

Earning Review

KOHC: 2QFY22 EPS clocked in at Rs7.90, up 64% YoY

Event

- Kohat Cement Company Limited (KOHC PA) profitability clocked in at Rs1.59bn (EPS Rs7.90, up/down 64/13% YoY/QoQ) in 2QFY22 as compared to profit of Rs966mn in 2QFY21. This takes 1HFY22 accumulated profitability to Rs2.98bn (EPS Rs14.86, up 103% YoY) as compared to profit of Rs1.47bn (EPS of Rs7.33) in 1HFY21.
- The result is above our expectations due to lower fuel cost given increased reliance on domestic/Afghanistan coal.

Impact

- We attribute increase in company's profitability to (1) better cement retention prices in domestic market, (2) increased domestic contribution in overall dispatches, (3) increased reliance on domestic/Afghanistan coal and (4) higher other income.
- Company's revenue increased by 38/21% YoY/QoQ in 2QFY22 due to 41/11% 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 increased by 2.6ppt YoY to 30.2% in 2QFY22 given better cement retention prices. However, on sequential basis company gross margins declined by 3.0ppt QoQ due to higher fuel/energy cost given increase in coal price amid rupee depreciation.
- Company finance cost declined by 13% YoY in 2QFY22 due to decline in debt levels of the company, in our view.
- Among other major heads admin/distribution cost increased by 15/34% YoY in 2QFY22.
- Furthermore, KOHC other income increased by 227/64% 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	8,211	5,934	38%	21%	15,015	11,108	35%
COGS	5,729	4,296	33%	26%	10,272	8,511	21%
Gross profit	2,482	1,638	52%	10%	4,743	2,597	83%
Distribution Expenses	29	22	34%	26%	52	39	33%
Admin Expenses	96	84	15%	23%	175	157	11%
Other operating income	129	40	227%	64%	208	56	269%
Other operating expenses	141	87	62%	11%	267	137	95%
EBIT	2,345	1,485	58%	11%	4,457	2,320	92%
Financial Charges	118	136	-13%	-1%	236	274	-14%
PBT	2,228	1,350	65%	12%	4,221	2,046	106%
Taxation	642	384	67%	8%	1,237	573	116%
PAT	1,586	966	64%	13%	2,984	1,472	103%
EPS@200.8mn sh	7.90	4.81			14.86	7.33	103%
GP Margins	30.2%	27.6%			31.6%	23.4%	
EBIT Margins	28.6%	25.0%			29.7%	20.9%	
NP Margins	19.3%	16.3%			19.9%	13.3%	

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

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