

Earning Review

KOHC: 2QFY23 EPS clocked in at Rs9.73, up 23% YoY

Event

- Kohat Cement Company Limited (KOHC PA) profitability clocked in at Rs2.0bn (EPS Rs9.73), up 23/9% YoY/QoQ in 2QFY23 as compared to profit of Rs1.6bn in 2QFY22. This takes 1HFY23 profitability to Rs3.7bn (EPS Rs18.62) up 25% YoY as compared to profit of Rs3.0bn (EPS of Rs14.86) in 1HFY22.

Impact

- We attribute increase in company profitability to (1) better retention prices in domestic market due to multiple price hikes, (2) increased reliance on Afghan/domestic coal along with alternate fuels for energy requirements and (3) higher other income due to strong liquidity position.
- KOHC revenue increased by 33% YoY in 2QFY23. We attribute increase in revenue to higher retention prices as dispatches remained on lower side due to lower demand amid economic slowdown and decline in exports.
- Company gross margins declined by 325bps YoY to 27.0% in 2QFY23 due to increase in fuel and energy cost, in our view.
- Company finance cost increased by 44% YoY in 2QFY23 due to higher interest rates.
- Among other major heads admin/distribution cost increased by 6/43% YoY in 2QFY23.
- Furthermore, KOHC other income increased by 235/18% YoY/QoQ in 2QFY23 due to strong liquidity position of the company given higher interest rates.
- KOHC effective tax rate clock in at 31.8% in 2QFY23. Increase in effective tax is due to imposition of super tax in FY23 budget.

Outlook

- We have an Outperform stance on the scrip as company would benefit from procurement of Afghan coal at competitive prices and efficiency measures taken by the company.
- However, near term profitability growth of the company is expected to remain muted given (1) sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs, (2) slowdown in demand due to economic slowdown and (3) uncertainty over pricing discipline as more expansions are about to come online.

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Fig 1: KOHC 2QFY23 Earnings Preview (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Sales - net	10,962	8,211	33%	24%	19,814	15,015	32%
COGS	8,005	5,729	40%	32%	14,087	10,272	37%
Gross profit	2,957	2,482	19%	7%	5,727	4,743	21%
Distribution Expenses	42	29	43%	27%	74	52	42%
Admin Expenses	102	96	6%	10%	195	175	12%
Other operating income	433	129	235%	18%	800	208	285%
Other operating expenses	212	141	50%	12%	401	267	50%
EBIT	3,035	2,345	29%	7%	5,858	4,457	31%
Financial Charges	170	118	44%	-2%	342	236	45%
PBT	2,865	2,228	29%	8%	5,515	4,221	31%
Taxation	911	642	42%	5%	1,776	1,237	44%
PAT	1,954	1,586	23%	9%	3,739	2,984	25%
EPS@200.8mn sh	9.73	7.90			18.62	14.86	
GP Margins	27.0%	30.2%			28.9%	31.6%	
EBIT Margins	27.7%	28.6%			29.6%	29.7%	
NP Margins	17.8%	19.3%			18.9%	19.9%	

Source: PSX, Company Accounts, Foundation Research, February 2023

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If

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