

Earning Review

DGKC: 3QFY22 EPS clocked in at Rs3.29, down 30% YoY

Event

- D.G. Khan Cement Company Limited (DGKC PA) profitability clocked in at Rs1,442mn (EPS Rs3.29, down/up 30/14% YoY/QoQ) in 3QFY22 as compared to profit of Rs2,048mn in 3QFY21. This takes 9MFY22 profitability to Rs3,619mn (EPS of Rs8.26, up 27% YoY) as compared to profit of Rs2,848mn (EPS of Rs6.50) in 9MFY21.

Impact

- We attribute increase in DGKC profitability to (1) better retention prices in north/south region due to multiple price hikes by the company in order to pass on the impact of higher fuel/energy cost and (2) decline in other operating expenses.
- DGKC sales increased by 46% YoY in 3QFY22 due to better retention prices as dispatches declined by 1% YoY to ~1.66mn tons in 3QFY22.
- Furthermore, DGKC gross margins declined by 4.2ppt YoY to 18.6% in 3QFY22 due to higher fuel/energy cost given increase in international coal prices, in our view.
- Company finance cost increased by 32/14% YoY/QoQ in 3QFY22 due to higher interest rates.
- Among other major heads admin/distribution cost increased by 17/25% YoY in 3QFY22.
- Furthermore, DGKC other income declined by 60/11% YoY/QoQ in 3QFY22 due to lower dividend income from portfolio companies.
- To highlight, DGKC's effective tax rate clocked in at 26.3% (up 3.4/1.7ppt YoY/QoQ) in 3QFY22.

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) strong profitability of portfolio companies and (2) continuous increase in consumer housing finance.

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

Fig 01: DGKC 3QFY22 Financial Highlights (Rs mn)

	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Net Sales	15,862	10,885	46%	-3%	43,297	32,748	32%
Cost of sales	12,913	8,404	54%	-5%	35,490	26,854	32%
Gross Profit	2,949	2,481	19%	7%	7,807	5,894	32%
Admin Expenses	184	158	17%	1%	552	468	18%
Selling and Distribution Expenses	507	407	25%	-27%	1,518	1,399	9%
Other operating expenses	52	242	-78%	-64%	424	259	64%
Other operating income	667	1,676	-60%	-11%	1,960	2,029	-3%
EBIT	2,873	3,350	-14%	16%	7,272	5,798	25%
Financial Charges	916	695	32%	14%	2,454	2,224	10%
Profit before taxation	1,958	2,656	-26%	16%	4,818	3,574	35%
Taxation	516	608	-15%	25%	1,199	726	65%
Profit after Tax	1,442	2,048	-30%	14%	3,619	2,848	27%
EPS	3.29	4.67	-30%	14%	8.26	6.50	27%
Gross margins	18.6%	22.8%			18.0%	18.0%	
EBIT Margin	18.1%	30.8%			16.8%	17.7%	
Net margins	9.1%	18.8%			8.4%	8.7%	
Effective tax rate	26.3%	22.9%			24.9%	20.3%	

Source: Company accounts, Foundation Research, April 2022

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. 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 mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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