

Kohat Cement Company Limited
Result Preview

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

Pakistan Research

KOHC: 3QFY23 EPS is likely to settle at PKR 8.96, up 9% YoY

- KOHC is scheduled to announce its 3QFY23 financial result on 27th April, 2023, where we expect the company to report an EPS of PKR 8.96 for 3QFY23 compared to an EPS of PKR 8.19 in 3QFY22, up 9% YoY. This will take cumulative EPS for 9MFY23 to PKR 27.57, up 20% YoY.
- Net sales are likely to reach PKR 10.2bn, up 19% YoY, during 3QFY23 on account of a surge in retention prices by 43% YoY, whereas, the dispatches observed a decline of 17%.
- Gross margins of the company are anticipated to decline by 2ppts YoY and clock in at 27%, this is primarily due to surge in energy cost as well as hike in Afghan coal prices.
- Finance cost of the company is anticipated to grow by 27% YoY to PKR 183mn during 3Q primarily due to higher interest rates.
- Despite an 15% YoY increase in PBT, the company's bottom-line is expected to increase only by 9% YoY in 3Q. This is largely due to new tax regime, where we anticipate company effective tax rate will clock in 32% whereas it was 28% SPLY.
- We have a 'BUY' recommendation on KOHC with our June-23 price target (PT) of PKR 200/share, providing an upside of 37%.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	200
Current Price (PKR)	146
Upside/(Downside) (%)	+37%
Dividend Yield (%)	+0%
Total Return (%)	37%
12-month High (PKR)	172
12-month Low (PKR)	113
Outstanding Shares (mn)	201
Market Cap (PKR mn)	29,315
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23F	YoY	9MFY22	9MFY23F	YoY
Net Sales	8,570	10,196	19%	23,585	30,010	27%
Cost of Sales	6,065	7,463	23%	16,337	21,550	32%
Gross Profit	2,505	2,733	9%	7,248	8,459	17%
Selling & Admin. Expenses	116	133	15%	343	402	17%
Other Income	193	435	124%	401	1,234	207%
Other Charges	142	212	49%	409	613	50%
Finance expenses	144	183	27%	380	526	38%
Profit before tax	2,297	2,640	15%	6,517	8,152	25%
Taxation	651	839	29%	1,888	2,615	39%
Net Income	1,646	1,800	9%	4,630	5,537	20%
EPS	8.19	8.96	-	23.05	27.57	-

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	-	8.1	5.7	3.9	6.9	3.8
Dividend Yield	-	-	-	-	-	3.9%
EV/EBITDA	73.1	4.5	2.1	2.0	5.0	2.5
P/B	1.5	1.3	1.0	0.8	0.7	0.6
ROE	-	17.1%	20.3%	23.9%	11.3%	17.6%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Kohat Cement Company Limited (KOHK) has been computed using Free cash flow to Firm (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 June-23 PT of 200/share. Our price target provides an upside of 37%. 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)						
	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)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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