

## Earning Review

### KOHC: 3QFY22 EPS clocked in at Rs8.19, up 55% YoY

#### Event

- Kohat Cement Company Limited (KOHC PA) profitability clocked in at Rs1.65bn (EPS Rs8.19, up 55/4% YoY/QoQ) in 3QFY22 as compared to profit of Rs1.06bn in 3QFY21. This takes 9MFY22 accumulated profitability to Rs4.63bn (EPS Rs23.05, up 83% YoY) as compared to profit of Rs2.53bn (EPS of Rs12.60) in 9MFY21.

#### Impact

- We attribute increase in company's profitability to (1) better cement retention prices in domestic market, (2) increase in other income due to strong position of the company amid higher interest rates and (3) decline in effective tax rate.
- Company's revenue increased by 28/4% YoY/QoQ in 3QFY22 due to better cement retention prices as dispatches declined by ~2% YoY.
- To highlight, company dispatches declined due to decline in exports to Afghanistan given slowdown in economic activity.
- Furthermore, KOHC gross margins increased by 3.3ppt YoY to 29.2% in 3QFY22 given better cement retention prices. However, on sequential basis company gross margins declined by 1.0ppt QoQ due to higher fuel/energy cost given increase in coal price amid rupee depreciation.
- Company finance cost increased by 21/22% YoY/QoQ in 3QFY22 due to higher interest rates, in our view.
- Among other major heads admin/distribution cost increased by 9/79% YoY in 3QFY22.
- Furthermore, KOHC other income increased by 264/50% YoY/QoQ in 3QFY22 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.
- Moreover, company would benefit from (1) strong private sector demand due to increasing inflows into RDA's, (2) disbursement of subsidy under NPHP and (3) decline in coal prices.

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Fig 01: KOHC 3QFY22 Earnings Preview (Rs mn)

	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Sales - net	8,570	6,712	28%	4%	23,585	17,820	32%
COGS	6,065	4,972	22%	6%	16,337	13,484	21%
<b>Gross profit</b>	<b>2,505</b>	<b>1,740</b>	<b>44%</b>	<b>1%</b>	<b>7,248</b>	<b>4,336</b>	<b>67%</b>
Distribution Expenses	33	19	79%	15%	85	58	48%
Admin Expenses	83	76	9%	-14%	257	233	10%
Other operating income	193	53	264%	50%	401	110	266%
Other operating expenses	142	96	49%	1%	409	233	76%
<b>EBIT</b>	<b>2,441</b>	<b>1,603</b>	<b>52%</b>	<b>4%</b>	<b>6,898</b>	<b>3,923</b>	<b>76%</b>
Financial Charges	144	119	21%	22%	380	393	-3%
PBT	2,297	1,484	55%	3%	6,517	3,530	85%
Taxation	651	424	53%	1%	1,888	998	89%
<b>PAT</b>	<b>1,646</b>	<b>1,059</b>	<b>55%</b>	<b>4%</b>	<b>4,630</b>	<b>2,532</b>	<b>83%</b>
EPS@200.8mn sh	8.19	5.27			23.05	12.60	
GP Margins	29.2%	25.9%			30.7%	24.3%	
EBIT Margins	28.5%	23.9%			29.2%	22.0%	
NP Margins	19.2%	15.8%			19.6%	14.2%	

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

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