

# Day Break

Wednesday, 07 June 2017

## COMPANY UPDATE

### KOHAT CEMENT COMPANY LIMITED

#### CEMENT

<b>Recommendation</b>	<b>BUY</b>
Target Price:	350.2
Last Closing: 6-Jun-17	246.7
Upside:	42.0
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-17

#### Market Data

Bloomberg Tkr.	KOHCA PA		
Shares (mn)	154.5		
Free Float Shares (mn)	46.4		
Free Float Shares (%)	30.0%		
Market Cap (PKRbn   USDmn)	38.1	363.5	
Exchange	KSE 100		
<b>Price Info.</b>	90D	180D	365D
Abs. Return	(8.6)	(9.8)	(10.2)
Lo	231.7	231.7	231.7
Hi	279.5	302.2	302.2

#### Key Company Financials

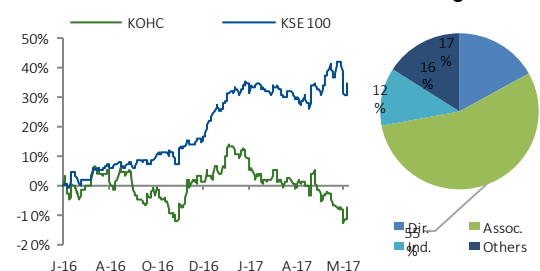
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	14.0	14.7	16.8	18.7
Net Income	4.41	4.2	4.7	5.2
EPS (PKR)	28.5	27.4	30.2	33.9
DPS (PKR)	6.0	12.0	14.5	14.5
Total Assets	19.3	21.2	23.8	27.2
Total Equity	13.8	16.1	18.6	21.6

#### Key Financial Ratios

ROE (%)	32.0	26.2	25.1	24.3
P/E (x)	8.6	9.0	8.2	7.3
P/B (x)	2.8	2.4	2.1	1.8
DY (%)	2.4	4.9	5.9	5.9

#### Relative Price Performance & Shareholding



#### About the Company

The Company was incorporated in Pakistan as a public limited company. The Company is engaged in the production and sale of cement.

Source: Bloomberg, KSE 100 & IGI Research

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## Cements

### KOHC: Attractive Valuations provide hefty upside

- KOHC reported PAT of PKR 931mn (EPS PKR 6.03) in 3QFY17, down by 24%YoY on account of decline in total offtake by 5%YoY and higher coal prices in international market.
- KOHC has announced to enhance its overall capacity by ~2.4mn tpa at its existing site accompanied by a WHR plant.
- Cement mill expansion of 105tph to be operational by Dec-17 will unlock volumetric growth.
- We maintain our "BUY" call on KOHC with Dec-17 target price of PKR 350/share, offering upside of 42% from last close. The company is currently trading at an attractive FY17E P/E of 9x.

#### KOHC stock falls 18% in CY17TD

Kohat Cement Company Ltd has had a dismal performance on local bourse in CY17TD, dropping by 18%. We believe run down in stock price is on account of 1) price disruption in north (especially KPK) since commencement of CHCC's new line, and 2) limited earnings growth on the back of lower capitalization of vibrant demand due to restrained grinding capacity.

However, given company's undervalued status and upcoming projects i.e. 1) installation of cement mill by Dec-17 and 2) expansion of ~2.4mn tpa at its existing site, we see an opportunity for hefty upside.

#### Expansion of ~2.4mn tpa accompanied by WHR plant

In a recent development, company has announced to enhance its overall capacity by ~2.4mn tpa at its existing site. This will be accompanied by a WHR plant to reduce grid reliance. The said expansion is expected to result in cash outflow of PKR ~15bn. Given impressive financial position of KOHC with PKR 6.7bn in cash & cash equivalents and healthy cash flow generation, debt requirement is expected to remain subdued. However, we await further clarity from management and financial close on the said project to incorporate in our valuations.

#### Enhancement of cement mill to unlock volume growth

During the recent years, company's utilization levels have been capped at 70% due to limited grinding capacity and inefficiency of old line. In order to address the issue, company is installing a new cement mill of 105tph to unlock ample room for volume growth. As per the company officials, cement mill is expected to be operational from Dec-17.

#### Profitability marred by below par sales offtake...

To recall, KOHC reported PAT of PKR 931mn (EPS PKR 6.03) in 3QFY17, taking 9MFY17 profitability to PKR 3,121mn (EPS: PKR 20.20), down by 6%YoY. Revenue declined by 6%YoY to PKR 3.49bn in 3QFY17, taking 9MFY17 revenue to PKR

10.66bn on account of decline in total offtake by 5%YoY. Local sales witnessed meager growth of 2%YoY while exports plunged hefty 62%YoY in 3QFY17.

#### ....and higher cost of coal inventory in 3QFY17

The gross margins remained highly effected from rising coal prices in international market. Impact of higher coal inventory cost and higher FO prices dented gross margin by 761bpsYoY to 42% in 3QFY17 as compared to 49% reported in same period last year. On the other hand, finance cost jacked up by +2.8xYoY in 3QFY17, taking 9MFY17 expense to PKR 67mn, up by +163%YoY.

Exhibit:

### KOHC Result Highlights

PKRmn	9MFY17	9MFY16	YoY	3QFY17	3QFY16	YoY
Net Sales	10,658	10,780	-1%	3,493	3,722	-6%
Gross Profit	4,816	4,923	-2%	1,452	1,830	-21%
S&A Exp	223	220	2%	69	76	-9%
Oth. Income	303	378	-20%	100	114	-12%
Oth. Expense	337	351	-4%	106	130	-18%
Finance Cost	67	25	163%	20	7	202%
Pre-tax Profits	4,491	4,705	-5%	1,356	1,731	-22%
Post-tax Profits	3,121	3,327	-6%	931	1,226	-24%
EPS	20.20	21.53	-6%	6.03	7.93	-24%

#### Key Ratios

Gross Margin (%)	45	46		42	49
Net Margin (%)	29	31		27	33
Effective Tax Rate (%)	30	29		31	29

SOURCE: Company Accounts, IGI Research

#### Recommendation

We maintain our **"BUY"** call on KOHC with Dec-17 target price of PKR 350/share, offering upside of 42% from last close. The company is currently trading at an attractive FY17E P/E of 9x.

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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec - 2017

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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