

## Earning Review

### DGKC: 4QFY21 EPS clocked in at Rs1.99, DPS Rs1.0

#### Event

- D.G. Khan Cement Company Limited (DGKC PA) profitability clocked in at Rs873mn (EPS Rs1.99, down 57% QoQ) in 4QFY21 as compared to loss of Rs161mn (LPS Rs0.37) in 4QFY20. This will take FY21 profitability to Rs3.7bn (EPS Rs8.49) as compared to loss of Rs2.2bn (LPS Rs4.93) in FY20. The result is also accompanied with dividend payout of Rs1.0/sh.
- The result is in line with our expectations.

#### Impact

- We attribute increase in DGKC profitability to (1) ~37/21% YoY increase in cement retention prices in north/south region, (2) 30% YoY decline in finance cost and (3) 11/76% YoY increase in domestic/export dispatches in 4QFY21.
- DGKC sales increased by 66/14% YoY/QoQ in 4QFY21 due to better retention prices amid higher dispatches. Furthermore, DGKC gross margins increased/decreased by 10.8/5.2ppt YoY/QoQ to 17.6% in 4QFY21 due to higher exports from south region plant. On sequential basis DGKC margins declined due to higher energy cost, in our view.
- DGKC finance cost declined by 30% YoY in 4QFY21 due to 625bps policy rate cut by SBP to mitigate the economic impact of outbreak COVID.
- Among other major heads admin/distribution cost increased by 27/63% YoY in 4QFY21.
- Furthermore, DGKC other income declined by 21/70% YoY/QoQ in 4QFY21 due to lower dividend income, in our view.
- To highlight, DGKC's effective tax rate clocked in at 27.1% (down/up 8.9/4.2ppt YoY/QoQ) in 4QFY21.

#### Outlook

- Going forward, we expect momentum in cement demand to continue given increased contribution from the private sector along with increase in public spending on the back of major infrastructure projects. The company would be a key beneficiary of prevailing lower interest rate due to high financial leverage. We have positive inclination on the stock given better utilization level and stable dividend income from portfolio companies.

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Fig 01: DGKC 4QFY21 Financial Highlights (Rs mn)

	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Net Sales	12,360	7,462	66%	14%	45,108	38,033	19%
Cost of sales	10,182	6,954	46%	21%	37,036	36,447	2%
<b>Gross Profit</b>	<b>2,178</b>	<b>508</b>	<b>329%</b>	<b>-12%</b>	<b>8,072</b>	<b>1,586</b>	<b>409%</b>
Admin Expenses	179	141	27%	13%	647	659	-2%
Selling and Distribution Expenses	551	338	63%	36%	1,950	1,783	9%
Other operating expenses	51	(80)	-163%	-79%	310	676	-54%
Other operating income	497	633	-21%	-70%	2,527	2,430	4%
<b>EBIT</b>	<b>1,894</b>	<b>742</b>	<b>155%</b>	<b>-43%</b>	<b>7,692</b>	<b>897</b>	<b>757%</b>
Financial Charges	697	994	-30%	0%	2,921	4,653	-37%
Profit before taxation	1,197	(252)	-575%	-55%	4,771	(3,756)	-227%
Taxation	324	(91)	-457%	-47%	1,050	(1,598)	-166%
<b>Profit after Tax</b>	<b>873</b>	<b>(161)</b>	<b>-641%</b>	<b>-57%</b>	<b>3,721</b>	<b>(2,159)</b>	<b>-272%</b>
EPS	1.99	(0.37)			8.49	(4.93)	
Gross margins	17.6%	6.8%			17.9%	4.2%	
Net margins	7.1%	-2.2%			8.2%	-5.7%	
Effective tax rate	27.1%	36.0%			22.0%	42.5%	

Source: Company accounts, Foundation Research, September 2021

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.