

Earning Review

DGKC: 2QFY23 EPS clocked in at Rs1.24, down 57% YoY

Event

- D.G. Khan Cement Company Limited (DGKC PA) profitability clocked in at Rs543mn (EPS Rs1.24), down/up 57/40% YoY/QoQ in 2QFY23 as compared to profit of Rs1,269mn in 2QFY22. This takes 1HFY23 profitability to Rs932mn (EPS Rs2.13), down 57% YoY as compared to profit of Rs2,177mn (EPS Rs4.97) in 1HFY22.
- The result is in line with our expectation.

Impact

- We attribute decline in DGKC profitability to (1) lower dispatches in domestic market amid slowdown in demand, (2) decline in exports due to lower realized prices amid higher landed cost for imported coal, (3) higher fuel/energy cost due to rising commodity prices, (4) increase in finance cost given record higher interest rates and (5) increase in effective tax rate due to imposition of super tax.
- DGKC sales declined by 1% YoY in 2QFY23 due to lower dispatches in both domestic and export market. However, on sequential basis company revenue increased by 19% due to recovery in dispatches and better retention prices.
- Furthermore, DGKC gross margins declined by 3.4/1.8ppt YoY to 13.5% in 2QFY23 due to higher fuel/energy cost given increase in international coal prices, in our view.
- Company finance cost increased by 101/1% YoY/QoQ in 2QFY23 due to higher interest rates.
- Among other major heads admin/distribution cost increased/decreased by 17/75% YoY in 2QFY23. Decline in distribution cost is due to lower exports, in our view.
- To highlight, DGKC's effective tax rate clocked in at 32.9% (up 8.3 ppt YoY) in 2QFY23.

Outlook

- Company profitability growth is expected to remain muted given (1) sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs, (2) slowdown in demand due to economic slowdown, (3) uncertainty over pricing discipline as more expansions are about to come online and (4) decline in market share given lower capacity based market share.
- However, aforementioned factors are already incorporated in current market price, thus we have positive stance on the scrip as support to company would come from strong profitability of portfolio companies.

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Fig 01: DGKC 2QFY23 Financial Highlights (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Net Sales	16,176	16,282	-1%	19%	29,761	27,434	8%
Cost of sales	13,992	13,523	3%	22%	25,504	22,576	13%
Gross Profit	2,184	2,759	-21%	5%	4,257	4,858	-12%
Admin Expenses	215	183	17%	2%	426	368	16%
Selling and Distribution Expenses	176	694	-75%	-47%	509	1,011	-50%
Other operating expenses	106	146	-28%	563%	121	372	-67%
Other operating income	731	749	-2%	11%	1,392	1,292	8%
EBIT	2,419	2,485	-3%	11%	4,594	4,399	4%
Financial Charges	1,610	802	101%	1%	3,203	1,538	108%
PBT	809	1,683	-52%	39%	1,390	2,861	-51%
Tax	266	414	-36%	38%	458	684	-33%
PAT	543	1,269	-57%	40%	932	2,177	-57%
EPS	1.24	2.90			2.13	4.97	
Gross margins	13.5%	16.9%			14.3%	17.7%	
EBIT Margin	15.0%	15.3%			15.4%	16.0%	
Net margins	3.4%	7.8%			3.1%	7.9%	
Effective tax rate	32.9%	24.6%			33.0%	23.9%	

Source: Company accounts, Foundation Research, February 2023

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If	
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