

Day Break

Monday, 24 April 2017

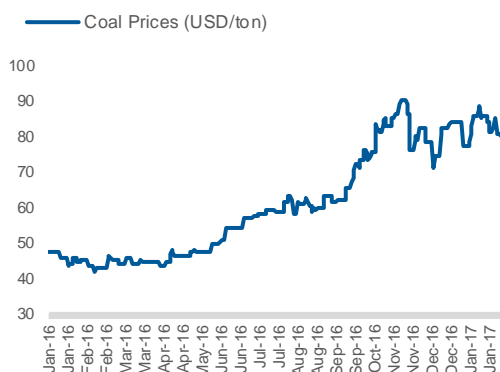
Sector Update

Cement Sector	TP	Upside	P/E	D.Yld
MLCF	132	3%	13	3%
PIOC	171	7%	12	3%
CHCC	215	1%	15	2%
KOHC	360	29%	10	4%

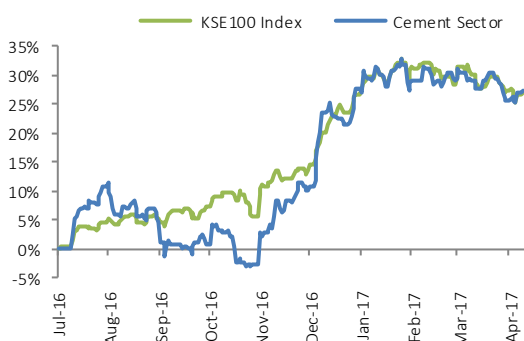
Earnings	3QFY17	YoY	9MFY17	YoY
MLCF	2.31	5%	7.41	12%
PIOC	3.51	5%	10.12	32%
CHCC	3.49	68%	9.30	57%
KOHC	6.57	-17%	20.74	-4%

Dividend	3QFY17	YoY	9MFY17	YoY
MLCF	-	0%	2.00	33%
PIOC	-	0%	2.15	-14%
CHCC	-	0%	1.00	0%
KOHC	-	0%	12.00	140%

Coal Prices



Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

Jawad Ameer Ali

jaw.ad.ameer@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 816

Cements

3QFY17 Result Preview of MLCF, PIOC, CHCC & KOHC

- We preview 3QFY17 earnings for MLCF, PIOC, CHCC and KOHC where we expect gross margins to remain under pressure owing to higher coal prices while slowdown in domestic offtake in 3QFY17 on account of seasonality effect will keep earnings growth limited.
- We expect MLCF, PIOC, CHCC and KOHC to report EPS of PKR 2.31 (+5%YoY), PKR 3.51 (+5%YoY), PKR 3.49 (+68%YoY), and PKR 6.57 (-17%YoY) respectively.
- With our Dec-17 TP of PKR 360/share for KOHC, we maintain our 'BUY' call on scrip offering upside potential of +29%. However, we recommend 'HOLD' call on PIOC, CHCC and MLCF with Dec-17 TP of PKR 171/share (+7%), PKR 215/share (+1%) and PKR 131/share (+3%), respectively.

MLCF: 3QFY17 earnings expected at PKR 2.31/sh

The financial result of Maple Leaf Cement Factory Ltd. (MLCF) for 3QFY17 is scheduled to be announced on 25th Apr-17 where we expect the company to post PAT of PKR 1.22bn (EPS PKR 2.31) as compared to PKR 1.16bn (EPS PKR 2.20) observed in corresponding period last year, up by 5%YoY. On cumulative basis, we expect MLCF to post earnings of PKR 3.91bn (EPS PKR 7.41) in 9MFY17 as compared to PKR 3.51bn (EPS PKR 6.64) in 9MFY16, up by +12%YoY.

Revenue is anticipated to decline by 7%YoY to PKR 5.62bn resulting from 3%YoY decline in total offtake. Distribution cost is expected to decline on account of decline in export sales by 42%YoY. On the other hand, swift repayment of loans is likely to result in decline of finance cost by 56%YoY to PKR 46mn.

Exhibit:

MLCF Financial Highlights

PKRmn	9MFY17E	9MFY16	YoY	3QFY17E	3QFY16	YoY
Net Sales	17,594	16,935	4%	5,624	6,075	-7%
Gross Profit	7,464	7,014	6%	2,273	2,601	-13%
S&A Exp	1,327	1,350	-2%	366	463	-21%
Finance Cost	150	420	-64%	46	103	-56%
Pre-tax Profits	5,577	4,899	14%	1,739	1,866	-7%
Post-tax Profits	3,912	3,505	12%	1,218	1,163	5%
EPS	7.41	6.64	12%	2.31	2.20	5%

Key Ratios

Gross Margin (%)	42	41	40	43
Net Margin (%)	22	21	22	19
Effective Tax Rate (%)	30	28	30	38

SOURCE: Company Accounts, IGI Research

PIOC: 3QFY17 earnings expected at PKR 3.51/share

Pioneer Cement Ltd (PIOC) is scheduled to announce its 3QFY17 financial result on 26th Apr-17, where we expect company to post PAT of PKR 797mn (EPS PKR 3.51), up by +5%YoY as compared to PKR 757mn (EPS PKR 3.33) registered in corresponding period last year.

