

## Foundation Alert

### BWCL: Analyst Briefing Takeaways

#### Event

- Bestway Cement Limited (BWCL PA) held its Analyst briefing today to discuss its financial/operational performance for FY21 and future outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- Bestway Cement Limited (BWCL PA) profitability clocked in at Rs11.6bn (EPS of Rs19.42) in FY21 versus profit of Rs49mn (EPS Rs0.08) in FY20.
- Management attributes increase in profitability to (1) better cement retention prices in domestic market, (2) increase in dispatches in both domestic and export market (3) increased share of profit from associates and (4) decline in finance cost.
- BWCL revenue increased by 53% YoY in FY21. Management attributes increase in revenue to 20% YoY growth in dispatches and increase of 29% YoY in cement retention prices (up Rs1,486/ton) in FY21. Furthermore, company domestic/export dispatches increased by 51/17% YoY in FY21 with domestic contribution of 95%.
- Management also disclosed that BWCL utilization increased by 12ppt YoY to 81% in FY21. Management attributes higher utilization to increased demand given amnesty to construction package announced by the Government post COVID outbreak. To highlight, BWCL market share remained stable at 17% in FY21.
- Management also discussed 26.2ppt YoY increase in company's gross margins in FY21 and disclosed that apart from aforementioned price/volume factors further support to profitability came from 6% decline in per unit production cost due to better energy mix given decline in international fuel prices and power incentives offered by Government.
- BWCL management also discussed significant increase in other operating expenses and disclosed that expenses increased due to higher provision for WPPF and WWF given better profitability of the company.
- Furthermore, on new 7,200tpd capacity addition project, the management shared that total cost of the project would be ~Rs30bn which is expected to be financed with a mix of concessionary debt and internally generated cash during the period. Management is targeting to achieve COD in 2QFY23.
- Company management also discussed current power mix and revealed that the current energy mix is 55/28/17% from grid/renewables/fossil fuel. This mix is expected to change to 45/39/16% after completion of 51MW solar project.
- To highlight, company is adding 51MW solar power generation capacity out of which 30MW is added at its Farooqia and Chakwal plant site and remaining 21MW at its Kallar Kahar and Hattar plant site.
- On current run-up in coal prices, management has said that coal cost of US\$190/ton will start landing in Pakistan in next two months. However, it would be difficult for the industry to completely pass on the impact of higher coal prices amid continuous rupee depreciation. There would be Rs40/bag price increase in coming months but companies have to absorb the additional impact in order to support the demand. To highlight, BWCL management expects industry margins to decline from 3QFY22 due to higher energy cost.

#### Outlook

- The stock is not under our formal coverage. Going forward, we expect momentum in cement demand to continue given increased contribution from the private sector along with increase in public spending on the back of major infrastructure projects.

Fig 01: BWCL 4QFY21 Key Financial Highlights

Rs (mn)	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Sales - net	14,946	8,454	77%	-2%	56,864	37,129	53%
COGS	10,259	8,614	19%	-1%	40,261	36,012	12%
<b>Gross profit</b>	<b>4,687</b>	<b>(160)</b>	<b>N/A</b>	<b>-5%</b>	<b>16,603</b>	<b>1,117</b>	<b>1387%</b>
Distribution Expenses	126	160	-22%	-17%	611	794	-23%
Admin Expenses	173	162	6%	11%	607	579	5%
Other operating expenses	270	4	N/A	-10%	950	17	N/A
Other operating income	146	164	-11%	196%	255	248	3%
<b>Operating profit</b>	<b>4,265</b>	<b>(323)</b>	<b>N/A</b>	<b>-2%</b>	<b>14,691</b>	<b>(26)</b>	<b>N/A</b>
Share of profit from associate	567	471	20%	-4%	1,918	1,671	15%
Financial Charges	259	498	-48%	9%	1,071	2,152	-50%
PBT	4,572	(349)	N/A	-3%	15,538	(506)	N/A
Taxation	1,267	(418)	N/A	13%	3,960	(556)	N/A
<b>PAT</b>	<b>3,305</b>	<b>69</b>	<b>4678%</b>	<b>-8%</b>	<b>11,578</b>	<b>49</b>	<b>N/A</b>
EPS@596.25mn sh	5.54	0.12			19.42	0.08	
GP Margin	31.4%	-1.9%			29.2%	3.0%	
Operating Margin	28.5%	-3.8%			25.8%	-0.1%	
Net Margin	22.1%	0.8%			20.4%	0.1%	

Source: Company Accounts, Foundation Research, September 2021

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.