

Day Break

Tuesday, 23 August 2016

Company Update

Cherat Cement Company Limited

Cement

Recommendation	BUY
Target Price	138.7
Last Closing	123.3
Upside	13%

Market Data

Bloomberg Tkr.	CHCC PA
Shares (mn)	176.6
Market Cap (PKRbn USDmn)	21.8 207.9
Exchange	KSE 100

Price Info.

	90D	180D	365D
Abs. Return	9.9	36.6	49.0
Low	110.1	90.5	80.9
High	132.7	132.7	132.7

Key Company Financials

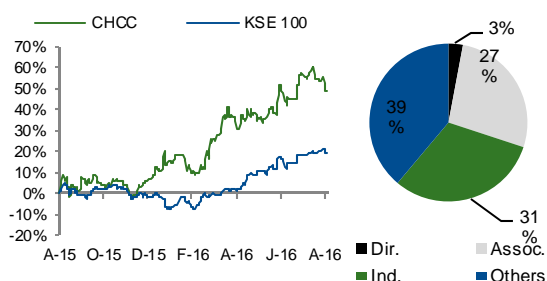
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	6.6	7.2	10.6	16.4
Net Income	1.3	1.5	2.6	3.7
EPS (PKR)	7.3	8.4	14.6	21.0
DPS (PKR)	3.0	3.5	6.1	9.5
Total Assets	9.5	15.5	19.9	21.9
Total Equity	8.0	8.9	10.4	12.4

Key Financial Ratios

ROE (%)	16%	17%	25%	30%
P/E (x)	16.9	14.6	8.4	5.9
P/B (x)	2.7	2.4	2.1	1.8
DY (%)	2.4	2.8	4.9	7.7

Relative Price Performance & Shareholding



About the Company

Cherat Cement Company Limited was incorporated in Pakistan as a public limited company by shares in the year 1981. Its main business activity is manufacturing, selling and marketing of cement. Company's current rated capacity is 1.1mn ton per annum, with a current market share of ~3%.

Source: Bloomberg, KSE 100 & IGI Research

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Cherat Cement Company Limited

Earnings to propel by +14%YoY to PKR 8.3/share in FY16

- Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 24th Aug-16 to announce financial results for FY16. We expect company's profitability to improve by +14%YoY to PKR 1.5bn (EPS PKR 8.31).
- We have incorporated expansion from Jan-17 in our model, however there is a highly likelihood of plant coming online in 2QFY17, in which case our earnings estimate would go up to PKR 18.1/share from current PKR 15.4/share for FY17, whereas our Dec-16 target price would increase by PR 3.56/share to PKR 138.20/share.
- The scrip has rallied +36% in CY16TD as compared to +20% return by KSE-100. CHCC is currently trading at FY16/FY17 P/E multiple of 14.8x/7.9x, respectively. With our Dec-16 TP of PKR 135/share, the stock offers capital upside of +10% and dividend yield of 2.8%, hence we recommend 'HOLD' call on the scrip.

Profitability to go up by +14%YoY in FY16 to PKR 8.31/share

Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 24th Aug-16 to announce financial results for FY16. We expect company's profitability to improve by +14%YoY to PKR 1.5bn (EPS PKR 8.31) on the back of a) +10%YoY growth in revenue forecasted as a result of +8%YoY/+2.4%YoY increase in cement despatches/net retention, and b) +878bps rise expected in gross margin to 42%, led by lower power and fuel cost. We also expect CHCC to announce cash dividend of PKR 3.5/share along with the financial result.

For the 4QFY16, earnings are foreseen to propel by +21%YoY to PKR 425mn (EPS PKR 2.4) whereas gross margin is set to improve by +748bps to 38% in 4QFY16. We expect effective tax rate to increase to 33% due to 3% super tax on profit and depreciation.

Increased likelihood of new plant operation to start before Jan-17...

We have incorporated expansion from Jan-17 in our model, however there is a highly likelihood of plant coming online in 2QFY17, in which

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case our earnings estimate would go up to PKR 18.1/share from current PKR 15.4/share for FY17, whereas our Dec-16 target price would increase by PR 3.56/share to PKR 138.20/share.

Exhibit: Financial Highlights

PKR mn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Revenue	2,015	1,839	10%	7,236	6,565	10%
Gross Profit	851	615	38%	2,725	1,983	37%
Selling and Admin	90	97	-7%	405	311	30%
EBT	723	513	41%	2,183	1,671	31%
Tax	298	163	82%	715	383	87%
Net profit	425	350	21%	1,468	1,288	14%
EPS	2.40	1.98		8.31	7.29	
Key Ratios						
Gross Margin	42%	33%		38%	30%	
Net Margin	21%	19%		20%	20%	
Effective Tax Rate	41%	32%		33%	23%	

Source: IGI Research, Company Financials

Recommendation

The scrip has rallied +36% in CY16TD as compared to +20% return by KSE-100. CHCC is currently trading at FY16/FY17 P/E multiple of 14.6x/8.4x, respectively. With our Dec-16 TP of PKR 135/share, the stock offers capital upside of +13% and dividend yield of 2.8%, hence we recommend 'BUY' call on the scrip.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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