

Kohat Cement Company Limited
Result Preview

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

Pakistan Research

KOHC: 4QFY22 EPS is likely to settle at PKR 3.25, down 32% YoY; DPS PKR 2.00

- KOHC is scheduled to announce its 4QFY22 financial result on 24th September, 2022, where we expect the company to report an EPS of PKR 3.25 for 4QFY22 compared to an EPS of PKR 4.81 in 4QFY21, down 32% YoY. This will take cumulative EPS for FY22 to PKR 26.31, compared to PKR 17.41 in FY21, up 51% YoY. Along the result we expect a final dividend of PKR 2.00/share.
- Net sales are likely to reach PKR 9.2bn, up 48% YoY, during 4QFY22 on account of a surge in retention prices by 60% YoY. The company's utilization for the outgoing quarter is likely to clock at 64% vs 71% SPLY.
- Despite an abrupt increase in coal prices by 81% YoY, KOHC is likely to improve its gross margins to 30% during 4QFY22 vs 26% during 4QFY21. Higher margins can be attributed to effective coal management and more than adequate increase in cement prices.
- Finance cost of the company is anticipated to grow by 36% YoY to PKR 168mn during 4Q primarily due to higher interest rates.
- Despite an 88% YoY increase in PBT, the company's bottom-line is expected to decline by 32% YoY in 4Q. This is due to the introduction of new taxes in the FY23 budget. Effective tax rate of the company is expected to reach 74% in 4QFY22 vs 29% in 4QFY21. Higher taxes will likely erode company's EPS by PKR 5.86/share.
- We have a 'BUY' recommendation on KOHC with our June-23 price target (PT) of PKR 200/share, providing an upside of 27%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	200
Current Price (PKR)	157
Upside/(Downside) (%)	+27%
Dividend Yield (%)	+0%
Total Return (%)	+ 27%
12-month High (PKR)	210
12-month Low (PKR)	116
Outstanding Shares (mn)	201
Market Cap (PKR mn)	31,634
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22F	YoY	FY21	FY22F	YoY
Net Sales	6,237	9,241	48%	24,057	32,826	36%
Cost of Sales	4,608	6,472	40%	18,092	22,809	26%
Gross Profit	1,629	2,769	70%	5,965	10,017	68%
Gross Margin	26.1%	30.0%	3.8%	24.8%	30.5%	5.7%
Selling & Admin. Exp	117	119	1%	408	461	13%
Other Income	61	214	250%	171	615	260%
Other Charges	93	136	47%	325	546	68%
Finance cost	124	168	36%	517	548	6%
Profit before tax	1,356	2,560	89%	4,886	9,077	86%
Taxation	391	1,904	387%	1,388	3,792	173%
Net Income	966	656	-32%	3,497	5,285	51%
EPS	4.81	3.25	-32%	17.41	26.31	51%
DPS	-	2.00	-	-	2.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EPS	12.3	(2.2)	17.4	26.3	21.4	24.2
EPS Growth	-17%	-	-	51%	-19%	13%
DPS	2.5	-	-	2.0	-	2.5
PER	12.8	-	9.0	6.0	7.4	6.5
Dividend Yield	1.6%	-	-	1.3%	-	1.6%
EV/EBITDA	7.9	-	4.9	2.6	4.9	4.4
P/B	1.6	1.7	1.4	1.1	1.0	0.9
ROE	13.1%	-	17.1%	21.3%	14.6%	14.4%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Kohat Cement Company Limited (KOHK) 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 27%. 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)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	15,646	11,300	24,057	32,826	39,453	44,229
Cost of sales	11,473	11,325	18,092	22,809	30,838	34,585
Gross Profit	4,173	(24)	5,965	10,017	8,614	9,644
SG & A	340	303	408	461	686	905
Operating Profit	3,834	(327)	5,558	9,556	7,928	8,739
Other income	349	196	171	615	307	342
Other charges	460	16	325	546	438	500
Finance cost	46	410	517	548	1,377	1,312
Profit before tax	3,676	(557)	4,886	9,077	6,420	7,270
Taxation	1,207	(114)	1,388	3,792	2,119	2,399
Profit after tax	2,469	(444)	3,497	5,285	4,301	4,871

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	21,874	22,778	22,052	23,752	41,371	49,813
Other LT assets	3,835	3,741	4,186	4,529	4,977	4,975
Non-Current Assets	25,709	26,519	26,238	28,282	46,348	54,788
Current assets	5,606	5,358	9,849	15,144	21,838	24,717
Total Assets	31,315	31,877	36,087	43,425	68,186	79,506
Non-Current liabilities	6,118	6,924	6,291	4,273	17,451	15,187
Current liabilities	5,524	6,227	7,572	11,644	19,327	28,290
Total Liabilities	11,642	13,150	13,863	15,917	36,777	43,478
Equity	19,673	18,727	22,224	27,509	31,409	36,028
Total Equity & liabilities	31,315	31,877	36,087	43,425	68,186	79,506

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	2,469	(444)	3,497	5,285	4,301	4,871
Non-cash Charges	589	798	1,229	1,212	1,455	2,494
Operating Cash flows	5,299	(467)	4,587	8,305	1,293	8,391
FCFF	(8,020)	(1,843)	4,453	5,711	(16,858)	(1,666)
Net borrowings	5,221	1,342	(937)	(429)	19,765	3,903
FCFE	(2,830)	(827)	3,146	4,962	1,984	1,358
Net change in cash	(3,603)	(1,329)	3,145	4,962	1,582	1,107
Closing cash	434	892	1,198	1,061	2,481	3,423

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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Sell	Less than or equal to -5%

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