Foundation Alert

BWCL: Analyst Briefing Takeaways

Event

- Bestway Cement Limited (BWCL PA) held its Analyst briefing today to discuss its financial/operational performance for 1QFY23 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Bestway Cement Limited (BWCL PA) profitability clocked in at Rs3.3bn (EPS of Rs5.55, up 11% YoY) in 1QFY23 versus profit of Rs3.0bn (EPS Rs5.01) in 1QFY22.
- Management attributes increase in profitability to (1) better cement retention prices in domestic market as cement dispatches declined during quarter, (2) higher profits from associated companies and (3) lower distribution expenses. Moreover, bottom line growth was restricted by higher finance cost and taxation charge.
- BWCL revenue increased by 21% YoY in 1QFY23. Management attributes increase in revenue to higher retention prices (up 64% to 13,089/ton) as dispatches declined by 0.5mn tons, 26% YoY, to 1.4mn tons in 1QFY23 due to economic consolidation amid political tensions and floods.
- Management also disclosed that BWCL utilization decreased by 19ppt YoY to 53% in 1QFY23. Management attributes lower utilization to decreased demand given PSDP cut and higher interest rate environment. To highlight, BWCL market share declined by 1% YoY to 17.9% in 1QFY23.
- Management also shared that company margins increased by 2.6ppt YoY to 32.7% in 1QFY23 and disclosed that apart from aforementioned price/volume factors further support to profitability came from decline in per unit production cost due to better energy mix given 111 MW off-grid solar initiative amid decline in reliance on Grid to 55%, decreasing by 5% YoY.
- 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.
- Management also discussed that higher borrowings for Mianwali and Hattar expansion amid higher interest rates resulted in 251% YoY increase finance costs in 1QFY23.
- Furthermore, on new 7,200tpd clinker project at Mianwali, is expected to start commercial operation in Dec 2022. The project is financed with a mix of concessionary debt and internally generated cash during the period. Whereas, Hattar line II 7,200tpd project is expected to achieve COD in Mar'23. Both of these projects are financed with 80/20% debt/equity. Post expansion capacity will be 15.2mn tpa (up by 4.4mn tpa).
- Company management also discussed current power mix and revealed that the current energy mix is 55/43/2% from grid/renewables/fossil fuel. To highlight, company added 57 MW solar power generation capacity till date and will add 54MW more until April 2023, at all sites combined.
- According to management, the local economic/political uncertainty, high interest rates and taxation will continue to weigh on the cement industry. In addition, new capacities in pipeline will intensify the competition and may impact the profitability of the industry.

Outlook

- The stock in not under our formal coverage. Going forward, we expect near term profitability of the company 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 given decreased contribution from the private sector along with lower public sector spending on the back of limited fiscal space.

Fig 01: BWCL 1QFY23- Financial Highlights (Rs mn)

Rs in mn	**1QFY23**	**1QFY22**	**YoY**	**4QFY22**	**QoQ**
Net Turn Over	18,606	15,355	21%	21,050	-12%
Cost of Sale	12,518	10,738	17%	14,201	-12%
Gross Profit	**6,088**	**4,617**	**32%**	**6,849**	**-11%**
Selling and distribution Expenses	195	310	-37%	223	-13%
Administrative Expenses	412	297	39%	445	-7%
Other Expenses	320	259	23%	359	-11%
Other Income/Net Expense	537	589	-9%	169	418%
Operational Profit	**5,698**	**4,340**	**31%**	**5,653**	**1%**
Finance Cost	896	255	251%	728	23%
PBT	**4,801**	**4,084**	**18%**	**4,925**	**-3%**
Taxation	1,492	1,094	36%	5,047	-70%
PAT	**3,309**	**2,990**	**11%**	**(122)**	**na**
EPS @596.3 mn Share	**5.55**	**5.01**		**(0.20)**	
GP margins	32.7%	30.1%		32.5%	
EBIT margins	30.6%	28.3%		26.9%	
NP margins	17.8%	19.5%		-0.6%	

Source: Company Accounts, PSX, Foundation Research, Nov' 22

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Recommendations definitions

If

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