D.G. Khan Cement (DGKC)

4QFY18 EPS Rs9.2, +180% YoY (+215% QoQ); FY18 EPS Rs20.2, +12% YoY

Cash dividend of Rs4.25/share

Above expectations

Nabeel Khursheed[AC]
nabeel@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan

Huge tax benefit led to earnings growth

DGKC: Financial highlights (Consolidated)							
Rsmn	**4QFY18**	**4QFY17**	**YoY**	**QoQ**	**FY18**	**FY17**	**YoY**
Sales	8,070	8,226	-2%	-4%	33,465	32,475	3%
Cost of sales	6,499	5,589	16%	2%	24,648	20,348	21%
Gross profit	1,571	2,637	-40%	-21%	8,817	12,127	-27%
Administrative expense	192	181	6%	6%	706	617	14%
Selling and distribution expense	213	256	-17%	-10%	920	997	-8%
Other operating expense	1,721	202	754%	649%	2,546	1,076	137%
Other Income	1,585	460	245%	215%	3,244	2,100	54%
Profit from Operations	1,030	2,459	-58%	-44%	7,890	11,537	-32%
Finance Cost	236	115	105%	86%	575	412	39%
Profit/(Loss) before Tax	794	2,344	-66%	-54%	7,315	11,125	-34%
Taxation	(3,404)	944	NM	-874%	(1,624)	3,272	NM
Profit/(Loss) after Tax	4,198	1,400	200%	229%	8,939	7,853	14%
Owners of Holding Company	4,027	1,437	180%	215%	8,870	7,891	12%
Non-Controlling Interests	171	(37)			69	(37)	
EPS	**9.2**	**3.3**			**20.2**	**18.0**	

Source: PSX, Company Accounts, Topline Research

- DGKC reported better than expected 4QFY18 consolidated earnings mainly due to huge tax credit (availing 65B of the Income Tax Ordinance, 2001) on account of investment in new cement line (Hub, Baluchistan) and adjustment of deferred taxes to the tune of Rs7-8/share. To note, pretax profits were down 66% YoY.
- Another anomaly observed in 4QFY18 result was 754% YoY higher other operating expenses and 245% increase in other income. As per our channel checks, DGKC booked one-time impairment and at the same time recorded one-time income on one of its power plants, thereby netting off any material impact on the bottom-line.

Huge tax benefit led to earnings growth

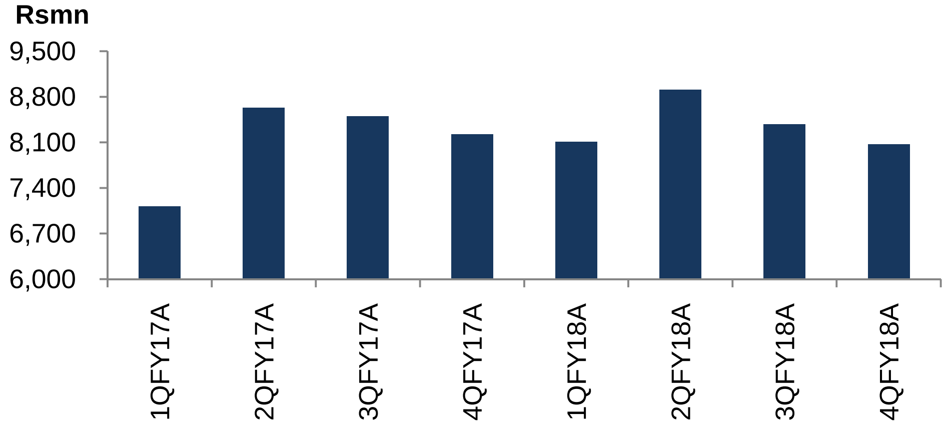
- Consolidated revenues were down 2% YoY in 4QFY18, mainly due to 3% decline in sales from cement operations. Cement sales were down on the back of flat dispatches and lower net retention prices, we believe.
- Gross margins were considerably down by 13ppts to 19% in 4QFY18 owing to 1) 14ppts decline in cement operations margin and 2) higher production cost of DGKC's dairy business (Nishat Dairy). Rising input costs like higher coal prices and increase in transportation expenses put pressure on cement margins.
- Financial charges grew by 105% YoY during the outgoing quarter on the back of increase in debt levels and higher interest rates.
- We flag 1) further decline in cement prices, 2) unanticipated increase in gas and coal prices and 3) lower than expected local cement demand as key risks for DGKC.

