

Earning Preview

KOHC: 2QFY22 EPS expected to clock in at Rs6.36, up 32%

YoY

Event

- Kohat Cement Company Limited (KOHC PA) profitability is expected to clock in at Rs1.3bn (EPS Rs6.36, up/down 32/9% YoY/QoQ) in 2QFY22 as compared to profit of Rs966mn in 2QFY21. This will take 1HFY22E accumulated profitability to Rs2.7bn (EPS Rs13.32, up 82% YoY) as compared to profit of Rs1.5bn (EPS 7.33) in 1HFY21.

Impact

- KOHC profitability is expected to increase due to (1) better cement retention prices in domestic market, (2) increased domestic contribution in overall dispatches and (3) higher other income.
- Company revenue is expected to increase by 41/23% YoY/QoQ in 2QFY22 due to 44/13% YoY/QoQ increase in cement retention prices in 2QFY22.
- To highlight, company dispatches declined by 3% YoY in 2QFY22 due to decline in exports to Afghanistan given slowdown in economic activity. However on sequential basis company dispatches increased by 8% QoQ in 2QFY22.
- Furthermore, KOHC gross margins are expected to decline by 3.0/8.6ppt YoY/QoQ in 2QFY22 due to higher fuel/energy cost given increase in coal price amid rupee depreciation.
- KOHC finance cost is expected to decline by 9% YoY in 2QFY22 due to decline in debt levels of the company, in our view.
- Among other major heads admin/distribution cost is expected to increase by 3/9% YoY in 2QFY22.
- Furthermore, company's other income is expected to increase by 170/35% YoY/QoQ in 2QFY22 due to strong liquidity position of the company.

Outlook

- We have "Outperform" stance on the scrip with Dec-22 target price of Rs224/sh. Furthermore, near term profitability of the company is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs amid decline in demand growth.
- However company would benefit from (1) favorable Gov't policies for construction sector, (2) continuous increase in consumer housing finance and (3) increased demand from public sector given pre-election spending.

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Fig 01: KOHC 2QFY22 Earnings Preview (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Sales - net	8,362	5,934	41%	23%	15,165	11,108	37%
COGS	6,301	4,296	47%	39%	10,844	8,511	27%
Gross profit	2,061	1,638	26%	-9%	4,321	2,597	66%
Distribution Expenses	24	22	9%	2%	47	39	20%
Admin Expenses	86	84	3%	10%	164	157	4%
Other operating income	107	40	170%	35%	185	56	229%
Other operating expenses	135	87	55%	7%	262	137	91%
EBIT	1,922	1,485	29%	-9%	4,034	2,320	74%
Financial Charges	123	136	-9%	4%	242	274	-12%
PBT	1,799	1,350	33%	-10%	3,792	2,046	85%
Taxation	521	384	36%	-12%	1,116	573	95%
PAT	1,278	966	32%	-9%	2,676	1,472	82%
EPS@200.8mn sh	6.36	4.81			13.32	7.33	82%
GP Margins	24.6%	27.6%			28.5%	23.4%	
EBIT Margins	23.0%	25.0%			26.6%	20.9%	
NP Margins	15.3%	16.3%			17.6%	13.3%	

Source: PSX, Company Accounts, Foundation Research, February 2022

Important disclosures:

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Recommendations definitions

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