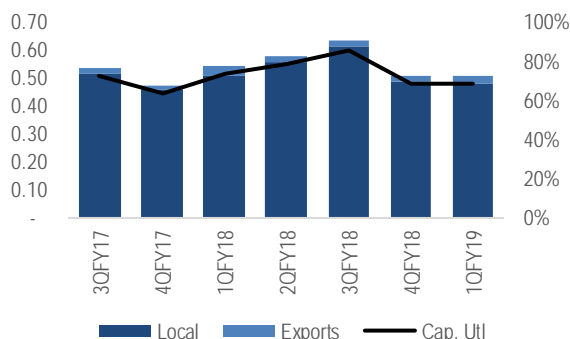


# Day Break

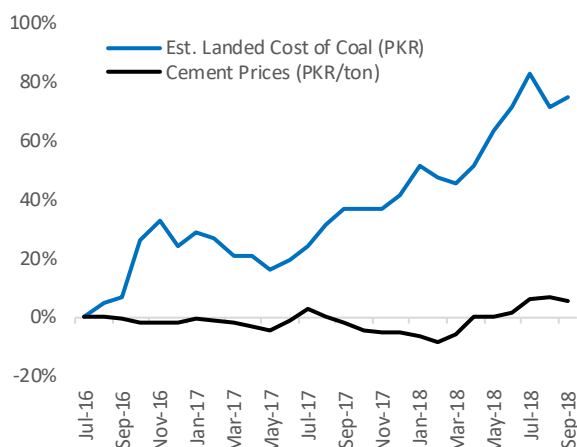
Tuesday, 23 October 2018

## Company Update

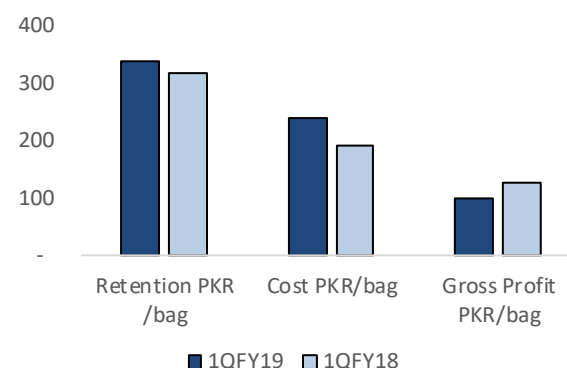
**Exhibit:** KOHC's 1QFY19 total dispatches have declined by 6%YoY amid slowdown in demand in North region



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



**Exhibit:** Substantial rise in cost of producing cement has exacerbated gross margins of the Company



Source: Company Accounts, Bloomberg & IGI Research

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## Cements

### KOHC & MLCF results preview for 1QFY19

- The Board of Directors meeting of Kohat Cement Company Limited (KOHC) is scheduled to take place on 23<sup>rd</sup> Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 639mn (Fully Diluted EPS: PKR 3.18) in the quarter under review as against PKR 903mn (EPS: PKR 4.50) in the same period last year
- We attribute this sharp drop in earnings to a) 6%YoY decline in total dispatches of the Company; and b) increase in cost of producing cement.
- The Board of Directors' meeting of Maple Leaf Cement Factory Ltd. (MLCF) is also scheduled on 23<sup>rd</sup> Oct-18 to announce financial results for 1QFY19 wherein we expect the group to post earnings of PKR 857mn (Fully Diluted EPS: PKR 1.44) as against PKR 1.1bn (EPS: PKR 1.81) reported in the same period last year, marking a decline of 20%YoY.
- Though the contraction in core earnings is largely attributable to 13%YoY decline in dispatches made by MLCF, the impact is considerably arrested by results of MLPL, which is expected to contribute PKR 374mn to the bottom line as against PKR 24mn in the comparative period.

#### KOHC: 1QFY19 earnings expected at PKR 3.18/share, down by 29%YoY

The Board of Directors meeting of Kohat Cement Company Limited (KOHC) is scheduled to take place on 23<sup>rd</sup> Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 639mn (Fully Diluted EPS: PKR 3.18) in the quarter under review as against PKR 903mn (EPS: PKR 4.50) in the same period last year, marking a sharp decline of 29%YoY.

We attribute this sharp drop in earnings to a) 6%YoY decline in total dispatches of the Company, which in turn is a consequence of hangover of demand in the North region largely due to development projects put to halt by the caretaker government during the period; and b) increase in cost of producing cement amid elevated coal and FO prices globally and devaluation of PKR against the greenback.

Though average retention prices of the Company are expected to increase by +19%YoY to PKR 337/bag, this won't be able to alleviate the substantial +46%YoY rise in cost of producing cement which comes to PKR 238/bag.

