

Day Break

Friday, 20 April 2018



Company Update

Exhibit: Cements sales prices of KOHC have been falling continuously and have remained below avg levels

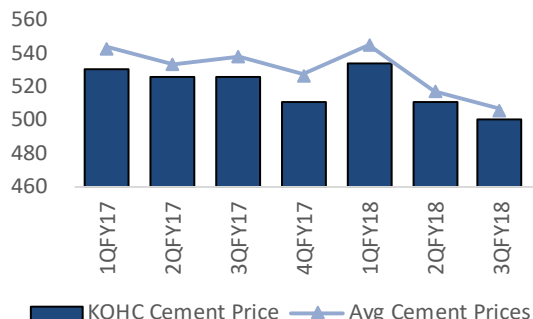


Exhibit: Coal prices have risen sharply over the comparative period, increasing cost of production thereby

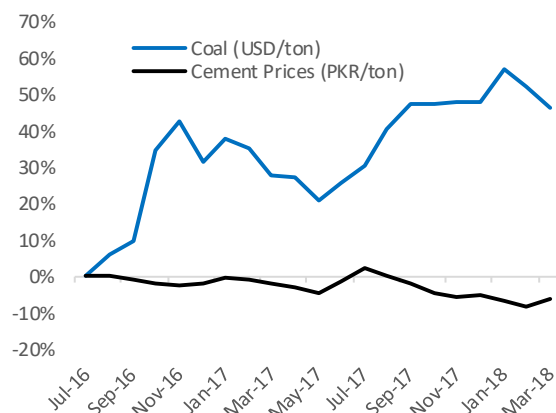
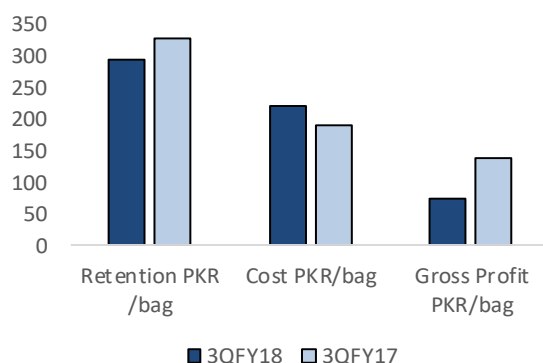


Exhibit: Falling cements sales price and increased cost of production have reduced gross profits of KOHC



Source: Company Accounts, Bloomberg & IGI Research

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Cements

KOHC & MLCF results preview for 3QFY18

- The Board of Directors meeting of Kohat Cement Company Limited (KOHC) is scheduled to take place on 21 Apr-18 to consider and approve financial results for 3QFY18. We expect the Company to report earnings of PKR 576mn (EPS: PKR 3.73) in the quarter under review as against PKR 931mn (EPS: PKR 6.03) in the corresponding period last year;
- The Board of Directors meeting of Maple Leaf Cement Factory Limited (MLCF) is announced to be held on 24th Apr-18 to consider and approve financial results for 3QFY18. We expect the Company to report consolidated earnings of PKR 1.34bn (EPS: PKR 2.26) in the quarter under review as against PKR 1.33mn (EPS: PKR 2.24) in the same period last year;
- We recommend a 'BUY' call on KOHC and MLCF with Dec-18 TP of PKR 239/108 per share, offering +53%/+49% upside from its last closing.

KOHC: 3QFY17 earnings expected at PKR 3.73/share, down by 38%YoY

The Board of Directors meeting of Kohat Cement Company Limited (KOHC) is scheduled to take place on 21st Apr-18 to consider and approve financial results for 3QFY18. We expect the Company to report earnings of PKR 576mn (EPS: PKR 3.73) in the quarter under review as against PKR 931mn (EPS: PKR 6.03) in the same period last year, marking a sharp decline of 38%YoY. We attribute this decline in earnings to lower retention prices, stemming from a) imposition of higher FED through Finance Act 2017-18; and b) trimmed local cement sales prices in the northern region, and enhanced cost of producing cement following rise in global coal prices coupled with 5% devaluation of PKR against the greenback. On a cumulative basis, this will bring 9MFY18 earnings of KOHC to PKR 2.2bn (EPS: PKR 14.37) as against PKR 3.1bn (EPS: PKR 20.20) reported in 9MFY17.

Exhibit:

KOHC Result Highlights

Period end (JUN) - PKRmn	3QFY18	3QFY17	YoY	9MFY18	9MFY17	YoY
Net Sales	3,538	3,493	1%	10,406	10,658	-2%
Gross Profit	887	1,452	-39%	3,416	4,816	-29%
Sell. / Dist. & Admin	81	69	18%	251	223	12%
Non-Operating Income	88	100	-12%	263	303	-13%
EBIT	831	1,377	-40%	3,185	4,558	-30%
Financial Charges	16	20	-24%	53	67	-21%
Pre-tax Profits	816	1,356	-40%	3,133	4,491	-30%
Taxation	240	425	-44%	913	1,370	-33%
Post-tax Profits	576	931	-38%	2,220	3,121	-29%
EPS	3.73	6.03	-38%	14.37	20.20	
DPS	-	-		-	8.00	

Key Ratios

Gross Margin (%)	25.1	41.6	32.8	45.2
Net Margin (%)	16.3	26.7	21.3	29.3
Effective Tax Rate (%)	29.4	31.3	29.1	30.5

Source: Company Accounts, IGI Research

No. of Shares : 155mn

Friday, 20 April 2018

Exhibit: Cements sales prices have been falling continuously, however MLCF prices are above avg levels

