D.G. Khan Cement

OVERVIEW (November 28, 2012) : Introduction: DGKC initiated its commercial operations in Pakistan in 1986 with the annual production capacity of 2,000 tons of clinker based on dry process technology. In 1992, however, the Company was acquired by Nishat group, under the privatisation initiative of the government after which the Company was listed on all the stock exchanges of Pakistan. Nishat group is the one of the most prevalent and diversified groups in the region having its footsteps in varied sectors of economy such as textiles, cement, financial, power generation and paper products. After its take-over by Nishat group, the Company focused its attention towards capacity as well as quality enhancements. To ensure that its products are manufactured in an eco-friendly manner, the Company has obtained various certifications such as ISO 9001-2008 and ISO14001:2004 for its manufacturing, storing marketing and distribution. Besides this, in an effort to embrace environmentally acceptable technology, the Company has also undertaken projects such as Waste Heat Recovery Plant Project and alternative fuel projects. To-date, the Company has its plants located in the north and south of the country with a remarkable production capacity of 15,000 tons cement per day.

Financial performance, 1QFY13

The Company began its FY13 ride with a robust note, witnessing a vigorous boom of 3.5 times in the bottom line YoY. This all began at the top, where the sales revenue grew by over 15 percent YoY in the 1st quarter. This remarkable growth comes on the heels of a fairly stable local and export prices coupled with a nominal up tick of around 4 percent in Company's sales volume. While the industry exports plunged by 2.68 percent on the back of fragile demand in African states and NTBs from India, DGKC exports thrived by 13 percent YoY mainly because of strong demand in Afghanistan together with some major export contracts gained by the Company in Ethiopia, highlighted Inayatullah Niazi, CFO, DGKC. On the flip side, the domestic dispatches of DGKC remained flat during the period. A considerable plunge in coal prices combined with alternative fuel projects employed by the Company sustained the cost of sales and harvested healthy margins for the Company. The GP margin clocked in at 38 percent in 1QFY13, up from 31 percent in the same period of last year. During the period under review, the operating profit rebounded by a staggering 80 percent owing to a 10 percent drop in the distribution expenses as a result of an increase in the Company's exports via land routes. Moreover, during 1QFY13, the Company also earned Rs 3,55.7 million from investment in MCB bank which boosted the other income by 36 percent, thus buttressing the bottom line to a great extent. The bottom line also got strengthened by a dip of around 400 bps in the discount rate since mid CY11 which resulted in a slash in Company's finance cost by around 33 percent YoY in 1QFY13.

Performance Trail (FY10-FY12)

The Company's top line follows a sturdy boulevard touting a YoY growth of 14 percent in FY11 and 24 percent in FY12. However, the bottom line doesn't follow the similar trail, whereby it drops by 38 percent in FY11 and again bounces back in FY12. In FY11, while the domestic dispatches declined by 15 percent, the export volume perked up twofold with African market representing the largest share. However, the phenomenal boom in the export sales didn't fully materialise as the rising transportation cost aggravated the net export retentions. Moreover, the prices in the international market were also not very attractive. The rise in export dispatches

during FY11, nevertheless, propped up the Company's distribution expense. Kudos to considerable dividend income announced by MCB: that sustained the operating expense to a considerable extent and bolstered the operating profit by 18 percent. Yet, 62 percent growth in the gross profit and 18 percent growth in operating profit couldn't prevent the dip in the bottom line as finance cost surged by 9 percent over the period. Moreover, the Company was liable to pay minimum tax (1 percent of local turnover plus tax on exports and rental income) under income tax ordinance. Consequently, EPS slumped by 38 percent in FY11. In contrast to FY11, in FY12, company posted a phenomenal 19.8 times spurt in its bottom line. Although the sales' volume plunged by around 4 percent, sales' revenue gushed by 24 percent owing to better retention prices. Distribution expenses also shrank by 11 percent as a result of better sales mix employed by the Company. During FY12, around 69 percent of dispatches were made in the local market while export market constituted 31 percent of the sales' volume. Another positive factor strengthening the bottom line was the reduction in finance cost which came on the heels of less utilisation of finance lines due to better cash flow planning, reimbursement of long-term loans, availability of reduced spreads and efficient deployment of export refinance schemes.

Liquidity position

The Company's liquidity reveals improvement YoY with current ratio ranging from 1.19 in FY10 to 1.65 in FY12. This might be attributable to a continuous slouch in both short-term and long-term liabilities over the years and better cash management strategies employed by the Company. Unlike, the leveraged cement companies DGKC has streamlined its capital structure from a D/E ratio of 0.77 in FY09 to 0.47 in FY12.

Future prospects

Cement sector has been the out performer in the stock market in CY12 up till now, surpassing the market by 68 percent. The future of cement sector also appears lucrative. Increased retention prices, stable coal prices, better PSDP allocation and continuous enhancements in infrastructure projects owing to the forthcoming elections, will keep the domestic demand robust in the coming year, said Inayatullah Niazi. The total size of the PSDP for the year 2012-13 is Rs 360 billion, including Rs 100 billion foreign aid, and Rs 27 billion special programmes. Out of the total allocation, Rs 51.6 billion has been released in the 1QFY13 for 344 infrastructure development projects, while the remaining amount will be released till 2QCY13, according to a planned mechanism. As far as the export market is concerned, the dispatches dropped by 2.68 percent in 1QFY13 mainly because of NTBs from India. However, APCMA has asked the GoP to negotiate with the Indian government over the issue of stringent NTBs imposed by India which caused a decline in Pakistan's exports to India by 15.7 percent in the first quarter of FY13 despite rising demand.

========== DG Khan Cement Company ========== 1QFY13 1QFY12 FY12 FY11 FY10 ========== PROFITABILITY ---------- Gross profit margin % 37.67% 30.09% 32.71% 23.60% 16.62% Operating profit Margin % 30.93% 19.85% 24.94% 14.43% 13.90% Net profit margin % 24.50% 6.23% 17.90% 0.92% 1.44% ROCE % 3.37% 0.80% 10.15% 0.46%

0.70% ROA % 2.69% 0.63% 7.95% 0.34% 0.50% ROE
% 3.96% 0.96% 12.47% 0.57% 0.88%
---------- LIQUIDITY
---------- D/E times 0.47
0.54 0.54 0.64 0.77 Net Working capital Rs In mm 9,585 7,234 7,234 5,638
2,631 Current ratio times 1.88 1.65 1.65 1.44 1.19
---------- ACTIVITY
---------- Total asset turnover times 0.11
0.10 0.44 0.37 0.35 Fixed asset turnover times 0.18 0.16 0.69 0.59
0.53
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