

Earning Review

DGKC: 2QFY22 EPS clocked in at Rs2.90, up 10% YoY

Event

- D.G. Khan Cement Company Limited (DGKC PA) profitability clocked in at Rs1,269mn (EPS Rs2.90, up 10/40% YoY/QoQ) in 2QFY22 as compared to profit of Rs1,152mn in 2QFY21. This takes 1HFY22 profitability to Rs2,177mn (EPS of Rs4.97, up 172% YoY) as compared to profit of Rs801mn (EPS of Rs1.83) in 1HFY21.

Impact

- We attribute increase in DGKC profitability to (1) ~44/30% YoY increase in cement retention prices in north/south region, (2) increased dispatches and (3) higher other income due to receipt of dividend from portfolio companies.
- DGKC sales increased by 43/46% YoY/QoQ in 2QFY22 due to better retention prices amid higher dispatches given significant increase in south region exports.
- Furthermore, DGKC gross margins declined by 4.3/1.9ppt YoY/QoQ to 16.9% in 2QFY22 due to higher fuel/energy cost given increase in international coal prices, in our view.
- Company finance cost increased by 6/9% YoY/QoQ in 2QFY22.
- Among other major heads admin/distribution cost increased by 17/81% YoY in 2QFY22.
- Furthermore, DGKC other income increased by 164/38% YoY/QoQ in 2QFY22 due to dividend income from portfolio companies (~Rs460mn from MCB), in our view.
- To highlight, DGKC's effective tax rate clocked in at 24.6% (up 8.3/1.7ppt YoY/QoQ) in 2QFY22.

Outlook

- We have Outperform stance on the scrip with Dec-22 target price of Rs130.0/sh. Furthermore, near term profitability of the company is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs amid decline in demand growth.
- However company would benefit from (1) favorable Gov't policies for construction sector, (2) continuous increase in consumer housing finance and (3) increased demand from public sector given pre-election spending.

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

Fig 01: DGKC 2QFY22 Financial Highlights (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Net Sales	16,282	11,348	43%	46%	27,434	21,863	25%
Cost of sales	13,523	8,942	51%	49%	22,576	18,449	22%
Gross Profit	2,759	2,406	15%	31%	4,858	3,413	42%
Admin Expenses	183	156	17%	-1%	368	310	19%
Selling and Distribution Expenses	694	383	81%	119%	1,011	992	2%
Other operating expenses	146	16	828%	-35%	372	17	2053%
Other operating income	749	283	164%	38%	1,292	354	265%
EBIT	2,485	2,134	16%	30%	4,399	2,448	80%
Financial Charges	802	757	6%	9%	1,538	1,529	1%
Profit before taxation	1,683	1,376	22%	43%	2,861	919	211%
Taxation	414	225	84%	54%	684	118	479%
Profit after Tax	1,269	1,152	10%	40%	2,177	801	172%
EPS	2.90	2.63	10%	40%	4.97	1.83	172%
Gross margins	16.9%	21.2%			17.7%	15.6%	
EBIT Margin	15.3%	18.8%			16.0%	11.2%	
Net margins	7.8%	10.1%			7.9%	3.7%	
Effective tax rate	24.6%	16.3%			23.9%	12.8%	

Source: Company accounts, Foundation Research, February 2022

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