

Cement

Kohat Cement Company Limited

Earnings to lift with energy shift

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Earnings to lift with energy shift

We reiterate our 'BUY' rating on Kohat Cement Company Limited (KOHC) with a target price of PKR 505/share for Jun'26, offering a potential total return of 26.4% from the last closing (09-Jul-25). Our positive outlook is driven by:

- the upcoming addition of a coal-based captive power plant,
- KOHC is currently trading at an EV/ton of USD 30, significantly below the sector average of USD 57.
- expected growth in local cement dispatches.

We forecast Kohat Cement to deliver a 3-year forward earnings CAGR of 15%, with EPS expected to reach PKR 73.2/share in FY27 as the full benefits of the coal-based captive power plant materialize. At current levels, the stock trades at an attractive FY26/FY27 PE multiple of 5.9x/5.5x.

Exhibit: Valuation Snapshot

		FY24a	FY25e	FY26f	FY27f	FY28f
EPS*	PKR	48.4	63.7	67.4	73.2	84.8
DPS	PKR	-	-	10.0	10.0	12.5
BVPS	PKR	209.8	286.6	343.9	407.1	479.4
P/E**	x	8.3	6.3	5.9	5.5	4.7
DY**	%	-	-	2.5	2.5	3.1
P/B	x	1.9	1.4	1.2	1.0	0.8

Source (s): Company Financials, AHL Research, *@183.9mn shares, **@ PKR 400/share

Low power cost to improve margins

In Nov'24, the company achieved a significant milestone in its renewable energy portfolio by successfully commissioning a 5.34MW on-grid solar power plant. This addition has bolstered the company's total solar capacity to 15.34MW, reinforcing its commitment to sustainable energy and reducing reliance on conventional power sources. The expansion is to benefit from lower operational costs and enhanced energy security over the long term.

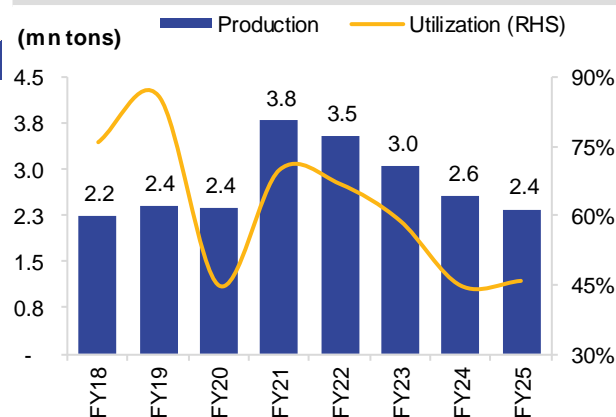
To further optimize its energy mix and improve cost efficiency, the company has embarked on an ambitious project to establish a 30MW coal-based power plant, with an estimated CAPEX of PKR 8bn. This strategic investment is expected to become operational by the 4QFY26.

The commissioning of the coal-based plant is projected to reduce the weighted average cost of power generation. According to projections, the cost is expected to decline from ~PKR 18.6/KWh currently to ~PKR 8.6/KWh by FY27. The lower cost structure is likely to enhance the company's competitiveness and improve profit margins.

			KOHC
Recommendation			BUY
Target Price			505.5
Last Closing (09-Jul-25)			400.0
Upside			26.37%
Shares (mn)			183.9
Free float (%)			25.0
Market Cap. (PKR mn)			73,544.5
Market Cap. (USD mn)			258.5
Price Performance			
	3M	6M	12M
Return (%)	1.8%	11.7%	42.9%
ADTO (000)	228.3	167.8	138.1
ADTV (PKR mn)	88.9	65.6	52.3
ADTV (USD mn)	316.2	233.4	186.8
High Price - PKR	403.1	430.7	446.0
Low Price - PKR	337.6	337.6	225.9