The revenue of company is expected to rise by +31%YoY to PKR 3.22bn as compared to PKR 2.45bn, taking 9MFY17 revenue to PKR 8.41bn, up by +23%YoY. In our view, surge in topline is likely to be observed on the back of additional clinker sales. Operations of WHR plant will help support margins in 3QFY17. On the other hand, we anticipate finance cost to remain downward sticky due to unleveraged books.

Exhibit:

PIOC Financial Highlights

PKRmn	9MFY17E	9MFY16	YoY	3QFY17E	3QFY16	YoY
Net Sales	8,412	6,832	23%	3,220	2,454	31%
Gross Profit	3,314	2,787	19%	1,200	1,052	14%
S&A Exp	104	100	4%	38	35	7%
Finance Cost	6	16	-64%	3	3	0%
Pre-tax Profits	3,146	2,658	18%	1,138	1,005	13%
Post-tax Profits	2,298	1,745	32%	797	757	5%
EPS	10.12	7.68	32%	3.51	3.33	5%

Key Ratios

Gross Margin (%)	39	41		37	43
Net Margin (%)	27	26		25	31
Effective Tax Rate (%)	27	34		30	25

SOURCE: Company Accounts, IGI Research

CHCC: Earnings expected to escalate to PKR 3.49/sh in 3QFY17

Cherat Cement Company Ltd (CHCC) is scheduled to announce its 3QFY17 financial result on 26th Apr-17, where we expect company to post PAT of PKR 617mn (EPS PKR 3.49) in 3QFY17 as compared to PKR 367mn (EPS PKR 2.08) observed in corresponding period last year, up by +68%YoY. As per our estimates, topline is expected to grow by +60%YoY to the tune of PKR 2.78bn which is likely on the back of staggering growth of +52%YoY in total dispatches on account of commercial operations of line II. The gross margins are likely to remain under pressure due to steep rally in coal prices. On the other hand, finance cost is likely to rise to PKR 80mn, up by 5.7xYoY.

On cumulative basis, we expect CHCC to post earnings of PKR 1.64bn (EPS PKR 9.30) in 9MFY17 as compared to PKR 1.04bn (EPS PKR 5.91) in 9MFY16, up by +57%YoY. Revenues are anticipated to surge by +31%YoY to PKR 6.86bn resulting from +44%YoY growth in domestic volumes.

Exhibit:

CHCC Financial Highlights

PKRmn	9MFY17E	9MFY16	YoY	3QFY17E	3QFY16	YoY
Net Sales	6,861	5,222	31%	2,778	1,732	60%
Gross Profit	2,766	1,874	48%	1,089	678	61%
S&A Exp	394	314	25%	138	107	29%
Finance Cost	94	30	214%	80	14	472%
Pre-tax Profits	2,188	1,460	50%	823	534	54%
Post-tax Profits	1,642	1,043	57%	617	367	68%
EPS	9.30	5.91	57%	3.49	2.08	68%

Key Ratios

Gross Margin (%)	40	36		39	39
Net Margin (%)	24	20		22	21
Effective Tax Rate (%)	25	29		25	31

*SOURCE: Company Accounts, IGI Research***KOHC: 3QFY17 earnings to decline by 17%YoY to PKR 6.57/share**

The Board of Directors' of Kohat Cement Company Ltd (KOHC) is scheduled to announce its financial result for 3QFY17 on 26th Apr-17 where we expect company to post PAT of PKR 1.02bn (EPS PKR 6.57) as compared to PKR 1.23bn (EPS PKR 7.93) observed in corresponding period last year, down by 17%YoY. Revenues are anticipated to decline by 4%YoY to PKR 3.57bn on account of decline in total offtake of 9%YoY. Margins are likely to reduce with higher cost of sales from coal prices.

Exhibit:

KOHC Financial Highlights

PKRmn	9MFY17E	9MFY16	YoY	3QFY17E	3QFY16	YoY
Net Sales	10,731	10,780	0%	3,566	3,722	-4%
Gross Profit	4,890	4,923	-1%	1,526	1,830	-17%
S&A Exp	219	220	0%	64	76	-15%
Finance Cost	70	25	175%	23	7	248%
Pre-tax Profits	4,584	4,705	-3%	1,450	1,731	-16%
Post-tax Profits	3,205	3,327	-4%	1,015	1,226	-17%
EPS	20.74	21.53	-4%	6.57	7.93	-17%

Key Ratios

Gross Margin (%)	46	46		43	49
Net Margin (%)	30	31		28	33
Effective Tax Rate (%)	30	29		30	29

*SOURCE: Company Accounts, IGI Research***Recommendation**

With our Dec-17 TP of PKR 360/share for KOHC, we maintain our 'BUY' call on scrip offering upside potential of +29%. However, we recommend 'HOLD' call on PIOC, CHCC and MLCF with Dec-17 TP of PKR 171/share (+7%), PKR 215/share (+1%) and PKR 131/share (+3%), respectively.

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Time Horizon: Dec - 2017

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter , Opp. Radio
Station, MansehraRoad, Abbottabad
Phone: (+92-99) 2408243 - 44