

Foundation Alert

KOHC: Analyst Briefing Takeaways

Event

- Kohat Cement Company Limited (KOHC 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

- Kohat Cement Company Limited (KOHC PA) profitability clocked in at Rs3,498mn (EPS of Rs17.41) in FY21 as compared to loss of Rs444mn in FY20.
- Management attributes increase in profitability to (1) increase in cement dispatches amid higher cement retention prices, (2) decline in fuel and power requirement due to increased efficiencies after commissioning of line 4, (3) decline in finance cost and (4) lower fixed cost contribution due to due to higher utilization level.
- KOHC management also discussed 113% YoY increase in company revenue in FY21 and disclosed that company dispatches increased by 69% YoY in FY21 and retention prices increased by 26% YoY in FY21. Furthermore, KOHC cement retention prices in domestic market increased by 27% YoY in FY21 while retention prices for exports declined by 2% YoY in FY21. Moreover, KOHC dispatches in domestic market increased by 69% YoY in FY21 and its export dispatches increased by 80% YoY in FY21.
- Company management also shared that for FY21 company avg coal cost declined by 5% YoY to US\$72/ton and its coal consumption declined by 5% YoY to 128.2 kg/ton of clinker. Furthermore, KOHC fuel and power cost declined by 13% YoY in FY21.
- KOHC management also discussed current power mix of the company and disclosed that KOHC current power mix stands at 35/25/40% on FO/WHR/national grid. Furthermore, company management also disclosed effective rates for different energy resources and shared that for FY21 avg national grid/FO/CFB/WHR cost was Rs18.42/16.16/12.80/3.15/unit. To highlight, KOHC power requirement also declined by 9% YoY to 87.99/kwh/ton during FY21 due to increased efficiencies after COD of line 4.
- On new expansion front, management has shared that cost for the new project is estimated at Rs25bn and debt equity portion would be 60/40% and it will achieve COD in FY24. Furthermore, equity portion of the new project would be financed through internal cash generation and company will also use its Rs5bn LTFF limit as a part of Rs15bn debt portion of the project.
- Moreover, company management has also discussed progress of earlier announced BMR projects and disclosed that the addition of 300tph grinding mill and 16.2MW low pressure coal fired power plant are being stopped due to changing dynamics of the industry and company priority to complete new greenfield expansion first. However, BMR of line 3 will be completed due to increased benefit of efficiency measures in terms of lower power requirement.
- Furthermore, company avg coal cost stood at US\$105-110/ton during 1QFY21 and cement retention prices remained at Rs7,700-7,800/ton during 1QFY21. To highlight, KOHC current cement retention prices stand at Rs8,500/ton and management expect ~5-6% growth in cement demand in FY21.

Outlook

- We have Outperform stance on the scrip. Furthermore, near term profitability of the company is expected to remain under pressure given sector inability to completely pass on the impact of rise in fuel/power and other overhead costs. However companies would benefit from (1) favorable Gov't policies (2) continuous increase in consumer housing finance (up 39.8% YoY to Rs111.7bn in Aug'21) amid lower interest rates and (3) increased demand from public sector due to early disbursement of PSDP.

Fig 01: KOHC 2QFY21 Financial Highlights

Rs (mn)	4QFY21	4QFY21	YoY	QoQ	FY21	FY20	YoY
Sales - net	6,237	2,727	129%	-7%	24,057	11,300	113%
COGS	4,608	2,690	71%	-7%	18,092	11,325	60%
Gross profit	1,629	37	4254%	-6%	5,965	(24)	N/A
Distribution Expenses	37	11	221%	97%	94	64	47%
Admin Expenses	81	60	35%	6%	314	239	31%
Other operating income	61	15	301%	15%	171	196	-13%
Other operating expenses	93	2	4025%	-3%	325	16	1877%
EBIT	1,480	(21)	N/A	-8%	5,403	(148)	N/A
Financial Charges	124	214	-42%	4%	517	410	26%
PBT	1,356	(235)	N/A	-9%	4,886	(557)	N/A
Taxation	391	(82)	N/A	-8%	1,388	(114)	N/A
PAT	966	(153)	N/A	-9%	3,498	(444)	N/A
EPS@200.8mn shares	4.81	(0.76)			17.41	(2.21)	
GP Margins	26.1%	1.4%			24.8%	-0.2%	
EBIT Margins	23.7%	-0.8%			22.5%	-1.3%	
NP Margins	15.5%	-5.6%			14.5%	-3.9%	

Source: PSX, Company Accounts, Foundation Research, October 2021

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