

# Flash Note

Tuesday, 29 October 2019

## Cements

### Kohat Cement Company Limited (KOHHC)

#### Lower retention prices amid intense competition and enhanced cost structure generate meagre EPS of PKR 0.44 in 1QFY20

- Kohat Cement Company Limited (KOHHC) announced its financial results for 1QFY20 with earnings clocking in at PKR 88mn (EPS: PKR 0.44), down by 83% YoY, as compared to net profit of PKR 529mn (EPS: PKR 2.63) reported in the same period last year.
- The decline in earnings during 1QFY20 is primarily attributable to substantially lower retention prices on domestic cement sales driven by intense competition amongst the regional players and significantly increased cost structure of the Company.
- Net sales of the Company during 1QFY20 dropped by 15% YoY as against the comparative period. The decline in sales is attributable to both drop in overall dispatches of the Company which are expected to have been declined by ~6% YoY and to substantial fall in retention prices possibly due to higher discounts offered to distributors and failure to pass over enhanced FED (+25% YoY) to customers amid intense competition in the North region.
- Cost structure of the Company deteriorated by 14% YoY (avg. cost/bag 1QFY20: PKR 276, 1QFY19: PKR 241), largely due to impacts of PKR devaluation, imposition of strict axle load restrictions and administrative hikes in energy prices in the country.
- The decline in retention prices and improved cost structure led to a meagre gross profit of PKR 123mn as against a notable gross profit of PKR 862mn in the comparative period.

#### Exhibit: Kohat Cement Company Limited (KOHHC) 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	2,994	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	2,870	11,440	2,675	2,780	3,327	2,658	9,086	2,216	2,531	2,274	2,065	7,713
<b>Gross Profit</b>	123	4,206	729	1,070	1,544	862	4,353	838	986	1,176	1,352	5,827
Sales Growth %	-15%	16%	11%	9%	41%	3%	-1%	6%	1%	-13%	7%	-3%
Gross Margin %	4%	27%	21%	28%	32%	24%	32%	27%	28%	34%	40%	43%
Admin, Selling & Distribution	83	372	71	101	103	98	328	82	76	96	73	293
Other Op. Income	102	349	97	80	85	86	362	94	92	87	88	393
<b>EBIT</b>	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	8	46	11	12	13	11	107	57	13	20	17	85
Profit Before Taxation	118	3,676	577	917	1,402	780	3,970	738	915	1,068	1,249	5,435
Taxation	30	1,207	279	273	404	251	990	54	264	327	346	1,890
Effective Tax Rate	25%	33%	48%	30%	29%	32%	25%	7%	29%	31%	28%	35%
Profit After Tax	88	2,469	297	644	998	529	2,980	684	652	741	903	3,545
Net Margin (%)	3%	16%	9%	17%	20%	15%	22%	22%	19%	21%	26%	26%
PAT Growth YoY	-83%	-17%	-57%	-1%	35%	-41%	-16%	62%	-30%	-38%	-9%	7%

<b>EPS</b>	0.44	12.29	1.48	3.21	4.97	2.63	14.84	3.41	3.25	3.69	4.50	17.65
<b>DPS</b>	-	<b>2.50</b>	2.50	-	-	-	<b>5.00</b>	5.00	-	-	-	<b>14.00</b>

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