

Kohat Cement Company Limited
Result Review

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

Pakistan Research

KOHC: 2QFY23 EPS clocked in at PKR 9.7, up 25% YoY

- KOHC announced its financial result today, wherein the company reported and EPS of PKR 9.7 during 2QFY23, up 23% YoY, compared to PKR 7.9 in 2QFY22. This takes cumulative earnings in 1HFY23 to PKR 18.6/share, up 25% YoY.
- The company posted net revenue of PKR 11.0bn, up 33% YoY during the 2Q. This is primarily due to improved retention prices (+48% YoY). However, the company's volume plunged by 10% YoY.
- Gross margin declined by 3ppts during 2Q and clocked in at 27% vs 30% in SPLY. This is mainly on account of increase in fuel and power cost.
- Finance cost increased by 44% YoY to PKR 170mn during 2Q due to upward revision in monetary rates.
- The other income increased by 235% YoY to PKR 433mn, largely due to the company's recent investments in fixed income.
- On a sequential basis, earnings of the company rose by 10% QoQ on the back of higher cement volumes (+22% QoQ).
- We have a 'BUY' recommendation on KOHC with our Dec-23 price target (PT) of PKR 205/share, providing an upside of 50%.

Key Data

| | |
|-------------------------|--------|
| PSX Ticker | KOHC |
| Target Price (PKR) | 205 |
| Current Price (PKR) | 137 |
| Upside/(Downside) (%) | +50% |
| Dividend Yield (%) | - |
| Total Return (%) | + 50% |
| 12-month High (PKR) | 113 |
| 12-month Low (PKR) | 183 |
| Outstanding Shares (mn) | 201 |
| Market Cap (PKR mn) | 34,849 |
| Year End | June |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 2QFY22 | 2QFY23 | YoY | 1HFY22 | 1HFY23 | YoY |
|--------------------------|--------------|--------------|------------|--------------|--------------|------------|
| Net Sales | 8,211 | 10,962 | 33% | 15,015 | 19,814 | 32% |
| Cost of Sales | 5,729 | 8,005 | 40% | 10,272 | 14,087 | 37% |
| Gross Profit | 2,482 | 2,957 | 19% | 4,743 | 5,727 | 21% |
| Selling & Admin. Exp | 125 | 143 | 14% | 227 | 269 | 19% |
| Other Income | 129 | 433 | 235% | 208 | 800 | 285% |
| Other Charges | 141 | 212 | 50% | 267 | 401 | 50% |
| Finance cost | 118 | 170 | 44% | 236 | 342 | 45% |
| Profit before tax | 2,228 | 2,865 | 29% | 4,221 | 5,515 | 31% |
| Taxation | 642 | 911 | 42% | 1,237 | 1,776 | 44% |
| Net Income | 1,586 | 1,954 | 23% | 2,984 | 3,739 | 25% |
| EPS | 7.9 | 9.7 | 23% | 14.9 | 18.6 | 25% |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | -2.2 | 17.4 | 25.0 | 33.6 | 22.4 | 35.5 |
| EPS Growth | -118% | NM | 44% | 34% | -33% | 58% |
| DPS | - | - | - | - | 2.3 | 5.3 |
| PER | NM | 8.1 | 5.6 | 4.2 | 6.3 | 4.0 |
| Dividend Yield | - | - | - | - | 1.6% | 3.7% |
| EV/EBITDA | 72.5 | 4.4 | 2.1 | 3.5 | 4.4 | 2.9 |
| P/B | 1.5 | 1.3 | 1.0 | 0.8 | 0.7 | 0.6 |
| ROE | - | 17.1% | 20.3% | 22.1% | 12.5% | 17.2% |

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 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 205/share. Our price target provides an upside of 50%. 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 | 40,244 | 39,418 | 46,574 |
| Cost of sales | 11,325 | 18,092 | 23,065 | 28,805 | 30,584 | 33,866 |
| Gross Profit | (24) | 5,965 | 9,812 | 11,439 | 8,835 | 12,708 |
| SG & A | 303 | 408 | 476 | 555 | 663 | 824 |
| Operating Profit | (327) | 5,558 | 9,336 | 10,883 | 8,171 | 11,883 |
| Other income | 196 | 171 | 690 | 1,527 | 1,727 | 1,085 |
| Other charges | 16 | 325 | 563 | 636 | 424 | 669 |
| Finance cost | 410 | 517 | 538 | 1,701 | 2,748 | 1,653 |
| Profit before tax | (557) | 4,886 | 8,925 | 10,074 | 6,727 | 10,646 |
| Taxation | (114) | 1,388 | 3,901 | 3,324 | 2,220 | 3,513 |
| Profit after tax | (444) | 3,497 | 5,024 | 6,750 | 4,507 | 7,133 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| PPE | 22,778 | 22,028 | 21,331 | 45,486 | 55,978 | 55,840 |
| Other LT assets | 3,741 | 4,210 | 4,244 | 4,495 | 4,766 | 5,058 |
| Non-Current Assets | 26,519 | 26,238 | 25,575 | 49,981 | 60,744 | 60,898 |
| Current assets | 5,358 | 9,849 | 17,776 | 20,758 | 20,125 | 22,159 |
| Total Assets | 31,877 | 36,087 | 43,351 | 70,739 | 80,869 | 83,057 |
| Non-Current liabilities | 6,924 | 6,291 | 6,616 | 14,737 | 20,409 | 13,747 |
| Current liabilities | 6,227 | 7,572 | 9,488 | 22,206 | 22,206 | 24,426 |
| Total Liabilities | 13,150 | 13,863 | 16,104 | 36,943 | 42,616 | 38,173 |
| Equity | 18,727 | 22,224 | 27,246 | 33,796 | 38,253 | 44,884 |
| Total Equity & liabilities | 31,877 | 36,087 | 43,351 | 70,739 | 80,869 | 83,057 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|----------------|--------------|--------------|-----------------|----------------|--------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| Net Income | (444) | 3,497 | 5,024 | 6,750 | 4,507 | 7,133 |
| Non-cash Charges | 798 | 1,229 | 1,113 | 1,349 | 2,749 | 2,858 |
| Operating Cash flows | (467) | 4,496 | 8,693 | 5,163 | 7,627 | 9,198 |
| FCFF | (1,843) | 4,363 | 8,603 | (19,201) | (3,774) | 7,586 |
| Net borrowings | 1,342 | (937) | (1,799) | 21,225 | 5,000 | (5,471) |
| FCFE | (827) | 3,055 | 6,501 | 885 | (615) | 1,008 |
| Net change in cash | (1,329) | 3,055 | 6,500 | 686 | (666) | 506 |
| Closing cash | 892 | 1,107 | 573 | 1,167 | 501 | 1,007 |

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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