Source: PSX, AHL Research

Production and Utilization



Source: Company Financials, AHL Research



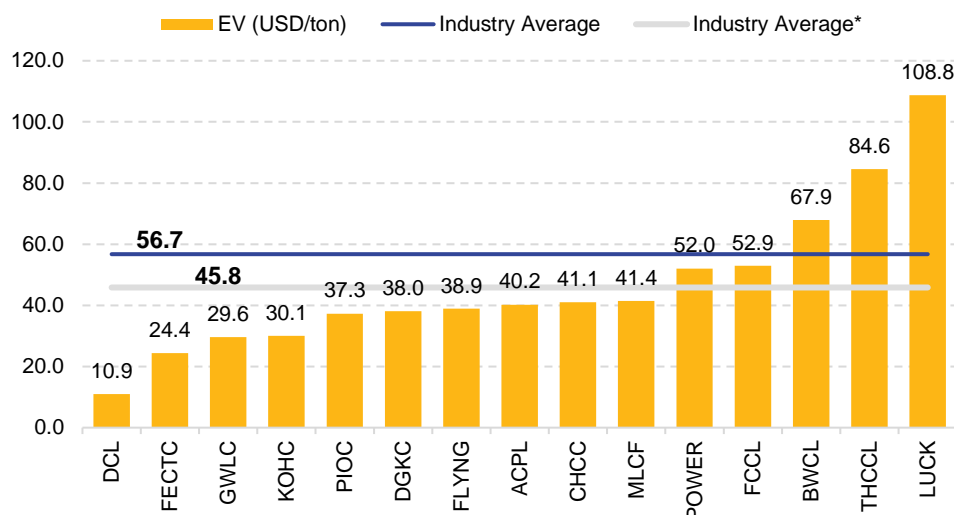
Source: Bloomberg AHL Research

Value play in Cement Sector

KOHC presents a compelling investment opportunity based on its current valuation metrics. Trading at an enterprise value per ton (EV/ton) of USD 30.1, KOHC is significantly undervalued compared to the cement industry average of USD 56.7. Even when excluding Lucky Cement, the industry average EV/ton remains at USD 45.8, underscoring KOHC's attractive valuation relative to its peers.

KOHC is currently trading at an EV/ton of USD 30, significantly below the sector average of USD 57.

Figure: Enterprise Value/ton

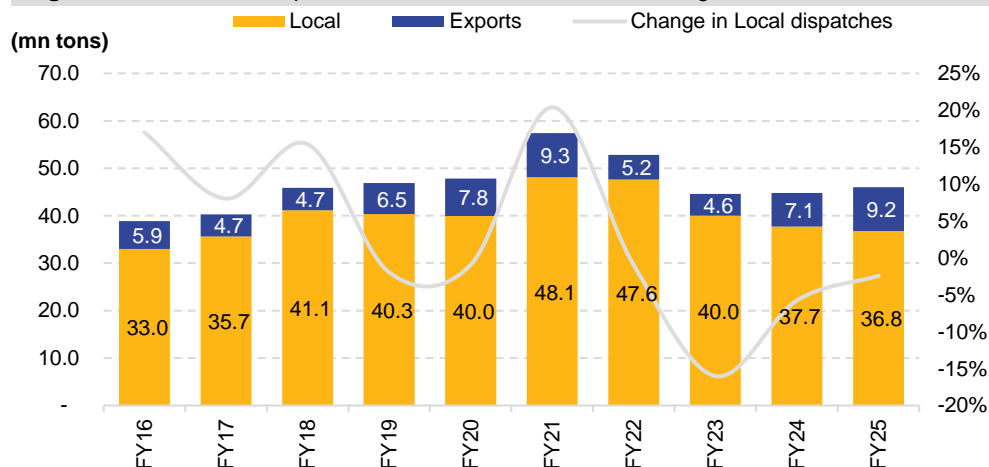


Source (s): Company Financials, AHL Research, *Ex-LUCK

Growth in dispatches expected in FY26

Despite a 2% YoY decline in cement dispatches in FY25 amid high interest rates and subdued construction activity, the outlook for FY26 remains encouraging. We project a strong recovery with ~10% growth in local dispatches, driven by easing inflation, lower borrowing costs, and a revival in construction momentum. The government's 200K-unit low-cost housing initiative is expected to generate an estimated 3mn tons of additional cement demand. We expect the company's dispatches to grow by ~5% in FY26.

Figure: Local cement dispatches fell 2% YoY in FY25, 4th straight annual decline



Source (s): APCMA, AHL Research

Valuation

We have valued KOHC using DCF-based valuation whereby our Jun'26 target price is set at PKR 505.5/share, which translates into a upside of 26.4% from the last closing (09-Jul-25) of PKR 400/share. Our valuation parameters include a 5-yr adjusted beta of 1.12, a risk-free rate of 12.1%, and a risk premium of 6.0%, which gives a cost of equity of 18.8%. Currently, the stock is trading at FY25, FY26, and FY27 P/E of 6.3x, 5.9x and 5.5x, respectively. Hence, we recommend a **'BUY'** stance on the scrip.

Exhibit: Valuation Summary (Free Cash Flow to the Firm)

PKR mn	Jun-26	Jun-27	Jun-28	Jun-29	Jun-30
Profit after tax	12,388	13,452	15,589	15,633	20,223
Depreciation	1,291	2,654	2,717	3,276	5,573
Other income (after tax)	-2,206	-2,236	-3,334	-1,011	-1,926
Interest exp (1-tax)	15	-	-	452	1,807
Capital Expenditure	-13,667	-817	-817	-72,685	-917
Change in Working Capital	-3,199	-1,990	-4,644	-2,328	-4,361
Free Cash Flow to Firm	-5,378	11,064	9,511	-56,663	20,400
Discounted Factor	1.00	0.84	0.71	0.63	0.54
Discounted Cash Flows	-5,378	9,313	6,735	-35,784	10,952

PV of Future Cash Flows	-14,162
PV of Terminal Value	78,429
Surplus Cash	30,960
Debt	2,280
Equity Value	92,947
Per Share Value (PKR)*	505.5

Source (s): Company Financials, AHL Research, *@183.9mn shares

Greenfield cement expansion likely to get delayed

Kohat Cement's Greenfield expansion project was officially announced via a Board resolution and company notification on 17-Feb-21, during a meeting that outlined plans to establish a new 7,800–10,000 TPD cement plant in Khushab, Punjab, alongside integrated 8–10 MW waste-heat recovery and 25 MW coal-fired power facilities.

