

September 16, 2009

Pakistan Market

MORNING BRIEFING


DGKC: FY09 EPS expected at Rs2.6/'Hold' maintained KSE100 Index: Closing 9029.45 ↓ (-45.81)

DG Khan Cement (DGKC) is expected to announce full year FY09 results tomorrow. We expect the company to report earnings of Rs804mn (diluted EPS of Rs2.64) versus loss after tax of Rs53mn (diluted LPS of Rs0.17) last year. We expect the company to announce final cash dividend of Rs0.5-1.0 per share. Trading at FY09E P/E of 10.9x, we maintain our 'Hold' recommendation on the scrip.

DGKC's net sales up 46% in FY09

DGKC in full year FY09 results is expected to post earnings of Rs804mn (diluted EPS of Rs2.64), compared to losses of Rs53mn (diluted loss per share of 0.17) last year. Though local dispatches witnessed a decline of 35%YoY, higher average local retention prices will help boost revenues on the local front while jump in export sales volumes by 114%YoY along with rupee depreciation (20%YoY) during the period is expected to soar up export revenues. Resultantly, net sales are likely to rise by 46%YoY to Rs18.2bn. However, at the back of inflated commodity prices and rupee depreciation (import of coal, a major cost driver) during the period, cost of sales/ton is expected to surge by 37%YoY with COGS rising to Rs13bn in FY09. With positives outweighing negatives in FY09, hence we expect gross profit to increase by 166%YoY to Rs5.1bn. Additionally we expect gross margins to improve by 1,263bps to 28%.

Moreover, higher administrative and distribution expenses (up 182%YoY) amid higher freight costs along with higher financial charges are likely to dampen earnings for the company. Financial charges are likely to rise by 78% to Rs1.8mn at the back of higher interest rate scenario during the period with average 6-month KIBOR up 364bps in FY09.

Further impairment unlikely

In 3QFY09, DGKC recognized an impairment of Rs155mn and deferred Rs527mn over the next 3 quarters in accordance with the SECP guidance. However, in 4QFY09 we do not expect any risk of impairment, thanks to significant rise in its portfolio value during 4QFY09.

(Rs in mn)	FY09E	FY08A	Δ%
Local dispatches (tons)	2,382,698	3,644,559	-35%
Export dispatches (tons)	1,617,664	757,077	114%
Total Dispatches (tons)	4,000,362	4,401,636	-9%
Net Sales	18,162	12,446	46%
Cost of Goods Sold	13,073	10,531	24%
Gross Profit	5,088	1,915	166%
Gross Margin	28%	15%	
Administration & Distribution exp	1,896	673	182%
Operating profit	3,192	1,242	157%
Finance cost	3,107	1,750	78%
Other operating income	790	847	-7%
Other operating expenses	389	591	-34%
Profit After Taxation	804	(53)	NM
Diluted Earnings per share (EPS)	2.64	(0.17)	NM

Source: JS Research & Company accounts

Recommendation: 'Hold' maintained

Currently DGKC is trading at FY09 P/E of 10.9x with a limited upside to our target price of Rs38/share. Moreover, uncertainty regarding penalty imposed by competition commission of Pakistan also warrants a cautious approach from investors. If the original quantum of the penalty is imposed, DGKC's FY10F profits are to take a hit of Rs3.07 per share. Currently, the impact of the penalty is not incorporated in our FY10E earnings. Hence we maintain our 'Hold' stance on the scrip.

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DG Khan Cement	
Market Price: Rs34.85	Kats Code: DGKC
Market Cap: Rs10.6bn (US\$128mn)	Bloomberg Code: DGKC PA
1-yrs Avg. Daily Volume: 7.9mn shares, Rs233mn (US\$2.8mn)	Reuters Code: DGKH.KA
1-year High/Low: Rs41.21/13.01	

Also in focus

HBL, PPL and LESCO employees to get 12% shares

According to a news report, employees of HBL, PPL & LESCO will get 12% shares of the company under the Benazir Employees Stock Option Scheme in the next six weeks, similar to the 12% OGDC share transfer last month. According to the features of the scheme, 12% of the existing government holding would be transferred to the employees. Interestingly, the news report states that 80 State owned companies have been identified under this stock option scheme, 16 of which are public listed companies. Hence we can expect similar announcements for other major state owned listed companies in the coming weeks.

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