DGKC: Key Numbers

	FY14A	FY15A	FY16A	FY17A	FY18A
EPS	13.7	17.7	19.1	18.0	20.2
Earnings Growth	10%	30%	8%	-6%	12%
PE at Rs107.1	7.8	6.0	5.6	5.9	5.3
Dividend Yield	3%	7%	6%	7%	4%
ROE	10%	12%	12%	10%	11%
PBV	0.8	0.7	0.6	0.6	0.6

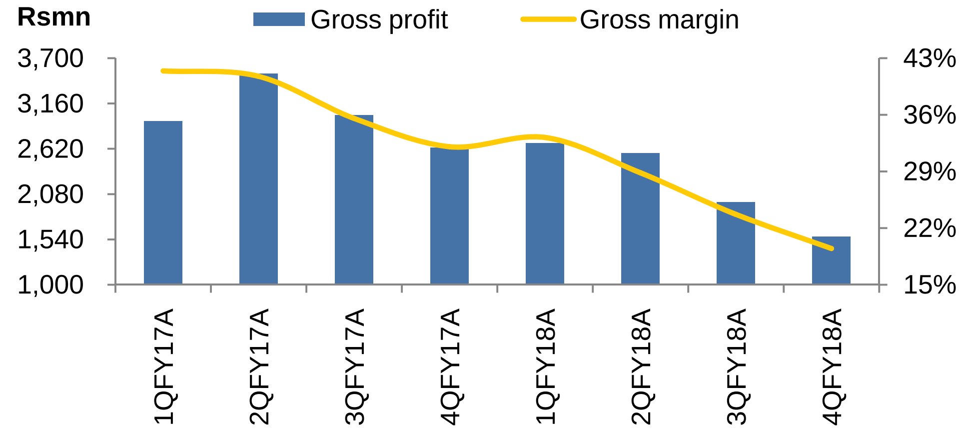
Source: Company Accounts, Topline Research

DGKC: Quarterly Sales



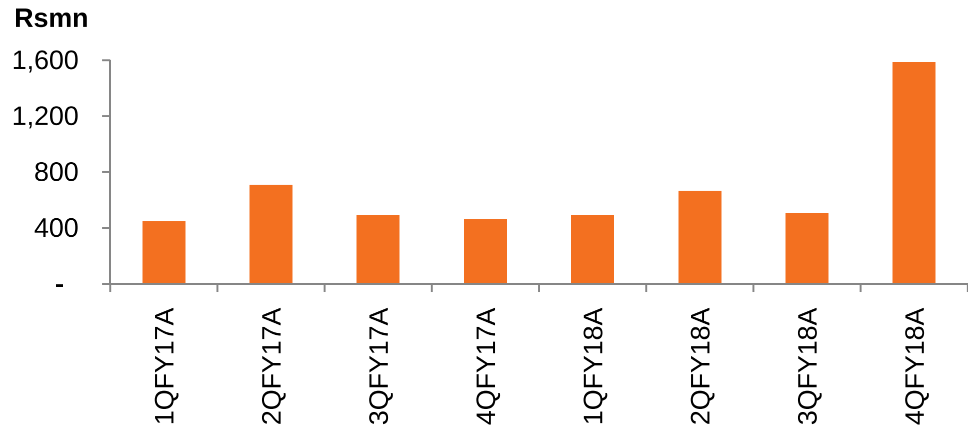
Source: Company Accounts, Topline Research

DGKC: Quarterly Gross Profit & Gross Margins



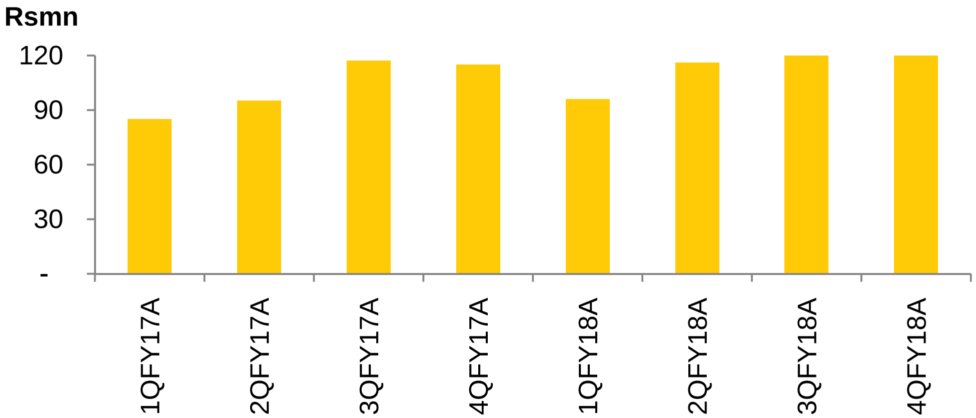
Source: Company Accounts, Topline Research

DGKC: Quarterly Other Income



Source: Company Accounts, Topline Research

DGKC: Quarterly Finance Cost



Source: Company Accounts, Topline Research

Analyst Certification and Disclosures

The research analyst(s), denoted by an "AC" on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	**Expected Total Return**
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector's proposed weight in the portfolio as compared to sector's weight in KSE-100 Index:

Rating	**Sector's Proposed Weight in Portfolio**
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst's assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.