

Kohat Cement Company Limited

Key Takeaways

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

Pakistan Research

Corporate briefing key takeaways

- Kohat Cement conducted its corporate briefing today to discuss its financial results and outlook of the cement industry. Earlier, the company reported a net profit of PKR 5.0bn in FY22 and PKR 1.9bn in 1QFY23.
- The management believes that the local cement demand of the country will likely be contracted by 10% in the ongoing fiscal year. Around 11mn tons of additional capacity would be added during FY23 followed by 16mn tons in next three years.
- The company's retention price improved to PKR 640/bag in 1QFY23 vs PKR 560/bag in 4QFY22 and PKR 438/bag in 1QFY22.
- Coal mix of KOHC has significantly shifted towards the imported coal (Mozambique) during 1QFY23. Company's coal mix comprised of local coal (30%), Afghani coal (36%) and imported coal (34%) in 1QFY23 compared to Afghani coal (70%) and local coal (30%) in 4QFY22.
- The management informed that the Afghan coal was currently available at a cost of PKR 50,000/ton on delivered basis, whereas, Darra Adam Khel coal is currently priced at 33,000-34,000/tons.
- The management also shed light on the Mozambique coal which is currently available at PKR 45,000/tons on delivered basis but the quality of the coal is much lower than that of the Afghani coal. Mozambique coal has a heating value of 5,700/kCal while Afghan coal heating value stands at 6,500/kCal.
- With regards to power mix, management shared that the company is operating 70% through grid while the rest is being fuelled by WHR and Furnace oil. Furthermore, the management disclosed that the energy provided by national grid is currently available at PKR 33/kwh. KOHC is currently setting up a solar power plant of 10MW which will further reduce power cost of the company.
- The greenfield expansion of the company is expected to be delayed due to restriction on imports, currency devaluation and revision in cost. The revised completion timeline of the plant is 1QFY25 compared to earlier notified date of 2QFY23. Management is expected to finance the plant with 40% equity and 60% debt. The revised cost of the plant now increased to PKR 35bn vs initial estimates of PKR 30bn.
- The company is currently doing a BMR on its line-3 which will likely be completed by 4Q of the current fiscal year. This will further enhance fuel efficiency of the company.

Key Data

PSX Ticker	KOHC
Target Price (PKR)	200
Current Price (PKR)	165
Upside/(Downside) (%)	+21%
Dividend Yield (%)	+0%
Total Return (%)	+ 21%
12-month High (PKR)	198
12-month Low (PKR)	116
Outstanding Shares (mn)	201
Market Cap (PKR mn)	33.109
Year End	June

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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

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 21%. 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	40,123	44,229	54,923
Cost of sales	11,325	18,092	23,065	31,314	34,725	34,902
Gross Profit	(24)	5,965	9,812	8,809	9,504	20,021
SG & A	303	408	476	555	660	821
Operating Profit	(327)	5,558	9,336	8,254	8,844	19,201
Other income	196	171	690	362	383	402
Other charges	16	325	563	461	508	1,138
Finance cost	410	517	538	1,361	1,315	1,189
Profit before tax	(557)	4,886	8,925	6,793	7,404	17,276
Taxation	(114)	1,388	3,901	2,242	2,443	5,701
Profit after tax	(444)	3,497	5,024	4,552	4,961	11,575

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	22,778	22,052	21,331	42,384	51,265	52,008
Other LT assets	3,741	4,186	4,244	4,977	4,975	5,471
Non-Current Assets	26,519	26,238	25,575	47,361	56,241	57,479
Current assets	5,358	9,849	17,776	22,339	23,303	27,823
Total Assets	31,877	36,087	43,351	69,700	79,544	85,302
Non-Current liabilities	6,924	6,291	6,616	17,449	15,186	12,946
Current liabilities	6,227	7,572	9,488	20,653	27,849	24,824
Total Liabilities	13,150	13,863	16,104	38,102	43,035	37,771
Equity	18,727	22,224	27,246	31,598	36,509	47,531
Total Equity & liabilities	31,877	36,087	43,351	69,700	79,544	85,302

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(444)	3,497	5,024	4,552	4,961	11,575
Non-cash Charges	798	1,229	1,306	1,460	2,555	2,692
Operating Cash flows	(467)	4,587	8,796	2,877	7,002	12,582
FCFF	(1,843)	4,453	8,513	(18,724)	(3,554)	9,944
Net borrowings	1,342	(937)	(1,799)	21,258	3,838	(5,601)
FCFE	(827)	3,146	6,411	1,622	(596)	3,546
Net change in cash	(1,329)	3,145	6,409	1,423	(646)	2,993
Closing cash	892	1,198	482	3,767	2,956	5,780

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 rating 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 a 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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