

Kohat Cement Company Limited
Result Review

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

Pakistan Research

KOHC: 3QFY22 EPS reported at PKR 8.19, up 55% YoY

- KOHC announced its financial result today, wherein the company reported profit after tax of PKR 1.65bn (EPS PKR 8.19) during 3QFY22, up 55% YoY. The result was higher than our expectation due to lower than expected cost of sales. This takes 9MFY22 earnings to PKR 4.63bn (EPS PKR 23.05), up 83% YoY.
- Despite decline in cement volumes by 4% YoY, topline of the company surged 28% YoY to PKR 8.5bn in 3Q primarily due to improved cement retention prices, up 34% YoY to PKR 454/bag.
- Cost of sales increased by 22% YoY to PKR 6.1bn in 3Q due to higher coal cost. However, it came lower than our expectation which could be attributable to higher mix of Afghan coal and optimal utilization of low cost inventory.
- Finance cost of the company increased by 21% YoY to PKR 144mn during 3Q on the back of higher short term borrowing coupled with higher interest rates.
- On a sequential basis, earnings of the company continued its upward momentum increasing by 3.8% QoQ on the back of improved cement retention prices (+4% QoQ) along with higher other income (+50% QoQ). However, gross margin declined by 1% QoQ owing to increase in cost of production courtesy 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 65%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	270
Current Price (PKR)	167
Upside/(Downside) (%)	+ 62%
Dividend Yield (%)	+2.9%
Total Return (%)	+ 65%
12-month High (PKR)	262
12-month Low (PKR)	150
Outstanding Shares (mn)	238
Market Cap (PKR mn)	34,849
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	6,712	8,570	28%	17,820	23,585	32%
Cost of Sales	4,972	6,065	22%	13,484	16,337	21%
Gross Profit	1,740	2,505	44%	4,336	7,248	67%
Selling & Admin. Exp	94	116	23%	290	343	18%
Other Income	53	193	264%	110	401	266%
Other Charges	96	142	49%	233	409	76%
Finance cost	119	144	21%	393	380	-3%
Profit before tax	1,484	2,297	55%	3,530	6,517	85%
Taxation	424	651	53%	998	1,888	89%
Net Income	1,059	1,646	55.36%	2,532	4,629.79	83%
EPS	5.27	8.19	55%	12.60	23.05	83%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	12.3	(2.2)	17.4	30.2	34.7	38.8
EPS Growth	-17%	NM	NM	73%	15%	12%
DPS	2.5	-	-	6.0	10.5	11.8
PER	14.1	NM	10.0	5.5	4.8	4.3
Dividend Yield	1.4%	-	-	3.6%	6.3%	7.1%
EV/EBITDA	8.6	86.6	5.4	3.6	3.7	2.4
P/B	1.8	1.9	1.6	1.2	1.0	0.8
ROE	13.1%	NM	17.1%	24.1%	22.5%	21.2%

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 65%. 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	24,277	23,885	26,343
Gross Profit	4,173	(24)	5,965	10,097	12,196	13,392
SG & A	340	303	408	529	688	908
Operating Profit	3,834	(327)	5,558	9,568	11,508	12,484
Other income	349	196	171	99	111	234
Other charges	460	16	325	564	652	732
Finance cost	46	410	517	564	1,144	1,012
Profit before tax	3,676	(557)	4,886	8,540	9,824	10,974
Taxation	1,207	(114)	1,388	2,476	2,849	3,182
Profit after tax	2,469	(444)	3,497	6,063	6,975	7,792

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	12,016	12,631	20,361
Total Assets	31,315	31,877	36,087	47,614	64,078	70,579
Non-Current liabilities	6,118	6,924	6,291	6,781	21,635	25,716
Current liabilities	5,524	6,227	7,572	12,697	8,587	5,376
Total Liabilities	11,642	13,150	13,863	19,478	30,222	31,092
Equity	19,673	18,727	22,224	28,136	33,856	39,488
Total Equity & liabilities	31,315	31,877	36,087	47,614	64,078	70,579

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,469	(444)	3,497	6,063	6,975	7,792
Non-cash Charges	589	798	1,229	1,567	1,699	2,998
Operating Cash flows	5,299	(467)	4,587	7,059	9,268	15,732
FCFF	(8,020)	(1,843)	4,453	(3,840)	(7,433)	14,716
Net borrowings	5,221	1,342	(937)	5,464	9,197	(5,685)
FCFE	(2,830)	(827)	3,146	1,223	953	8,312
Net change in cash	(3,603)	(1,329)	3,145	1,073	(303)	6,153
Closing cash	434	892	1,198	2,121	1,660	7,648

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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