

Cement

KOHC: Earnings declined by 24%YoY to PKR 6.03/share in 3QFY17

- Profitability deteriorated by 24%YoY to 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 expected decline in local sales by 2%YoY.
- Impact of higher coal inventory cost dented gross margin by 761bpsYoY to 42% in 3QFY17 as compared to 49% reported in same period last year.
- Finance cost jacked up by +2.8xYoY in 3QFY17, taking 9MFY17 expense to PKR 67mn, up by +163%YoY.
- Effective tax rate increased to 31% in 3QFY17 as compared to 29% in corresponding period last year.

Recommendation

The scrip is currently trading at FY17E P/E of 9.75x and offers +35% upside from last close, with our Dec-17 TP of PKR 360/share. Hence, we maintain our 'BUY' call on the scrip.

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%
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

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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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