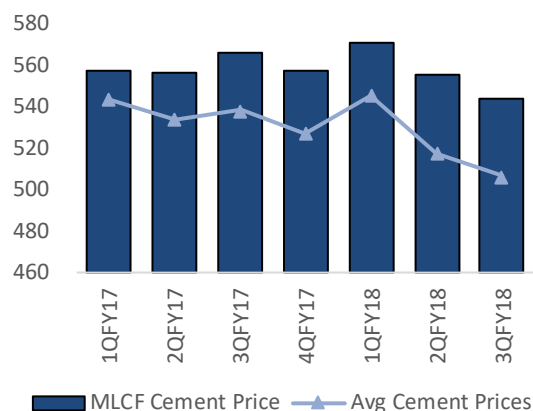


Exhibit: Exports of MLCF are falling as per industry trend but local demand is driving high capacity utilization

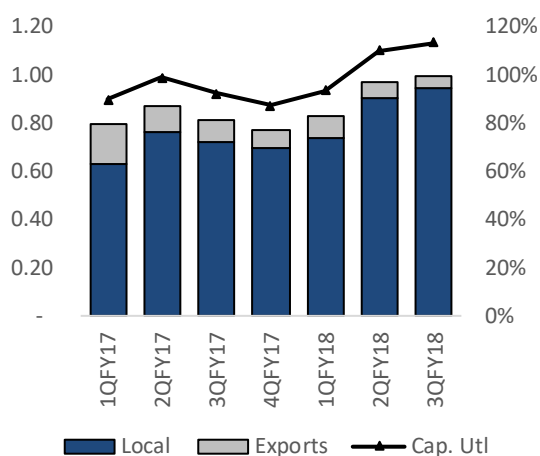
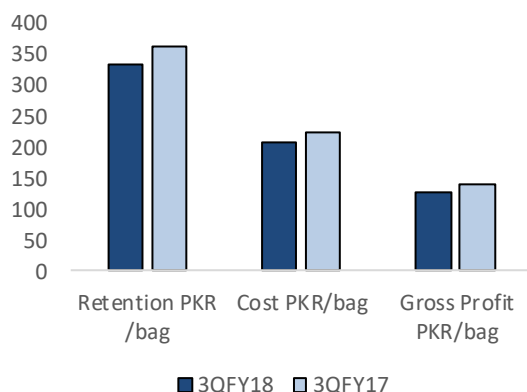


Exhibit: Although prices have fallen YoY, cost savings from MLPL, have arrested the impact of rising coal prices



Source: Bloomberg, PSX & IGI Research

MLCF: Cost savings from MLPL to arrest impact of lower retentions and higher input costs; Consolidated earnings to clock in at PKR 2.26/share

The Board of Directors' meeting of Maple Leaf Cement Factory Ltd. (MLCF) is scheduled on 24th Apr-18 to announce financial results for 3QFY18.

On a standalone basis, we expect the company to post PAT of PKR 1.04bn (Fully diluted EPS: PKR 1.75) as compared to PKR 1.36bn (EPS: PKR 2.29) published in the corresponding period last year, down by 23%YoY. We view this decline in bottom line to lower retention prices in the north region, elevated cost of production ascribed to lifted coal prices globally, and procurement of expensive power supply from Maple Leaf Power Limited (MLPL), a 100% owned subsidiary of the Company set up recently to generate coal based electricity with a capacity of 40MW. The expensive procurement (as per Nepra approved tariff) is part of MLCF's strategy to reduce taxability on a group level.

On a consolidated basis, we expect the group to post earnings of PKR 1.34bn (EPS: PKR 2.26) in the quarter under review as against PKR 1.33bn (EPS: PKR 2.24) reported in the same period last year, marking an increase of +1%YoY. We view this recovery based on hefty cost savings driven by MLPL, which we estimate to contribute around PKR ~300mn towards the group's earnings. This will bring 9MFY18 consolidated earnings of the group to PKR 3.59bn (EPS: PKR 6.05) in comparison to PKR 3.95bn (EPS: PKR 6.66) reported in the corresponding period.

Exhibit:

MLCF Result Highlights (Consolidated)

Period end (JUN) - PKRmn	3QFY18	3QFY17	YoY	9MFY18	9MFY17	YoY
Net Sales	6,614	6,305	5%	18,892	18,227	4%
Gross Profit	2,556	2,415	6%	6,948	7,557	-8%
Sell. / Dist. & Admin	485	447	9%	1,398	1,412	-1%
Non-Operating Income	26	44	-42%	73	76	-3%
EBIT	1,979	1,921	3%	5,237	5,793	-10%
Financial Charges	212	92	130%	543	196	177%
Pre-tax Profits	1,766	1,829	-3%	4,694	5,597	-16%
Taxation	424	501	-15%	1,105	1,645	-33%
Post-tax Profits	1,342	1,328	1%	3,590	3,952	-9%
Fully Diluted EPS	2.26	2.24	1%	6.05	6.66	
DPS	-	-		1.50	-	
Key Ratios						
Gross Margin (%)	38.6	38.3		36.8	41.5	
Net Margin (%)	20.3	21.1		19.0	21.7	
Effective Tax Rate (%)	24.0	27.4		23.5	29.4	

Source: Company Accounts, IGI Research

No. of Shares : 594mn

Recommendation

We recommend a "BUY" call on KOHC and MLCF with our Dec-18 target prices of PKR 239/108 per share offering +53%/+49% upside from its last closing.

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Time Horizon: Dec – 2018

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