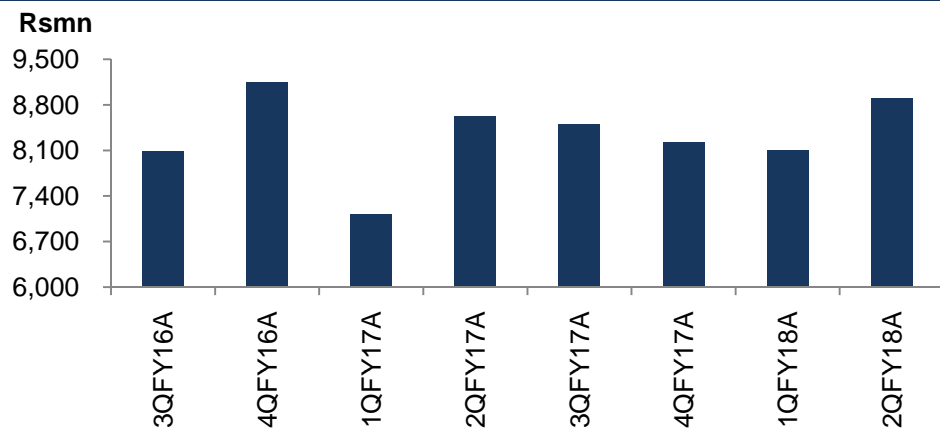
- Revenues were up 3% YoY in 2QFY18 mainly due to 2% increase in revenues from cement operations. This is despite ~10% growth in local dispatches; local net retention prices declined by ~5% or Rs16/bag, we estimate.
- Core operation gross margins shrank by 11ppts to 32% in 2QFY18 due to higher F.O.B coal prices, up 34% YoY to avg. US\$87/ton (with a quarter lag impact).
- As discussed above, major dent in consolidated earnings in 2QFY18 came from tax reversal which led to 48ppts increase in effective tax rate to 70%. To note, pretax earnings of cement operations were down 23% to Rs2.5bn while net earnings declined by 65% to Rs897mn (EPS Rs2.0) .
- The company's other income clocked-in at Rs665mn (Rs1.5/share on pretax basis) with 62% of the contribution coming from MCB Bank (MCB), followed by 23% from Nishat Mills (NML).
- In its result announcement, DGKC has informed that, subject to approval of shareholders, it is going to invest up to Rs850mn in Hyundai Nishat Motor (Pvt) Limited (to acquire 85mn shares at par value of Rs10/share).
- We flag 1) further decline in cement prices, 2) delay in commissioning of new cement line, 3) unanticipated increase in gas and coal prices and 4) lower than expected local cement demand as key risks for DGKC.

### DGKC: Key Numbers

	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	12.4	13.7	17.7	19.1	18.0
Earnings Growth	33%	10%	30%	8%	-6%
PE at Rs140.1	11.3	10.2	7.9	7.3	7.8
Dividend Yield	2%	2%	5%	4%	5%
ROE	11%	10%	12%	12%	10%
PBV	1.3	1.0	0.9	0.8	0.8

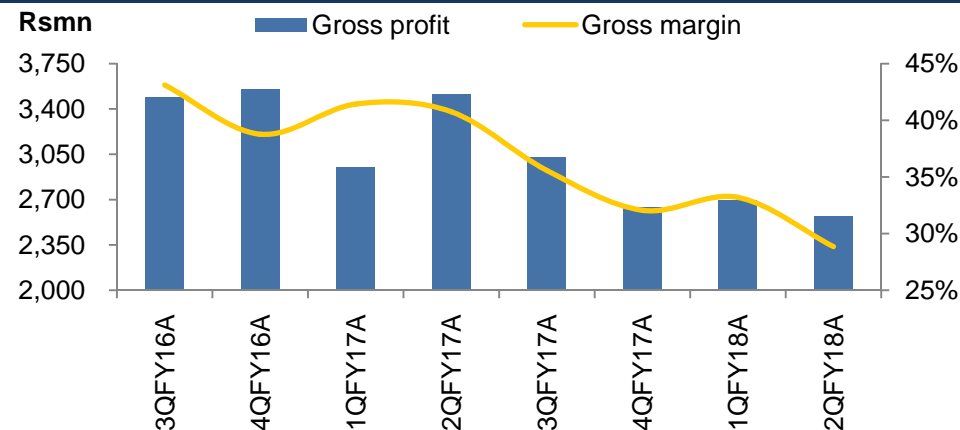
Source: Company Accounts, Topline Research

### DGKC: Quarterly Sales



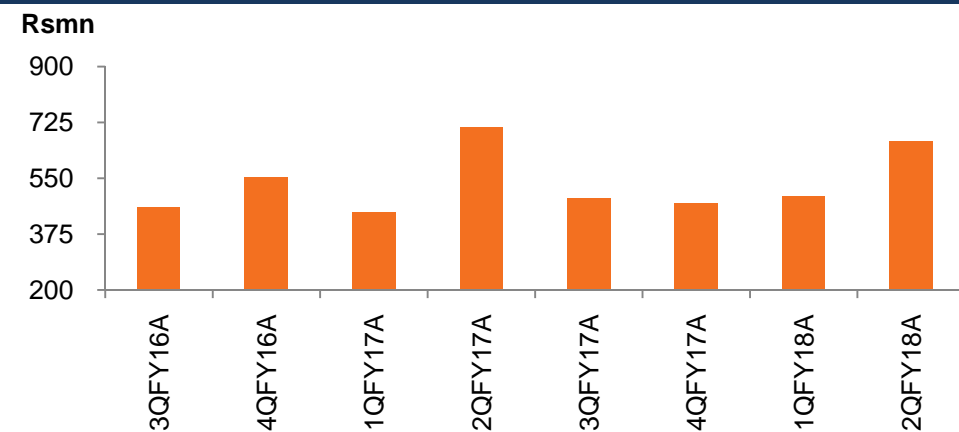
Source: Company Accounts, Topline Research

### DGKC: Quarterly Gross Profit & Gross Margins



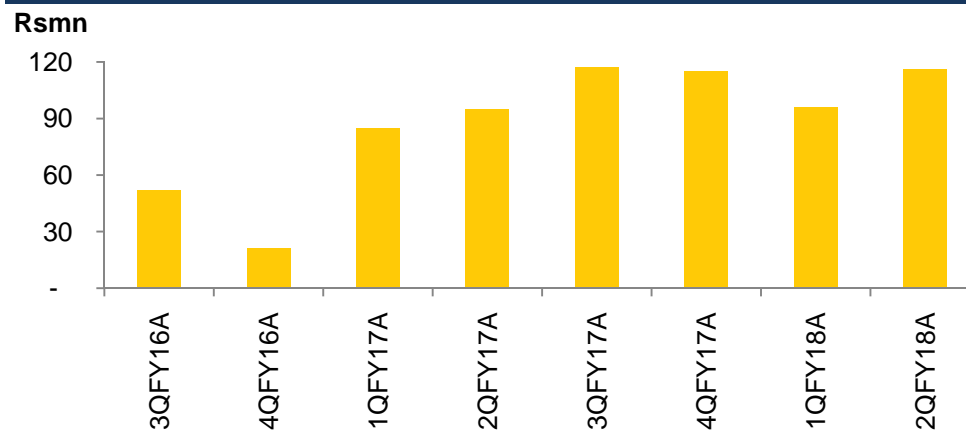
Source: Company Accounts, Topline Research

### DGKC: Quarterly Other Income



Source: Company Accounts, Topline Research

### DGKC: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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