

Kohat Cement Company Limited
Result Review

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

Pakistan Research

KOHC: 2QFY22 EPS clocked in at PKR 7.90, up 64% YoY and 13% QoQ

- KOHC announced its financial result today, wherein the company posted profit after tax of PKR 1.58bn (EPS PKR 7.90) during 2QFY22, up 64% YoY and 13% QoQ. This takes 1HFY22 earnings to PKR 2.98bn (EPS PKR 14.86), up 103% YoY.
- The result came in higher than our expectation due to better gross margins of 30% in 2Q. Improved gross margins can be attributed to lower than estimated coal inventory cost and possibly due to a change in energy mix.
- Topline of the company surged 38% YoY to PKR 8.2bn in 2Q primarily due to improved cement retention prices, up 41% YoY to PKR 436/bag. On the other hand, company's cement volumes declined by 2% YoY.
- Finance cost of the company declined by 13% YoY to PKR 118mn during 2Q due to lower borrowings.
- On a sequential basis, earnings of the company increased by 13% QoQ on the back of higher cement volumes (+7% QoQ) along with improved cement retention prices (+13% QoQ). However, gross margin declined by 3% QoQ owing to higher coal prices.
- We have a 'BUY' recommendation on KOHC with our Dec-22 price target (PT) of PKR 270/share, providing an upside of 55%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	270
Current Price (PKR)	174
Upside/(Downside) (%)	+ 55%
Dividend Yield (%)	-
Total Return (%)	+ 55%
12-month High (PKR)	262
12-month Low (PKR)	160
Outstanding Shares (mn)	201
Market Cap (PKR mn)	34,849
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	5,934	8,211	38%	11,108	15,015	35%
Cost of Sales	4,296	5,729	33%	8,511	10,272	21%
Gross Profit	1,638	2,482	52%	2,597	4,743	83%
Selling & Admin. Exp	105	125	19%	196	227	16%
Other Income	40	129	227%	56	208	269%
Other Charges	87	141	62%	137	267	95%
Finance cost	136	118	-13%	274	236	-14%
Profit before tax	1,349	2,228	65%	2,046	4,221	106%
Taxation	384	642	67%	573	1,237	116%
Net Income	965	1,586	64%	1,472	2,984	103%
EPS	4.81	7.90	64%	7.33	14.86	103%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	12.3	(2.2)	17.4	24.4	34.6	38.7
EPS Growth	-17%	NM	NM	40%	42%	12%
DPS	2.5	-	-	4.8	10.5	11.5
PER	14.1	NM	10.0	7.1	5.0	4.5
Dividend Yield	1.4%	-	-	2.7%	6.1%	6.6%
EV/EBITDA	8.6	86.6	5.4	4.5	3.9	2.6
P/B	1.8	1.9	1.6	1.3	1.1	0.9
ROE	13.1%	NM	17.1%	19.9%	23.2%	21.7%

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 equity (FCFF) method. We have used a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 270/share. Our price target provides an upside of 55%. Our investment case on KOHC is based on (1) Higher cement dispatches following election year and (2) improved retention prices.

Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal, FO, Gas) (2) lower than anticipated growth in cement demand (3) higher than estimated decline in cement prices (4) prolonged pandemic situation and (5) increase 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	15,646	11,300	24,057	34,374	36,081	39,735
Cost of sales	11,473	11,325	18,092	26,010	23,885	26,343
Gross Profit	4,173	(24)	5,965	8,364	12,196	13,392
SG & A	340	303	408	529	688	908
Operating Profit	3,834	(327)	5,558	7,835	11,508	12,484
Other income	349	196	171	87	77	192
Other charges	460	16	325	461	649	730
Finance cost	46	410	517	572	1,151	1,012
Profit before tax	3,676	(557)	4,886	6,889	9,785	10,934
Taxation	1,207	(114)	1,388	1,998	2,838	3,171
Profit after tax	2,469	(444)	3,497	4,891	6,947	7,763

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	21,874	22,778	22,052	31,785	47,599	46,335
Other LT assets	3,835	3,741	4,186	3,814	3,847	3,883
Non-Current Assets	25,709	26,519	26,238	35,598	51,446	50,219
Current assets	5,606	5,358	9,849	11,584	11,683	19,384
Total Assets	31,315	31,877	36,087	47,182	63,129	69,602
Non-Current liabilities	6,118	6,924	6,291	6,781	21,635	25,716
Current liabilities	5,524	6,227	7,572	13,437	8,587	5,376
Total Liabilities	11,642	13,150	13,863	20,218	30,222	31,092
Equity	19,673	18,727	22,224	26,964	32,907	38,511
Total Equity & liabilities	31,315	31,877	36,087	47,182	63,129	69,602

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,469	(444)	3,497	4,891	6,947	7,763
Non-cash Charges	589	798	1,229	1,567	1,699	2,998
Operating Cash flows	5,299	(467)	4,587	5,974	9,154	15,704
FCFF	(8,020)	(1,843)	4,453	(4,920)	(7,541)	14,688
Net borrowings	5,221	1,342	(937)	5,967	8,694	(5,685)
FCFE	(2,830)	(827)	3,146	641	335	8,284
Net change in cash	(3,603)	(1,329)	3,145	490	(669)	6,125
Closing cash	434	892	1,198	1,538	712	6,671

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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JV employs a three- tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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