Exhibit:

#### KOHC Result Highlights

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	3,417	3,417	0%	3,054	12%
Gross Profit	998	1,352	-26%	838	19%
Sell. / Dist. & Admin	84	73	15%	82	2%
Non-Operating Income	117	88	32%	94	24%
EBIT	960	1,266	-24%	795	21%
Financial Charges	21	17	26%	57	-62%
Pre-tax Profits	939	1,249	-25%	738	27%
Taxation	300	346	2x	54	n/m
Post-tax Profits	639	903	-29%	684	-7%
Fully Diluted EPS	3.18	4.50		3.41	
DPS	-	-		3.00	

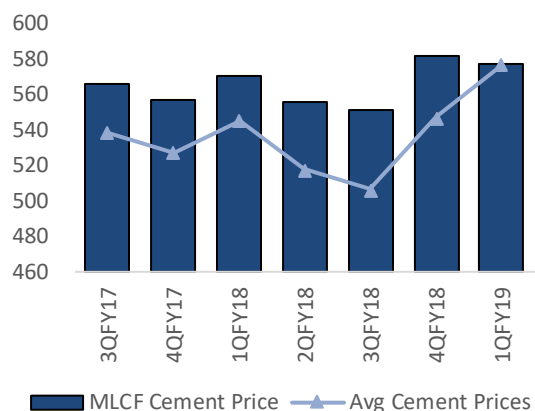
#### Key Ratios

Gross Margin (%)	29.2	39.6	27.5
Net Margin (%)	18.7	26.4	22.4
Effective Tax Rate (%)	32.0	27.7	n/m

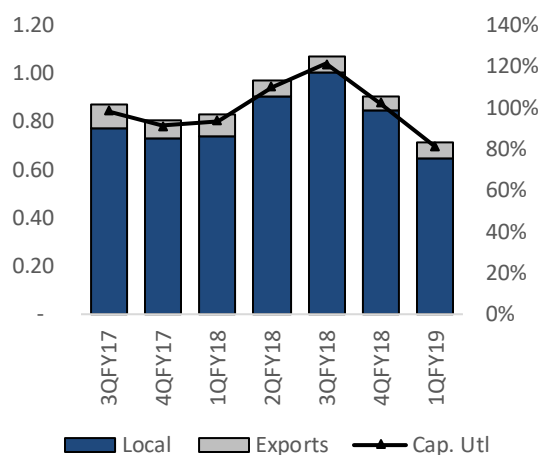
Source: Company Accounts, IGI Research

No. of Shares : 201mn

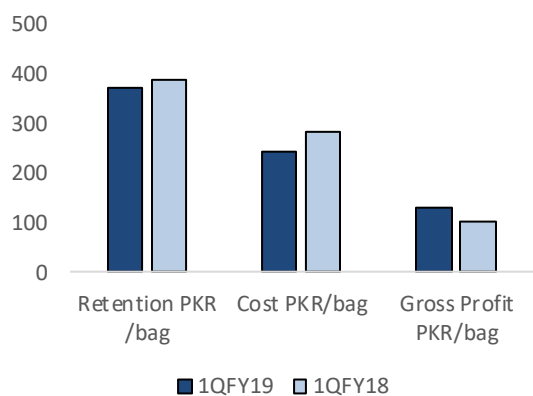
**Exhibit:** Avg. Cements sales prices of MLCF are now closing towards industry avg. prices due to competition.



**Exhibit:** Subdued demand in North region during the quarter has resulted in contracted earnings for MLCF



**Exhibit:** Although prices have fallen YoY, cost savings from MLPL, have arrested the impact of input 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 1.44/share**

The Board of Directors' meeting of Maple Leaf Cement Factory Ltd. (MLCF) is also scheduled on 23<sup>rd</sup> Oct-18 to announce financial results for 1QFY19.

On a consolidated basis, we expect the group to post earnings of PKR 857mn (Fully Diluted EPS: PKR 1.44) in the quarter under review as against PKR 1.1bn (EPS: PKR 1.81) reported in the same period last year, marking a decline of 20%YoY.

Though the contraction in core earnings is largely attributable to 13%YoY decline in dispatches made by MLCF (due to demand pullover in North region as discussed above) and a significant rise in cost of producing cement, the impact is considerably arrested by results of MLPL (Maple Leaf Power Limited), which is expected to contribute PKR 374mn (PKR 0.63/share) to the bottom line of the group as against PKR 24mn in the comparative period.

To recall, MLCF recently set up MLPL (Oct-17), a 100% owned subsidiary of the Company, to generate coal based electricity at NEPRA approved rates. It is pertinent to mention that as per NEPRA rules, power companies are allowed to pass over impact of PKR depreciation to their consumers, which in the case of MLCF brings more advantages since the subsidiary was set up as part of MLCF's strategy to reduce taxability on a group level.

**Exhibit:**

**MLCF Result Highlights - Consolidated**

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	5,335	5,800	-8%	6,382	-16%
Gross Profit	1,887	2,152	-12%	1,719	10%
Sell. / Dist. & Admin	514	419	23%	530	-3%
Non-Operating Income	18	17	5%	8	2.1x
EBIT	1,292	1,625	-20%	1,188	9%
Financial Charges	227	144	57%	254	-11%
Pre-tax Profits	1,065	1,481	-28%	934	14%
Taxation	209	408	-49%	(269)	n/m
Post-tax Profits	857	1,073	-20%	1,203	-29%
EPS	1.44	1.81		2.03	
DPS	-	-		-	

**Key Ratios**

Gross Margin (%)	35.4	37.1	26.9
Net Margin (%)	16.1	18.5	18.8
Effective Tax Rate (%)	19.6	27.5	n/m

Source: Company Accounts, IGI Research

No. of Shares: 594mn

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