

Kohat Cement Company Limited
Result Review

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

Pakistan Research

KOHC: 4QFY22 EPS stands at PKR 1.96, down 59% YoY

- KOHC announced its 4QFY22 results today wherein the company posted an EPS of PKR 1.96 compared to an EPS of PKR 4.81 in 4QFY21, down 59% YoY. This takes FY22 EPS to PKR 25.01 vs PKR 17.41 in FY21, up 44% YoY.
- Topline of the company augmented by 49% YoY to PKR 9.3bn during 4QFY22 on account of improved retention prices (up 61% YoY). This is despite a decline in local dispatches by 5% YoY, which can be attributed to a halt in government spending towards PSDP.
- KOHC's gross margin clocked in at 28% in 4QFY22 vs 23% in 4QFY21. Company recorded higher margins on account of increase in retention prices and effective coal management.
- Finance cost of the company grew by 27% YoY to PKR 157mn during 4Q due to upward revision in interest rates. While, other income recorded a growth of 372% YoY to PKR 289mn during the outgoing quarter.
- KOHC reported a 78% YoY growth on PBT level, however, its bottomline earning plummeted by 59% YoY, this is largely due to levying of new taxes by the government in FY23 budget. New regulation takes effective tax rate of the company to 84% in 4QFY22 vs 29% in 4QFY21.
- We have a 'BUY' recommendation on KOHC with our June-23 price target (PT) of PKR 200/share, providing an upside of 29%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	200
Current Price (PKR)	152
Upside/(Downside) (%)	+29%
Dividend Yield (%)	+0%
Total Return (%)	+ 29%
12-month High (PKR)	210
12-month Low (PKR)	116
Outstanding Shares (mn)	201
Market Cap (PKR mn)	30,463
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	6,237	9,292	49%	24,057	32,877	37%
Cost of Sales	4,608	6,729	46%	18,092	23,065	27%
Gross Profit	1,629	2,564	57%	5,965	9,812	64%
Selling & Admin. Exp	117	133	14%	408	476	17%
Other Income	61	289	372%	171	690	304%
Other Charges	93	154	66%	325	563	73%
Finance cost	124	157	27%	517	538	4%
Profit before tax	1,356	2,408	78%	4,886	8,925	83%
Taxation	391	2,014	415%	1,388	3,901	181%
Net Income	966	394	-59%	3,497	5,024	44%
EPS	4.81	1.96	-59%	17.41	25.01	44%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
EPS	12.3	(2.2)	17.4	25.0	21.3	24.2
EPS Growth	-17%	-	-	44%	-15%	14%
DPS	2.5	-	-	-	-	2.5
PER	12.3	-	8.7	6.1	7.1	6.3
Dividend Yield	1.6%	-	-	-	-	1.6%
EV/EBITDA	7.6	-	4.8	2.7	4.8	4.3
P/B	1.5	1.6	1.4	1.1	1.0	0.8
ROE	13.1%	-	17.1%	20.4%	14.6%	14.4%

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 29%. 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	FY22A	FY23F	FY24F
Net sales	15,646	11,300	24,057	32,877	39,453	44,229
Cost of sales	11,473	11,325	18,092	23,065	30,838	34,585
Gross Profit	4,173	(24)	5,965	9,812	8,614	9,644
SG & A	340	303	408	476	686	905
Operating Profit	3,834	(327)	5,558	9,336	7,928	8,739
Other income	349	196	171	690	300	342
Other charges	460	16	325	563	435	500
Finance cost	46	410	517	538	1,414	1,312
Profit before tax	3,676	(557)	4,886	8,925	6,378	7,270
Taxation	1,207	(114)	1,388	3,901	2,105	2,399
Profit after tax	2,469	(444)	3,497	5,024	4,273	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	15,990	21,750	24,830
Total Assets	31,315	31,877	36,087	44,271	68,098	79,619
Non-Current liabilities	6,118	6,924	6,291	4,273	17,451	15,187
Current liabilities	5,524	6,227	7,572	12,902	19,327	28,290
Total Liabilities	11,642	13,150	13,863	17,174	36,778	43,478
Equity	19,673	18,727	22,224	27,097	31,320	36,141
Total Equity & liabilities	31,315	31,877	36,087	44,271	68,098	79,619

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	2,469	(444)	3,497	5,024	4,273	4,871
Non-cash Charges	589	798	1,229	1,304	1,455	2,494
Operating Cash flows	5,299	(467)	4,587	6,218	3,174	8,389
FCFF	(8,020)	(1,843)	4,453	3,516	(14,952)	(1,668)
Net borrowings	5,221	1,342	(937)	1,890	17,445	3,903
FCFE	(2,830)	(827)	3,146	5,103	1,545	1,356
Net change in cash	(3,603)	(1,329)	3,145	4,953	1,495	1,306
Closing cash	434	892	1,198	1,051	2,384	3,525

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
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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