

Day Break

Tuesday, 29 October 2019

Company Update

Exhibit: Decline in overall dispatches and poor retention prices in 1QFY20E are expected to eat away KOHC's profitability substantially.

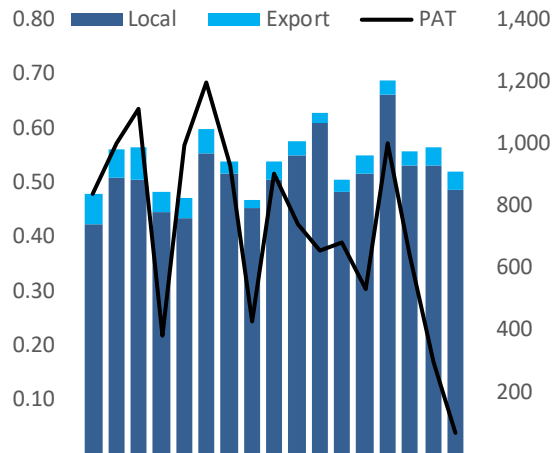


Exhibit: DGKC's Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cements

KOHC: Lower retention prices and rising cost structure to present meagre earnings of PKR 0.34/share in 1QFY20E, down 87%YoY

- Kohat Cement Company Limited's (KOHC) board meeting is scheduled today on 29th Oct-19 to announce financial result for 1QFY20E, wherein we expect the company to post earnings of PKR 68mn (EPS PKR 0.34),
- The decline in earnings is primarily driven by a) drop in overall dispatches of the Company, b) poor gross margins of the Company led by lower domestic retentions and; c) rise in cost structure of the Company due to devaluation, axle load restrictions and administrative hike in energy prices.
- Retention prices of the Company are expected to recede by almost 16% YoY owing primarily to enhanced FED (up +25% YoY) and greater discounts offered to distributors amid stiff competition faced in the North region during 1QFY20.
- Gross margins of the Company are expected to decline to 7% YoY as against 24% YoY reported in the similar period of the preceding year

Lower retention prices and higher costs to drop down earnings by 87% YoY to PKR 0.34/share in 1QFY20E

Kohat Cement Company Limited's (KOHC) board meeting is scheduled today on 29th Oct-19 to announce financial result for 1QFY20E, wherein we expect the company to post earnings of PKR 68mn (EPS PKR 0.34), down by 87% YoY, compared to PKR 529mn (EPS PKR 2.63) in the same period last year.

The decline in earnings is primarily driven by a) drop in overall dispatches of the Company, b) poor gross margins of the Company led by lower domestic retentions and; c) rise in cost structure of the Company due to PKR devaluation, axle load restrictions and administrative hike in energy prices.

Key highlights

- During 1QFY20E net sales of the Company are expected to decline by +18% YoY, on account of lower dispatches made during the period (down by 6% YoY), and substantial drop in domestic retention prices amid intense competition in the North market.
- Gross margins of the Company are expected to decline to 7% YoY as against 24% YoY reported in the similar period of the preceding year, taking gross profits to mere PKR 208mn as against PKR 862mn reported in the same period last year. The decline in margins is primarily driven by substantial fall in retention prices amid a rising cost structure.
- Retention prices of the Company are expected to recede by almost 16% YoY owing primarily to enhanced FED (up +25% YoY) and greater discounts offered to distributors amid stiff competition faced in the North region during 1QFY20.
- We expect the cost/bag of the Company to improve by +6% YoY to PKR 256/bag on account of PKR devaluation, axle load restrictions and administrative hikes in energy prices.
- Finance charge of the Company is expected to rise as against the comparative quarter, largely on account of increase in short term borrowing requirements of the Company and rise in benchmark interest rates during 1QFY20 as against the comparative period.

Exhibit: Kohat Cement Company Limited (KOHK) Financial highlights

Period end (Dec) - PKRbn	1q'20	2019	4q'19	3q'19	2q'19	1q'19	2018	4q'18	3q'18	2q'18	1q'18	2017
Net Sales	2,874	15,646	3,404	3,850	4,871	3,521	13,439	3,054	3,517	3,450	3,417	13,540
Cost of sales	2,666	11,440	2,675	2,780	3,327	2,658	9,086	2,216	2,531	2,274	2,065	7,713
Gross Profit	208	4,206	729	1,070	1,544	862	4,353	838	986	1,176	1,352	5,827
Sales Growth %	-18%	16%	11%	9%	41%	3%	-1%	6%	1%	-13%	7%	-3%
Gross Margin %	7%	27%	21%	28%	32%	24%	32%	27%	28%	34%	40%	43%
Admin, Selling & Distribution	93	372	71	101	103	98	328	82	76	96	73	293
Other Op. Income	87	349	97	80	85	86	362	94	92	87	88	393
EBIT	126	3,722	588	929	1,415	790	4,077	795	928	1,088	1,266	5,520
EBIT Margin %	4%	24%	17%	24%	29%	22%	30%	26%	26%	32%	37%	41%
Financial Charges	29	46	11	12	13	11	107	57	13	20	17	85
Profit Before Taxation	97	3,676	577	917	1,402	780	3,970	738	915	1,068	1,249	5,435
Taxation	29	1,207	279	273	404	251	990	54	264	327	346	1,890
Effective Tax Rate	30%	33%	48%	30%	29%	32%	25%	7%	29%	31%	28%	35%
Profit After Tax	68	2,469	297	644	998	529	2,980	684	652	741	903	3,545
Net Margin (%)	2%	16%	9%	17%	20%	15%	22%	22%	19%	21%	26%	26%
PAT Growth YoY	-87%	-17%	-57%	-1%	35%	-41%	-16%	62%	-30%	-38%	-9%	7%
EPS	0.34	12.29	1.48	3.21	4.97	2.63	14.84	3.41	3.25	3.69	4.50	17.65
DPS	-	2.50	2.50	-	-	-	5.00	5.00	-	-	-	14.00

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