Meanwhile, the procurement and import of plant and machinery remain on hold. As we witnessed the local demand of the cement remain suppressed during last four years and FY25 also closed with a negative growth of 2% at 36.8mn tons and local utilization remain around 43% with exports utilization at 11% taking total industry utilization to 54%.

Cement industry has gone through four expansionary cycles. In 1993, the industry's capacity utilization reached 93%, marking the beginning of the first expansion cycle, which lasted from 1995 to 1999 and added 7.9mn tons. By 2003, capacity utilization increased to 70%, prompting the second expansion, which began in 2005 and continued for six years, increasing capacity by 27mn tons.

As demand grew in FY15, capacity utilization rose to 79%, leading industry players to expand their capacities to meet the increasing demand. The third expansion cycle, from 2017 to 2021, added 23mn tons. By FY21, capacity utilization had increased to 81%, setting the stage for the fourth expansion cycle, which began in 2021 and will conclude in 2024, contributing an additional 17mn tons, bringing the total capacity to 85mn tons.

To determine when the next expansion cycle may begin, we performed a sensitivity analysis assuming. We run six scenarios for domestic dispatch growth, with annual increases ranging from 4.0% to 11.5% over the next five years.

- KOHC announced plans for a 7,800–10,000 TPD cement plant in Feb'21.
- However, due to subdued cement demand, the import of plant and machinery remains on hold.

Exhibit: Sensitivity analysis - Next expansion cycle

		Growth in domestic dispatches					
		4.0%	5.5%	7.0%	8.5%	10.0%	11.5%
FY26	Capacity utilization	56%	57%	57%	58%	59%	59%
FY27		58%	59%	61%	62%	63%	65%
FY28		60%	62%	64%	66%	69%	71%
FY29		62%	65%	68%	71%	74%	78%
FY30		64%	68%	72%	76%	81%	86%

Source (s): Company Financials, APCMA, AHL Research

Financial Highlights

Exhibit: Key Financial Highlights

PKR mn	FY24a	FY25e	FY26f	FY27f	FY28f		Unit	FY24a	FY25e	FY26f	FY27f	FY28f
Income Statement						Per Share						
Net Sales	38,648	38,361	44,305	45,740	49,795	Earnings*	PKR	48.4	63.7	67.4	73.2	84.8
Cost of sales	27,391	22,915	26,888	26,733	29,203	Dividend	PKR	-	-	10.0	10.0	12.5
Gross profit	11,256	15,446	17,417	19,007	20,593	Book Value	PKR	209.8	286.6	343.9	407.1	479.4
Distribution exp	197	212	282	291	310	Valuation						
Admin exp	488	718	790	806	886	P/E**	x	8.3	6.3	5.9	5.5	4.7
Other income	4,454	4,906	3,616	3,666	5,466	DY**	%	-	-	2.5	2.5	3.1
Profit before tax	13,776	18,101	19,058	20,696	23,982	P/B**	x	1.9	1.4	1.2	1.0	0.8
Tax Expense	4,883	6,384	6,670	7,244	8,394	Payout Ratio	%	-	-	14.8	13.7	14.7
Profit for the period	8,893	11,716	12,388	13,452	15,589	RoE	%	24.1	25.0	21.4	19.5	19.1
Balance Sheet						RoA	%	16.4	18.5	17.1	16.3	16.5
Paid-up Capital	1,959	1,839	1,839	1,839	1,839	Turnover & Activity						
Total Equity	41,090	52,686	63,236	74,849	88,140	Asset Turnover	x	0.7	0.6	0.6	0.6	0.5
Current Liabilities	11,096	9,383	8,120	7,500	7,838	Current Ratio	x	2.9	4.6	4.9	7.0	8.7
Non-Current Liabilities	6,657	5,646	5,539	5,539	5,539	Margins						
Current Assets	32,294	42,692	39,496	52,327	67,855	Gross Margins	%	29.1	40.3	39.3	41.6	41.4
Non-Current Assets	26,549	25,023	37,398	35,561	33,661	EBITDA Margins	%	40.5	51.2	46.0	51.0	53.6
Total Assets	58,843	67,715	76,894	87,888	101,517	Net Margins	%	23.0	30.5	28.0	29.4	31.3

Source (s): Company Financials, AHL Research, *@ 183.9mn shares, **@Price of 400/share

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Rating	Description
BUY	Upside of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside of subject security(ies) is between 0% and +15% from last closing of market price(s)
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* Upside for Power Generation Companies is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

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