

KOHC - 1QFY22 EPS clocks in at PKR 6.96, up 45% QoQ

- KOHC announced its 1QFY22 results today where the company reported above expectations net earnings of PKR 6.96/share for 1QFY22 compared to earnings of PKR 2.52/share in SPLY, up 1.8x YoY.
- The main earnings deviation came from the cost of the sales as it grew by only 8% YoY versus our assumption of +33% YoY and registered 1% decline on a sequential basis during 1QFY22 due to prudent management of coal inventory and possibly due to a change in the energy mix.
- Topline of the company recorded 31% YoY growth during 1QFY22 and settled at PKR 6.8bn compared to PKR 5.2bn during 1QFY21 primarily on the basis of higher retention prices (+35% YoY). The cement MRP in North increased by 25% YoY to PKR 660/bag in 1QFY22 compared to PKR 528/bag in 1QFY21.
- Furthermore, the company held coal inventory at lower levels of USD 100-110/ton during the quarter. This combined with higher retention prices, led to significant gross margin accretion of 15pps to settle at 33% for 1QFY22 compared to margins of 18.5% in SPLY. On a sequential basis the company managed to attain gross margins accretion of 7pps.
- Finance cost of the company came down by 14% YoY in 1QFY22 mainly because of single digit interest rates over the quarter.
- We have revised downwards our price target (PT) by 17% to PKR 241 from earlier (PT) of PKR 290 after incorporating latest coal prices, demand outlook and cement bag prices.
- We have a 'BUY' recommendation on KOHC. Our revised and rolled forward June-22 price target (PT) of PKR 241/share provides a potential upside of 42%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	241
Current Price (PKR)	170
Upside/(Downside) (%)	+ 42%
Dividend Yield (%)	0%
Total Return (%)	+ 42%
12-month High (PKR)	262
12-month Low (PKR)	150
Outstanding Shares (mn)	200.86
Market Cap (PKR mn)	36,356
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY21	1QFY22	YoY	4QFY21	QoQ
Net Sales	5,174	6,804	31%	6,237	9%
Cost of Sales	4,216	4,543	8%	4,608	-1%
Gross Profit	959	2,261	136%	1,629	39%
Selling & Admin. Exp	91	101	12%	117	-14%
Other Income	17	79	367%	61	29%
Other Charges	50	126	153%	93	36%
Finance cost	138	119	-14%	124	-4%
Profit before tax	696	1,993	186%	1,356	47%
Taxation	189	595	214%	391	52%
Net Income	507	1,398	176%	966	45%
EPS	2.52	6.96	176%	4.81	45%
DPS	-	-	-	-	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	12.3	(2.2)	17.4	20.7	24.8	22.1
EPS Growth	-17%	NM	NM	19%	20%	-11%
DPS	2.5	-	-	-	7.5	6.8
PER	19.3	NM	13.6	11.5	9.6	10.8
Dividend Yield	1.1%	0.0%	0.0%	0.0%	3.2%	2.8%
EV/EBITDA	11.5	113.8	7.3	5.7	6.4	5.4
P/B	2.4	2.5	2.1	1.8	1.5	1.4
ROE	13.1%	-2.3%	17.1%	17.2%	17.3%	13.6%

Source: Company Accounts, Akseer Research

Mohammad Raza
mohammad.raza@akseerresearch.com

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 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our June-22 PT of 241/share. Our price target provides an upside of 42%. Our investment case on KOHC is based on (1) Nearing election period (2) higher PSDP releases and (3) 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	43,312	41,108	36,579
Cost of sales	11,473	11,325	18,092	35,612	32,166	27,153
Gross Profit	4,173	(24)	5,965	7,700	8,941	9,426
SG & A	340	303	408	537	713	959
Operating Profit	3,834	(327)	5,558	7,163	8,228	8,467
Other income	349	196	171	173	169	71
Other charges	460	16	325	396	475	436
Finance cost	46	410	517	1,083	917	1,854
Profit before tax	3,676	(557)	4,886	5,857	7,005	6,250
Taxation	1,207	(114)	1,388	1,698	2,032	1,812
Profit after tax	2,469	(444)	3,497	4,158	4,974	4,437

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	21,874	22,778	22,052	28,365	47,211	45,901
Other LT assets	3,835	3,741	4,186	3,814	3,847	3,883
Non-Current Assets	25,709	26,519	26,238	32,179	51,058	49,784
Current assets	5,606	5,358	9,849	16,964	12,777	11,929
Total Assets	31,315	31,877	36,087	49,143	63,835	61,714
Non-Current liabilities	6,118	6,924	6,291	12,411	23,685	17,683
Current liabilities	5,524	6,227	7,572	10,500	8,995	9,995
Total Liabilities	11,642	13,150	13,863	22,911	32,680	27,678
Equity	19,673	18,727	22,224	26,231	31,155	34,035
Total Equity & liabilities	31,315	31,877	36,087	49,143	63,835	61,714

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,469	(444)	3,497	4,158	4,974	4,437
Non-cash Charges	589	798	1,229	1,462	1,552	2,450
Operating Cash flows	5,299	(467)	4,587	8,316	6,916	6,386
FCFF	(8,020)	(1,843)	4,453	1,311	(12,830)	6,562
Net borrowings	5,221	1,342	(937)	3,705	9,558	(3,790)
FCFE	(2,830)	(827)	3,146	4,247	(3,924)	1,456
Net change in cash	(3,603)	(1,329)	3,145	4,096	(3,974)	(101)
Closing cash	434	892	1,198	5,144	1,012	746

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

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH
 Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net