

**Kohat Cement Company Limited**  
Result Preview

PSX: KOHC Bloomberg: KOHC: PA Reuters: KOHC. KA

Pakistan Research

## 1QFY23 EPS is likely to settle at PKR 8.21, down 32% YoY

- The board of Kohat Cement is scheduled to meet on 27<sup>th</sup> October, 2022 to discuss 1QFY23 financial results, where we expect the company to report an EPS of PKR 8.21 for 1QFY23 compared to an EPS of PKR 6.96 in 1QFY22, up 18% YoY.
- Net sales are likely to reach PKR 9.1bn, up 33% YoY in 1QFY23 on account of a surge in retention prices by 74% YoY. This is despite company's utilization for the first quarter is likely to decline to 54% vs 70% SPLY.
- An abrupt increase in coal prices by 116% YoY coupled with rising energy prices will likely to erode KOHC margins by 5ppt as the company is expected to report gross margins of 28% vs 33% in 1QFY22.
- Despite Decline in dispatches by 23%, KOHC selling and admin expenses would possibly increase by 37% on account of inflationary pressure.
- Finance cost of the company is anticipated to grow by 3% YoY to PKR 115mn during 1Q primarily due to higher interest rates.
- We have a 'BUY' recommendation on KOHC with our June-23 price target (PT) of PKR 200/share, providing an upside of 22%.

### Key Data

PSX Ticker	KOHC
Target Price (PKR)	200
Current Price (PKR)	156
Upside/(Downside) (%)	+22%
Dividend Yield (%)	+0%
Total Return (%)	+ 22%
12-month High (PKR)	210
12-month Low (PKR)	155
Outstanding Shares (mn)	201
Market Cap (PKR mn)	31,446
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	1QFY22	1QFY23F	YoY
Net Sales	6,804	9,051	33%
Cost of Sales	4,543	6,555	44%
<b>Gross Profit</b>	<b>2,261</b>	<b>2,496</b>	<b>10%</b>
Selling & Admin. Exp	101	139	37%
Other Income	79	90	15%
Other Charges	126	115	-9%
Finance cost	119	122	3%
<b>Profit before tax</b>	<b>1,993</b>	<b>2,210</b>	<b>11%</b>
Taxation	595	560	-6%
<b>Net Income</b>	<b>1,398</b>	<b>1,650</b>	<b>18%</b>
EPS	6.96	8.21	18%

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY20A	FY210A	FY22A	FY23F	FY24F	FY25F
EPS	(2.2)	17.4	25.0	22.7	24.7	57.6
EPS Growth	-118%	-888%	44%	-9%	9%	133%
DPS	-	-	-	-	2.5	8.8
PER	-	8.7	6.1	6.7	6.1	2.6
Dividend Yield	-	-	-	-	1.6%	5.8%
EV/EBITDA	77.3	4.8	2.3	4.5	4.2	1.8
P/B	1.6	1.4	1.1	1.0	0.8	0.6
ROE	-	17.1%	20.3%	15.5%	14.6%	27.5%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Kohat Cement Company Limited (KOHC) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 200/share. Our price target provides an upside of 22%. Our investment case on KOHC is based on (1) One of the lowest debt to equity ratio in the industry, 2) improved retention prices and 3) One of the highest EBITDA margins in the industry.

### Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal) (2) lower than anticipated growth in cement demand (3) higher than estimate decline in cement prices (4) lower than anticipated decline in interest rates.

### Company Description

Kohat Cement Company Limited produces and sells cement in Pakistan and Afghanistan. It offers ordinary Portland grey cement and white Portland cement. The company was incorporated in 1980 and is headquartered in Lahore, Pakistan. Kohat Cement Company Limited is a subsidiary of ANS Capital (Private) Limited.

### Financial Highlights – KOHC

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	11,300	24,057	32,877	40,123	44,229	54,923
Cost of sales	11,325	18,092	23,065	31,314	34,725	34,902
<b>Gross Profit</b>	<b>(24)</b>	<b>5,965</b>	<b>9,812</b>	<b>8,809</b>	<b>9,504</b>	<b>20,021</b>
SG & A	303	408	476	555	660	821
<b>Operating Profit</b>	<b>(327)</b>	<b>5,558</b>	<b>9,336</b>	<b>8,254</b>	<b>8,844</b>	<b>19,201</b>
Other income	196	171	690	362	383	402
Other charges	16	325	563	461	508	1,138
Finance cost	410	517	538	1,361	1,315	1,189
<b>Profit before tax</b>	<b>(557)</b>	<b>4,886</b>	<b>8,925</b>	<b>6,793</b>	<b>7,404</b>	<b>17,276</b>
Taxation	(114)	1,388	3,901	2,242	2,443	5,701
<b>Profit after tax</b>	<b>(444)</b>	<b>3,497</b>	<b>5,024</b>	<b>4,552</b>	<b>4,961</b>	<b>11,575</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	22,778	22,052	21,331	42,384	51,265	52,008
Other LT assets	3,741	4,186	4,244	4,977	4,975	5,471
Non-Current Assets	26,519	26,238	25,575	47,361	56,241	57,479
Current assets	5,358	9,849	17,776	22,339	23,303	27,823
<b>Total Assets</b>	<b>31,877</b>	<b>36,087</b>	<b>43,351</b>	<b>69,700</b>	<b>79,544</b>	<b>85,302</b>
Non-Current liabilities	6,924	6,291	6,616	17,449	15,186	12,946
Current liabilities	6,227	7,572	9,488	20,653	27,849	24,824
<b>Total Liabilities</b>	<b>13,150</b>	<b>13,863</b>	<b>16,104</b>	<b>38,102</b>	<b>43,035</b>	<b>37,771</b>
Equity	18,727	22,224	27,246	31,598	36,509	47,531
<b>Total Equity &amp; liabilities</b>	<b>31,877</b>	<b>36,087</b>	<b>43,351</b>	<b>69,700</b>	<b>79,544</b>	<b>85,302</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(444)	3,497	5,024	4,552	4,961	11,575
Non-cash Charges	798	1,229	1,306	1,460	2,555	2,692
<b>Operating Cash flows</b>	<b>(467)</b>	<b>4,587</b>	<b>8,796</b>	<b>2,877</b>	<b>7,002</b>	<b>12,582</b>
<b>FCFF</b>	<b>(1,843)</b>	<b>4,453</b>	<b>8,513</b>	<b>(18,724)</b>	<b>(3,554)</b>	<b>9,944</b>
Net borrowings	1,342	(937)	(1,799)	21,258	3,838	(5,601)
<b>FCFE</b>	<b>(827)</b>	<b>3,146</b>	<b>6,411</b>	<b>1,622</b>	<b>(596)</b>	<b>3,546</b>
Net change in cash	(1,329)	3,145	6,409	1,423	(646)	2,993
<b>Closing cash</b>	<b>892</b>	<b>1,198</b>	<b>482</b>	<b>3,767</b>	<b>2,956</b>	<b>5,780</b>

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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