

November 17, 2009
Pakistan Market

DGKC: 1QFY10 result + earnings revision

MORNING BRIEFING



KSE100 Index: Closing 9304.31 ↑ (+237.14)

DG Khan Cement (DGKC) recently announced better than expected 1QFY10 results. The company posted profits of Rs585mn (EPS of Rs1.92) in 1QFY10 as against a loss of Rs169mn (loss per share of Rs0.55) in the corresponding period last year. Higher cement dispatches & absence of exchange losses helped DGKC improve profitability. Following the 1QFY10 result, we are revising our earnings estimates upwards by 39% to Rs2.9/share for FY10. With DGKC trading at FY10E PBV of 0.3x, we maintain our 'Buy' stance on the scrip.

Higher dispatches propels net sales by 6%YoY

Despite an average decline of 23% and 25% in local and export prices, respectively, higher than expected dispatches helped increase net sales by 6%YoY to Rs4.6bn. During the period under review, cement dispatches increased by 28%YoY while clinker sales witnessed a hefty jump of 319%YoY. Meanwhile, COGS/ton declined by 16%YoY primarily on account of a 64%YoY decline in coal prices, while cheaper rice husk and pet coke were utilized as alternatives to imported coal. However, decline in cement prices overshadowed cost efficient measures taken as margins reduced by 129bps to 28.7%. Resultantly, gross profit remained flat at Rs1.3bn.

Lower debt levels and reduction in interest rates (average 6M KIBOR down 159bps), helped cut financial cost by 38%YoY to Rs468mn. Furthermore, absence of exchange losses this year brought down operating expenses by 85%YoY to Rs94mn. Consequently, net margins for the company improved by 1,662bps to 12.7%.

Earnings revised upwards by 39% in FY10

Following better than expected 1QFY10 result, we are revising our earnings estimates up by 39% for FY10.

EPS	Old	New	Δ%
FY10E	2.09	2.90	38.8%
FY11F	4.74	4.85	2.3%

Source: JS Research

Plans for expansion: Not in the near future

In a recent interview to Bloomberg, CEO Mr. Raza Mansha spoke about the company's plan to invest Rs30bn to build a factory in Pakistan (3mn tons) and another in Sri Lanka (2mn tons) to tap demand in South Asia (particularly in Sri Lanka amid post war reconstruction) and Eastern African nations. However, a clarification notice at the bourse was issued yesterday, stating that no such proposal has been presented to the Board of Directors. We believe, implementation of the above would not have been feasible anyhow in the near term due to expected excess supply in the region beyond 2010.

Recommendation: 'Buy' maintained

Despite efforts by cement manufacturers to raise local cement prices, a 50kg bag of cement is still being sold in the vicinity of Rs230-240 in the North. Moreover, uncertainty regarding the Competition Commission of Pakistan's (CCP) imposed penalty continues to haunt cement manufacturers. Despite some doubts about the very existence of CCP ordinance, Finance Minister Shaukat Tarin yesterday said he would ensure that the ordinance is passed by the Parliament shortly.

With the stock trading at 0.3 times the book value on FY10E, we maintain our 'Buy' recommendation on the scrip.

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DG Khan Cement	
Market Price: Rs28.78	Kats Code: DGKC
Market Cap: Rs8.8bn (US\$105mn)	Bloomberg Code: DGKC PA
1-yrs Avg. Daily Volume: 8.0mn shares, Rs242mn (US\$2.9mn)	Reuters Code: DGKH.KA
1-year High/Low: Rs41.21/13.01	

Also in focus

Askari Leasing gets go ahead for the merger

According to a notice issued at the exchange, the BOD of Askari Leasing and Askari Bank have given the green signal for the merger between the two entities at a swap ratio of 1.83 shares of the leasing company with one share of the bank. The bank currently has a share capital of 507mn shares, which after the completion of the merger will increase by 28mn shares to a total of 535mn shares. If Askari Leasing continues to post the level of profits witnessed in FY09, the merger would have an anti dilutive effect on the combined entities' EPS. We currently have a 'Hold' stance on the bank, which trades at a 2009E PE and PBV of 7.4x and 0.9x respectively.

Warid Telecom issues clarification regarding rumor

In response to the news circulating yesterday regarding M&A talks between Warid and Telenor, Warid telecom has issued an official statement denying any such developments. The reports suggested Telenor was in advanced talks with Warid to acquire a 63% stake in the company for a consideration of US\$1.3bn.

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