

Day Break

Monday, 05 August 2019

Company Update

Exhibit: CHCC's overall dispatches have increased massively post commencement of production line II but failed to increase during FY19 despite line III inauguration



Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cements

CHCC FY19E Results Preview: Positive taxation to save the day; EPS 13.68 (+13%YoY)

- Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 07th Aug-19 wherein we expect the company to post FY19E earnings of PKR 2.42bn (EPS: PKR 13.68), up by +13%YoY, as against PKR 2.13bn (EPS: PKR 12.07) reported in the similar period of the preceding year.
- Though full year earnings of the Company reflect a healthy growth (+13%YoY), the results are largely driven by positive taxation on account of recently inaugurated production line, excluding which the results would have been substantially different to the negative trajectory.
- On profit before tax basis, we expect the Company to present a substantial 43%YoY decline for FY19.

CHCC: FY19E EPS clocked in at PKR 13.68/share; PBT down by 43%YoY

Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 07th Aug-19 to announce financial result for 4QFY19, wherein we expect the company to post earnings of PKR 167mn (EPS: PKR 0.95), down by 50%YoY, compared to PKR 337mn (EPS: PKR 1.91) in the same period last year. This will bring FY19E earnings to PKR 2.42bn (EPS: PKR 13.68), up by +13%YoY, as against PKR 2.13bn (EPS: PKR 12.07) reported in the similar period of the preceding year. Though full year earnings of the Company reflect a healthy growth (+13%YoY), the results are largely driven by positive taxation on account of recently inaugurated production line, excluding which the results would have displayed a declining trend.

On profit before tax basis, we expect the Company to present a substantial 43%YoY decline for FY19. The decline in FY19E PBT is primarily driven by a) significant rise in cost structure owing to +24%YoY average depreciation of PKR against the greenback, +23%YoY increase in gas tariff and incremental depreciation expense post capitalization of production line III; and b) colossal rise in finance costs of the Company, courtesy substantial increase in quantum of short term borrowings, significant rise in benchmark interest rates and unwinding of finance cost to P&L post commencement of production line III.

We expect the Company to declare a full and final dividend of PKR 2.75/share along with the result.

Exhibit:

CHCC Result Highlights

Period end (JUN) - PKRmn	4QFY19	4QFY18	YoY	FY19	FY18	YoY
Net Sales	4,968	3,240	53%	16,130	14,388	12%
Gross Profit	935	570	64%	3,052	3,139	-3%
Sell. / Dist. & Admin	170	152	12%	682	582	17%
Non-Operating Income	34	26	9.2x	135	81	5.2x
EBIT	786	416	89%	2,429	2,504	-3%
Financial Charges	619	90	n/a	1,216	357	2.6x
Pre-tax Profits	167	326	-49%	1,214	2,147	-43%
Taxation	-	(11)	n/m	(1,204)	15	n/m
Post-tax Profits	167	337	-50%	2,417	2,132	13%
EPS	0.95	1.91		13.68	12.07	
DPS	2.75	4.00		2.75	4.00	

Key Ratios

Gross Margin (%)	18.8	17.6	18.9	21.8
Net Margin (%)	3.4	10.4	15.0	14.8
Effective Tax Rate (%)	-	n/m	(99.2)	n/m

Source: Company Accounts, IGI Research

No. of Shares : 177mn

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IGI Finex Securities Limited

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