

# Day Break

Wednesday, 26 February 2020

## COMPANY UPDATE

### Kohat Cement Company Limited

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	153.9
Last Closing: 21-Feb-20	95.4
Upside:	61.4
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	10M

#### Market Data

Bloomberg Tkr.		KOHC PA	
Shares (mn)		200.9	
Free Float Shares (mn)		60.3	
Free Float Shares (%)		30.0%	
Market Cap (PKRbn   USDmn)	19.2	124.1	
Exchange		KSE 100	
<b>Price Info.</b>	90D	06M	12M
Abs. Return	19.7	104.7	1.3
Lo	70.6	41.5	41.5
Hi	90.7	90.7	93.5

#### Key Company Financials

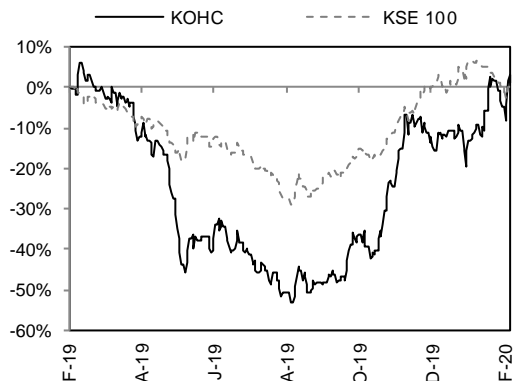
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	15.6	14.4	18.1	20.5
Net Income	2.5	0.9	1.9	3.2
EPS (PKR)	12.3	4.6	9.7	15.7
DPS (PKR)	2.5	1.0	2.0	4.0
Total Assets	31.3	30.2	30.4	31.0
Total Equity	19.7	20.1	21.8	24.6

#### Key Financial Ratios

ROE (%)	17.9	13.1	4.7	9.2
P/E (x)	7.8	20.7	9.9	6.1
P/B (x)	1.1	1.0	1.0	0.9
DY (%)	2.6	1.0	2.1	4.2

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Cements

### KOHC: Lower retentions and lesser dispatches to drag down 2QFY20 EPS to PKR 0.55, down 89%YoY

- ✓ KOHC's board meeting is scheduled today to announce financial result for 2QFY20, wherein we expect the company to post net earnings of PKR 111mn (EPS: PKR 0.55)
- ✓ We expect net sales of the Company during 2QFY20 to recede considerably by 33%YoY due to a combination of lesser dispatches made (down 11%YoY) and declining retention price achieved during the quarter amid intense competition in the local market.
- ✓ This substantial decline in the top line is anticipated to erode gross margins to 6% as against 32% attained in the comparative quarter and are thereby expected to take gross profits to a meagre sum of PKR197mn as against a mammoth PKR 1.54bn recorded in the comparative period.

#### Earnings drag to continue; 2QFY20E EPS to clock in at PKR 0.55/share

Kohat Cement Company Limited's (KOHC) board meeting is scheduled today on 26<sup>th</sup> Feb-20 to announce financial result for 2QFY20, wherein we expect the company to post net earnings of PKR 111mn (EPS: PKR 0.55), down by almost 89% YoY, compared to a net profit of PKR 998mn (EPS: PKR 4.97) in the same period last year. This will bring 1HFY20E net earnings to PKR 199mn (EPS: PKR 0.99), down by 87% YoY, as against PKR 1.53bn (EPS: PKR 7.60) reported in the similar period of the preceding year.

We expect net sales of the Company during 2QFY20 to recede considerably by 33%YoY due to a combination of lesser dispatches made (down 11%YoY) and declining retention price achieved during the quarter amid intense competition in the local market. This substantial decline in the top line is anticipated to erode gross margins to 6% as against 32% attained in the comparative quarter and are thereby expected to take gross profits to a meagre sum of PKR197mn as against a mammoth PKR 1.54bn recorded in the comparative period.

#### Exhibit: KOHC Result Highlights

Period end (JUN) - PKRmn	2QFY20	2QFY19	YoY	1HFY20	1HFY19	YoY
Net Sales	3,262	4,871	-33%	6,256	8,392	-25%
Gross Profit	197	1,544	-87%	321	2,407	-87%
Sell. / Dist. & Admin	93	103	-10%	176	201	-12%
Non-Operating Income	80	85	-6%	182	171	7%
EBIT	165	1,415	-88%	291	2,206	-87%
Financial Charges	10	13	-23%	18	24	-25%
Pre-tax Profits	155	1,402	-89%	273	2,182	-87%
Taxation	44	404	-89%	74	655	-89%
Post-tax Profits	111	998	-89%	199	1,527	-87%
EPS	0.55	4.97		0.99	7.60	
<b>Key Ratios</b>						
Gross Margin (%)	6.1	31.7		5.1	28.7	
Net Margin (%)	3.4	20.5		3.2	18.2	
Effective Tax Rate (%)	28.3	28.8		27.0	30.0	

Source: Company Accounts, IGI Research

No. of Shares : 201mn

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