

Kohat Cement Company Limited

Result Review

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

Pakistan Research

KOHC: 3QFY23 EPS clocked in at PKR 8.1, down 1% YoY

- KOHC announced its financial result today, wherein the company reported and EPS of PKR 8.1 during 3QFY23, down 1% YoY, compared to PKR 8.2 in 3QFY22. This takes cumulative earnings in 9MFY23 to PKR 26.7/share, up 16% YoY.
- The company posted net revenue of PKR 10.0bn, up 17% YoY during the 3Q. This is primarily due to improved retention prices (+41% YoY). However, the company's volume plunged by 17% YoY.
- Gross margin declined by 7ppts during 3Q and clocked in at 22% vs 30% in SPLY. This is mainly driven by surge in Afghan Coal prices.
- Finance cost increased by 17% YoY to PKR 169mn during 3Q due to upward revision in policy rates.
- On a sequential basis, earnings of the company declined by 17% QoQ, this can be attributed to volumetric decline of 10% QoQ.
- We have a 'BUY' recommendation on KOHC with our Dec-23 price target (PT) of PKR 200/share, providing an upside of 38%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	200
Current Price (PKR)	145
Upside/(Downside) (%)	+38%
Dividend Yield (%)	-
Total Return (%)	38%
12-month High (PKR)	172
12-month Low (PKR)	113
Outstanding Shares (mn)	201
Market Cap (PKR mn)	29,061
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Sales	8,570	10,010	17%	23,585	29,824	26%
Cost of Sales	6,065	7,769	28%	16,337	21,856	34%
Gross Profit	2,505	2,241	-11%	7,248	7,968	10%
Selling & Admin. Exp	116	138	19%	343	406	19%
Other Income	193	541	180%	401	1,342	234%
Other Charges	142	165	16%	409	566	38%
Finance cost	144	169	17%	380	511	34%
Profit before tax	2,297	2,311	1%	6,517	7,826	20%
Taxation	651	687	6%	1,888	2,464	31%
Net Income	1,646	1,624	-1%	4,630	5,362	16%
EPS	8.2	8.1	-	23.0	26.7	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	-2.2	17.4	25.0	36.7	20.6	37.0
EPS Growth	-118%	-	44%	47%	-44%	80%
DPS	-	-	-	-	-	5.5
PER	-66.1	8.4	5.8	4.0	7.1	3.9
Dividend Yield	-	-	-	-	-	4%
EV/EBITDA	74.8	4.6	2.2	2.1	5.1	2.6
P/B	1.6	1.3	1.1	0.9	0.8	0.6
ROE	-	17%	20%	24%	11%	18%

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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 200/share. Our price target provides an upside of 38%. 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)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	11,300	24,057	32,877	38,764	37,062	46,499
Cost of sales	11,325	18,092	23,065	27,415	30,053	33,838
Gross Profit	(24)	5,965	9,812	11,349	7,010	12,661
SG & A	303	408	476	554	647	773
Operating Profit	(327)	5,558	9,336	10,795	6,363	11,888
Other income	196	171	690	1,584	1,854	1,201
Other charges	16	325	563	694	388	697
Finance cost	410	517	538	684	1,667	1,305
Profit before tax	(557)	4,886	8,925	11,000	6,161	11,088
Taxation	(114)	1,388	3,901	3,630	2,033	3,659
Profit after tax	(444)	3,497	5,024	7,370	4,128	7,429

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	22,778	22,052	21,331	27,763	51,892	50,655
Other LT assets	3,741	4,186	4,244	4,515	4,799	5,102
Non-Current Assets	26,519	26,238	25,575	32,278	56,691	55,756
Current assets	5,358	9,849	17,776	21,053	20,374	23,241
Total Assets	31,877	36,087	43,351	53,331	77,065	78,997
Non-Current liabilities	6,924	6,291	6,616	8,237	22,409	17,747
Current liabilities	6,227	7,572	9,488	10,676	16,161	15,377
Total Liabilities	13,150	13,863	16,104	18,914	38,570	33,124
Equity	18,727	22,224	27,246	34,417	38,495	45,873
Total Equity & liabilities	31,877	36,087	43,351	53,331	77,065	78,997

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(444)	3,497	5,024	7,370	4,128	7,429
Non-cash Charges	798	1,229	1,113	1,143	2,445	2,492
Operating Cash flows	(467)	4,970	8,759	5,616	7,187	8,808
FCFF	(1,843)	4,837	8,670	(1,500)	(18,270)	8,428
Net borrowings	1,342	(937)	(1,799)	3,518	18,790	(6,594)
FCFE	(827)	3,529	6,567	1,559	(597)	960
Net change in cash	(1,329)	3,529	6,566	1,360	(647)	910
Closing cash	892	1,581	639	1,841	1,194	2,103

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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